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CLIMATE VULNERABILITY AND RESILIENCE IN EMERGING MARKETS: A SECTORAL ANALYSIS OF FOOD, BEVERAGE, AND TOBACCO INDUSTRY

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Abstract

This study examines the impact of physical climate risks on the financial performance of listed companies in Sri Lanka's Food, Beverage, and Tobacco (FBT) industry, a sector highly susceptible to climate-induced disruptions due to its dependence on agricultural production, water, and logistics. Using a panel dataset of 41 listed firms from 2016 to 2023, the research investigates the effects of six major climate risks: high wind, land-related risk, flood, lightning, drought, and heavy rain on two key financial performance indicators: Return on Equity (ROE) and Return on Sales (ROS). After diagnostic tests confirmed the appropriateness, fixed effects regression models with robust standard errors have been employed in analyzing the data. Results indicate that high wind, lightning, drought, and flood have statistically significant negative effects on ROE, while high wind, lightning, drought, and heavy rain significantly reduce ROS. Landslide-related risks were excluded from the final analysis due to multicollinearity, and this has restricted the study's ability to fully test all initially proposed hypotheses. The findings reveal that climate-related disasters undermine profitability and operational efficiency in the FBT sector. This study offers novel firm-level empirical evidence from the climate-vulnerable FBT sector in Sri Lanka, an area largely underexplored in the climate-finance literature, emphasizing the urgent need for industry-specific climate adaptation strategies. Further, the study provides valuable insights for regulators, investors, and policymakers in developing climate-resilient financial frameworks that comply with emerging disclosure standards like SLFRS S2.

Keywords: *Climate Risk, Financial Performance, Food, Beverage and Tobacco Industry, Return on Equity, Return on Sales*