Prakriti Resources Centre

Nepal's Climate Finance Landscape:

Mapping International Climate Finance Flow Post-Paris Agreement

(2016 –2023)

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ABSTRACT

This study analyses international climate finance flows to Nepal from 2016 to 2023 in the post-Paris Agreement period. It examines the scale, sources, financial instruments, thematic focus areas, and sectoral distribution of climate finance, while assessing their alignment with Nepal's Nationally Determined Contribution (NDC 3.0) and National Adaptation Plan (NAP).

The analysis is based on secondary data from the OECD Climate-related Development Finance – Recipient Perspective (CRDF-RP), United Nations Framework Convention on Climate Change (UNFCCC)'s Biennial Reports (BRs), and Biennial Transparency Reports (BTRs). It also incorporates data on climate finance pledged and committed through major multilateral climate funds, including the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Climate Investment Funds (CIF), and the Adaptation Fund (AF). A mixed-methods approach combining quantitative analysis, literature review, and stakeholder consultations was applied.

Nepal was allocated approximately USD 3.19 billion in international climate finance during the study period, with multilateral development banks (MDBs) accounting for the largest share. Climate finance is heavily dominated by concessional loans across all sources, while grant-based financing represents a comparatively smaller share. A slightly higher share of total climate finance is allocated to adaptation than to mitigation, whereas cross-cutting interventions are allocated a comparatively minimal share.

Sectorally, climate finance was concentrated in energy, water resources, transport and infrastructure, and disaster risk reduction and management. In contrast, sectors such as agriculture; forestry; biodiversity; water, sanitation and hygiene (WASH); health; waste management; and rural and urban development remain relatively underfunded.

The analysis identifies a significant mismatch between international climate finance flows and Nepal's long-term climate priorities under NDC 3.0 and the NAP. Despite increasing overall flows, the scale, predictability, and sectoral balance of available finance remain insufficient to Nepal's climate financing needs.

The study concludes that Nepal requires scaled-up, predictable, and grant-based climate finance that better aligns with national priorities. Strengthening transparency, harmonising reporting systems, and promoting a more balanced distribution of sectoral investments will be critical to support Nepal's climate-resilient and low-carbon development path forward.

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
AF	Adaptation Fund
AFOLU	Agriculture, Forestry and Other Land Use
BTRs	Biennial Transparency Reports
BRs	Biennial Reports
CIF	Climate Investment Funds
CPI	Climate Policy Initiative
CRDF-RP	Climate-Related Development Finance – Recipient Perspective
CSNA	Climate-Specific Net Assistance
DAC	Development Assistance Committee
DFC	Development Finance Corporation (U.S.)
FAO	Food and Agriculture Organization
FMO	Dutch Entrepreneurial Development Bank
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas (es)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
JICA	Japan International Cooperation Agency
KIIs	Key Informant Interviews
MCC	Millennium Challenge Corporation
MDBs	Multilateral Development Banks
MoFE	Ministry of Forests and Environment
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
OECD	Organization for Economic Co-operation and Development
SASEC	South Asia Subregional Economic Cooperation
SRCTIP	Strategic Road Connectivity and Trade Improvement Project
SWC	Social Welfare Council
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar (s)
WASH	Water, Sanitation and Hygiene

2016–2023 · INTERNATIONAL CLIMATE FINANCE

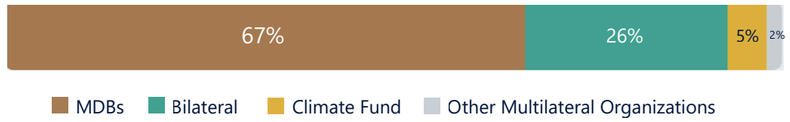
Key Highlights: Climate Finance in Nepal

Between 2016 and 2023, Nepal was allocated approximately USD 3.19 billion in international climate finance, with multilateral development banks accounting for the largest share (66.83%) and concessional loans representing the dominant financing instrument (63.28%), relative to grants (30.36%). Despite this volume, the predominance of debt-based instruments and the limited overall scale of financing show that current flows are inconsistent and insufficient to meet Nepal's long-term climate mitigation and adaptation commitments (NDC 3.0 and NAP).

$3.19B

SOURCE COMPOSITION

Multilateral Development Banks (MDBs) supplied the majority of climate finance, with bilateral development partners, climate funds, and other multilateral mechanisms making up the rest.



