BANKS AND PRIVATE SECTOR INVESTMENT IN CLIMATE:

A STUDY REPORT FROM NEPAL

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Study

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Foreword

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It is with great pleasure and a sense of shared responsibility that we present this "Investment Tracking in Climate Harming Business and Green Climate" report on how the Nepal's banking sector is investing in climate businesses. This report is not just a reflection but a call to action to make more investment in climate friendly businesses.

As the global climate continues to change, financial institutions have opportunities to guide countries' investment and development. Public financing has the potential to significantly contribute to climate change solutions. However, it remains a part of the problem when financial sectors fail to consider climate in their investment decisions. The notable surge in climate-positive business indicates these sectors are considering climate while making investments. At the same time, the increase in climate-harming businesses also indicates that there is an immediate need to transform those investments towards green and sustainable solutions.

This report highlights the how the banks are financing the fossil fuels industry and industrial agriculture in the global south, and their roles in lending and underwriting debt and equity issues. There is also a need to redirect the investment from these sectors in the global south towards renewable energy and agroecology.

I would like to extend my gratitude to Manish Kumar Singh, Former Deputy General Manager of Bank of Kathmandu Ltd. for undertaking the study. I would also like to acknowledge and appreciate Shristi Paudel ActionAid International Nepal, for her invaluable contribution to compile this report. I also appreciate Mr. Saroj Pokhrel, Head of Programme Policy and Mr. Mahesh Badal, Livelihood and Natural Resources Specialist, ActionAid International Nepal, for their invaluable suggestions, guidance, and constructive feedback to the report.

Acronyms

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
BFIs	Banks and Financial Institutions
CIT	Citizen Investment Trust
CREF	Central Renewable Energy Fund
CSR	Corporate Social Responsibility
E&S	Environmental and Social
EPF	Employees Provident Fund
ESMS	Environmental and Social Management System
ESRM	Environmental and Social Risk Management
GHGs	Green House Gases
GTFP	Global Trade Finance Program
IFC	International Finance Corporation
Mil	Million
MSMEs	Micro, Small, and Medium Enterprises
MW	Mega Watt
NDC	Nationally Determined Contribution
NPR	Nepali Rupees
NRB	Nepal Rashtra Bank
PCAF	Partnership for Carbon Accounting Financials
SCBNL	Standard Chartered Bank Nepal Limited
SMEs	Small and Medium Enterprises
SSL	Specified Sector Lending
UN	United Nations
WB	World Bank

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Executive Summary

As the world is concerned about climate change and global warming, the financial sector plays a critical role in guiding countries' investment and development. Public financing has the potential to significantly contribute to climate change solutions, but it remains a significant part of the problem. Although, the portfolio size of Nepal's banking sector is relatively small, but its lending process and investment in climate-positive and negative businesses make a significant impact.

This study examines trends in Nepal's banking sector and eligible lending institutions, with a special focus on climate lending portfolio. It analyzes the lending portfolios of twenty-two banks and sector-wise loans and advances, climate classification, and evolving trends from July 2020 to January 2023. An increasing trend in climate-positive investments was found, indicating a positive shift towards sustainable banking and green practices. Investments in climate-negative businesses have also increased, though at a slightly slower pace. The report also highlights the growing importance of climate-resilient investing and promotes stronger regulatory frameworks. The NRB "Guidelines on Environmental and Social Risk Management for Banks and Financial Instances (ESRM)" 2018 have served as the driving force behind Nepal's regulatory-driven development of green finance, in addition to the sustainability policies and frameworks already stated." The green initiatives towards a climate-positive environment by different financial institutions are remarkable. However, improving the regulatory framework to create incentives and institutionalize sustainable practices in the financial sector is necessary.

Banks are fueling the climate crisis in the global south and how the funding is directed more towards climate-harming businesses and industries and sustainable solutions. Fossil fuels and industrial agriculture not only have environmental impacts but also gender, social, and health impacts. There is total bank funding of $513 billion in two industries, whereas only $22.25 billion is allocated for climate action. Despite banks' pledges to address climate change, the banks have financed $3.2 trillion for fossil fuels and $370 billion for industrial agriculture in the Global South over the past seven years since the Paris Agreement in 2015. There is an urgent need to stop banks from fueling the crisis while ensuring the rights of communities and making them responsible for emissions rates. Where governments are required to regulate and direct subsidies to facilitate a just transition to renewable energy and agroecology through enhanced climate finance and debt relief.

Definitions

Climate change refers to the long-term shifts in temperatures and weather patterns. Such shifts can be natural or human induced.

Climate Justice: Climate justice revolves around the idea that climate change can have disproportionate impacts on the poor and vulnerable, despite their negligible contribution. It acknowledges that the nations that have prospered due to unchecked carbon emissions have a responsibility to curb global warming while assisting both developing and least developed countries to adapt to its impacts. It also advocates for the economic development of countries by transforming extractive practices into regenerative methods.

Climate Justice Campaign: ActionAid's climate justice campaign is a course of action led by women, young people, and those most affected by climate change: the poor and vulnerable. It aims to create and harness people's power- through organization, mobilization, and communication around a simple but powerful demand, "to achieve a measurable political and social change" for climate justice.

Climate Change Impact: The various adverse effects on the environment, ecosystems, and human resulting from long-term shifts in global climate patterns primarily caused by human activities.

Climate finance refers to local, national, or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.

Green finance is finance that supports action on the full range of environmental issues, including climate change.

Climate Positive Investment refer to the allocation of financial resources towards projects, initiatives, and technologies that aim to mitigate the impacts of climate change and promote the transition to a low-carbon, sustainable economy. E.g.: Renewable energy, sustainable transportation, agroecology etc.

Climate Negative investment refer to the allocation of financial resources towards projects, initiatives, and technologies that harms the climate emitting greenhouse gases. E.g.: Fossil fuels industry, toxic agrobusiness etc.

Climate Neutral: The financing in the sector which reduce the greenhouse gas emissions as much as possible, but it must need to address the current development pace to protect the people and ensure their livelihood.

Gender Equality: Gender equality implies that the interests, needs and priorities of both women and men are taken into consideration, thereby recognising the diversity of different groups of women and men.

Emergency Response: An emergency is an event that can be responded to using the resources available at hand, implying that there is no need to request external assistance.

Climate Portfolio: A climate change portfolio is a collection of investments that focuses on addressing and mitigating the effects of climate change.

Lending Portfolio: A lending portfolio is the totality of all loans issued by a bank or other financial institution to its customers.

Agroecology: Agroecology is sustainable farming that works with nature.

Introduction

The banking sector plays a significant role in directing the transition towards a green and sustainable development. Investment banks play a crucial but often overlooked role in funding climate change and related initiatives for mitigation and adaptation (Theodor et al. 2023). The Intergovernmental Panel on Climate Change (IPCC) states that, to adhere to the Paris Agreement, long-term temperature goal requires the continuous efforts towards 1.5°C, whilst holding warming well below 2°C, it is it is undeniable that achieving this goal is impossible without concrete and immediate actions to curb ongoing emissions on a global scale. Public financing has the potential to significantly contribute to climate change solutions. However, it remains a part of the problems (ActionAid International, 2023) when financial sectors persist in providing loans, investments, and underwriting services to industries that contribute to climate change and fail to consider climate in their investment decisions.

The banking sector influences the country's development. Financial institutions have certain degree of control over the investment in various sectors such as climate positive or climate negative. The ongoing discourse on banking fuelling the climate crisis, it is evident that they should limit or stop funding sectors that contribute significantly to climate change (Rachmaninov et al. 2023).

