

Accessing Climate Finance in Nepal: Issues and Options

Key Messages

- *Climate financing must be clearly defined in Nepal to guide the country's development and sustainability efforts.*
- *Encourage inclusive approaches to align government, development and private sector climate finance priorities.*
- *Clarify the co-benefits of climate finance interventions through bilateral and multilateral investments in Nepal.*
- *Develop and support bankable projects that are credible, risk-proofed, and resilient for private sector financing.*
- *Enhance public access to climate databases or develop a new national system to promote calculated decision-making.*

This document summarizes findings from a workshop and a series of consultations organized by Asian Disaster Preparedness Center (ADPC) and Nepal's Ministry of Finance (MoF). It aims to support development partners and Government of Nepal agencies in designing programmes and interventions to accelerate international climate finance in Nepal.

Climate Finance

While climate finance has no standard definition, it is one of the most elucidated terms both in Nepal and across the world (Mahat, 2019). The following section examines how international frameworks and mechanisms describe its characteristics.

Article 4.3 of the United Nations Framework Convention on Climate Change (UNFCCC) states:

“the developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations. The implementation of these commitments shall consider the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties,” (UN, 1992).

The paragraph above explains how to distribute climate finance, but it doesn't specify how much is to be distributed. According to the United Nations Environment Programme (UNEP) Adaptation Gap Report 2022, estimated global annual adaptation needs range between US \$160-340 billion by 2030 and between US \$315-565 billion by 2050. However, the report also states that combined adaptation and mitigation finance flows fell at least US \$17 billion short of the US \$100 billion pledged to developing countries in 2020 (UNEP, 2022). During the 26th Conference of Parties (COP26) in 2021, developed countries were also urged to double their collective provisions of adaptation finance from 2019 levels by 2025 to achieve a balance between adaptation and mitigation targets.

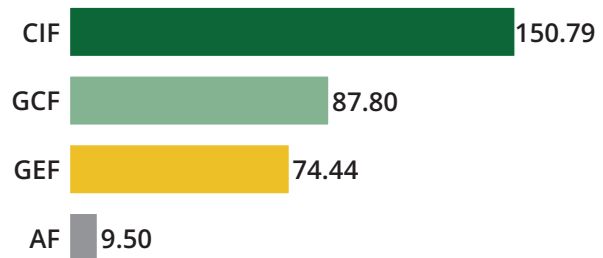
Furthermore, a highlight of the recent COP27 in 2022 was the establishment of a Loss and Damage Fund, which aims to provide financial assistance to nations that are most vulnerable to and impacted by climate change. Creating a specific fund for loss and damage marked an important point of progress for the COP mechanism, and loss and damage has been added to its official agenda for the first time.

Various discussions are also underway globally on how to consider the 'Polluter's Pay Principle' in addition to Official Development Assistance

(ODA) (Mahat, 2019). This includes common but differentiated responsibilities, intergenerational justice, and also how to fund country-specific policy documents like Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) from a climate justice perspective in setting the New Collective Quantified Goal (NCQG) (Pauw, 2022).

The table below summarizes global climate finance from the UNFCCC mechanism and other sources during 2010-2022.

UNFCCC funding sources and amounts mobilized from 2010-2022 (US\$ millions)



Sources: OPM (2022); Adaptation Fund (AF), Climate Investment Fund (CIF), Green Climate Fund (GCF), and Global Environmental Facility (GEF) websites

Context of Climate Finance in Nepal

Nepal is currently receiving climate funds from the Adaptation Fund (AF), Global Environmental Facility (GEF), and Green Climate Fund (GCF), which all serve as climate financing mechanisms under UNFCCC. However, the World Bank (WB) and the Asian Development Bank (ADB) are considered to be the two largest donors of Nepal's climate finance projects (OPM, 2022).

The Government of Nepal (GoN) is also a Party to the UNFCCC and has ratified the Paris Agreement (MoFE, 2019). As part of its global efforts, Nepal aims to help limit world temperature rises preferably to 1.5°C when compared to pre-industrial levels.