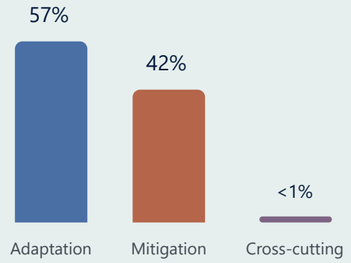
INSTRUMENT STRUCTURE

Climate finance flowed mainly through concessional loans from MDBs, while bilateral development partners and climate funds provided grants.



THEMATIC ALLOCATION

Adaptation accounted for the largest share of climate finance allocation, followed by mitigation, while cross-cutting interventions represented only a marginal share.



SECTORAL CONCENTRATION

Finance concentrated in a handful of infrastructure-heavy sectors, while forestry, biodiversity, and cultural heritage sectors received negligible or no recorded finance.

- **Energy and Water Resources**
- **Industry, Transport and Physical Infrastructure**
- **Disaster Risk Reduction and Management**
- **Forest, Biodiversity and Watershed Conservation**
- **Tourism, Natural and Cultural Heritage**

NDC 3.0 FINANCING GAP

The total estimated cost of implementing NDC 3.0 is **USD 73.74** billion, particularly for its conditional targets dependent on international support. Current climate finance allocation patterns are not aligned with sectoral financing needs, highlighting a persistent financing gap and mismatch with NDC 3.0 priorities.

NAP FINANCING GAP

The NAP requires an estimated **USD 45.94** billion in external financing by 2050, but significant financing gaps remain across Agriculture and Food Security, Forest and Ecosystem Conservation, Health, Drinking Water and Sanitation, and Rural and Urban Settlements.

EXECUTIVE SUMMARY

Climate finance is central to global climate action, particularly for least developed countries and highly climate-vulnerable countries like Nepal. It is no secret that despite its negligible contribution to global emissions, Nepal faces severe impacts from floods, landslides, glacial lake outburst floods (GLOFs), droughts, ecosystem degradation, and other climate-induced disasters. In response to increasing risks, the country has strengthened its climate policy framework through the Nationally Determined Contribution (NDC 3.0) (Ministry of Forests and Environment, 2025) and the National Adaptation Plan (NAP) (Ministry of Forests and Environment, 2021), which set out long-term priorities for adaptation and carbon mitigation. But as a highly climate-vulnerable mountainous country, Nepal requires substantial and sustained international support to build resilience, restore ecosystems, and pursue a green, climate-resilient, and low-carbon development pathway.

This study assesses Nepal's status in the post-Paris Agreement (United Nations Framework Convention on Climate Change (UNFCCC, 2016) international climate finance landscape, focusing on scale, trends, sources, instruments, thematic priorities, and sectoral allocation. It draws on data obtained from the OECD Climate-related Development Finance – Recipient Perspective (CRDF-RP) datasets (OECD, 2024), the United Nations Framework Convention on Climate Change (UNFCCC)'s Biennial Reports (BRs) and Biennial Transparency Reports (BTRs) databases (UNFCCC, 2022), and major multilateral climate funds including the Green Climate Fund (GCF) (Green Climate Fund, n.d.), the Global Environment Facility (GEF) (Global Environment Facility, n.d.), the Climate Investment Funds (CIF) (Climate Investment Funds, n.d.), and the Adaptation Fund (AF) (Adaptation Fund, n.d.). The study also assesses the alignment of international climate finance flows with Nepal's NDC 3.0 and NAP priorities. A mixed-methods approach was applied, combining quantitative analysis with a literature review and stakeholder consultations.

The findings show that international climate finance allocated to Nepal was approximately USD 3.19 billion during the study period. Multilateral development banks (MDBs) were the largest source of climate finance, contributing nearly two-thirds of total climate finance, followed by bilateral development partners and multilateral climate funds, which contributed comparatively smaller shares. The structure of climate finance in Nepal is heavily loan-based, with concessional loans accounting for the largest share of finance while grants represent less than one-third of total climate finance. Non-concessional loans and equity financing remain minimal. MDBs primarily provided loan-based financing, whereas bilateral partners and multilateral climate funds contributed mostly grant financing. This financing structure raises concerns for a highly climate-vulnerable and fiscally constrained country like Nepal, particularly for adaptation-related investments that often generate limited direct financial returns.