Indeed, the demand and investments in agroecology and renewable energies agroecology have increased sharply in recent years moving towards a low-carbon economy and technological improvements as an alternative to fossil fuels and industrial agriculture.

The lenders had pledged $3.2 to the fossil fuel industry since the Paris Agreement in 2015, and $370 billion to industrial agriculture. Furthermore, banks have contributed a total financing amount that is 20 times higher to fossil fuel and agricultural industries in the Global South compared to the funds provided by governments in the Global North for climate action. In 2022 alone, 60 banks financed $669 billion to the fossil fuels industry, despite the fact that these industries made approximately $4 trillion in profits for the same year. Though banks have prioritized climate change agenda and have committed for net zero plans and for green investment in green, the reality doesn't show decisive endings of their fossil-fuel funding activities.

Although, the portfolio size of Nepal's banking sector is relatively small, but its lending process and investment in climate-positive and negative businesses make a significant impact. While looking at the financial aspect, growing risk of climate change are estimated to cause 1.5-2% loss in Nepal's current Gross Domestic Product (GDP) every year by mid-century and 2.2 percent of GDP by 2050. Hence, redirecting investments towards climate-positive initiatives emerges as a crucial strategy. (WB, 2021). (MoSTE, 2014)

OBJECTIVES

To understand the status and pattern of private sector investment especially focusing on climate harming, climate neutral and climate positive in Nepal.

To assess climate portfolio financing and their initiative for Positive Climate.

SCOPE AND LIMITATIONS OF THE STUDY

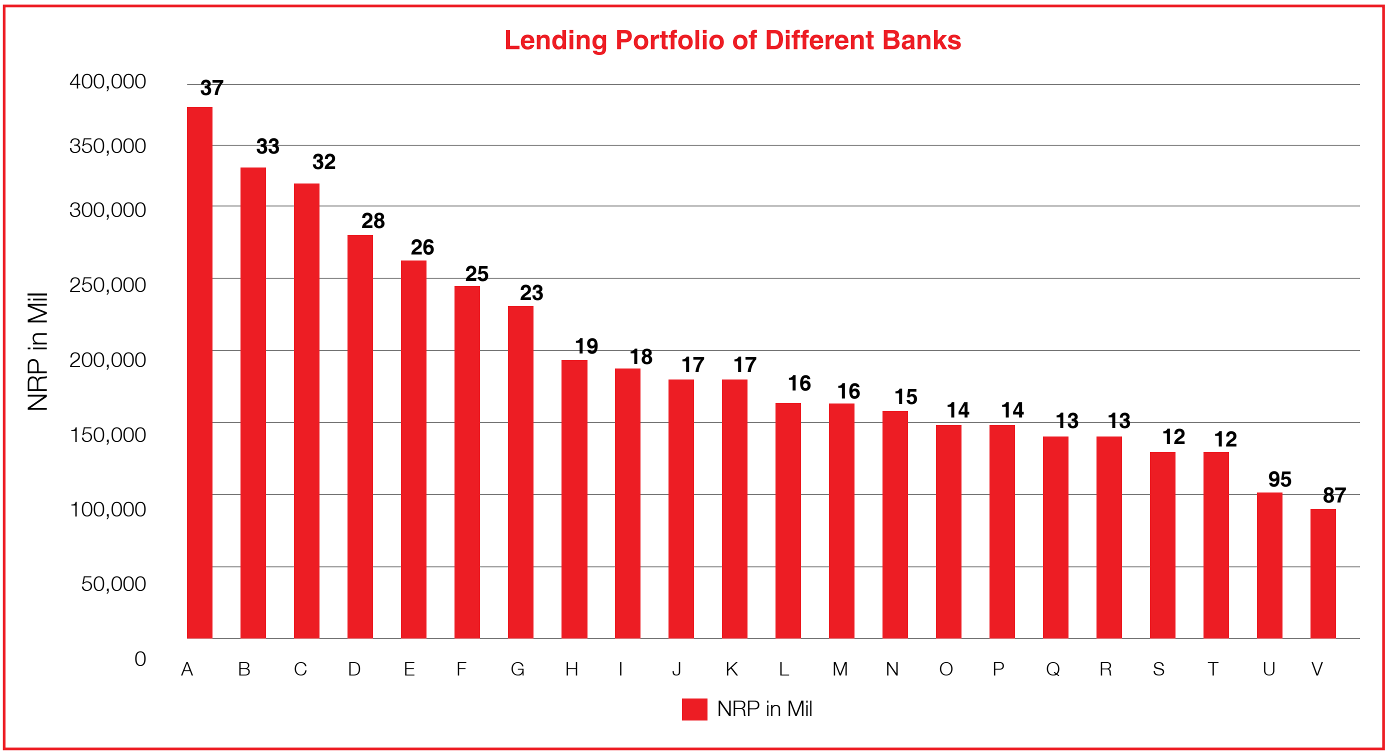
Reliable data is needed for studying the investment patterns of various organizations eligible for lending in Nepal. Published data has been used for the study. The study focuses on the investment of Commercial Banks as banks are required to publish data as per the regulatory requirements of Nepal Rastra Bank (NRB), the Central Bank of Nepal. Most of the data needed for the study was obtained from the website of NRB. To capture the essence of Climate Finance in Corporate Social Responsibility (CSR) activities, the websites and Annual Reports of a few banks were referred to. The disclosure requirement in this regard was not adequate. Efforts were made to study the investment pattern of Provident Fund and Pension Fund concerning climate. However, in the absence of regulatory requirements, very limited published data was available. Some data from each banking sector's subcategories couldn't be accessed, mainly due to the policies of Nepal Rastra Bank and other banks.

METHODOLOGY USED FOR THE STUDY

For the study secondary data and information have been used. The study was conducted through desk review. Policies and documents published by different banking sectors were closely reviewed. Fifteen sectors and the sub-sector lending of commercial banks were reviewed and examined.

The sectors could not be directly segregated to climate category i.e., positive, negative, and neutral. Hence, percentage has been assigned for each sector on the basis of study of sub sectors to segregate the investment into climate category.

LENDING PORTFOLIO OF THE BANKS IN THE CLIMATE CATEGORY AS OF POUSH 2079 (2022/23)



Lending portfolio of the Banks as on Poush end 2079.
Note: Name of the banks are designated by a coded letter for reporting purposes.*

The graph presents a concise overview of the lending portfolios of various banks. Bank A has the highest lending portfolio of NPR 379,882 million, followed by Bank B at NPR en1,120 million, and so forth. Bank V has the least lending portfolio with amount NPR 87,572 million. A total lending portfolio was observed to be NPR 4,276,334 million.

