Unravelling the influential factors shaping the adoption of Green Financing: Evidence from Banking Institutions in Sri Lanka

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Abstract - *This study explores into the key drivers, challenges, and internal determinants influencing the adoption of green financing within Sri Lankan banking institutions. The study expounds the motivations and strategic frameworks supporting the incorporation of sustainability into banking practices through conducting in-depth interviews with the representatives from Domestic Systematically Important Banks (D-SIBs) in Sri Lanka. The findings pinpoint several key drivers such as regulatory frameworks, varying consumer preferences, shareholder involvement, and the quest for innovation. Regulatory transformations, colliding with targeted incentives and policies, have substantially driven banks toward sustainable practices. Simultaneously, changes in consumer behaviour and high environmental awareness have infused the development and introduction of innovative green financing products. Additionally, investor demands for increased transparency and the integration of Environmental, Social, and Governance (ESG) criteria have significantly influenced banks' strategic directions. This should be acknowledged as pioneers in sustainable finance and the necessity for competitive differentiation has been a key internal driver. Further, the results are aligned with the Resource Based View Theory and the Resource Theory of Sustainable Finance, underlining the vital role that firm-specific resources, competencies, and institutional framework contribute towards accomplishing sustainable finance goals. The study highlights that to promote the adoption of green financing initiatives, favourable regulations, increased consumer awareness, internal collaboration, capacity development, coordination of strategies, involvement of stakeholders, product innovation, risk management, and partnerships are essential. Hence, this study offers an in-depth comprehension of the intricate factors guiding the incorporation of green finance into Sri Lankan banks, with significant implications for decision-makers, financial institutions, and other parties involved in fostering green finance.*

Keywords: Competitive Advantage, Consumer Preferences, ESG, Green Finance, Regulations, Shareholder Activism

I. INTRODUCTION

A. Background Information

Green financing is a concept that evolved from traditional financing approaches with an insistence on environmental sustainability. The fundamental focus of finance was on capital allocation and generating financial returns. The urgency to incorporate environmental considerations into financial decision-making cropped up as concerns about environmental challenges like climate change, biodiversity loss, and resource depletion rose. The evolution of green financing was a result of this (Krushelnytska, 2010). Due to their importance in international cooperation agreements and national policy-making that addresses the climate catastrophe, green financing instruments have become more and more significant over the past ten years. The term green finance is defined as "all forms of investment or lending that consider the environmental effect and enhance environmental sustainability" in the G20 Insights on Climate Policy and Finance (Berensmann et al., 2017). Discussion of the role of finance in the process of the green transition has become significantly important, especially since the Paris Agreement.

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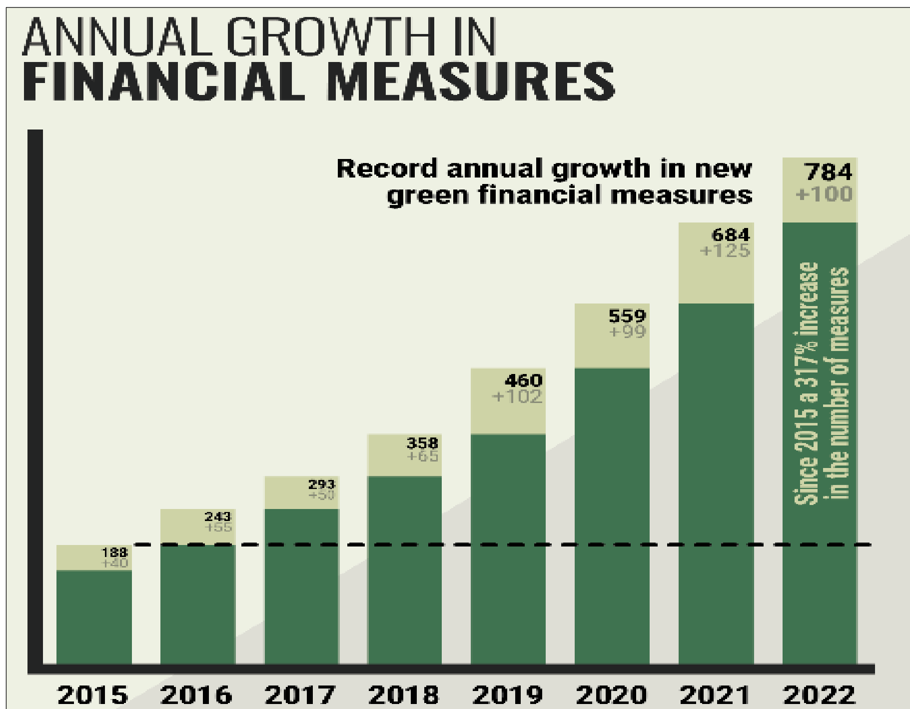
Since the adoption of the Paris Agreement in 2015, there has been a significant increment of 317% in the adoption of green financial measures. The Green Finance Platform's Green Finance Measures Database shows that in 2022 alone, there were 100 fresh green policy and regulatory measures implemented. This has brought the cumulative count in the database to 784 national and sub-national policies from 109 different countries. A massive portion of these newly implemented measures were established to stimulate investment and endorsing the crucial need for a strategic financial approach to accomplish climate goals. Particularly, there are over 350 policies and measures proposed by 65 nations to strengthen sustainable investment assets. Also, more than 30 countries are promptly supporting the progress of sustainable banking and insurance sectors through various green financial mechanisms (www.greenfinanceplatform.org, 2022).