Across thematic areas, international climate finance allocated a slightly larger share to adaptation than to mitigation, while cross-cutting interventions, such as institutional strengthening, governance, capacity building, and technology transfer, received comparatively limited financing. Sectorally, climate finance was strongly concentrated in energy and water resources, transport and infrastructure, and disaster risk reduction and management, in line with the priority sectors identified in Nepal's National Climate Change Policy (Ministry of Forests and Environment, 2019). Moderate levels of finance were directed toward agriculture; health; water, sanitation and hygiene (WASH); and urban and rural development. Forestry, biodiversity, waste management, among other sectors, received limited support.

The study further identifies significant gaps between international climate finance flow and Nepal's national climate priorities. The total cost of quantified mitigation actions is estimated at USD 73.74 billion through 2035 (Ministry of Forests and Environment, 2025), covering both mitigation and adaptation requirements. Of this amount, domestic resources are expected to contribute USD 10.82 billion (14.68%), while the remaining USD 62.92 billion (85.32%) is expected to be financed through international climate finance and external support. In addition, the NAP estimates total adaptation financing needs of USD 47.4 billion through 2050 (Ministry of Forests and Environment, 2021). However, the volume of international climate finance allocated during the study period represents only a small fraction of these estimated requirements. Several priority sectors — including

agriculture and food security, forestry and ecosystem conservation, WASH, health, agriculture, forestry and other land use (AFOLU), waste management, industrial processes and product use (IPPU), and rural and urban settlements remain significantly underfinanced despite these sectors being central to Nepal's climate vulnerability profile and long-term resilience needs.

The analysis reveals a clear mismatch between international climate finance allocation and national climate priorities. Climate finance is largely concentrated primarily in energy, transport, and urban infrastructure, reflecting a preference for large-scale, bankable projects. In contrast, agriculture, forestry, WASH, health, and tourism remain relatively underfunded. This pattern reflects the influence of external financing frameworks and project readiness requirements, which tends to favour infrastructure-oriented projects over locally led, community-based, and cross-sectoral resilience-building initiatives. As a result, a gap persists between climate finance allocation and Nepal's long-term climate adaptation and resilience needs. Although multilateral climate funds, including the GCF, the CIF, the GEF, and the AF, have played an important role in providing grant-based finance for climate adaptation, mitigation, and resilience-building, their overall contribution remains relatively small compared to Nepal's broader financing needs.



The study concludes that although international climate finance has made a significant contribution to Nepal's climate actions in the post-Paris Agreement period, current flows remain insufficient in terms of scale, predictability, sectoral balance, and alignment with national priorities. Addressing these gaps will require scaling up grant-based climate finance, strengthening coordination among development partners, improving transparency and harmonisation of climate finance reporting systems, and enhancing alignment with Nepal's NDC 3.0 (Ministry of Forests and Environment, 2025) and NAP (Ministry of Forests and Environment, 2021) priorities.

01
SECTION

INTRODUCTION

Nepal is among the countries most vulnerable to the adverse impacts of climate change, despite contributing negligibly to global greenhouse gas emissions. Its fragile mountainous terrain, heavy dependence on climate-sensitive sectors, such as agriculture, forestry, and water resources, and limited adaptive capacity expose communities to increasing risks from floods, landslides, droughts, GLOFs, and erratic rainfall patterns. These climate-induced hazards pose significant challenges to Nepal's sustainable development trajectory, poverty reduction efforts, and long-term socio-economic resilience. Recognising these risks, Nepal has made strong national commitments to climate action through its NDCs (Ministry of Forests and Environment, 2025) and NAPs (Ministry of Forests and Environment, 2021) that outline priority actions for adaptation, mitigation, and climate-resilient development.

To enable Nepal's ability to implement these commitments, international climate finance plays a critical role. Given the country's limited domestic financing capacity, external climate finance from bilateral development partners, MDBs, multilateral climate funds, and other multilateral mechanisms is essential for implementing climate policies, programmes, and projects. Understanding how these financial flows have evolved over time, which sectors and thematic areas they support, and how effectively they align with national climate strategies is therefore essential for strengthening planning, coordination, and policy coherence.