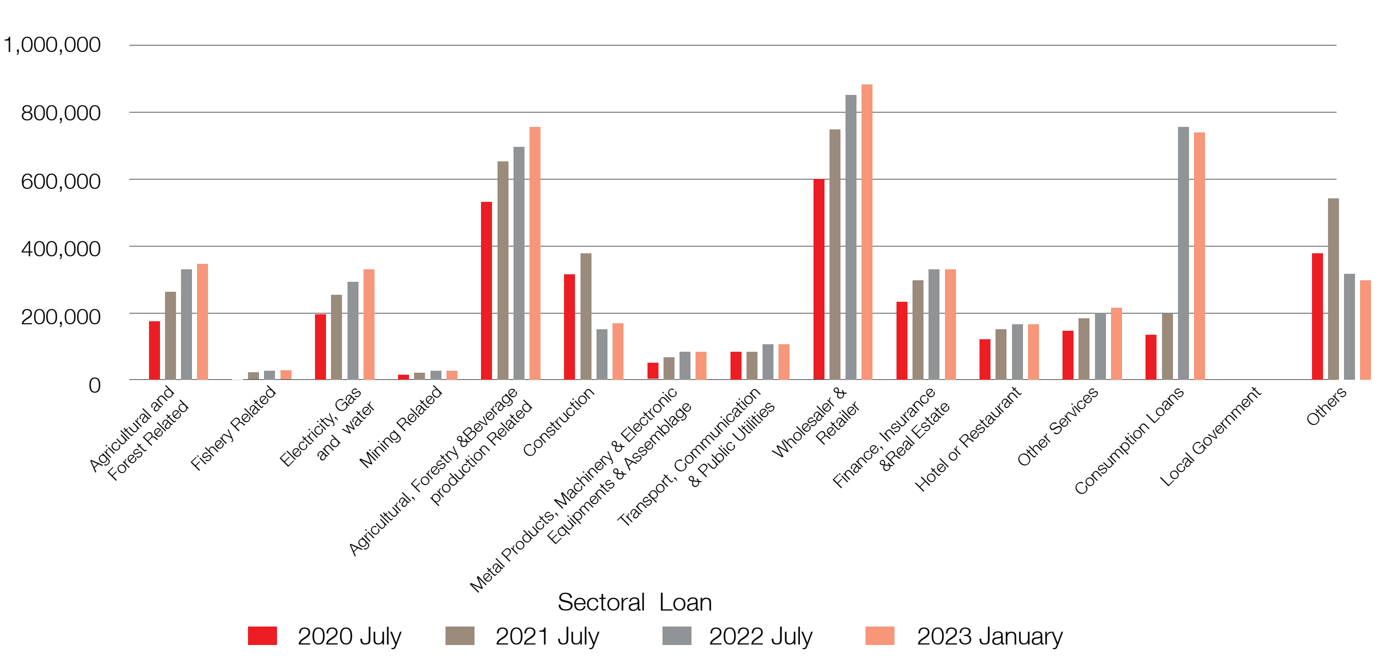
SECTOR-WISE LOANS AND ADVANCES OF COMMERCIAL BANKS AND CLIMATE CATEGORY

Sector-wise Loans and Advances of Commercial Banks is given below:

NPR in mil.

Sector wise	Jul-20	Jul-21	Jul-22	Jan-23
Agricultural and Forest Related	166,856	242,235	299,987	317,492
Fishery Related	4,751	7,816	11,666	12,221
Electricity, Gas and Water	156,730	202,483	239,756	265,076
Mining Related	6,218	8,258	8,386	10,585
Agriculture, Forestry & Beverage Production Related	540,111	661,515	703,432	752,521
Construction	295,117	355,404	154,723	158,623
Metal Products, Machinery & Electronic Equipment & Assemblage	42,906	59,823	69,958	73,842
Transport, Communication and Public Utilities	75,379	78,828	82,970	81,737
Wholesaler & Retailer	605,155	763,650	866,464	898,484
Finance, Insurance and Real Estate	222,515	287,621	315,353	305,126
Hotel or Restaurant	133,795	164,941	175,638	178,510
Other Services	137,370	163,684	177,350	186,793
Consumption Loans	137,969	205,358	757,464	743,490
Local Government	1,539	1,492	1,081	1,084
Others	377,177	513,833	311,215	290,748
TOTAL	**2,903,588**	**3,716,941**	**4,175,443**	**4,276,334**

Sector-wise Loans and Advances of Commercial Banks

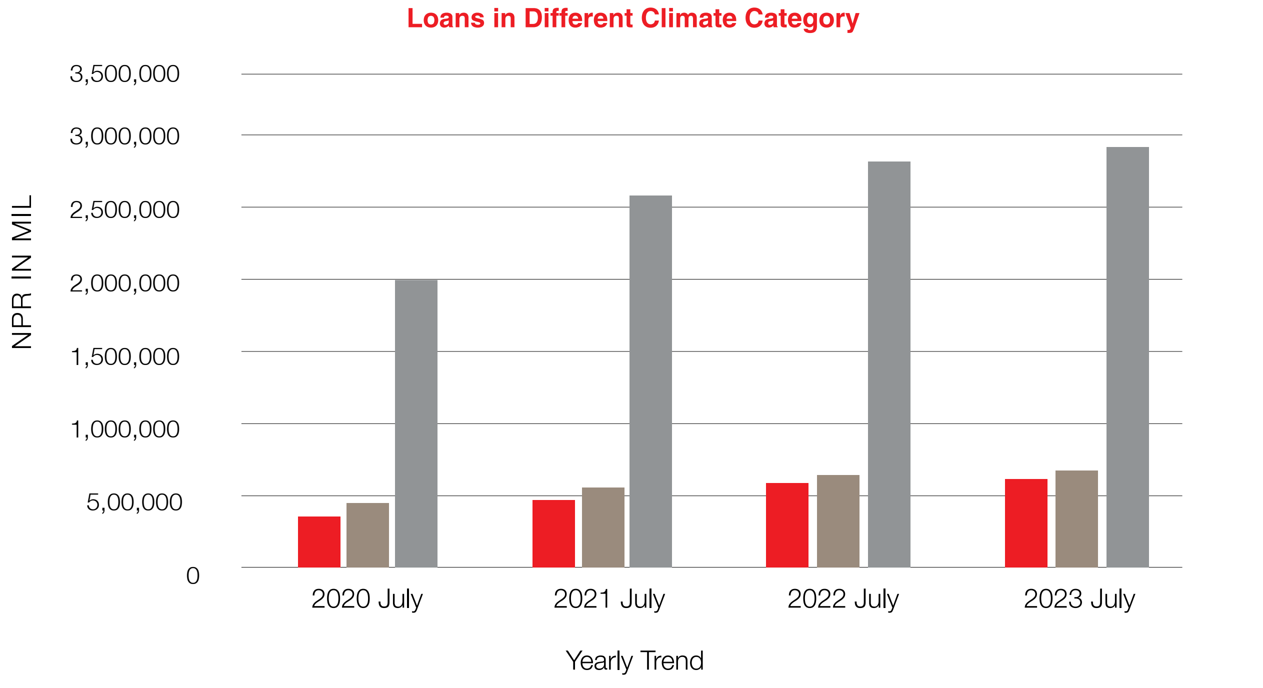


The total sector-wise loans and advances have increased steadily over the observed periods, reaching NPR 4,276,334 million in January 2023, from NPR 2,903,588 million in July 2020. Sectors such as Wholesaler & Retailer, Agriculture, Forestry & Beverage Production Related, and Finance, Insurance, and Real Estate have shown consistent growth in lending. Consumption Loans experienced a significant surge from July 2021 to July 2022 but saw a slight decrease in January 2023.

Construction loans exhibit a notable decline from July 2021 to July 2022, suggesting a shift in focus or industry dynamics. Little lending was observed in fisheries and mining related business, whereas local government also received insignificant amount of loans from commercial banks.

