

A Sustainable Banking Network (SBN)  
Task Force Report

Addendum to the SBN Report  
*Necessary Ambition: How Low-Income  
Countries Are Adopting Sustainable Finance  
to Address Poverty, Climate Change, and  
Other Urgent Challenges*

June 2020

# Country Profile Nepal



Sustainable  
Banking  
Network



**IFC**

International  
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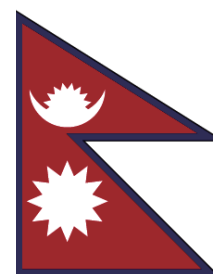
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# Nepal



**SBN Member:** Nepal Rastra Bank (NRB, Central Bank of Nepal) (member since 2014)

**SBN Working Groups:** IDA\* Task Force

**Key policy documents:**

- Guideline on Environmental and Social Risk Management (ESRM) for Banks & Financial Institutions (NRB, 2018)
- Implementation ESMS Checklist (NRB, 2018)

**SBN Progression Matrix Stage (2019):** Developing – the country has formally launched a national sustainable finance roadmap, framework, policy, or voluntary industry principles, and a formal taskforce, working group, or institution has been tasked with implementation.

**SBN and IFC role:** IFC, through the Asia region Environmental and Social Risk Management (ESRM) Program for financial institutions, has provided advisory services to NRB in relation to policy development, implementation, and capacity building, in partnership with the government of Canada. Through SBN, NRB has shared its experience with other SBN members and benefited from the collective SBN knowledge base.

\* IDA stands for the International Development Association ([ida.worldbank.org](http://ida.worldbank.org)), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

**About this Country Profile:**

This Country Profile is an addendum to the SBN report: *Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges*. The report and country profiles for the first time capture in a systematic way how sustainable finance is being harnessed by low-income countries to address a range of common environmental and social priorities and drive financial sector innovation despite market constraints.

The report and profiles complement and build on the data collection and analysis for the SBN 2019 Global Progress Report, which covered 39 emerging markets. They delve deeper into the experiences of 8 low-income countries in the SBN network through an online survey, interviews, and desk research.

This country profile has four sections:

- The **Drivers of Action** – factors that spurred the country to develop sustainable finance policies or voluntary principles.
- The country's **Experiences in Developing Sustainable Finance Frameworks** and what was learned in the process.
- **Future Priorities** for the country as it continues to develop its sustainable finance systems.
- How the country views linkages between sustainable finance policies and **Broader Development of its Financial System**.

# 1. Drivers of action

## Which factors spurred sustainable finance in Nepal?

Nepal Rastra Bank has been the key driver of

**sustainable finance in Nepal.** Figure 1 compares the drivers of sustainable finance in Nepal to other IDA SBN countries. Nepal is unique in having a single driver of sustainable finance: ‘policymaker and/or regulator engagement.’ This suggests a defined impetus for sustainable finance development in Nepal.

**Figure 1 Policymaker and/or regulator engagement is the only driver of sustainable finance in Nepal**

	High	Medium	Low	N/A
<b>Policy environment:</b> National commitments to the Sustainable Development Goals (SDGs), Paris Agreement on Climate Change, or a National Sustainable Development Policy	••••		•	•
<b>Policymaker and/or regulator engagement:</b> National guidelines or regulatory requirements to better manage environmental and social (E&S) risks in the financial sector, improving financial stability	•••	•	••	••
<b>Coordinated voluntary approach:</b> Initiative taken by local financial institutions to adopt international good practice in sustainable finance and level the playing field	•••	•		•••
<b>Market incentives:</b> Opportunity to increase competitiveness and resilience of the financial sector through innovation in green and socially inclusive finance	••	••	••	•
<b>Environmental and social challenges:</b> E&S risk exposure that fosters participation of financial institutions to address the E&S risks at the country level	•••	•	••	•
<b>Peer experience:</b> Demonstration effect of countries that have adopted a sustainable finance roadmap	•	•••	•	•

Note: Large dots represent Nepal’s responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

# 2. Developing a sustainable finance framework

## What process did Nepal go through to develop a framework to promote sustainable finance, and what was learned along the way?

**Nepal’s Environmental and Social Risk Management Guidelines for sustainable finance are still in the development phase and have yet to be implemented by banks.** Given Nepal’s early stage on the path to fully developing and implementing its sustainable finance framework, it is too early to assess lessons from Nepal’s process. Figure 2 details the stages and steps for developing and implementing the sustainable finance framework in Nepal.