Figure 1. Growth in Green Financial Measures



Source: Central Bank of Sri Lanka.

Roadmap for Green Financing in Sri Lanka: In 2016, the Central Bank of Sri Lanka (CBSL) implemented the development of a Sustainable Finance Roadmap for the country's financial sector, accommodating an inclusive and synergetic process. Launched in 2019 with guidance from IFC-SBFN and UNDP, the Roadmap encloses six key focus areas as mentioned below:

- Financing VISION 2030
- Integrating ESG principles into the financial market
- Financial inclusion
- Capacity building
- International cooperation

- Measurement/reporting

The roadmap's objectives are to establish coherent policies among the financial sector stakeholders, to address ESG risks, and to obtain capital for sustainable investments uniform with SDGs. To promote its implementation, CBSL created three committees, such as covering steering, stakeholders, and technical aspects. Moreover, in calibration with the Roadmap, CBSL introduced the Sri Lanka Green Finance Taxonomy in 2022, a classification system targeted at hindering greenwashing in the financial sector. The Taxonomy spans three priority areas such as climate mitigation, climate adaptation, and other green objectives by identifying key sectors like agriculture, construction, tourism, electricity, and water management. Based on the IPSF Common Ground Taxonomy, regulated financial institutions must comply with the Sri Lanka Green Finance Taxonomy when allotting and reporting green finance products. Furthermore, in 2022, CBSL issued a Banking Act Direction motivating licensed banks to leverage innovative financial instruments, such as green and sustainable bonds, and invest capital in sustainable activities. A similar guideline was also issued for Licensed Finance Companies (LFC) to promote sustainable finance initiatives in alignment with the underlying Roadmap, manifesting the importance of a governance and risk management framework (Green Finance for Sri Lankan financial institutions, n.d.)

B. Research Problem

The research problem addresses the adoption of green financing by banking institutions in Sri Lanka, focusing on the influential factors shaping this process. Despite the growing importance of green finance in promoting sustainable economic growth and environmental protection, there is a significant gap in the literature regarding its implementation in the Sri Lankan banking sector. Existing studies, such as those by Sarma and Roy (2020) and Zhang et al. (2019), have explored various aspects of green finance, but few have specifically examined the banking industry in Sri Lanka. Furthermore, the majority of current studies employs quantitative approaches, as seen in studies by Wen Zheng et al. (2021) and Islam et al. (2014), leaving a methodological gap in qualitative research that could provide deeper insights into the long-term dynamics of green finance adoption. Additionally, there is a notable theoretical gap, with many studies lacking a solid theoretical foundation to guide their study. This study aims to address these gaps by identifying key drivers, challenges, and internal organizational factors influencing the adoption of green financing practices in Sri Lankan banks, using a qualitative approach to provide a more comprehensive understanding of the phenomenon.

C. Research Questions

1. What are the key motivations and drivers for banking institutions in Sri Lanka to adopt green financing practices?
2. What are the main challenges faced by banking institutions in Sri Lanka when considering the adoption of green financing?
3. How do the internal organizational factors that influence the adoption of green financing by banking institutions in Sri Lanka?

D. Significance of the Study

The significance of the study excels on addressing crucial empirical and methodological gaps in the field. It offers an in-depth qualitative analysis of the factors influencing green

finance adoption, providing valuable insights previously unavailable to stakeholders. Furthermore, the significance of the study extends beyond academia, benefiting various stakeholders. Policymakers gain insights to craft effective regulations promoting sustainable financial practices. Banking institutions can develop strategies aligning with sustainable development objectives. Investors and customers acquire a deeper understanding of banks' challenges and objectives in green financing, enabling informed decision-making. The broader green finance sector can leverage the findings to attract more funding for environmental protection projects. By bridging these gaps and providing comprehensive insights, this study catalyses advancing sustainable finance in Sri Lanka and offers valuable lessons for similar studies globally.

II. LITERATURE REVIEW

The concept of green financing has gained significant traction in recent years as the global community grapples with the pressing challenges of climate change and environmental degradation. This literature review explores the evolution of green financing, its implementation in the banking sector, key motivations and drivers for its adoption, challenges faced, and internal organizational factors influencing its uptake.

