<u>The Impact of Banking Policies on Green Finance</u>

Abstract

In Nepal, the implementation of green finance policies introduced by Nepal Rastra Bank (NRB), the central bank of Nepal is still in its early stages and has not yet been widely adopted due to a lack of awareness. While financial institutions have begun supporting environmentally sustainable initiatives, challenges remain in ensuring effective enforcement and compliance. Banks assess the environmental and social impact of their financing, engaging with local communities to evaluate issues such as pollution, waste disposal and overall sustainability.

This research aims to analyze the current state of green finance implementation, identify necessary improvements and propose policy recommendations. It will explore measures required for businesses that have already received loans, suggest additional activities and policies for enhancing sustainability and evaluate NRB's role in promoting green financing. By addressing gaps in awareness and policy execution, this study seeks to contribute to the broader adoption of sustainable financial practices in Nepal.

Introduction

Green: Color of nature

Finance: Investment

Together combining these terms, green finance refers to loan or investment that support environmentally friendly project and initiatives. This addresses environmental changes by utilizing financial resources towards sustainable projects.

Nepal faces a serious risk of environmental degradation, with air pollution being a major concern. At times, it has been ranked among the top 10 most polluted countries, and recent Air Quality Index (AQU) reports highlight worsening air quality, especially in Kathmandu valley. Pollution level often exceed WHO guidelines, impacting public health and reduction in life expectancy. Insufficient rainfall has made the situation worse, causing persistent smog and poor air quality. Personally experiencing these environmental issues has motivated me to research sustainable policies and financial solutions, like green finance, to address these issues.

Climate change and environmental imbalances have become an important issue, and these issues have deepened the need for sustainable financial systems that prioritize long term ecological stability. The primary goal of green finance is to integrate the economic growth with environmental sustainability by reducing carbon emissions, improving resource efficiency and overcome climate risks. Green finance has gained popularity, support and acceptance from many. To elaborate, if a person is provided with two choices, then he/she opt for the environmentally friendly option. At present, people's perception has been changed, and they have adopted this approach. Small decisions like selecting energy efficient products, packaging can collectively make a significant difference. For example, people began purchasing EVs to support a greener environment. NRB further promoted this by offering higher financing percentages to encourage adoption. I work at Nepal SBI Bank Ltd., which at one point of time was providing 80% financing for EV purchases. This initiative by NRB significantly contributed to the growing popularity of EVs at the time. Similarly, various studies demonstrate that Nepal has strong solar energy potential. The renewable energy sector of Nepal exhibits rapid growth through solar energy development.

Role of Bank & Financial Institutions

Bank and Financial institutions play a crucial role in promoting green finance through responsible lending and investment strategies. They can help businesses and individuals by offering loans and investments that support environmentally friendly activities. They oversee the impact of the product manufacturing by the business and factories into the society and its environment. Not only this, but they also assure the working conditions of laborers.

Sustainable Banking Initiatives

Government and regulatory bodies are encouraging banks and financial institutions to adopt green finance practices through regulations, guidelines and incentives. NRB have introduced ESRM (Environmental and Social Risk Management) policy five to six years back to support transition to a green economy. The central bank has been forcing the banks to identify and invest in genuinely green and suitable projects. Then the Bank primarily ensures whether their financing will have positive impact or not. The Bank also engages with local community to assess whether the factory is disrupting their daily lives, causing unpleasant odors, excessive noise, improper disposal of wastage etc. They also check if waste from the factory is polluting nearby ponds or lakes, affecting aquatic life. Based on their findings, the bank can suggest for corrective measures, require compliance with environmental standards or reconsider financing if the factory posses significant harm to the environment and community wellbeing.

Incentives for Green Finance

Nepal is an agricultural country and to support this sector, the government has been providing subsidies in agricultural loans. Similarly, there is a need for more robust policies, regulations and standards to provide guidance and support to financial institutions and investors. Just as agriculture benefits from targeted financial support, all other sectors contributing to green finance should also receive policy driven incentives such as lower interest rates, subsidies, tax benefits. By implementing such policies, the government can drive financial institutions to prioritize investments in renewable energy projects and eco-friendly businesses.

Conclusion & Recommendations

In the context of Nepal, NRB has issued the policy, but since it is new, its implementation is not yet widespread. Currently, it has not been fully enforced due to a lack of awareness, which needs to be strengthened. This research primarily aims to identify the necessary measures and requirements, evaluate actions needed for business that have already received bank loans. It also seeks to determine additional activities and policies to be incorporated, propose comprehensive green finance policies and provide relevant recommendations.