



Year 17

Issue III

Apr-May 2023

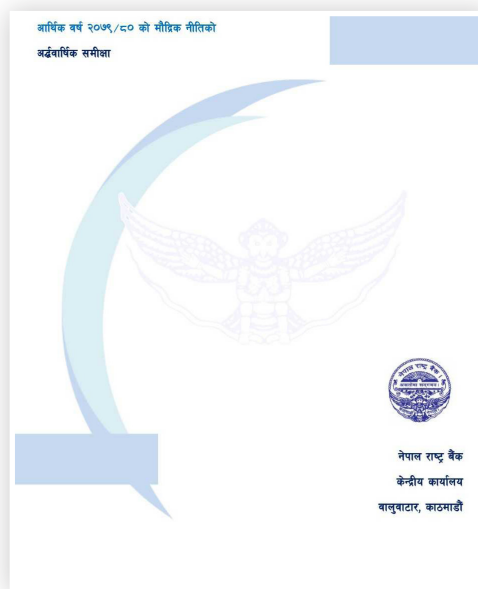
Volume 51

NRB Releases Mid-term Review of Monetary Policy

Nepal Rastra Bank (NRB) has released the mid-term review of the monetary policy issued for the year 2022-23 on February 10, 2023.

Analyzing the possible pressure in the external sector and average inflation being above the target, NRB stated that the direction taken in the current year's monetary policy has been continued. Along with the rates under the interest rate corridor, Cash Reserve Ratio, Statutory Liquidity Ratio and Standing Liquidity Facility those arrangements have been kept unchanged.

It is mentioned in the review that the Overnight Liquidity Facility under daily liquidity facility will be maintained at 7 percent while providing to Banks and Financial Institutions (BFIs) at a bank rate of 8.5 percent. According to the review, the liquidity will be managed in such a way that there is no disruption in the payment system while



keeping the targets and projections taken in the monetary policy.

According to the half-yearly review, it is mentioned that if the loan is paid within one month of exceeding the principal/interest liability for the loan to be paid by the end of Jeth 2080, penal interest will not be charged. NRB has said that it will facilitate the operation of small and medium enterprises through the half-yearly review. According to which, the loans of up to Rs. 20 million which are in the pass category at the end of Push 2079 and

are flowing from the financial institutions will be arranged to be restructured and rescheduled by the mid July 2023 after analyzing the cash flow and income of the industry and business.

In order to further strengthen the quality of loans of BFIs, it is mentioned in the review that the loans classified as non-performing under the loan loss classification, will be gradually classified into the good and watch-list categories etc., based on international best practices.

It is also mentioned that the monitoring of the average interest rate gap between loans and deposits to be maintained by BFIs and the provision of premiums charged from borrowers will be made more effective. The Bank expects that the implementation of the monetary policy will help strengthen internal and external stability and facilitate economic activity.



First Governor of NRB Passes away

Himalaya Shumsher JBR, the First Governor of Nepal Rastra Bank has passed away at the age of 95. He died on 5th of February, 2023 while undergoing treatment at Norvic International Hospital in Kathmandu.

When Nepal Rastra Bank was established on 26th of April 1956, he led the central bank as the first governor. Mr. JBR held the position till 7th of February 1961. Before the establishment of the bank, the drafting of the 'Nepal Rastra Bank Act, 2012' was done under his leadership. In addition to that, he played a leading role in introducing Nepalese notes into circulation, maintaining the exchange rate of foreign currency with Nepalese currency, and preparing the policy and institutional infrastructure of the banking system in Nepal. Earlier, he had held the responsibility of Finance Secretary since 1951, when Nepal entered a new democratic era after the end of the Rana regime. During that time, Mr. JBR played a leading role in establishing strong foundations of the country's economic management by building the foundation



of budget publication, modernization of customs management for revenue enhancement, strengthening of revenue administration, establishment of Office of the Auditor General for economic and financial discipline and transparency.

His contribution was important in expanding and widening the scope of Nepal's financial sector and bringing in foreign investment in Nepalese industrial sector as well as industrial expansion. Born on 14th Poush, 1924 BS, Mr. JBR obtained his basic

education from Darbar High School and completed a post-graduate degree from Bombay University, India. On the death of Mr. JBR, Nepal Rastra Bank organized Shradhanjali Sabhaon 5th of February at the bank premises in Baluwatar. In this regard, Governor Maha prasad Adhikari, Deputy Governor Bam Bahadur Mishra and other high officials and employees of the bank paid tribute to the late Mr. JBR. In the program, Governor Adhikari said that JBR's contribution will be written

in golden letters in the economic, monetary and banking history of Nepal. He said, “We have experienced that the Nepal Rastra Bank

has lost a skilled parent, the country has lost a skilled economist and the financial sector of Nepal has lost a skilled guide due to the death

of Mr. JBR, a skilled creator of policy, structural and managerial infrastructure for the development of the Nepalese economy.”