The origins of green financing can be traced back to the broader concept of sustainable development, which aims to meet present needs without compromising the ability of future generations to meet their own needs. As the world economy has grown at the expense of natural resources and increased pollution, there has been a growing recognition of the need for a more sustainable approach to economic development. This has led to the emergence of green financing as a means of integrating environmental, social, and governance (ESG) criteria into business and investment decisions (Zhang et al., 2022).

Green financing has evolved from the long-standing movement for socially responsible investing (SRI) and aims to harness the resources and power of the financial sector towards more sustainable endeavours (Maltais & Nykvist, 2020). While various definitions of green financing exist, they generally share common features, including the provision of capital for sustainable purposes that benefit the environment, reduce harm, manage risk, and establish policies and infrastructure for long-term environmental sustainability.

In the banking sector, there has been a growing emphasis on green finance as a way to prepare banks and society for future economic challenges. This shift is driven by factors such as unpredictable global financial events, the climate crisis, social unrest, and corporate scandals. Many major banks worldwide have reported changes in their strategic corporate policies to embrace eco-friendly products and halt financing for activities that damage the environment (Sanchez-Roger et al., 2018).

The adoption of green financing practices in the banking sector has been supported by international initiatives such as the Sustainable Banking Network (SBN), which was established in 2012 to promote green and inclusive lending. As of 2017, 37 countries were represented in the SBN, with 13 member countries having already introduced green finance guidelines. These guidelines typically include frameworks for environmental risk assessment and incentive schemes for enhancing green finance.

China has been at the forefront of developing green banking policies, with efforts dating back to 1995. In 2012, the China Banking Regulatory Commission (CBRC) issued Green Credit Guidelines to encourage banking institutions to focus on green credit and adjust their credit structures accordingly. However, the Chinese experience has shown

that non-binding guidelines may not be sufficient to significantly affect banks' lending practices, suggesting the need for more comprehensive and compulsory green finance frameworks (Volz et al. 2015).

Other countries, such as Bangladesh and Indonesia, have also introduced comprehensive green banking frameworks. Bangladesh Bank, for instance, published Policy Guidelines for Green Banking and Guidelines on Environmental Risk Management in 2011, encouraging banks to conduct systematic environmental risk analysis as part of the credit appraisal process. Indonesia has developed a roadmap for a green banking framework aimed at developing capacities for environmental risk assessment and green lending with compulsory elements (Volz, 2015).

The adoption of green financing practices has been driven by several key motivations and factors. The expansion of global and regional environmental policies, particularly since the Paris Climate Agreement in 2015, has increased pressure on governments, financial institutions, and businesses to enforce environmental protection and combat climate change (Tolliver et al., 2020). International and regional organizations, including the United Nations, World Bank, International Monetary Fund, European Union, and G20, have also exerted significant pressure on financial systems to adopt green finance practices (Bhandary et al., 2021).

Liu and Wu (2023) argue that corporations are primarily motivated to adopt green financing practices due to two factors: the economic penalties associated with violating environmental policies and the potential loss of social capital and reputation resulting from increased real or perceived funding risk. Furthermore, the COVID-19 pandemic has been identified as a potential catalyst for increased green finance and investment, with some scholars suggesting that green finance products can serve as a hedge against economic disruptions caused by such crises (Sharma et al., 2022).

Despite the growing interest in green finance, several challenges hinder its widespread adoption. One major obstacle is the lack of awareness about the concept, principles, and benefits of green financing (Chowdhury et al., 2013). This knowledge gap affects both public and corporate institutions, potentially limiting their motivation to obtain green lending facilities and other sustainable products.

Political and legislative factors also play a significant role in hindering the adoption of green financing, often due to a lack of transparency (Runhaar et al., 2008). Many organizations are discouraged from conducting green innovation programs due to insufficient political funding. Additionally, the high costs associated with sustainable products and technologies, such as solar panel projects, can deter small and medium-sized enterprises (SMEs) from adopting green policies (Ghisetti et al., 2017).

The perception of lower returns on investment in renewable energy projects compared to alternative investments is another factor preventing corporations from initiating green innovations (Matus et al., 2012). The implementation of green projects often requires substantial capital investment in advanced technologies, which can be perceived as high-risk with potentially low returns (Taghizadeh et al., 2019).

Internal organizational factors also play a crucial role in the adoption of green financing practices within banks. He et al. (2019), Khattak (2021), and Masud et al. (2018) highlight the importance of effective and collaborative communication within the bank's organizational structure, from top management to lower levels of the hierarchy. Successful implementation of green financing practices requires employees and managers at all levels to work together in introducing and promoting green financing products to

reach the customer base and communicate the importance and benefits of adopting such practices.