**Figure 2 Stages and steps for developing and implementing the sustainable finance framework in Nepal**



Source: SBN IDA Diagnostic Survey responses & SBN Nepal Country Progress Report (2019)

### 3. Future priorities

#### What are Nepal’s priorities as it continues to develop a sustainable financial system?

**The key next step in Nepal’s sustainable finance journey is the implementation of the Environmental and Social Risk Management Guidelines, which were issued in 2018.**

**The lack of capacity in the banking industry, as well as low levels of awareness among Nepalese business organizations about environmental issues, have been obstacles to the implementation of a sustainable finance framework. Figure 3 compares**

Nepal’s ongoing challenges with those faced by other SBN IDA countries. As with peer countries, ongoing progress in sustainable finance development could be hindered by a number of challenges associated with developing a supportive enabling environment, building capacity, and developing specific tools to support sustainable finance implementation. The key priorities for the central bank are building the capacity of regulators and financial institutions, enhancing cooperation for implementation, and developing a taxonomy of green and socially inclusive projects. Implementing these would create a positive enabling environment for sustainable finance and unlock green finance opportunities.

**Figure 3 Ongoing challenges to be met in developing and implementing sustainable finance for Nepal**

		High	Medium	Low	N/A
Enabling environment and capacity building	Build the capacity of regulators and financial institutions	• • • • •			
	Enhance cooperation among financial institutions	• • • • •	• •		
	Provide clear incentives for sustainable finance	• • • • •	• •		
	Develop and launch a sustainable finance roadmap	• • • • •	• •		•
	Expand sustainable finance to other financial sectors	• • • • •	• • • •	• •	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	• • • • •	• •		
	Promote publicly available environmental data	• • • • •	• •		
	Create green asset guidelines, incentives, and awareness	• • • • •	• •	• •	

Note: Large dots represent Nepal's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

## 4. Broader financial sector development

### How does sustainable finance in Nepal connect with broader ambitions?

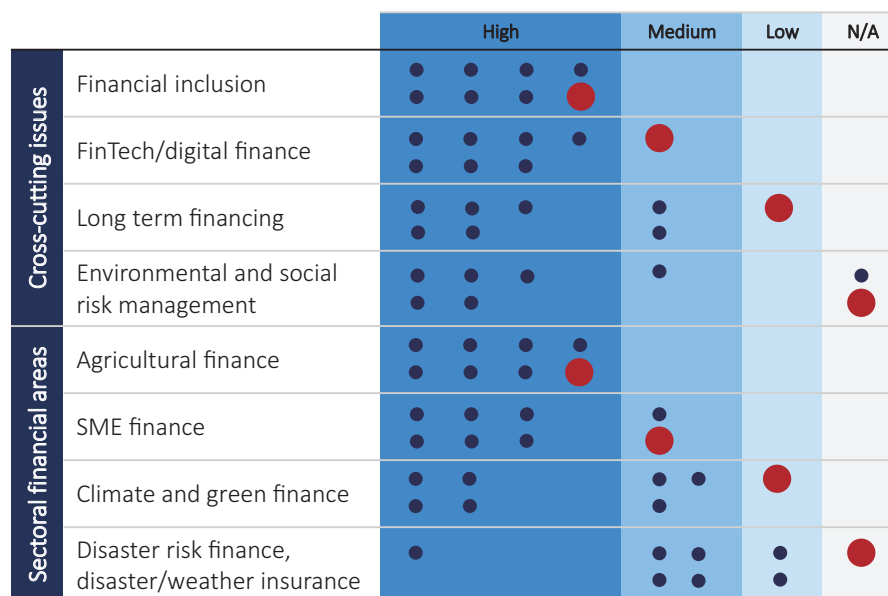
**In Nepal, the highest priorities for financial sector development are financial inclusion and agricultural finance.** Figure 4 compares Nepal's concerns related to financial sector development to those of other SBN IDA countries. This demonstrates the importance of defining sustainable finance broadly and integrating wider considerations, particularly financial inclusion and

agricultural finance, fully into the sustainable finance framework.

**In Nepal, it is considered imperative that sustainable finance supports the broader development agenda.**

For example, integrating environmental and social considerations into the due diligence process for loans should protect the communities that are most vulnerable to environmental issues and climate change. Furthermore, as part of sustainable finance development, there are efforts to increase financial literacy, which is key to delivering financial inclusion. As such, sustainable finance should contribute to the poverty reduction agenda.

**Figure 4 Key areas of concern related to financial sector development for Nepal**



Note: Large dots represent Nepal's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

“The country should develop and implement sustainable finance related policies for a better and safer financial system. These policies should not be detrimental to development activities, rather should guide the initiatives taken.”

- National Rastra Bank

Access SBN knowledge resources at:  
[www.ifc.org/sbn](http://www.ifc.org/sbn)

Access the SBN Necessary Assessment Report  
and associated Country Profiles at:  
[www.ifc.org/sbnnecessaryambition](http://www.ifc.org/sbnnecessaryambition)



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