Climate Change and Green Financing in Nepal



Narayan Prasad Pokhrel

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 renewal 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. 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 nationaleconomy 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



source: economicstimes.indiatimes.com

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

- Alam, M., & Regmi. B.R, (2004). Capacity Strengthening in the Least Developed Countries (LDCs) For Adaptation to Climate Change (CLACC): Nepal. Society.
- CBS. (2012). Central Bureau of Statistics of Nepal. Kathmandu, Nepal: National Planning Commission Secretariat, Government of Nepal
- Climate Development Knowledge Network (CDKN). (2014). OPINION: Who is paying for Climate change in Nepal? Retrieved from http://cdkn.org/2014/06/opinion-who-is-paying-for-climate-change-in-nepal/?loclang=en_gb

Ministry of Finance. 2017. Climate Change Financing Framework: A roadmap to systematically strengthen climate change mainstreaming into planning and budgeting. Government of Nepal.

Olovsson, C. (2018). Is climate change relevant for central banks? Sveriges Riksbank Economic Commentaries, 13, 1-8.

UNEP. 2016. Green Finance for Developing Countries: Needs, Concerns and Innovations. <https://www.unep.org/resources/report/green-finance-developingcountries-needs-concerns-and-innovations>

IGF/SMEF meeting of Alliance for Financial Inclusion (APF) held in Kathmandu



The meeting of two thematic working groups of Alliance for Financial Inclusion (APF) has been completed in Kathmandu. The meeting of Inclusive Green Finance Working Group (IGFWG) and SME Finance Working Group (SMEFWG) was organized from March 7-10, 2023 under the joint initiative of Nepal Rastra Bank and AFI. This is the 8th and 20th meeting of the IGFWG and SMEFWG respectively. More than 80 representatives of the central banks of 41 countries and other regulatory bodies in the financial sector participated

in the meeting. In the opening session of the meeting, Acting Governor of Nepal Rastra Bank, Dr. Neelam Dhungana Timsina mentioned that due to climate change there is a risk to the social inclusion, economic prosperity and financial stability of the emerging and developing countries and pointed out the need to make the related policy system strong and effective in order to minimize it. She also informed about the recent legal and policy arrangements adopted by the Government of Nepal and NRB for the promotion of green finance. Acting Governor Dr. Timsina

discussed regarding the efforts made by NRB for the promotion of small and medium businesses in Nepal. She expressed gratitude to AFI for providing grant and technical assistance for formulation of 'Green Taxonomy' in Nepal. In addition, she added that AFI has done significant support in the formulation and implementation of the policy framework for financial inclusion in Nepal. On this occasion, the Executive Director of AFI, Dr. Alfred Hannig, discussing the special contribution of small and medium enterprises in



job creation and livelihood improvement in developing countries, held the opinion that concrete steps should be taken to minimize the impact of climate change in this area. In this context, he expressed the belief that the meeting will be fruitful in policy cooperation, exchange of technical assistance and enhancement of capacity development among the member organizations of AFI.

Appreciating the policy initiatives taken by the NRB for the promotion of green finance, Dr. Hannig said that this effort of the bank is exemplary for other member institutions as well. On the first and last day of the four-day program, a joint meeting of both groups was conducted, while on the second and third days, issues under the respective groups' scope were discussed separately. In the meeting of IGFWG, there was a detailed discussion among the participants about financial inclusion as well as the environmental and social impact caused by climate change, policy practices at the regional and international levels to address it and its impact. Similarly, in the

meeting of SMEFWG, the contribution of small and medium businesses to the global economy, gender inclusion, access to financial resources in small and medium businesses and their contribution to the promotion of financial inclusion were presented by the participants. After both meetings, there was a discussion between the representatives of the member organizations regarding the policy practices and future directions that can be adopted to address the challenges created by climate change through small and medium enterprises.

The two meetings, IGFWG and SMEFWG were chaired by the Deputy Director of the Central Bank of Nigeria, Paul Olukpi and the Director of the Bank of Namibia Dr. Emma Haiyambo respectively. In the program, Director of AFI's Policy Program and Implementation Eliko Boletawa delivered a closing speech and discussed the achievements of the meeting. Assistant Director of the Office of the Governor, Pratima Adhikari conducted the opening session of the program. IGFWG was

formed under the AFI in 2019 with the aim of promoting green finance to address the adverse conditions created due to climate change. Likewise, SMEFWG has been operational since 2013 with the aim of supporting economic growth, sustainable development, job creation and poverty alleviation through the promotion of small and medium enterprises. AFI was established on January 1, 2008 with the common objective of promoting financial inclusion and expanding access to quality financial services at regional and international levels. With it being active in policy cooperation, technical assistance and knowledge exchange for the expansion of financial access and promotion of financial inclusion. Seven different thematic groups are functioning under AFI. Similarly, six different thematic areas for policy cooperation have also been identified. Total of 84 institutions, including the central banks of 76 emerging and developing economies and eight other regulatory institutions, are members of the AFI network.

Publisher

Nepal Rastra Bank
Office of the Governor
Baluwatar, Kathmandu

Editor

Narayan Prasad Pokhrel

Editorial Team

Sabin Oli
Lal Kumar Subedi
Shreejana Thapa

Layout

Sanjeev Dahal