The effectiveness of managers in controlling and managing risks associated with green financing products is another critical internal factor. Sinha et al. (2021) emphasize that bank managers should be prepared to confront uncertainties and benefits associated with green financing products, as they differ from conventional financing products. While obtaining green financing facilities may involve less collateral work, there is a higher risk associated with evaluating a customer's commitment to sustainability and green practices (Wang et al., 2021).

In conclusion, the adoption of green financing by banking institutions is influenced by a complex interplay of factors, including global environmental policies, regulatory frameworks, economic considerations, and internal organizational dynamics. As the financial sector continues to evolve in response to environmental challenges, understanding these factors is crucial for developing effective strategies to promote and implement green financing practices in countries like Sri Lanka. Future studies should focus on addressing the identified challenges and exploring ways to leverage the internal organizational factors that facilitate the adoption of green financing in the banking sector.

This study acknowledges several key limitations. The small sample size of four Systematically Important Banks in Sri Lanka restricts the findings' generalizability. A scarcity of prior studies in the area limits the depth of the literature review. The absence of longitudinal data prevents a comprehensive analysis of industry trends over time. Ethical considerations, including privacy issues and potential harm to participants or businesses, are also noted as challenges.

These limitations highlight areas for improvement in future studies. Expanding the sample size and geographical scope could enhance representativeness. Contributing to the existing knowledge base would address gaps in understanding. Incorporating longitudinal data would allow for a more dynamic examination of trends. Careful navigation of ethical challenges is crucial for maintaining research integrity.

Despite these constraints, the study provides valuable insights into the Sri Lankan banking sector, while emphasizing the need for further studies to build upon its findings.

III. METHODOLOGY

A. Research Design

This study utilizes the exploratory design since it is a good fit for research questions that are new or have not been studied and this study is used to gain a better understanding of the adoptability of green financing, and to identify the influential factors that may be involved.

B. Research Approach

Quantitative, qualitative, and mixed methods are the three most widely used research methods. The type of information required to address the research question is anticipated by the researcher. The researcher chooses one of the three approaches to initiate research based on this evaluation. For research questions necessitate numerical data, researchers typically choose the quantitative approach; for questions requiring textual data, they typically choose the qualitative approach; and for questions requiring both numerical and textual data, they usually choose the mixed methods approach (Williams, 2007). In

consideration to afore mentioned facts, the qualitative research approach is utilized in this study.

C. Philosophical Assumptions

1) Ontological Stance in the Study: Ontology is the study of being or existence in philosophy. According to Tashakori and Teddlie (2008), ontology is a specification of a conception. The study of the categories of objects that exist or may exist in a domain is the topic of ontologies. This philosophy identifies two extremes namely, objectivism and subjectivism. This study has adopted a subjectivist ontological stance. Since this study is a qualitative study in which findings are based on the interviews which are conducted with several banks, it can be said that this study utilizes a subjectivist ontological stance. Hence, subjectivism is demonstrated in this study's qualitative approaches, such as interviews, where the respondents' opinions, experiences, and interpretations of the adoption of green financing are sought for by the researchers.

2) Epistemological Stance in the Study: The philosophical examination of the nature, history, and boundaries of human knowledge is known as epistemology. The phrase is derived from the Greek words epistem (literally, "knowledge") and logos (literally, "reason"), which is why the subject is also often called "the theory of knowledge" (Martinich and Stroll, 2019). There are many different schools of thought and branches of epistemology, including positivism and interpretivism. This study falls within the interpretivism branch of epistemology since it aims to comprehend the significance of Sri Lankan banking institutions adopt of green financing from the viewpoints of those concerned. The study collects information about the motives, experiences, and perspectives of the people involved in the adoption of green financing using qualitative techniques like interviews. Instead of attempting to put an external framework on the phenomenon, this method enables the researcher to comprehend it from the inside out.

3) Axiological Stance in the Study: The study of values and value judgments is known as axiology. The importance of axiology is frequently incorporated into research paradigms and lies "below the surface," much like ontology and epistemology. In a study endeavour, values may not be explicitly discussed by the researcher, but they are nonetheless present (Farrow et al., 2020). The way the study is organized leads one to believe that green financing is a desirable result. For instance, the research's title queries "influential factors" which affect the adoption of green financing. This implies that the researcher considers these elements are significant and should be comprehended to promote the use of green financing. The research's questions also support the axiological stance that green finance is a positive thing. For instance, "What are the motivations of banking institutions for adopting green financing?" is one of the questions. This question implies that the researcher thinks there are viable reasons for banking institutions to implement green financing. The researcher promotes transparency and credibility in the work by being aware of the values and influences.

