A Sustainable Banking Network (SBN) Flagship Report
Addendum to SBN Global Progress Report

Country Progress Report
Nepal

October 2019
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1. Country progress summary – Nepal

**SBNMember:** Nepal Rastra Bank (NRB) (member since 2014)

**SBN Working Group:** IDA taskforce

**Key milestones since 2018 SBN Report:**
- NRB launched the first policy document “Guideline on Environmental and social risk management (ESRM) for banks and financial institutions (“the Guideline”) in 2018
- The guidelines are supported by an implementation ESMS checklist
- Nepal has started its sustainable finance policy implementation, and thus progressed from “Formulating” under the “Preparation” stage to “Developing” under the “Implementation” stage, as indicated in the “Progression Matrix”.

**SBN and IFC role:** IFC 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.
Figure 1: SBN Progression Matrix with Assessment Results

Assessment based on progress up to and as of June 2019

Note:
1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.
2. Overview of policy coverage by indicators

1. Alignment with global E&S standards and best market practices
2. Alignment to NDCs and with national/regional climate change targets
3. Multi-stakeholder collaboration
4. Defining sustainable assets and financial products
5. Green finance product guidelines
6. Tracking and disclosure of climate & green finance
7. Calculation of environmental benefits
8. Climate risk exposure assessment
9. Financial and non-financial incentives
10. Role of governing bodies on E&S
11. Organization
12. E&S policy
13. Risk assessment
14. E&S covenants
15. Project supervision & portfolio review
16. Training
17. External communication mechanism
18. E&S reporting
19. Enforcement
3. Policy coverage developed

Pillar I: Strategic Alignment

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Policy requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alignment with global E&amp;S standards and best market practices</strong></td>
<td></td>
<td>Guideline on ESRM for Banks and FIs (NRB, 2018), Chapters 2 and 6</td>
</tr>
<tr>
<td><strong>Indicator 1</strong></td>
<td>The Guideline refers to the IFC Performance Standards and the Equator Principles, as well as to ILO treaties, ISO 14001, OHSAS 18001, SA8000, and to E&amp;S standards imposed by buyers.</td>
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| **Alignment to NDCs and with national/regional climate change targets** | | |
| **Indicator 2** | The message from the Governor refers to Nepal’s Millennium Development Goals (MDGs) and to the various policies, strategies, and programs launched by the Government of Nepal to ensure sustainable economic development. | - |

| **Multi-stakeholder collaboration** | | Guideline on ESRM for Banks and FIs (NRB, 2018) - Message from Governor |
| **Indicator 3** | The Guideline was developed in collaboration with industry associations (Nepal Bankers’ Association, Development Bankers Association, and Nepal Finance Companies Association), and with individual banks and financial institutions. | |
# Pillar II: Climate and Green Finance

## Products and services

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Policy requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 4, 5</td>
<td>The Guideline provides some examples of green projects in Annex 11.</td>
<td>Guideline on ESRM for Banks and FIs (NRB, 2018) - Annex 11</td>
</tr>
</tbody>
</table>

## Climate and green investment reporting

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Policy requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 6</td>
<td>Banks and FIs are asked to report their investments in five types of green projects to the NRB. They are also encouraged to disclose E&amp;S information publicly, with an emphasis on E&amp;S risk management.</td>
<td>Guideline on ESRM for Banks and FIs (NRB, 2018) - 7.3.8 Annex 11</td>
</tr>
</tbody>
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## Measurement

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Policy requirement</th>
<th>Reference</th>
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</thead>
<tbody>
<tr>
<td>Indicator 7, 8</td>
<td></td>
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## Incentives

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Policy requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 9</td>
<td></td>
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# Pillar III: ESG Integration

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Policy requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance of E&amp;S</td>
<td>The Guideline highlights clearly the need to define roles and responsibilities, including for relationship managers, credit risk officers, legal staff, and credit authorizers.</td>
<td>Guideline on ESRM for Banks and FIs (NRB, 2018) - 7.2</td>
</tr>
<tr>
<td>E&amp;S risk management</td>
<td>Most of the key features for a comprehensive E&amp;S policy and E&amp;S risk management system are listed in the Guideline: E&amp;S due diligence checklist (Annex 5), E&amp;S risk summary template (Annex 7), example of corrective action plan (Annex 8), examples of E&amp;S risk covenants (Annex 9), and E&amp;S monitoring checklist (Annex 10).</td>
<td>Guideline on ESRM for Banks and FIs (NRB, 2018) Annex 5, 7, 8, 9, 10</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Using a template (Annex 11), FIs are required to report annually to NRB on the integration of ESRM into their credit risk management processes, and on the past year’s capacity building activities.</td>
<td>Guideline on ESRM for Banks and FIs (NRB, 2018) Annex 11</td>
</tr>
</tbody>
</table>
## 4. Policy coverage to be developed

<table>
<thead>
<tr>
<th>Pillar I: Strategic Alignment</th>
<th>Sub Pillar</th>
<th>Gaps</th>
<th>Areas for improvement</th>
</tr>
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</table>
| Alignment with global E&S standards and best market practices | 80% | ➢ Reference to international E&S target  
➢ Reference to established international green finance reporting standards  
➢ Reference to international climate finance reporting standards  
➢ Requirement to make E&S policies, practices and results externally verified |
| Alignment to NDCs and with national/regional climate change targets | 100% | ➢ Alignment with national NDCs or other national/regional climate policies  
➢ Defined main climate risks for local financial sector |
| Multi-stakeholder collaboration | 50% | ➢ Collaboration with other public agencies  
➢ Representation of civil society |

<table>
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</table>
| Products & services | 88% | ➢ Comprehensive taxonomy for green assets  
➢ Definition/examples for social/sustainable assets  
➢ Definition/examples for sustainable financial non-debt products  
➢ Guidelines for green financial assets (excluding green bond)  
➢ Guidelines for issuance of green bonds  
➢ Reference to existing standards  
➢ Recommendation of external party verification |
| Climate & green investment reporting | 40% | ➢ Requirement of report on portfolio climate risk exposure |
| Measurement | 100% | ➢ Requirement to calculate investments’ environmental benefits  
➢ Taxonomy of potential environmental impacts  
➢ Methodologies, tools, templates to measure/report impacts  
➢ Requirement to monitor climate risk exposure at portfolio level  
➢ Reference to specific climate exposure methodologies  
➢ Encouragement of mitigation steps |
| Incentives | 100% | ➢ Incentives for green financial products/services  
➢ Financial incentives on green products/services |

<table>
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</table>
| Governance of E&S | 60% | ➢ FI governing bodies required to approve an E&S strategy  
➢ Management to report on the E&S strategy implementation to the governing bodies  
➢ FI operational bodies to report to the governing bodies on E&S strategy implementation  
➢ Requirement to define role competencies |
| E&S risk management | 15% | ➢ Requirement to disclose E&S policy & its governance  
➢ Training for front officers, second lines of defense, E&S experts  
➢ Requirement to establish and maintain inquiry/complaints mechanism to FI’s E&S/ESG practices |
| Enforcement | 67% | ➢ Financial and/or non-financial incentives for setting up ESRM  
➢ Sanctions/penalties/warnings for non-compliance |
Access the SBN Global Progress Report and Country Reports at:
www.ifc.org/SBN2019Report