Nepal also ranks as the 9th most-affected country impacted by climate-related extreme weather events on the Global Climate Risk Index (CRI) scale (Climate Transparency, 2020), but based on current trends, it only contributes to 0.056 percent of global Greenhouse Gas (GHG) emissions (MoFE, 2021). Despite being a low emitting country, Nepal remains highly vulnerable to climate change and experiences changes in temperature and precipitation at faster rates than the global average.

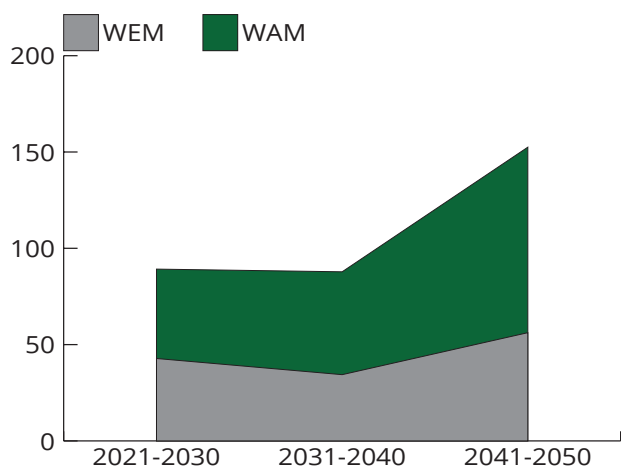
On the financial aspect, growing climate risks are estimated to generate a 1.5-2 percent loss in Nepal's current Gross Domestic Product (GDP) every year by mid-century (MoSTE, 2014) and 2.2 percent of GDP by 2050 (WB, 2021). Furthermore, the economic cost of climate vulnerability in the agricultural sector in 2020 was estimated at 1.5-2 percent of GDP according to the Climate Country Development Report (WB, 2022).

Nepal, in its efforts to support the implementation of the Paris Agreement, has developed a series of climate finance-related policies, legal instruments and institutional mechanisms to promote low-carbon pathways and climate-resilient development (GoN, 2021).

However, more concrete efforts are necessary to meet Nepal's commitment to channel at least 80 percent of climate funds to the local level. It is also recognized that Nepal should continue with the progress it has made in climate finance to address meaningful mitigation and adaptation actions (MoFE (a), 2022).

The following graph and statistics present the targets and climate finance gaps assessed in Nepal's NDC, NAP, and Long-term Strategy for Net-zero Emissions (LTS) and SDG 2030 financing documents.

Achieving Net-Zero in Nepal by 2050



With Additional Measures (WAM):
US \$46.4 billion from 2021-2030
US \$53.4 billion from 2031-2040
US \$96.3 billion from 2041-2050

With Existing Measures (WEM):
US \$42.8 billion from 2021-2030
US \$34.4 billion from 2031-2040
US \$56.2 billion from 2041-2050

Source: (MoFE (c), 2021)

Nearly **US \$48 billion** is needed until 2050 to implement 64 climate change adaptation programmes according to NAP funding gap estimates.

Source: (MoFE (a), 2021)

Almost **US \$25 billion** is needed to achieve NDC conditional mitigation activity-based targets and **US \$3.4 billion** is needed to achieve its NDC unconditional targets

Source: (MoFE (b), 2021)

To achieve its SDG targets by 2030, Nepal needs almost **US \$20 billion** from 2023-2025 and almost **US \$30 billion** from 2026-2030

Source: (National Planning Commission, 2018)

Furthermore, the International Development Cooperation Policy (IDCP) identifies disaster management and climate change as priority development cooperation areas to support with grants and other technical assistance (MoF, 2019). This provision applies to all development partners and funding mechanisms.

The climate finance flow mechanism is also evolving in Nepal. Financial mechanisms like UNFCCC and bilateral and regional initiatives make Nepal's climate finance landscape complex to coordinate and difficult to align contributors' interests with national priorities.

Workshop Details

Asian Disaster Preparedness Center (ADPC) co-organized a climate finance stakeholders' workshop under the leadership of the Ministry of Finance (MoF) on 8 September 2022 in Kathmandu, Nepal. The workshop aimed to identify barriers to accessing international climate finance in Nepal, and developing strategies to overcome them in accessing international climate finance. The workshop was organized as part of ADPC's Climate Adaptation and Resilience (CARE) for South Asia project supported by the World Bank.