This analysis examines trends in international climate finance flows to Nepal, focusing on funding sources, thematic priorities (adaptation and mitigation), financial instruments, and sectoral allocations[1], and their alignment with Nepal's NDC 3.0 and NAP priorities. By applying internationally recognised methodologies, including the OECD-DAC Rio Marker system (Organisation for Economic Co-operation and Development (OECD, 2011) and the Joint MDB Climate Components approach (World Bank & Multilateral Development Banks, 2023), the study ensures consistency and comparability across different financing sources.

The findings highlight both progress and persistent gaps in the mobilisation and targeting of international climate finance. Although climate finance commitments to Nepal have increased over the study period, the analysis reveals imbalances in thematic distribution, sectoral focus, and financial instruments. These findings aim to inform evidence-based policy dialogue and improve coordination with development partners to enhance the mobilisation and effective use of climate finance. Ultimately, the report contributes to ongoing efforts to enhance the effectiveness, alignment, and transformative potential of climate finance in advancing Nepal's climate-resilient development goals.

1 Time coverage varies by data source: 2016–2023 for MDBs, climate funds, and other multilateral organisations; and 2016–2022 for bilateral development partners' climate finance flows.

02
SECTION

SCOPE OF THE STUDY

This study analyses international climate finance flows to Nepal in the post–Paris Agreement period,[2] using donor-reported climate-specific financial values expressed in USD (millions). These amounts represent total climate-specific finance commitments and allocations by donors and do not reflect grant-equivalent values,[3] except for bilateral donor contributions as reported in Nepal's Biennial Report (2021-2022).

The analysis pays particular attention to the scale, composition, and allocation of climate finance from bilateral development partners, MDBs, other multilateral financing mechanisms, and climate funds including the GCF, the GEF, the CIF, and the AF. The analysis assesses climate finance by financial instruments, including grants, concessional loans, non-concessional loans, and equity investments, to understand the structure of financing modalities supporting Nepal's climate actions. It also examines the distribution of climate finance across three thematic areas, namely climate change adaptation, mitigation, and cross-cutting interventions addressing both objectives. Furthermore, climate finance is analysed across key sectors as outlined in Nepal's National Climate Change Policy (Ministry of Forests and Environment, 2019), including energy and water resources; disaster risk reduction and management; industry, transport and physical infrastructure; agriculture and food security; Health and WASH; rural and urban development; and cross-cutting initiatives.

Beyond mapping trends and patterns, the study assesses the alignment of international climate finance with Nepal's national climate and development priorities, referencing the NDC (Ministry of Forests and Environment, 2025) and the NAP (Ministry of Forests and Environment, 2021). The analysis draws on Climate Policy Initiative (CPI) reports (Climate Policy Initiative, 2025), UNFCCC's BRs and BTRs for bilateral flows (UNFCCC, 2016-2022), and OECD CDRF-RP datasets (OECD, 2024) for multilateral development banks, climate funds, and other multilateral mechanisms. In addition, a separate analysis has been conducted on climate finance that was mobilised and pledged through major climate funds such as the GCF (Green Climate Fund, n.d.), the GEF (Global Environment Facility, n.d.), the Adaptation Fund (Adaptation Fund, n.d.), and the CIF (Climate Investment Funds, n.d.), using data published on their official websites. This comprehensive scope enables a detailed understanding of climate finance trends, sectoral and thematic distributions, and their relevance to Nepal's climate priorities.

2 Time coverage varies by data source: 2016–2023 for MDBs, climate funds, and other multilateral organisations; and 2016–2022 for bilateral development partners' climate finance flows.
3 Financial flows are not adjusted for concessionality or repayment conditions, including interest rates and maturity structures.

03
SECTION

METHODOLOGY

3.1 STUDY DESIGN

This study adopts a mixed-methods approach, integrating quantitative analysis of international climate finance data with qualitative review of international and national policy documents and stakeholder consultations. The objective is to assess the scale, composition, distribution and alignment of climate finance flows to Nepal in the post-Paris Agreement period.

The quantitative component relies on internationally reported climate-specific finance datasets and established tracking methodologies. Climate-specific financial flows are measured using donor-reported climate-specific amounts expressed in USD (millions). These values represent official reporting by development partners on project commitments, disbursements, and total financing amounts recorded in the OECD and the UNFCCC databases.