LOANS IN DIFFERENT CLIMATE CATEGORY

Based on the percentage assigned for each sector, the above Loans and Advances has been segregated into Climate Category as under:

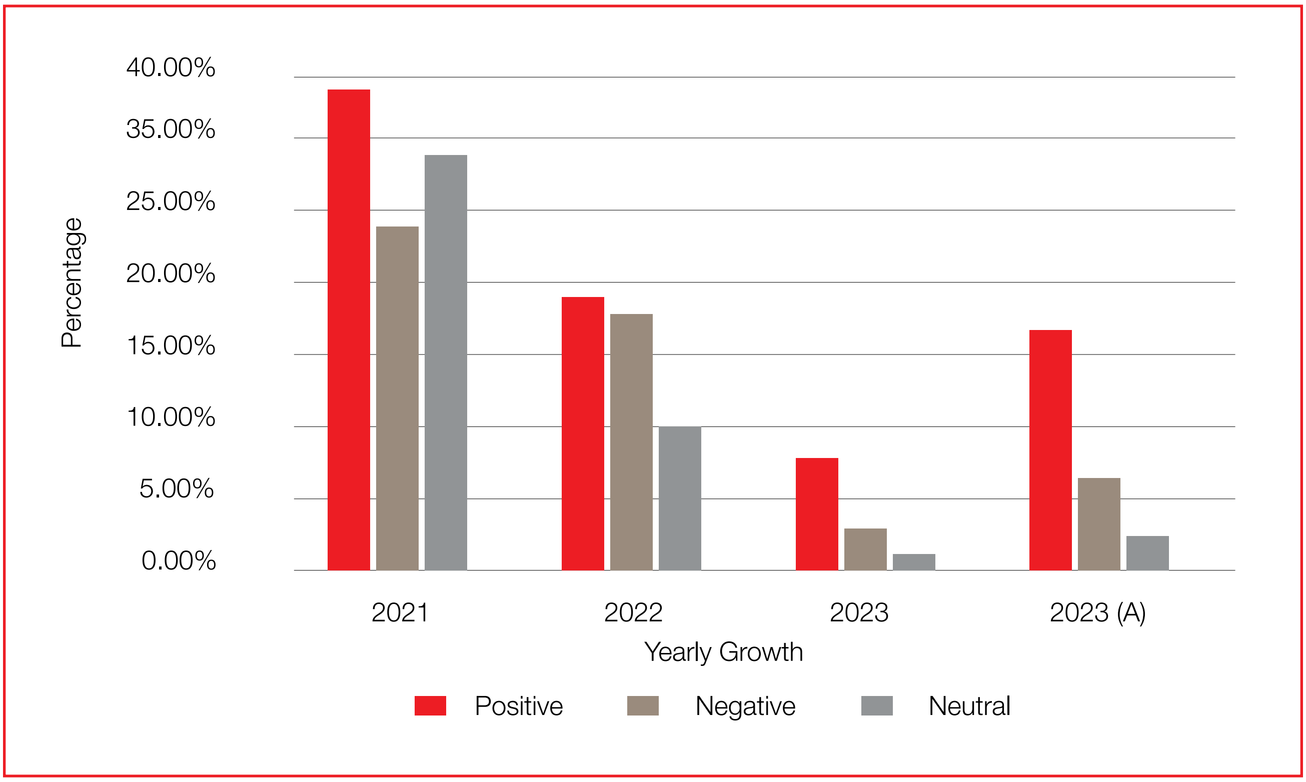


Climate Category	Positive	Negative	Neutral	Total
2020 July	373,186	460,239	2,070,164	2,903,589
2021 July	500,857	568,952	2,647,131	3,716,940
2022 July	597,271	669,172	2,909,000	4,175,443
2023 January	643,110	688,436	2,944,789	4,276,335
Total	**2,114,424**	**2,386,799**	**10,571,084**	

Investments in climate-positive businesses have shown a steady upward trend over the observed periods, increasing from 373,186 million NPR in July 2020 to 643,110 million NPR in January 2023. This implies a positive shift in financial support toward businesses with environmentally friendly practices or those contributing to climate solutions. Investments in climate-negative businesses have also increased, though at a slightly slower pace, from 460,239 million NPR in July 2020 to 688,436 million NPR in January 2023. This suggests a continued presence of investments in sectors that may have adverse environmental impacts. Investments in climate-neutral businesses, the largest category, have consistently grown from 2,070,164 million NPR in July 2020 to 2,944,789 million NPR in January 2023.

The substantial growth in neutral investments highlights a significant focus on businesses aiming to maintain a balance between positive and negative environmental impacts. The total investments across all climate categories have risen from 2,903,588 million NPR in July 2020 to 4,276,334 million NPR in January 2023, indicating an overall expansion in the financial support for businesses across the climate field.

GROWTH OF LOANS AND ADVANCES



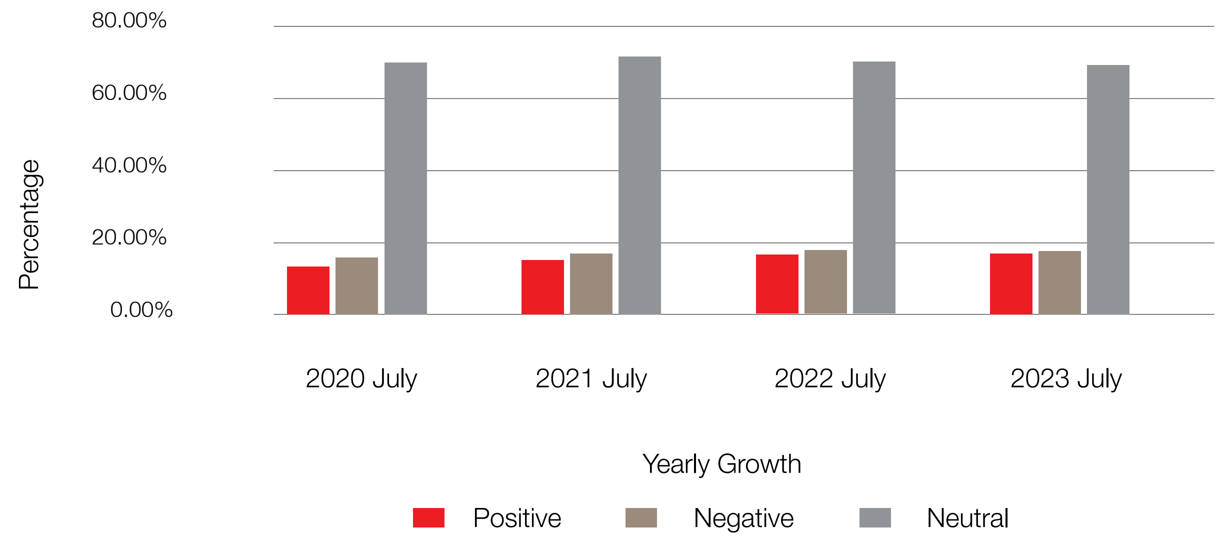
Climate Category	2021	2022	2023	2023 (A)
Positive	34.21%	19.25%	7.67%	15.35%
Negative	23.62%	17.61%	2.88%	5.76%
Neutral	27.87%	9.89%	1.23%	2.46%
Total	**28.01%**	**12.34%**	**2.42%**	**4.83%**

The table provides a snapshot of Climate Positive, Climate Negative, and Neutral lending percentages for 2021, 2022, and January 2023 (A) (annualized). Climate Positive lending increased by 15.35% in 2023 (A), but at a slower rate compared to the previous year, 2022. Similarly, Climate Negative lending rose by 5.76% in 2023 (A), but with a reduced growth rate compared to the preceding year, 2021 to 2022. This suggests a general increase in both positive and negative climate-related lending but decreased in compared to previous years.

