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## **Climate Change and Green Financing: Initiatives & Outlook in South Asia**

**Country Paper**

**NEPAL**

## **1. Introduction**

The average temperature in Nepal in the last decade is over 0.6 degrees higher than the baseline of 1950-1980. The monsoon has become increasingly unpredictable, and the number of climate shocks related to floods, storms, and landslides has steadily risen. These events can damage infrastructure, harm crops, and impact connectivity. The UNEP estimates that floods alone could cost Nepal the equivalent of 2.7 percent of GDP per annum (UNEP, 2015). Giving priority to promote clean energy and minimize environmental impacts of development projects, Nepal Rastra Bank has been making provisions of direct lending to renewable energy projects with single obligor limit up to 50 percent of core capital of Bank and Financial Institutions.

### **1.1 Overview of the Impact of Climate Change**

Climate shocks can lower consumption, increase food insecurity, and lower assets. The impact of a climate shock is shown through a 25 percent lower agricultural yield in one of Nepal's districts in one period. Financial arrangements that are specific to the use for projects that are environmentally sustainable or projects that adopt the aspects of climate change. Green finance is fast emerging as a priority for public policy. Helpful to achieve green growth. Green financing is important in facilitating the transition towards a more sustainable and environmentally friendly economy.

### **1.2 Climate Change Implications on Financial System**

Nepal is one of the least developed countries in the world with low GDP of US\$562. It is estimated that approximately 25 percent of the populations live below the poverty line as of US\$ 1.25 a day. Agriculture is the dominant sector in Nepal. It accounts more than 75 percent of human resource involvement and contributes to 35 percent of GDP. Agriculture sector has played fundamental role in human welfare especially in rural Nepal, where people heavily depend on agricultural exports for fiscal and socio-political stability.

However, the contribution of agricultural sector to the national economy is challenged by its vulnerability to climate change. In recent years, extreme climatic conditions such as persistent rise in mean annual temperature and increase in precipitation have almost adverse impacts of various elements of agricultural production system. In addition, Nepal is experiencing various natural disasters such as flash floods, hailstones, landslides, mass movement, soil erosion, and avalanche, there by affecting the agriculture systems. The level of vulnerability, however, will be dependent on both socioeconomic and environmental factors. In Nepal,

approximately 85 percent of the population lives in rural areas, and thus, concern has been expressed by many researchers and organizations that climate change will undermine the rural economy that typically depend on climate-sensitive natural resources.

Nepal is much vulnerable to climate change. Nepal has already started to experience impacts of climate change in a number of ways, in which most critical one being the agriculture sector since more than 80 percent of the population heavily relies on this sector. Torrential rain, flash floods, mass movement, landslide, A glacial lake outburst flood (GLOFs) are some of the major disasters occurring as a result of changing climatic patterns in Nepal, thereby affecting the agricultural production and food security in the country. The level of vulnerability will be more pronounced in higher altitude; in the mountains and hills, where majority of the people rely on subsistence farming. Despite receiving continuous financial and technical assistance from foreign donors, the process of adaptation to climate change is slow and discouraging

## **2. Green Finance Landscape**

Nepal has adopted efforts on reducing carbon footprint and transition towards low carbon economy. At the same time reducing greenhouse gas emission through increasing use of renewable energy for sustainable growth. The Nepal Climate Change Financing Framework (CCFF) mobilizes financial resources and investments to address the impacts of climate change in Nepal. Nepal CCFF supports to address the impacts of climate change, which are particularly severe in the country due to its geography and high dependence on climate-sensitive sectors such as agriculture and tourism.

### **2.1 Government's Green Initiatives**

Guidelines for Green Building Technology, Nationally Determined Contributions (NDC), Nepal Forest Policy (2017), Nepal Climate Financing Framework (2017), Urban Development Strategy, National DRR Strategy and Action Plan 2019, Solid Waste Management Act in 2011, Agriculture Development Strategy 2015–2035, Nepal's 15th 5 Year Development Plan (2019/2020 – 2023/2024), Nepal Sustainable Development Goals: Status and Roadmap 2016-2030, Industrial Policy, 2011, Climate Change Policy, 2011(2019), National Adaptation Plan of Action, 2010, National Agricultural Policy, 2004, Foreign Investment and Technology Transfer Act (FITTA) 2019, Industrial Enterprises Act, 2016, Environment Protection Act, 2076

### **2.2 Central Bank's Green Initiatives**

NRB has direct coordination mechanism with Ministry of Finance, Government of Nepal, as a member of Climate Finance Steering Committee and Technical Committee of Green Climate Fund. Issuance of Environmental & Social Risk Management (ESRM) guidelines, 2018 and updated in 2022. The ESRM guideline 2022 has already been implemented through the directives issued to BFIs. NRB has aligned with Sustainable Banking Network (SBN) since 2013 as a member. Loan disbursement on Solar Home System and Appliances has been categorized as deprived sector.

### **3. Challenges for Greening the Financial System**

Lack of common definition and understanding of “green” in the context of Nepal, Lack of capacity and awareness on green finance along the value chain, shortage of long term finance, lack of bankable green projects, SMEs face additional barriers as the current lending model is largely collateral based financing with BFIs hesitant to take the risks resulting from project based financing. SMEs also face high upfront costs and limited capacity in aligning projects with the various social and environmental safeguard policies of the investors alongside the large transaction costs associated with funding small-scale projects.

Absence regulations, policy and incentive in going green and aligning with industry best practices, which limits BFIs as well as industries from being the first mover in going green in the fear of an unequal playing field.

Weak institutional capacity and the absence of inter-agency coordination to deal with cross-cutting issues.

### **4. Way Forward for Scaling up Green Financing**

Specific policies in place with a clear distinction among “climate finance”, “green finance”, and “sustainable finance”. Develop sector specific taxonomies with clear evaluation thresholds. Developing a Green Finance Taxonomy. Develop tools and guidance to assess green projects. Develop green project Measurement, Reporting, and Verification (MRV) and certification scheme.

Authority shall clearly defined green finance and sustainable finance, tools and guidance shall be developed to assess green projects. Provide broad policy signaling to promote green finance viz. monetary policy, wider directed green credit policy instruments such as subsidized loan rates for priority sectors, interest rate discounts, guarantees. Develop guidelines for issuance of green bonds. Develop a Governance and Coordination Action Plan and Budget. Establish bi-lateral

collaborations with other countries and institutions. On the regulatory side, effective compliance of the ESRM guidelines, adopt and enforce the requirement of report on portfolio climate risk exposure, provide Financial and/or non-financial incentives including capacity building for the implementation of ESRM.

## 5. References

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