



A BACKGROUND POLICY PAPER ON **GREEN FINANCING IN NEPAL**



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www.undp.org/nepal | +977-1-4290000

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नेपाल राष्ट्र बैंक NEPAL RASTRA BANK

केन्द्रीय कार्यालय
बालुवाटार, काठमाडौं
Central Office
Baluwatar, Kathmandu

FOREWORD

I am delighted to read the "Background Policy Paper on Green Financing in Nepal" prepared by "SDG Sub-Platform on Green Financing". The paper supports the objective of promoting green investments in Nepal, which is very much timely to stimulate green growth contributing to resilient, equitable and sustainable development.

The issue of green financing has been at the core of Nepal Rastra Bank (NRB)'s priorities. The NRB has made several regulatory policy provisions to promote green financing in Nepal, which includes issuance of Environment and Social Risk Management (ESRM) Guidelines in 2018 and directives for the Banks and Financial Institutions (BFIs) to ensure assessment of environmental risks as required by national laws before extending credit facilities to industries. In addition, BFIs are also required to submit ESRM Reports in the prescribed format annually. Giving priority to promote clean energy and minimize environmental impacts of development projects, NRB has been making policy provisions of direct lending to renewable energy projects with single obligor limit up to 50% of core capital of BFIs.

Compared to other countries in the region, we are at the beginning of a long journey towards green financing in Nepal. I'm glad that the paper builds a strong foundation to kick start the process and chart out a road map for future. As we move on, capacities across the green financing landscape needs to be built. In this regard, I would like to commend the efforts made by the sub-platform to do an in-depth research on existing policy and institutional context, opportunities and challenges in promoting green financing in Nepal, and recommending key steps to be taken in short, medium and long term.

I would also like to acknowledge the support provided by UNDP for setting up the sub-platform on "green financing" and facilitating the process of framing out future road map to work on green financing in Nepal.

On behalf of NRB, I express my full commitments for implementation of the recommendations made and expect cooperation of all concerned partners for the same.

(Maha Prasad Adhikari)

FOREWORD



Nepal has long been considered among the world's most climate-vulnerable countries. This warrants a great deal of attention in managing vulnerabilities and ensuring that our development goals are sufficiently resilient to withstand whatever environmental shocks the future may bring.

As a least developed country, one of Nepal's biggest and most persistent challenges is to manage the resources needed to finance the complex development interventions that help the country mitigate the risks and build a resilient society. Leaving those risks unattended would mean letting vulnerability grow unchecked.

As the leading UN agency responsible for helping countries to address climate vulnerabilities, UNDP has supported the people and the Government of Nepal in their efforts to integrate climate change and disaster risk reduction and management into the overall development process. To that end, the 2030 Agenda for Sustainable Development provides a solid framework for the government and all stakeholders to join forces and take concrete action. As a custodian of the SDGs, UNDP continues to engage national stakeholders in identifying the key issues and barriers to achieving the Global Goals' resilience outcomes.

As a first step, UNDP supported the establishment of five thematic SDG sub-platforms on green financing, responsible supply, resilient cities, resilient infrastructure and policy coherence. Led by national experts, these platforms were tasked with facilitating stakeholder engagement and jointly accelerating progress on achieving the SDGs. Given that the SDGs do not function in silos, the sub-platforms also examined linkages between the five thematic areas.

I take this opportunity to thank the members of the SDG Sub-Platform on Green Financing for having set in train a thoughtful and meaningful discourse on innovative financing to trigger green growth and contribute to green recovery. I appreciate that this discourse, despite the difficulties created by COVID-19, was able to bring together the key stakeholders to produce the *Background Policy Paper on Green Financing for Nepal*.

People, planet and prosperity are at the heart of the Global Goals. The green financing instrument is a common denominator that cuts across all the three

spheres. Green financing also helps to minimize the huge gaps in financing the SDGs and to promote a resilient model of development. Nepal has identified a financial gap of NRs585 billion in achieving the SDGs by 2030, which includes NRs367 billion from the private sector. Nepal has committed itself to achieving a carbon-neutral economy by 2050 and aspires to mobilize \$28.4 billion to fulfill the mitigation targets under the Nationally Determined Contributions.

UNDP stands ready to help the Government of Nepal to minimize those financing gaps, particularly by identifying non-traditional sources of funding, including the private sector, through innovative financing instruments. It is encouraging that the paper has analysed various such options and put forward a roadmap with immediate, medium and long-term priorities. I believe that the roadmap's implementation will help to channel investments effectively so that they support Nepal's development vision of *Prosperous Nepal, Happy Nepali*.

I acknowledge with gratitude the voluntary contributions of the platform members, and the visionary leadership of the Chair, Mr. Sanjib Subba, and the Vice-Chair, Ms. Sushama Sharma, for making the sub-platform a great success. I would like to thank Mr. Rastraraj Bhandari for his contribution to this paper and all the experts for their in-depth reviews and valuable comments.

I'm also particularly encouraged by the commitments of the Governor of Nepal Rastra Bank, Mr. Maha Prasad Adhikari, who recognizes this report as a foundation for future work on green financing in Nepal. I fully endorse his assertion that building capacities across the financing landscape is the need of the hour and commend his able leadership for creating policy incentives for banking and financing institutions to support green investment.

And I thank my colleague, Mr. Vijaya Singh, UNDP Policy Advisor, for conceptualizing and successfully piloting the platform approach for the first time in Nepal.

Ayshanie Medagangoda-Labé
UNDP Resident Representative in Nepal

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ABBREVIATIONS

BFI	Banks and Financial Institutions
ESRM	Environmental and Social Risk Management
ESG	Environmental, Social and Governance
FDI	Foreign Direct Investment

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