Based on above data, composition of Climate Category is as under:

Climate Category	Jul-20	Jul-21	Jul-22	Jan-23
Positive	12.85%	13.47%	14.30%	15.04%
Negative	15.85%	15.31%	16.03%	16.10%
Neutral	71.30%	71.22%	69.67%	68.86%

CLIMATE LENDING COMPOSITION



The graph depicts the percentages of Climate Positive, Climate Negative, and Neutral financing from July 2020 to January 2023. Climate Positive lending accounts for 15.04% of overall loans in January 2023, up from 12.85% in July 2020. Climate Negative lending, on the other hand, accounts for 16.10% of total lending in January 2023, a modest decrease from 15.85% in July 2020. Climate Positive finance appears to be on the rise, indicating an increased focus on environmentally responsible financing. However, the little increase in Climate Negative lending may indicate the need for sustained efforts within the banking industry to prevent negative environmental repercussions. The greatest significant shift is shown in neutral attitude, which falls from 71.30% in July 2020 to 68.86% in January.

Examining Climate Portfolios and Climate Positive Initiatives of Selected Banks.

To understand the composition of climate portfolio and climate positive initiatives some specific banks have been selected namely Nabil Bank Ltd., Standard Chartered Bank Nepal Ltd., NMB Bank Ltd., NIC Asia Bank Ltd., and Sanima Bank Ltd. This study focuses on their climate portfolios and to assess the initiatives they have undertaken to contribute positively to climate-related challenges.

NABIL BANK LTD.

Few initiatives that Nabil Bank has taken are:

- Maintenance of the Bagmati Corridor.
- Agreement with Central Renewable Energy Fund (CREF) to guarantee 20% of loans under Sustainable Energy Challenge Fund.
- Membership in Partnership for Carbon Accounting Financials (PCAF).

Note: PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose greenhouse gas (GHG) emissions associated with loans and advances.

- Measurement and analysis of greenhouse gases (GHGs) emissions to develop policies and targets for minimizing loans for climate change in its Sustainable Banking Business Model.
- Policy level commitment for additional investment in Green Financing, Climate Change Financing for Low Carbon Economy, and sustainable and equitable future. Bank is trying to issue Green Bond in this regard.

STANDARD CHARTERED BANK NEPAL LTD. (SCBNL)

Climate Positive Initiatives taken by SCBNL are:

- Tree plantation program
- On the 11th year of tree plantation programme at locality, forestation programme was organized at Bishankhu Narayan (Godavari Municipality) on 4 June 2022, in the presence of 120 locals.
- Nepalgunj Branch organized a separate tree plantation activity at Gaushala-Hanuman Gadhi on June 5 for World Environment Day 2022.
- In July 2022, more than 50 volunteers participated in cleanliness program at Pashupatinath Temple area, where they collected more than 26 sacks of plastic wastes contributing to the green environment.
- Standard Chartered Bank Nepal is prioritizing credit to productive sectors through Specified Sector Lending (SSL), where SSL targets align with Sustainable Finance in renewable energy and agriculture, contributing to "Net Zero" and reflecting the bank's core purpose in Nepal.
- Committed to sustainable social and economic development across their business, operations and communities including achievement of net zero emissions and the UN Sustainable Development Goals.

Note: There are lot of efforts by Standard Chartered Bank on Climate change which is reflected in various disclosure reports of Standard Chartered Bank. However, same has not been included in the above section.

NMB BANK LTD.

Climate Positive Initiatives taken by NMB bank are:

- NMB is a pioneer in sustainable banking practices within the country, actively participating as a member of the Global Alliance for Banking on Values, and consistently incorporating the Triple Bottom Line principles across all its banking endeavours.

- NMB has focused its loan investments on uplifting real economy sectors, with a goal to reach 50% of assets in the real economy by 2025. The bank is committed to fully implementing Environmental and Social Risk Management (ESRM) in line with International Finance Corporation (IFC) standards and aims to reduce carbon emissions by over 10,500 tons through sustainable financing approaches.
- NMB is the leading bank of Nepal in terms of renewable energy finance, focused towards promoting green businesses like solar, biomass, waste to energy projects. The Bank has financed over 40 major hydropower projects with total installation capacity of around 600 MW.
- NMB has issued local currency Energy Bond of over NPR 4 billion supporting large energy projects in Nepal and contributing to the nation's energy self-reliance.
- NMB has renewed its commitment by signing an agreement with the Alternative Energy Promotion Centre (AEPC) and Central Renewable Energy Fund (CREF) for a second consecutive 3-year term. In this role as the Handling Bank of CREF, NMB will facilitate financing under the Sustainable Energy Challenge Fund, specifically targeting the Renewable Energy sector in Madhesh, Lumbini, and Karnali Provinces. The fund, supported by the British Government-funded Nepal Renewable Energy Program, aims to amplify renewable energy financing initiatives in the country.
- NMB received the "Green Deal of the Year 2021" award from Asian Banking and Finance magazine based in Singapore as the champion of Green Financing for its pioneering debt deal with IFC, championing Green Financing in Nepal.
- NMB has been mainstreaming renewable energy to support country's energy mix targets for achieving nationally determined contribution (NDC) through clean energy solutions like large hydro projects, renewable energy vendor financing, waste to energy projects, roof top solar, electric vehicles, pellet industries, off-grid micro hydro, agriculture, production-based SME/MSMEs, etc.
- NMB Bank has in place an Environmental and Social Management System (ESMS) of international standards developed in collaboration with UK-based E&S consultants. The Bank follows IFC Performance standards in its Environmental and Social (E&S) due diligence and has effectively integrated E&S risk assessment and management as an integral part of its overall business and risk assessment processes. NMB has also digitized ESMS through a robust online system integrated with the Bank's Business Process Management System.
- The bank discloses its Carbon Footprint based on PCAF standards, demonstrating its commitment to monitoring and reporting greenhouse gas emissions in alignment with sustainability goals.

NIC ASIA BANK LTD. (NIC)

Few initiatives of NIC for Positive Climate are given below:

- Tree Plantation at Tribhuwan University Ground.
- Tree plantation at 'Sainik Awasiya Mahavidyalaya', Kailali.
- Installation of Tree Guard in Bansgadhi.
- Financial support to Rotary Club of Kathmandu, Kalanki for the protection of planted plants

SANIMA BANK LTD.

Climate Positive Initiatives taken by Sanima bank are:

- Sanima Bank has concentrated its sustainability efforts on understanding the impact of its banking operations on the environment and society, with a specific emphasis on carbon accounting and disclosures.
- It has facilitated various target groups with asset classes classifiable as sustainable finance as per globally accepted standards. As of the end of Asadh 2079, approximately 17.8% of Sanima Bank's total portfolio has been directed towards sustainable sectors.
- Sanima Bank is actively involved in financing multiple hydropower projects currently leading 18 projects, co-leading 1 project and participated as a member bank in 5 projects with combined total capacity of 531 MW in hydropower sector.

Sanima Bank is a member of Partnership for Carbon Accounting Financials (PCAF) and is committed towards measuring and disclosing its GHG emissions associated with its portfolio of loans and investments, in line with international standards contributing to global sustainability initiatives.

NEPAL RASTRA BANK

The Nepal Rastra Bank (NRB), as the central bank of Nepal, has initiated measures to promote green financing in the country. NRB has implemented regulatory provisions on green financing, including the issuance of Environment and Social Risk Management (ESRM) Guidelines for Banks and Financial Institutions (BFIs). These guidelines mandate the assessment of environmental risks before extending credit facilities to industries. BFIs are also required to submit annual ESRM Reports in a prescribed format.