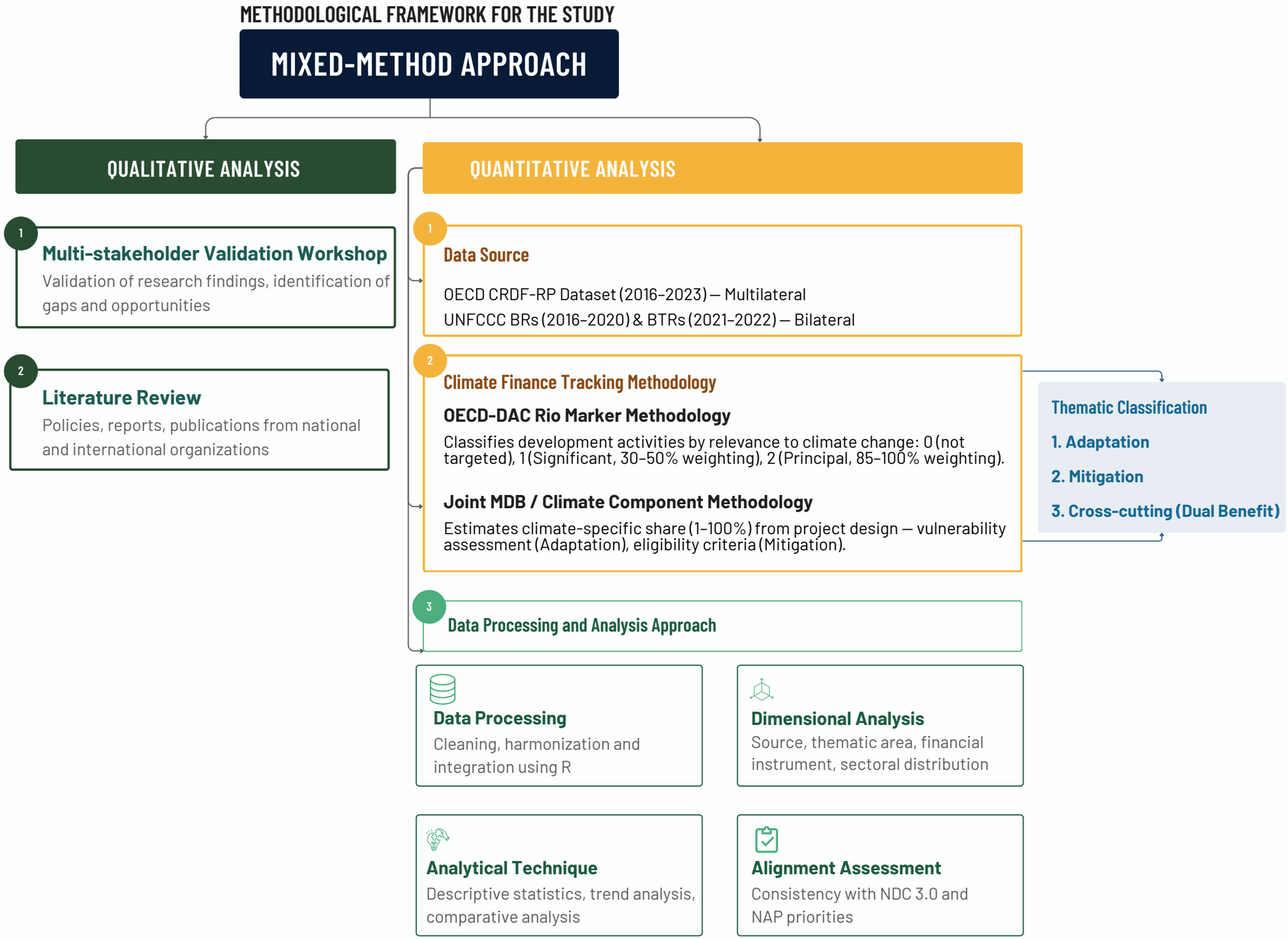


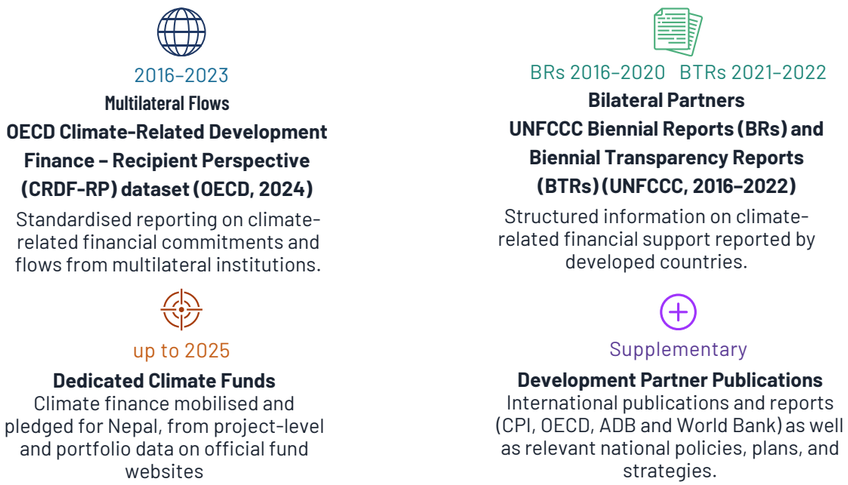
Figure 1 **Methodological Framework for the Study**

Source: https://www.oecd.org/en/data/insights/data-explainers/2024/12/climate-and-development-finance-faq.html?utm_sourcecom#CDF5

3.2 DATA SOURCES

Quantitative data on climate-related financial flows from multilateral development partners including MDBs, multilateral climate funds, and other multilateral financing mechanisms for the period 2016–2023 were collected from the OECD Climate-Related Development Finance – Recipient Perspective (CRDF-RP) dataset (OECD, 2024). This dataset provides standardised reporting on climate-related financial commitments and flows from multilateral institutions. Climate finance provided by bilateral development partners is drawn from UNFCCC BRs (2016–2020) and BTRs (2021–2022) (UNFCCC, 2016-2022). These sources provide structured information on climate-related financial support reported by developed countries.

In addition, a dedicated analysis of climate finance mobilised and pledged for Nepal from major climate funds, including the GCF (Green Climate Fund, n.d.), the GEF (Global Environment Facility, n.d.), the AF (Adaptation Fund, n.d.), and the CIF (Climate Investment Funds, n.d.), is conducted using project-level and portfolio data published on their official websites (up to 2025). The analysis includes only climate finance data originating from developed countries and multilateral institutions. Supplementary information is obtained from publications of the Asian Development Bank (Asian Development Bank, n.d.) and the World Bank (World Bank Group, n.d.), among other relevant development partners.



3.3 CLIMATE FINANCE TRACKING METHODOLOGY

To ensure consistency and comparability across data sources, this study applies internationally recognised climate finance tracking methodologies, including the OECD-DAC Rio Marker methodology (OECD, 2011) and the Joint MDB or Climate Component methodology (World Bank & Multilateral Development Banks, 2023). To ensure consistency in global reporting and attribution, OECD-imputed multilateral shares are applied, allowing climate finance from multilateral institutions to be appropriately attributed to contributing countries in line with OECD-DAC reporting standards.