Participants were organized into four focused group discussions to identify challenges and potential solutions to accessing climate finance, specific to their representations in Nepal.

1. UNFCCC mechanisms;
2. Multilateral sources;
3. Bilateral sources; and
4. Private sector.

Three analyses were presented:

1. Global sources of climate finance;
2. Risk finance and insurance opportunities in Nepal; and
3. Barriers and opportunities in accessing climate finance in Nepal.

Multistakeholder Engagement

The workshop involved various organizations including UN Development Programme (UNDP), UN World Food Programme (WFP), International Union for Conservation of Nature (IUCN), and World Wildlife Fund (WWF), which are already engaged in the UNFCCC mechanism.

National groups such as the Alternative Energy Promotion Center (AEPC) and the National Trust for Nature Conservation (NTNC), which are both GCF-accredited entities, as well as the Town Development Fund (TDF), which is in the process of being accredited by the GCF, also participated.

The private sector was represented by NMB Bank, NABIL Bank, Nepal Infrastructure Investment (NIFRA) Bank, Global Equity Fund (GEF), and Fair-Trade Group (FTG), all of which were active participants in the workshop.

Bilateral agencies, including Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) of Germany, and the Foreign, Commonwealth and Development Office (FCDO) of the United Kingdom, were also in attendance.

The World Bank participated remotely, and intergovernmental organizations such as the International Centre for Integrated Mountain Development (ICIMOD), which is headquartered in Nepal, provided insights into multilateral and bilateral climate finance processes.



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Recommendations on Accessing Climate Finance

The following seven potential solutions were identified by workshop participants in order to maximize access to climate financing in Nepal.



1 Define Key Climate Change and Finance Terminologies in the Nepal Context

The groups suggested that terminology related to climate finance should go beyond the 11 criteria identified in the Climate Change Budget Code Guideline of Nepal (2012). For example, further clarity is needed on terminologies like:

- Climate change-related loans and grants;
- Green finance; and
- Green taxonomy.

By further identifying key priority elements, including elements of loss and damage, these global terms can be appropriately translated into the Nepalese context.

Participants also mentioned that tagging the co-benefit of development interventions as climate finance by bilateral and multilateral investments was also found to be misleading. Nepal's understanding and accounting of the flow of climate finance funds within the country are also unclear due to a lack of proper definition of the term climate finance.



2 Establish a Climate-related Data Repository at the National Level

- Climate-related data consists of all information related to recorded temperature, atmospheric conditions, precipitation, and seasonal weather trends. This type of meteorological and science-based data provides long-term patterns regarding average temperature, precipitation, and weather conditions.
- Since these data sets are prepared by meteorologists and scientists, this information is not easily accessed by the public. The unavailability of a regularly updated science-based data set is failing to reflect the changing needs of developing countries like Nepal while developing new programmes and proposals.

- Considering the dynamic nature of climate change and its importance in establishing interlinkages between impacts and solutions with the climate goals, a climate database is required for preparing and designing science-based and evidence-based proposals and programmes.
- Enhancing access to the existing climate database through a publicly accessible platform or developing a national system is necessary.
- Develop a guideline to reduce climate risk, accessing concessional loans and issuing climate bonds, similar to the Environment, Social and Risk Management (ESRM) Guidelines (Nepal Rastra Bank, 2018).
- Develop a common platform and appropriate institutional mechanism to access climate finance and opportunities for “matchmaking” through the GCF mechanism, accessing concessional loans.



3 Policy Alignment between the Government's and Development Partners' Priorities

- An incremental improvement is needed to close the gap between the different policies of the bilateral agencies, multilateral based on their respective priorities and the GoN's priority and plans.
- Policy alignment between the documents of development partners and the GoN was also suggested. Furthermore, continuing the high-level meetings like the Inter-Ministerial Committee on Climate Change (IMCCC) was pointed out as one of the starting points to reinforce the policy alignment issues.
- A fast-track government process to evaluate, implement, and track climate grants and to provide technical assistance can be implemented for better alignment between development partners and GoN priorities.
- These suggestions align with Nepal's International Development Policy (2019) to be transparent, aligned with national interests and priorities and reflect in the national budget (MoF, 2019).
- Engage small and micro enterprises (SMEs) representations, in particular, within climate finance discussion and decision-making to enhance their contributions to the GDP.
- Based on the experiences of neighboring countries like Bangladesh, participants also called for a stronger facilitation role of the GoN to create an enabling environment of private sector engagement in the country.