Other few initiatives of NRB includes:

- NRB has allowed BFIs to lend up to 50% (which is otherwise 25%) of their core capital for direct lending to renewable energy projects to promote clean energy and minimize environmental impacts of development projects.
- Allows banks to finance up to 80% for electric vehicles to individuals which is up to 50% in case of non-electric vehicles.
- Banks are required to lend 11% of their lending portfolio in Agriculture by mid July 2023 which has to be increased to 15% by mid July 2026.
- Banks must allocate 6% of their lending portfolio in Energy by mid July 2023 which has to be increased to 10% by mid July 2026. These initiatives underscore NRB's commitment to fostering clean energy, environmental sustainability, and supporting key sectors in the country.

GREEN FINANCE INITIATIVES OF INTERNATIONAL DEVELOPMENT FINANCE ORGANIZATIONS IN NEPAL

Effort was made to study the Green Finance initiatives of International Development Finance Organizations in Nepal. International Finance Corporation (IFC) and Asian Development Bank (ADB) were chosen in this regard. However, in absence of regulatory requirement for these organizations in Nepal, very limited published data was available. As such, limited study was carried out based on their website.

INTERNATIONAL FINANCE CORPORATION (IFC)

Climate is a strategic pillar for the IFC and the World Bank Group. IFC is committed to increase its climate-related investments, targeting an annual average of 35 percent of its own-account long-term commitment volume between 2021 and 2025. As the largest development finance institution supporting the private sector in emerging markets, IFC actively engages in Climate Business, investing directly and partnering with financial institutions in climate-smart sectors. This involves collaboration with governments, private enterprises, financial institutions, and other development banks as an effort to increase climate-related investments.

IFC partners with financial institutions to deploy capital, mostly in the form of loans to businesses and other organizations, to implement climate-friendly projects. IFC's climate initiatives in Nepal date back to 1975, contributing over $600 million to the country as of June 2022. It's Own Account Climate Business amounts to $41 million, with renewables accounting for $38 million and green buildings for $3 million. Some of IFC's notable Climate Business initiatives in Nepal include:

BUTWAL POWER COMPANY LTD.:

Butwal Power Company is a leading hydropower company in Nepal. IFC had committed $25.8 million in loans for their two projects from 2010 to 2014. In 2010, IFC provided the company with a $6.5 million long-term loan to expand its 5.1 MW Andhikhola Hydropower Project to 9.4 MW. This financing was critical for the company given the limited financing capacity of local commercial banks at that time. IFC also provided the company with advanced training in environmental and social management. Following the Andhikhola project, IFC committed $19.3 million to finance the 38 MW Kabeli plant.

PROBIOTECH:

Probiotech is an Agribusiness and is a leading processor and producer of animal health and nutrition products in Nepal. It has a big stake in the success of small farmers. It works with farmers at both ends of its value chain. IFC has invested $1.9 million in this company.

NEPAL WATER AND ENERGY DEVELOPMENT COMPANY:

A majority-owned Korean subsidiary company has signed a financing agreement with nine co-lenders, including IFC, to build a 216-megawatt hydropower plant. Nepal Water and Energy Development Company will develop the project. Once completed, Upper Trishuli-1, or UT-1, will sell power under a 30-year power purchase agreement. A $453 million financing package has been organized by IFC.

GLOBAL TRADE FINANCE PROGRAM (GTFP):

IFC also extended a trade finance facility in Nepal called Global Trade Finance Program (GTFP). This program includes a special provision for green trade financing.

Through these initiatives, IFC actively demonstrates its commitment to fostering climate-friendly projects and contributing to sustainable development in Nepal.

ASIAN DEVELOPMENT BANK (ADB)

ADB has placed combating climate change and its consequences at the top of its development agenda. The bank is therefore scaling up support to address climate change, disaster risks, and environmental degradation, elevating its ambition to provide $100 billion in cumulative climate financing from its own resources to its developing member countries for the period 2019-2030.

Projects signed by ADB during 2022 for Nepal includes Nuts and Fruits in Hilly Areas Project, Supporting the School Education Sector Plan, Enhanced Policy and Program Implementation in School Education, Strengthening Systems to Protect and Uplift Women Project, Support for Strengthening Systems to Protect and Uplift Women Project

Notably, the Nuts and Fruits in Hilly Areas Project, signed on November 7, 2022, is a climate change financing initiative in Nepal with a sovereign investment of US $96.45 million targeted towards agriculture, natural resources, and rural development.

INVESTMENT PATTERN OF PROVIDENT FUND AND PENSION FUND WITH REGARDS TO CLIMATE

Effort was made to study the investment pattern of Provident Fund and Pension Fund with regards to Climate. Employees Provident Fund (EPF) and Citizen Investment Trust (CIT) were chosen in this regard. However, in absence of regulatory requirement, very limited published data was available. As such, limited study was carried out based on their Annual Report and Website.

EMPLOYEES PROVIDENT FUND (EPF)

Karmachari Sanchaya Kosh was established under Employees Provident Fund Act, 2019. EPF manages Provident Fund in Nepal on behalf of the Government of Nepal for government, public enterprises, and private sector employees. Total Assets of EPF was NPR 445.66 bio. during Ashadh end 2078. Balance with Banks and Financial Institutions was NPR 130.65 bil. i.e. 29.32% of total assets. Similarly, Loans and Advances to Institutions and Projects was NPR 68.32 bio. i.e., 15.33% of total assets.

CITIZEN INVESTMENT TRUST

Nagarik Lagani Kosh (Citizen Investment Trust - CIT) is a statutory institute established under Citizen Investment Trust Act, 2047. It operates and manages various types of retirement schemes / programs as well as various unit schemes and mutual fund program to encourage the people for saving in order to expand fund and increase the investment opportunities along with the dynamic development of the capital market to contribute economic development of the nation. CIT is not primarily involved in Lending. However, it lends based on the Government decision. Some of the institutions it has lend includes Nepal Airlines and Uppar Tamakoshi Hydropower. CSR activities are limited and does not include activities to promote green climate.

Conclusion

Financial institutions have a crucial role to play in the face of climate related challenges. Despite the relatively small portfolio of Nepal's banking sector, it is important to take tangible actions to address climate-related challenges. The total lending portfolio in the climate category amounted to NPR 4,276,334 million. Investment in climate-positive businesses is increasing, which indicates that the financial institutions are cautious about allocating financial resources towards projects, initiatives, and technologies that aim to mitigate the impacts of climate change and promote environmentally friendly initiatives. However, the increase in investment in climate-negative businesses signifies the need for divestment towards mitigation measures and real solutions like renewable energy.

As the climate crisis escalates, the two biggest contributing industries, fossil fuels and industrial agriculture, are receiving more funding, while the solutions needed remain severely underfunded. Average annual bank lending to fossil fuel and agriculture industries in the Global South was $513 billion from 2016 to 2022; however, financial support for climate action was just $22.25 billion. Investment in this industry needs to stop and bring the emissions to zero while protecting the rights of the communities, whereas the government should effectively regulate the financing and subsidize investment for real solutions.

Recommendations

- Although the portfolio size of Nepal's banking sector is relatively small, it is important to consider factors such as climate impact and environmental sustainability in the decision-making process.
- Nepal Rastra Bank is cautious about investing in climate-related sectors. However, regulatory measures need to be taken within the corporate sector to strengthen environmental responsibility.
- All banks should prioritize environmental and climate considerations in their investment and lending decisions. Monitoring and evaluation are essential to ensure investments in climate-positive initiatives.
- While disbursing loans, the banking sector should focus its financing efforts on supporting real climate solutions, including investments in renewable energy and agroecology. Additionally, efforts should be made to shift investment from the extractive economy to regenerative economy.
- Governments should strengthen regulatory frameworks that effectively regulate bank lending policies, encourage private sector to invest in sustainable and climate-resilient initiatives.
- Government should Scale up support and planning for just transitions to real solutions.
- The climate has a cash flow problem.