D. Research Strategy

This study utilizes the case study strategy to provide an in-depth understanding of the influential factors of green financing in the banking institutions in Sri Lanka. A case study is "a strategy for conducting research which involves an empirical investigation of a

specific contemporary phenomenon within its real-world context using multiple sources of evidence," according to Robson (2002:178). This study is a multiple case study that utilizes more than one case since the study is referring to 4 Systematically Important Banks in Sri Lanka. The rationale for employing multiple cases depends on the requirement to determine whether the first case's findings are shared by subsequent cases and, consequently, the requirement to extrapolate general conclusions from these findings. For this reason, Yin (2003) contends that multiple case studies may be better than a single case study and that there must be a compelling justification for using a single case study.

E. Sample Techniques & Sample Size

The population in which to conduct this study has been selected as the four Systematically Important Banks in Sri Lanka. The following licensed banks have been identified by the Monetary Board as Domestic Systemically Important Banks (D-SIBs), pursuant to the authority granted by Sections 19(7)(a) and 7 6G (7) of the Banking Act No. 30 of 1988, as amended.

1. Bank of Ceylon
2. Commercial Bank of Ceylon PLC
3. People’s Bank
4. Hatton National Bank PLC

The rationale for selecting the four Systematically Important Banks as the sample in this study is, that, since the concept of green financing is still an emerging concept in a developing country like Sri Lanka, still most of the banks in the banking sector have not executed significant initiatives to promote this concept. However, the Systematically Important Banks (SIBs) that are performing well in every aspect and are already in the process of adopting the concept of green financing could be used to identify the influential factors that affect the adoptability of green financing.

Moreover, this study uses the non-probabilistic purposive sampling technique since this technique allows the researcher to select participants by targeting them, who are likely to have the information that the researcher need. Moreover, there are only a handful of SIBs in Sri Lanka where it would be difficult to use a probabilistic sampling method to select a representative sample of the population.

F. Data Collection Strategy

As the source of primary data collection, the researcher has utilized an in-depth semi-structured interview. It allows the researcher to gather rich and detailed data about the participants' experiences and perspectives as well as it allows the researcher to ask follow-up questions and to explore the participants’ answers in more depth. The researcher has also relied upon a variety of journal papers, books that have been published, magazines, websites, and online materials to enhance the study's quality and substance while placing a strong emphasis on its dependability and applicability.

G. Data Analysis Strategy

The qualitative data analysis software NVivo has been used to examine the collected data. Transcripts of the data obtained through in-depth semi-structured interviews with experts in green financing from the four SIBs are first prepared by the researcher. The information is then coded without changing its fundamental nature or significance. After that, the codes are categorized. The research questions are addressed in the final stage by

developing themes from the categories. Theorizing these themes involves creating explanations that best capture the evidence that has been abstracted.

IV. DATA ANALYSIS AND DISCUSSION

The results of this study have been obtained by analyzing the interview transcripts through the NVivo software. Accordingly, the important words in the transcripts are first highlighted and then built the themes as per those wordings/codes to interpret the final results. Hence, the analysis of interview data from 8 respondents across Systematically Important Banks (SIBs) in Sri Lanka revealed three main themes influencing the adoption of green financing practices: key motivations and drivers, major challenges, and internal organizational factors. Each theme is detailed below with supporting evidence from the interviews.

A. Theme 01 - Key Motivations and Drivers

1) Regulatory Framework and Principles: Respondents consistently highlighted the influence of national and global regulatory frameworks on their green financing practices. For instance, a Bank of Ceylon respondent stated:
"Even though we wish to comply with national and sustainability commitments, we have been influenced by climate change and global frameworks like the Paris Agreement." Another respondent from Commercial Bank emphasized the role of local initiatives: *"Initiatives such as the Sustainable Banking Initiative by the Central Bank of Sri Lanka (CBSL) are requiring banks in Sri Lanka to formally integrate sustainability into their operations."* These responses indicate a strong regulatory push towards sustainable banking practices in Sri Lanka.

2) Customer Preferences: A significant driver for green financing adoption was the changing customer preferences. A Bank of Ceylon respondent noted:
"There is a rising customer preference towards green initiatives. This surge in customer needs and their demand has led the Bank of Ceylon to adopt green financing initiatives." Similarly, a Commercial Bank manager observed:
"We've seen a significant shift among high-end customers in Sri Lanka towards green financing products, such as solar panel implementation."
These responses suggest that banks are actively responding to growing customer demand for sustainable financial products.

3) Market Positioning and Reputation: Green financing was consistently viewed as a strategic tool for enhancing market position and reputation. A Bank of Ceylon respondent reported: *"A renewable energy project partnership resulted in positive media coverage and industry recognition, attracting environmentally conscious customers."*
This sentiment was echoed by a Commercial Bank manager: "*The success of green home loan products has attracted eco-conscious borrowers and increased our market share in the mortgage segment."* These responses indicate that banks are leveraging green finance for positive market impact and enhanced reputation.