5 Address Institutional Barriers for Accessing Climate Finance

The country's institutional mechanism to access funds through GCF is well-established and is in operation, with the MoF serving as a Nationally Designated Authority (NDA) to the GCF to guide, govern and account for progress and process.

Even within these provisions, major concerns were expressed about the lengthy and resource-intensive project development process as a significant barrier to accessing climate finance for resilient climate development.

- There is a need to create bankable projects that are credible, risk-proofed and resilient for private-sector financing. MoF and the NDA have developed a country-level document with a pipeline projects list, but it does not necessarily represent country-level project pipeline documents.
- NDCs and NAP could be unpacked to look into developing pipeline projects where the private sector can identify spaces for their engagement.
- Provide clarity on the various financial instruments and facilitate the climate finance access process. Start with project proposal



4 Increase and Encourage Private Sector Engagement to Address Climate Change

- Operationalizing existing policy provisions that attract the private sector into the climate arena and strengthening existing private sector engagement provisions has the potential to shift the country towards low carbon pathways.
- Engage the private sector further by developing specific policies for their participation in decision-making and capacity-building.

development for UNFCCC mechanisms like GCF to make legal arrangements through negotiations and signing processes.



6 Build Financial Capacities and Technical Needs

Globally, there are shifts in strategies from green projects to greening entire economies, and focusing on inputs to focusing on impacts - this is especially true for Nepal. The following are reflections highlighted on climate change policies and their implementation status.

- Nepal is at a satisfactory level in preparing climate change-related policies, but further improvements are needed to implement them.
- Nepal can work together with UN agencies and bilateral, regional, and other multilateral mechanisms to support access to climate finance in the country by assessing its needs and priorities, including technological and capacity-building needs.
- Existing fiduciary risk and institutional mechanisms with inadequate local-level human resources are barriers to directly funding the local government on climate matters.
- Establish or designate a climate/environment unit, and designated human resources to create enabling environments for development partners to directly channel climate funds at the local level.



7 Identify Loss & Damage as an Opportunity for Accessing Climate Finance

- The National Framework on Climate Change-Induced Loss and Damage (L&D) links activities of climate adaptation and disaster risk management. While there is no official definition to define L&D in Nepal, but the framework explains how to assess it (MoFE, 2021).
- At COP27, countries agreed to establish a new dedicated fund under UNFCCC to address L&D. However, the only existing multilateral source within the UNFCCC that seems to provide any funding for addressing L&D is GCF.
- COP27 delivered a historical outcome on funding arrangements for L&D, including a dedicated fund at UNFCCC, but further work is needed on building a coherent framework and institutional arrangements. New, adequate, predictable and accessible funds should flow to climate-vulnerable countries including Nepal.
- Traditional financing instruments could be used to deal with L&D. For example, social protection, contingency finance, catastrophe risk insurance and catastrophe bonds can provide a certain buffer and rapid pay-outs after disasters.
- A broadened donor base and innovative finance tools would be needed to respond to the magnitude of L&D like debt for loss and damage swaps, international taxes and a dedicated finance facility for loss and damage under the UNFCCC.

Reforming Access to Climate Finance

Stakeholders highlighted the need to strengthen the climate finance sector in the following areas:

1. Define Key Climate Change and Finance Terminologies in the Nepal Context
2. Establish a Climate-related Data Repository at the National Level
3. Policy Alignment between the GoN's and Development Partners' Priorities
4. Increase and Encourage Private Sector Engagement to Address Climate Change
5. Address Institutional Barriers for Accessing Climate Finance
6. Build Financial Capacities and Technical Needs
7. Identify Loss & Damage as an Opportunity for Accessing Climate Finance.

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