GLIMPSE OF HOW THE FINANCE FLOWS: A RESEARCH CONDUCTED BY ACTIONAID INTERNATIONAL:

FAR MORE OF THE WORLD'S MONEY IS FLOWING TO THE CAUSES OF THE CLIMATE CRISIS THAN TO THE SOLUTIONS.

As the climate crisis escalates, fossil fuels and industrial agriculture – the two industries that are the largest contributors to climate change – continue to expand and thrive. Meanwhile, the solutions needed to address the climate crisis remain woefully underfunded.

The climate impact of burning fossil fuels is well known, but the role of industrialised agriculture in the climate crisis is less widely publicised. Agriculture is the second-largest contributor to climate change, and industrialised approaches marketed and controlled by giant agribusiness corporations are responsible for the bulk of emissions in the sector.1 These industrialised agriculture approaches drive deforestation, aggressively market agrochemicals that lead to large amounts of greenhouse gas (GHG) emissions and expand factory farming. They also undermine billions of smallholder farmers and their agroecological farming systems which could otherwise feed the world while cooling the planet. Industrial agriculture's reliance on fossil fuels to produce agrochemicals is just one way in which the two industries are deeply co-dependent.

Countries in the Global South, already disproportionately affected by the impacts of the climate crisis, are playing host to an increasing number of fossil fuel and industrial agriculture developments such as coal mines, gas wells, oil pipelines, coal-fired power plants and monoculture plantations blasted with agrochemicals such as fossil fertilisers and pesticides. These lead to conflicts over land and water, cause premature deaths, destroy ecosystems, poison rivers and lakes, and drive up the climate change impacts already devastating their communities.

Financing fossil fuels and industrial agriculture also risks locking Global South countries into building expensive and debt-dependent infrastructure that will quickly become outdated, rather than investing in sustainable opportunities for development like renewable energy and agroecology.

This report tracks financial flows from banks to fossil fuels and industrial agriculture in the 134 countries of the Global South.

Despite global banks' public declarations that they are addressing climate change, the scale of their continued fossil fuel and industrial agriculture financing is staggering.

New research by ActionAid shows that:

- Bank financing provided to the fossil fuel industry in the Global South reached an estimated US$3.2 trillion in the seven years since the Paris Agreement on Climate Change was adopted.[2]
- Bank financing provided to the largest industrial agriculture companies operating in the Global South amounted to US$370 billion over the same period.

Banks have provided an annual average of 20 times more financing to fossil fuels and agriculture activities in the Global South than Global North governments have provided as climate finance to countries on the front lines of the climate crisis.

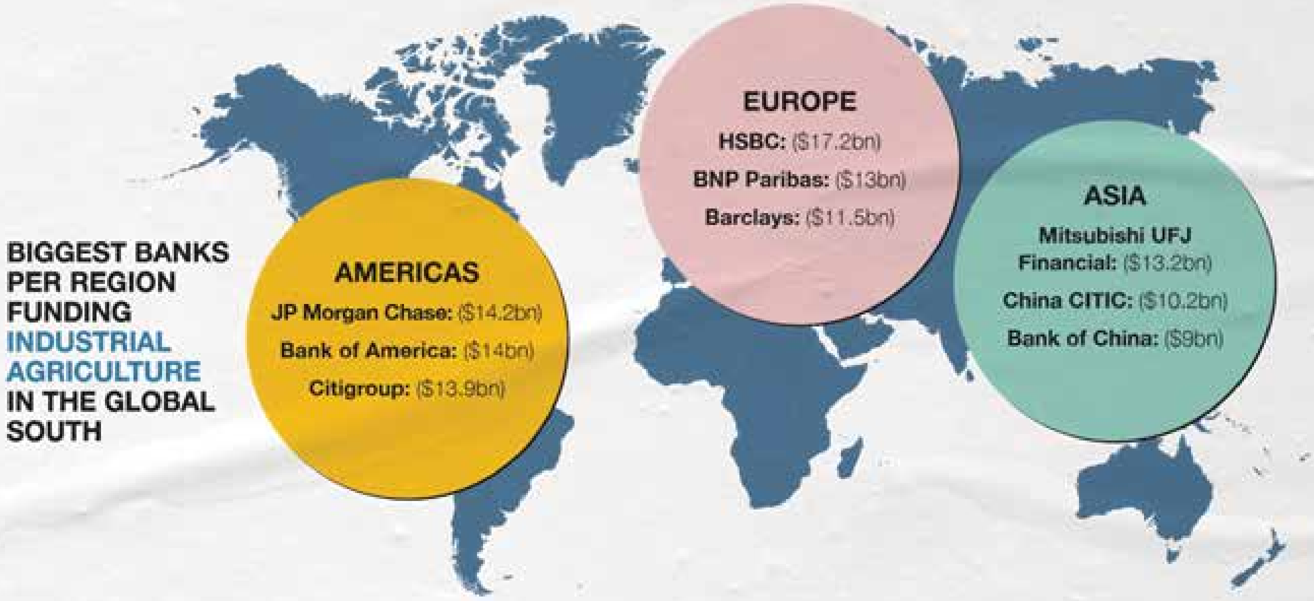
This glut of unsustainable financing is being provided by many of the world's biggest banks. The largest European financiers of fossil fuels and agribusiness are HSBC, BNP Paribas, Société Générale, and Barclays. In the Americas, the three largest US banks – Citigroup, JPMorgan Chase and Bank of America – were the most enthusiastic funders of both industries. The largest Asian financiers of fossil fuels and industrial agriculture are the Industrial and Commercial Bank of China, China CITIC Bank, Bank of China and Mitsubishi UFJ Financial.

Combined average annual bank financing to fossil fuels and industrial agriculture in the Global South 2016-2022:

$513bn

Financial support for climate action in the Global South 2020:

$22.25bn



The Largest recipient of industrial agriculture financing in the Global South is Bayer, the German multinational which bought the controversial agrochemical and biotechnology company Monsanto in 2018. Bayer has received an estimated US$20.6 billion in financing for its agribusiness operations in the Global South since 2016.

The other major industrial agriculture recipients of bank financing in the Global South include ChemChina (Syngenta), COFCO Group, Archer-Daniels-Midland (ADM) and Olam Group, which are all involved in either the sale of climate-warming agrochemicals or deforestation-driving animal feed and biofuels.

The largest recipients of fossil fuel financing in the Global South include the State Power Investment Corporation (US$203.9 billion since 2016) and several other Chinese power companies and producers heavily invested in coal, the commodities trader Trafigura, and major oil and gas companies including Saudi Aramco, Petrobras, Eni, Exxon Mobil, BP and Shell.

