

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

October 2019

Country Progress Report

Nepal



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1. Country progress summary –Nepal



SBN Member: [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 Results¹

Assessment based on progress up to and as of June 2019²

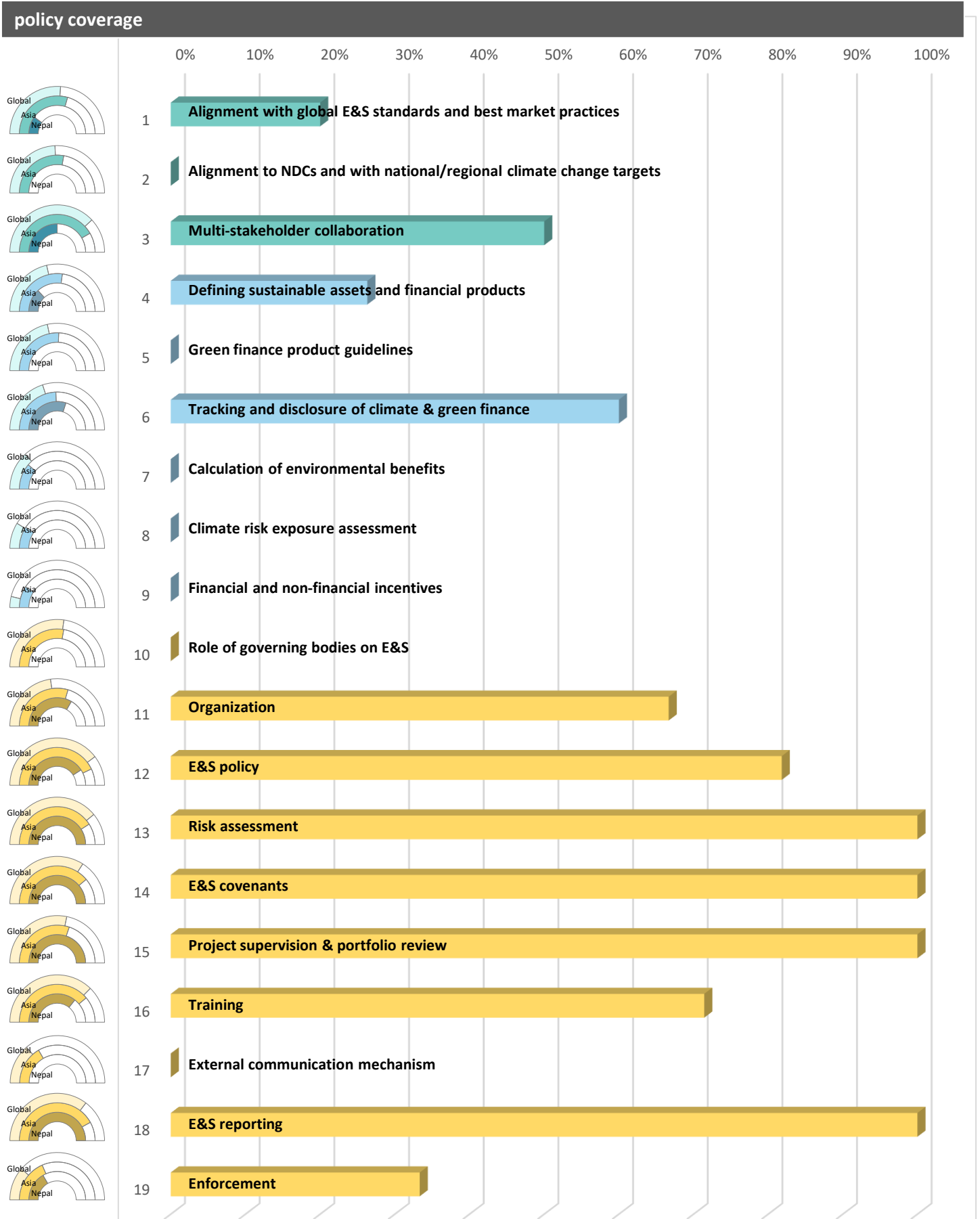


Note:

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

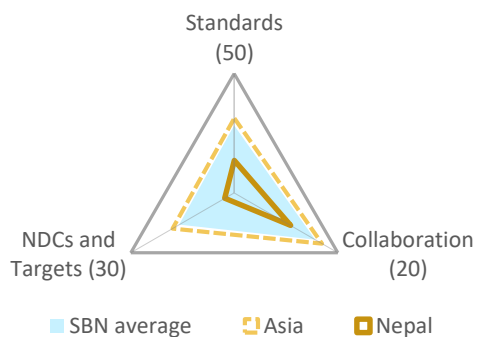
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

2. Overview of policy coverage by indicators



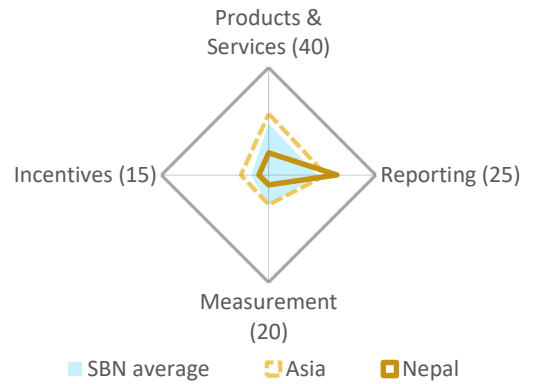
3. Policy coverage developed

Pillar I: Strategic Alignment



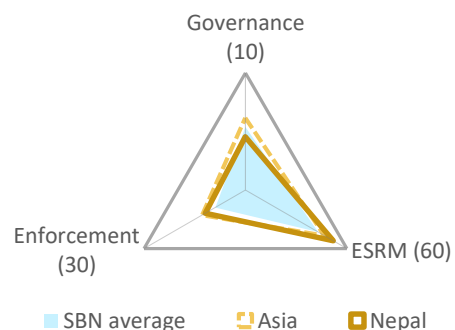
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	The Guideline refers to the IFC Performance Standards and the Equator Principles, as well as to ILO treaties, ISO 14001, OHSAS 18001, SA8000, and to E&S standards imposed by buyers.	Guideline on ESRM for Banks and FIs (NRB, 2018), Chapters 2 and 6
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		
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.	Guideline on ESRM for Banks and FIs(NRB, 2018) - Message from Governor

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	The Guideline provides some examples of green projects in Annex 11.	Guideline on ESRM for Banks and FIs(NRB, 2018) - Annex 11
Climate and green investment reporting		
Indicator 6	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&S information publicly, with an emphasis on E&S risk management.	Guideline on ESRM for Banks and FIs(NRB, 2018) - 7.3.8 Annex 11
Measurement		
Indicator 7, 8	-	-
Incentives		
Indicator 9	-	-

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10,11	The Guideline highlights clearly the need to define roles and responsibilities, including for relationship managers, credit risk officers, legal staff, and credit authorizers.	Guideline on ESRM for Banks and FIs(NRB, 2018) - 7.2
E&S risk management		
Indicator 12 - 18	Most of the key features for a comprehensive E&S policy and E&S risk management system are listed in the Guideline: E&S due diligence checklist (Annex 5), E&S risk summary template (Annex 7), example of corrective action plan (Annex 8), examples of E&S risk covenants (Annex 9), and E&S monitoring checklist (Annex 10).	Guideline on ESRM for Banks and FIs(NRB, 2018) Annex 5, 7, 8, 9, 10
Enforcement		
Indicator 19	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.	Guideline on ESRM for Banks and FIs(NRB, 2018) Annex 11

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	80%	<ul style="list-style-type: none"> ➤ 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%	<ul style="list-style-type: none"> ➤ Alignment with national NDCs or other national/regional climate policies ➤ Defined main climate risks for local financial sector
	Multi-stakeholder collaboration	50%	<ul style="list-style-type: none"> ➤ Collaboration with other public agencies ➤ Representation of civil society
Pillar II: Climate and Green Finance	Products & services	88%	<ul style="list-style-type: none"> ➤ 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%	<ul style="list-style-type: none"> ➤ Requirement of report on portfolio climate risk exposure
	Measurement	100%	<ul style="list-style-type: none"> ➤ 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%	<ul style="list-style-type: none"> ➤ Incentives for green financial products/services ➤ Financial incentives on green products/services
Pillar III: ESG Integration	Governance of E&S	60%	<ul style="list-style-type: none"> ➤ 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%	<ul style="list-style-type: none"> ➤ 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%	<ul style="list-style-type: none"> ➤ 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