4) Investor Demand & ESG Considerations: Respondents highlighted the growing influence of investor expectations and ESG factors. A Bank of Ceylon manager stated:

"We are aligning with ESG practices to maintain investor confidence and support, considering it integral to the long-term success of green financing."

A Commercial Bank respondent added: *"ESG metrics are increasingly important to investors, and green financing demonstrates our commitment to sustainability principles and risk mitigation."* These responses suggest that investor demands are shaping banks' sustainability agendas and commitment to green finance.

B. Theme 2 - Major Challenges

1) Aligning with International Standards: Banks reported difficulties in adapting global sustainable finance standards to the local context. A Bank of Ceylon respondent noted: *"There is a continuous effort required due to the lack of unified approaches and a need for greater local regulatory guidance."*
A Commercial Bank manager highlighted: *"Fitting global rules like Equator Principles into the local landscape is challenging, given the complexity of harmonizing global and local regulations."* These responses indicate the intricate task of balancing international benchmarks with unique local circumstances.

2) Challenges in Traditional Banking Landscape: Respondents identified difficulties in adapting existing financial structures to green financing. A Bank of Ceylon manager stated: *"There's complexity in balancing profitability and sustainability in traditional banking models, with intricate risk assessment methodologies needed for green projects."*
A Commercial Bank respondent added: *"Aligning collateral valuation practices with the intangible benefits of sustainability is challenging, showcasing a difficulty in quantifying non-traditional aspects."* These responses highlight the need for significant adjustments to traditional banking practices to accommodate green financing.

3) Impact of Technology: Technological challenges were frequently mentioned; A Bank of Ceylon respondent noted: *"Ensuring the security of digital platforms and mitigating potential cybersecurity risks associated with green financing transactions is a critical challenge."*
A Commercial Bank manager highlighted: *"There's a challenge in ensuring digital literacy across customer segments and addressing potential technology access disparities."* These responses underscore the dual challenge of cybersecurity concerns and inclusive technological adoption in green financing.

4) Impact of Unfavourable Economic Conditions: Economic volatility and regulatory uncertainties were identified as significant challenges. A Bank of Ceylon respondent stated*: "Government policy changes on renewable energy subsidies impact our strategies, emphasizing the need for adaptability in the face of regulatory shifts."*
A Commercial Bank manager noted: *"Interest rates and currency fluctuations impact long-term green projects, influencing financing decisions."*
These responses highlight the need for strategic flexibility in navigating economic challenges for sustainable financial initiatives.

5) Awareness and Communication Challenges: Banks reported difficulties in effectively communicating the benefits of green financing. A Bank of Ceylon respondent stated:

"There's a need for tailored communication strategies to explain the long-term benefits of sustainable investments to certain stakeholders."

A Commercial Bank manager added: *"Making sustainable finance concepts universally understood and embraced is challenging, requiring diverse communication approaches."* These responses underscore the importance of effective communication strategies in promoting understanding and engagement for successful adoption of green financing.

C. Theme 3 - Internal Organizational Challenges

1) Internal Policies and Procedures: Banks reported efforts to align internal policies with green financing benchmarks. A Commercial Bank respondent noted: *"We're creating policies specifically for green financing and revising internal structures. Environmental risk analysis is being included in credit and risk management protocols."*

A Hatton National Bank manager stated: *"We've created specific frameworks like ESG Risk Management Systems, Green Lending Guidelines, and Sustainability Integration Policy to aid in the methodical assimilation of sustainability considerations."* These responses indicate a strategic approach to policy alignment within banks.

2) Organizational Culture: Respondents emphasized the role of leadership and organizational values in fostering a culture supportive of green financing. A Bank of Ceylon manager noted: *"Employee commitment to sustainability is positively impacted by aligned values and ethical foundations."*

A People's Bank respondent added: *"The CEO's active participation in green finance forums and the integration of green finance principles into employee training programs reflect our commitment to building a strong sustainability culture."* These responses highlight the importance of leadership in driving cultural change towards sustainability.

3) Resource Distribution Consideration: Adequate resource allocation was identified as crucial for the success of green financing initiatives. A Bank of Ceylon respondent stated: *"Providing adequate financial resources, especially for marketing and awareness campaigns, is crucial to guarantee the sustainability of green initiatives."*

Another respondent added: *"There's a need to balance short-term priorities and sustainability initiatives, as well as optimize resources through the integration of green competencies into mainstream banking teams."* These responses indicate the strategic importance of resource allocation in sustaining green financing practices.