Table 1: Agribusiness clients in the Global South

Bank	Top 5 Clients	Billions USD 2016-2022 to the top 5 clients
HSBC	Bayer, Cargill, ChemChina, Olam Group, WH Group	12.7
Bank of America	ADM, Bayer, Cargill, ChemChina, WH Group	11.4
JPMorgan Chase	ADM, Bayer, Bunge, Cargill, Olam Group	11.1
Citigroup	ADM, Bayer, Bunge, Cargill, Olam Group	10.3
China Merchants Bank	ChemChina, COFCO Group, Muyan Foodstuff, New Hope Group, Wilmar International	10
CITIC	ChemChina, COFCO Group, Muyan Foodstuff, New Hope Group, SinoChem International	10
MUFG	ADM, Bayer, ChemChina, Olam, UPL – United Phosphorous	9.7
Barclays	ADM, Bayer, Cargill, JBS, WH Group	9.2
BNP Paribas	ADM, Bayer, Cargill, ChemChina, Olam Group	8.4
Credit Suisse	ADM, Bayer, ChemChina, Olam Group, UPL – United Phosphorous	7.5
Bank of China	ChemChina, COFCO, New Hope Group, WH Group, Bolloré	7.4
Industrial and Commercial Bank of China (ICBC)	ChemChina, COFCO, New Hope Group, Olam, WH Group	7.3

Table 2: Fossil fuel clients in the Global South

Bank	Top 5 Clients	Billions USD 2016-2022 to the top 5 clients
Industrial and Commercial Bank of China (ICBC)	State Grid Corporation of China, State Power Investment Corp Ltd, China Southern Power Grid Co Ltd, China Huadian Corporation Ltd, China Huaneng Group Co Ltd	77
Bank of China	China Huaneng Group Co Ltd, State Power Investment Corp Ltd, State Grid Corporation of China, China Southern Power Grid Co, China Huadian Corporation Ltd	38.5
CITIC (China)	Jinneng Group Co Ltd, State Power Investment Corp Ltd, CITIC Ltd, China Southern Power Grid Co Ltd, China Huaneng Group Co Ltd	34.8
Citigroup	Saudi Aramco, Petrobras, Exxon Mobil, Sumimoto Corporation, QatarEnergy	32
Bank of America	Exxon Mobil Corporation, Petrobras, BP plc, Occidental Petroleum Corporation, Sasol Ltd	24
JP Morgan Chase	Exxon Mobil Corporation, Saudi Aramco, Petrobras, Qatar Energy, Shell plc	24
HSBC	Saudi Aramco, Petrobras, Exxon Mobil Corporation, State Grid Corporation of China, QatarEnergy	21.2
Société Générale	Trafigura Group Pte Ltd, Saudi Aramco, Exxon Mobil Corporation, Mamoura Diversified Global Holding, TotalEnergies SE	20
BNP Paribas	Saudi Aramco, Shell plc, ENI SpA, Petrobras, BP plc	18
Crédit Agricole	Petrobras, Saudi Aramco, Eni SpA, Trafigura Groupe Pte Ltd, BP plc	17.3
Barclays	Exxon Mobil Corporation, Shell plc, BP plc, Power Finance Corporation Ltd, TotalEnergies SE	15.6
Morgan Stanley	Shell plc, Petrobras, Saudi Aramco, Exxon Mobil Corporation, BP plc	15

The financing provided for fossil fuels and industrial agriculture in the Global South is likely to dwarf the financing provided by banks for renewable energy and agroecology over the same period. Recent research has shown that only seven percent of the financing provided by the major international banks featured in our report has gone to renewable energy in the seven years since the Paris Agreement.3 Although no equivalent dataset exists for agroecology financing, lending from 'traditional' banks accounts for only a small proportion of the financing in this sector.4

This report profiles nine of the major financiers of industrial agriculture and fossil fuel activities in the Global South. These profiles show that:

- Many of these banks have committed to reach 'net zero' emissions in their financing portfolio by 2050, but none have adequate policies in place to genuinely decarbonise their portfolio.5
- Several banks (including Barclays, BNP Paribas, HSBC and Citigroup) now have long-term targets to phase out coal lending, but continue to finance some of the largest coal power producers and mining companies in the interim.6
- Major banks are funding corporations responsible for controversial projects which are devastating local communities and ecosystems.
- None of the major banks has a policy to fully phase out oil and gas financing, even though this is required if their financing is to be consistent with a 1.5°C climate goal. Instead, the main recipients of bank financing are the largest oil and gas companies.7
- None of the banks surveyed by ActionAid have policies limiting the financing of industrial agriculture or favouring agroecology.
- Where agricultural commodity policies exist, these usually relate to specific sectors – palm oil and soy in particular – but are over-reliant on certification schemes that have proven ineffective.
- Policies addressing the role that beef producers play in driving deforestation (especially in the Amazon) are inadequate, or lacking altogether.
- The harms caused by the agrochemicals sector also go unaddressed by bank policies. No bank recognises or seeks to reduce the climate harm resulting from the production and application of fossilfuel based nitrogen fertilisers by industrial agriculture corporations.

Public financing has the capacity to contribute greatly to solutions to the climate change crisis but remains a big part of the problem. Governments continue to channel public funds to fossil fuels and industrial agriculture through a web of public subsidies, state-owned enterprises, state-owned banks, national wealth and pension funds, and official development assistance (ODA).

Renewable energy has the potential to far exceed projected global energy demand by 2050, and renewables are already more affordable than fossil fuels in most cases.8 However, appropriate financing is still lacking, including scaled up climate finance to help reach the goal of achieving universal energy access. ActionAid promotes a model of energy democracy that requires improved energy governance and a diversified production model based on renewables.9

A transformation of food systems is needed to address the climate crisis and meet the world's food and livelihood needs, and agroecological farming is increasingly recognised as a viable alternative to industrialised agriculture.10 But this transformation requires that governments and funders prioritise food sovereignty, moving from an extractive focus on producing commodities for export, and the overuse of agrochemicals, to an approach that centres and builds upon the contributions of smallholder farmers, and particularly women smallholder farmers. Promoting agroecology requires scaled up financial and technical support, including gender-responsive training, support for accessing markets, subsidy shifts, and investment in infrastructure, production and processing facilities.

In this urgent era of climate change, public funds must be scaled up and channelled in the public interest, to bring about equitable transitions to renewable energy and agroecology.

And the madness of the world's banks and governments continuing to finance the destruction of the planet must come to an end.

Recommendations

BANKS MUST

STOP FINANCING FOSSIL FUELS: Put an immediate stop to project and corporate financing of fossil fuel expansion and all coal activities, and develop rapid exit strategies from oil and gas;

STOP FINANCING OF DEFORESTATION AND OTHER HARMFUL INDUSTRIAL AGRICULTURE ACTIVITIES: Stop project and corporate financing of deforestation and other harmful industrial agriculture activities, and develop robust red lines to guide exit strategies;

PROTECT RIGHTS OF COMMUNITIES: Strengthen polices against human rights abuse and deforestation, and ensure Free, Prior and Informed Consent (FPIC), robust safeguards and effective disclosure and redress mechanisms;

WORK TO BRING EMISSIONS DOWN TO 'REAL ZERO': Set real and ambitious targets to bring financing portfolio emissions down to as close to zero as possible, without offsets, and covering the entirety of the emissions arising from their loans and underwriting, and the scope 1-3 emissions of their clients;

STRENGTHEN TRANSPARENCY AND TOOLS FOR VERIFICATION: Enhance measures to ensure accountability of project and corporate financing, including through reporting made publicly-available on online databases on policies, practices and performance indicators in emissions targets, safeguards and human rights standards.

GOVERNMENTS MUST

EFFECTIVELY REGULATE: The Banking, Finance, Fossil Fuel and Industrial Agriculture Sectors to Stop Fossil Fuel Expansion, Including Ensuring Mandatory Development of Climate Transition Plans Consistent With a 1.5°C Climate Goal;

SCALE UP : Support and Planning for Just Transitions to Real Solutions Such as Renewable Energy and Agroecology

REDIRECT : Harmful Fossil Fuel and Industrial Agricultural Subsidies;

FINANCE : Just Transitions Through Scaled Up Climate Finance, Tax Justice and Debt Relief.

Endnotes

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