For bilateral development partners and other official providers reporting to the OECD-DAC, climate finance is identified using the Rio Marker system, which classifies development activities according to their relevance to climate change adaptation and/or mitigation. Each project is assigned a score of 0, 1, or 2, indicating whether climate objectives are not targeted, significant, or principal, respectively. In line with OECD guidance, activities with a principal climate objective are generally considered fully climate-relevant, with a coefficient typically ranging from 85% to 100%. Projects marked as having a significant objective are assigned a lower weighting, commonly between 30% and 50%, to reflect partial climate relevance. Where both adaptation and mitigation objectives are present within the same activity, appropriate allocation methods are applied to ensure that overlaps are addressed and double counting is avoided.

For MDBs, climate funds, and other multilateral institutions, the Joint MDB methodology or Climate Component methodology is applied. This approach estimates the climate-specific share of each project based on activity-level assessments, resulting in granular percentages (1–100 percent) for adaptation, mitigation, or cross-cutting components. The methodology is based on project design elements such as vulnerability assessments for adaptation and eligibility criteria for mitigation interventions.

3.4 DATA PROCESSING AND ANALYTICAL APPROACH

All financial values are reported in USD (millions) to ensure consistency and comparability across datasets and time periods. Prior to analysis, the data underwent systematic cleaning, harmonisation, and integration to address variations in reporting formats, classifications, and source structures. This was done using R software, which facilitates efficient data management, transformation, and statistical analysis.