In summary, the results obtained through the analysis of transcripts with the utilization of NVivo software, reveal a complex interplay of factors influencing the adoption of green financing practices by SIBs in Sri Lanka. While there are strong motivations driven by regulatory pressures, market demands, and organizational commitments, banks face significant challenges in aligning with international standards, adapting traditional banking practices, and navigating economic uncertainties. Internal organizational factors, including policy alignment, cultural shift, and resource allocation, play a crucial role in shaping the banks' approach to green financing. These findings provide valuable insights into the current state of green financing adoption in Sri Lanka's banking sector and highlight areas for potential improvement and further studies.

The findings of this study provide valuable insights into the adoption of green financing practices by SIBs in Sri Lanka. The results reveal a complex interplay of motivations,

challenges, and internal organizational factors influencing the implementation of sustainable banking practices. This discussion will analyse these findings in light of existing literature and their implications for the banking sector in Sri Lanka and beyond.

D. Key Motivations and Drivers

1) Regulatory Framework and Principles: The study reveals that evolving regulatory landscapes significantly influence banks' integration of sustainability into their business strategies. This aligns with Ofori-Sasu et al.'s (2021) findings on the importance of financial regulations in driving environmental sustainability adoption in African banks. However, it is crucial to note that the impact of regulations may vary across different regions and countries. The specific mention of initiatives like the Sustainable Banking Initiative by the CBSL underscores the role of local regulatory bodies in shaping sustainable banking practices.

2) Customer Preferences: The shift in consumer behavior towards environmentally sustainable choices emerges as a significant driver for green financing initiatives. This observation resonates with Hastuti et al.'s (2021) findings on the growing customer demand for sustainable banking products. However, it is important to recognize that consumer preferences can be diverse and dynamic, necessitating continuous assessment and adaptation of bank strategies to align with evolving expectations.

3) Market Positioning and Reputation: The study highlights how banks leverage green financing for positive market impact and enhanced reputation. This strategic use of sustainability initiatives aligns with Jain et al.'s (2021) and Hastuti et al.'s (2021) observations on how green lending allows banks to tap into new markets and boost their social and environmental credentials. The introduction of specific products like green home loans and renewable energy financing demonstrates banks' efforts to attract eco-conscious borrowers and strengthen their position as socially responsible institutions.

4) Investor Demand and ESG Considerations: The integration of Environmental, Social, and Governance (ESG) factors into decision-making processes, driven by investor demands, is consistent with Scheyvens et al.'s (2016) insights on investor pressures focused on climate risk reporting and ESG performance management. This trend underscores the growing importance of sustainability in investment decisions and corporate governance.

5) Innovation as a Strategic Driver: The emphasis on innovation as a key strategic driver for competitiveness provides an interesting perspective that extends beyond the existing literature. While Jain et al. (2021) discusses first-mover motivations and competitive differentiation, the specific framing of innovation as a sustainability adoption driver offers a novel insight into banks' strategic thinking.

E. Major Challenges

1) Aligning with International Standards: The study reveals significant challenges in adapting global sustainable finance standards to the local context. This finding aligns with Sagebien and Lindsay's (2011) observation that wholesale adoption of complex

international green finance frameworks can be problematic for banks operating in unique domestic contexts like Sri Lanka. The need for a tailored approach considering local dynamics is evident.

2) Challenges in Traditional Banking Landscape: The difficulty in adapting existing financial structures to green financing, particularly in balancing profitability and sustainability, echoes Scholtens' (2006) observations on the ingrained profit-maximization culture in banks. The need for new approaches to integrate environmental risk exposures into credit risk modelling, as highlighted by Weber (2014), is evident in the responses.

3) Impact of Technology: The dual challenge of ensuring cybersecurity for digital green finance platforms and addressing digital literacy disparities among customers presents a unique perspective not extensively covered in the cited literature. This finding underscores the need for further research into the technological aspects of green financing implementation.

4) Impact of Unfavourable Economic Conditions: The challenges posed by economic volatility and regulatory uncertainties align with Ahmad et al.'s (2022) explanations of how fluctuations in macroeconomic factors and ambiguous policy directions create adoption barriers for banks contemplating green finance in developing country contexts.

5)Awareness and Communication Challenges: The difficulty in effectively communicating the benefits of green financing to various stakeholders aligns with Hastuti et al.'s (2021) observations on the limited understanding of green finance concepts across customer segments. This highlights the need for tailored awareness initiatives and capacity building.

F. Internal Organizational Factors

1) Internal Policies and Procedures: The efforts to align internal policies with green financing benchmarks reflect Akenji's (2019) findings on the importance of coherent internal frameworks in facilitating sustainability transitions. However, the challenges in adapting existing policies to accommodate unique aspects of green projects, as noted by Majoch et al. (2017), are evident.

2) Organizational Culture: The emphasis on ethics, transparency, and accountability as enablers of green financing aligns with Lacy et al.'s (2010) research on values-based cultures empowering sustainability. The role of awareness campaigns in reinforcing commitment, as mentioned by respondents, echoes Linnenluecke et al.'s (2009) studies on engagement for sustainability culture.

3) Resource Distribution Consideration: The strategic allocation of resources for green financing initiatives, including dedicated budgets for marketing and staff training, aligns with Weber's (2017) recommendations on strategic resourcing of sustainability initiatives. The mention of IT infrastructure investments also mirrors Zhang et al.'s (2019) findings on technology's role in enabling green finance.

4) Human Capital Development: The focus on specialized training programs and partnerships for capability development aligns with Witt et al.'s (2018) research on capacity building for sustainability. The recognition of the skills gap, particularly for veteran staff, highlights the ongoing challenge of building and maintaining expertise in this rapidly evolving field.

5) Leadership Role: The importance of cross-functional decision-making and performance goal alignment in securing commitment to green financing initiatives reflects Lacy et al.'s (2010) research on incentives and accountability mechanisms driving sustainability commitment. The emphasis on CEO advocacy as pivotal for internal buy-in aligns with studies on executive commitment driving the adoption of sustainability practices.

V. CONCLUSION AND RECOMMENDATIONS

This study provides a comprehensive examination of the factors influencing the adoption of green financing practices by SIBs in Sri Lanka. Through in-depth interviews with eight respondents from major Sri Lankan banks, the research explored key motivations, challenges, and internal organizational factors affecting the implementation of green financing initiatives.

The findings reveal that the adoption of green financing by Sri Lankan banks is driven by a complex interplay of regulatory pressures, market demands, and organizational commitments to sustainability. Key motivations include evolving regulatory landscapes, changing consumer behavior towards environmentally sustainable choices, the strategic use of green financing for market positioning and reputation enhancement, and growing investor demands for ESG considerations. These motivations align with existing literature, particularly the works of Ofori-Sasu et al. (2021), Hastuti et al. (2021), and Scheyvens et al. (2016), underscoring the impact of external influences on banks' sustainability strategies.

However, the transition to green financing is not without significant challenges. Banks face difficulties in aligning with international standards while adapting to local contexts, a finding that resonates with Sagebien and Lindsay's (2011) observations. The study also highlighted the challenges in adapting traditional banking models and risk assessment frameworks to accommodate green financing, echoing Weber's (2014) call for new approaches in integrating environmental risk exposures into credit risk modelling. Economic volatility and regulatory uncertainties, as noted by Ahmad et al. (2022), further complicate the adoption process, particularly in the context of developing economies like Sri Lanka.

The study also sheds light on the critical role of internal organizational factors in shaping banks' approach to green financing. The importance of aligning internal policies and procedures with green financing goals, as emphasized by Akenji (2019), was evident in the responses. The study revealed the significance of organizational culture in driving sustainability initiatives, aligning with Lacy et al.'s (2010) research on values-based cultures empowering sustainability. Strategic resource allocation, human capital development, and strong leadership commitment emerged as crucial factors in successful green financing implementation, resonating with the findings of Weber (2017), Witt et al. (2018), and Lacy et al. (2010) respectively.

The study's findings have significant implications for the banking sector in Sri Lanka and potentially for other emerging markets. They highlight the need for clearer and

more supportive regulatory frameworks, comprehensive customer education programs, development of new risk assessment models integrating environmental and social factors, strategic investments in technological infrastructure, cultivation of sustainability-oriented organizational cultures, and strategic allocation of resources for green financing initiatives.

Furthermore, this study opens several avenues for future studies. These include exploring the long-term impact of green financing initiatives on banks' financial performance, investigating the role of fintech innovations in overcoming adoption barriers, conducting comparative studies with other emerging markets, assessing the effectiveness of different communication strategies, and developing standardized metrics for environmental impact assessment in the Sri Lankan banking context.

In conclusion, this study contributes to both academic knowledge and practical implications for banks seeking to navigate the complexities of integrating green financing practices into their operational frameworks. It provides a nuanced understanding of the motivations, challenges, and internal organizational factors influencing green financing adoption in the Sri Lankan banking sector. As the global financial sector increasingly recognizes its pivotal role in addressing climate change and promoting sustainable development, the insights from this study can guide future endeavours aimed at promoting sustainability in the financial sector, particularly in emerging markets facing similar challenges and opportunities.

The findings underscore the need for a holistic approach to green financing adoption, one that considers regulatory landscapes, market dynamics, organizational structures, and cultural factors. As banks continue to navigate the transition towards more sustainable practices, the lessons drawn from this study can inform strategies, policies, and practices, ultimately contributing to a more sustainable and resilient financial sector in Sri Lanka and beyond.

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