The analytical framework employs a combination of descriptive statistics, trend analysis, and comparative assessments. Descriptive statistics are used to summarise the magnitude and distribution of climate finance flows. Trend analysis is applied to examine temporal changes over the study period, while comparative analysis is conducted across key dimensions, including financing sources, financial instruments, sectors, and thematic areas.

In addition, this study analyses the sectoral distribution of climate finance by integrating the eight major sectors and four cross-cutting areas identified in Nepal's National Climate Change Policy into a single consolidated cross-cutting category. The sectoral classifications used in OECD datasets, the BRs, and the BTRs have been aligned with the sectoral framework defined under Nepal's national policy to ensure consistency and comparability across international data sources. The study further evaluates alignment NDC 3.0 and the NAP to assess how well external finance supports national priorities.

3.5 QUALITATIVE METHODS

Qualitative methods complement the quantitative analysis by providing deeper insights into the institutional, policy, and operational dimensions of climate finance in Nepal.

A multi-stakeholder validation workshop was conducted with representatives from government institutions, civil society, and academia. The workshop served to validate preliminary findings, discuss emerging trends, and identify gaps and opportunities in Nepal's climate finance landscape. Feedback from the workshop was systematically incorporated into the final analysis.

In addition, a comprehensive literature review was undertaken, covering national policies, strategies, and reports from government ministries, as well as publications and datasets from the OECD, Climate Policy Initiative (CPI), ADB, World Bank, GEF and GCF. This review supported triangulation of findings and contextualisation of quantitative results within broader policy and institutional frameworks.

04
SECTION

LIMITATIONS OF THE STUDY

This study has several limitations that should be considered when interpreting the findings.

1

First, the analysis relies on secondary data from publicly available sources and institutional reports, which results in variations in data availability, consistency, and comparability across sources and years. Differences in reporting standards, definitions of climate finance, and thematic classifications further constrain data harmonisation. In addition, the study period was limited to 2023, as it was the most recent year for which publicly available data were consistently available across all primary data sources.

2

Second, the study focuses on commitments and reported disbursements of international climate finance rather than actual expenditure or on-the-ground utilisation. As a result, it does not fully capture implementation delays, project-level reallocations, or absorption capacity constraints that affect real-world outcomes. In addition, private sector and domestic public finance are not comprehensively covered due to data limitations, which may lead to an underestimation of total climate-related investment in Nepal.

3

Third, the thematic and sectoral classifications are based on available project documentation, which often includes overlapping or multi-sectoral interventions. This creates challenges in allocation, particularly for cross-cutting projects that address both adaptation and mitigation objectives. Similarly, attribution of finance to specific financial instruments, such as concessional versus non-concessional loans, may be constrained by limited transparency in project-level financial terms.

4

Finally, the analysis is based on donor-reported climate finance data, which encompasses committed and disbursed amounts. As such, these figures may not fully represent the actual volume of climate finance transferred or utilised by Nepal. Financial flows are not adjusted for concessionally, repayment terms, or other financial conditions.

Therefore, the numbers represent reported climate finance flows rather than a measure of net financial support. Despite these limitations, the study provides a credible overview of international climate finance trends and offers useful insights for policy dialogue and future climate finance planning in Nepal.

05
SECTION

TRENDS OF INTERNATIONAL CLIMATE FINANCE IN NEPAL POST-PARIS AGREEMENT

This section presents donor-reported climate finance commitments and allocations from multilateral development banks, bilateral development partners, multilateral climate funds, and other multilateral mechanisms to support Nepal's climate efforts in the post-Paris Agreement period.[4] This analyses trends across sources, thematic areas, and financial instruments, as well as the distribution of finance across priority sectors identified in Nepal's National Climate Change Policy (2019).

5.1 TRENDS OF INTERNATIONAL CLIMATE FINANCE BY SOURCES

From 2016–2023, in the post–Paris Agreement period, Nepal was allocated a total of USD 3,191.51 million in international climate finance,[5] though flows fluctuated during this time. Financing peaked in 2017 (USD 908.59 million) and in 2020 (USD 937.32 million), largely driven by substantial, project-specific funding to Nepal from MDBs. Notably, the World Bank provided USD 431.55 million in concessional loans for the Earthquake Housing Reconstruction Project in 2017. In 2020, it contributed another USD 588.59 million as concessional loans for the Strategic Road Connectivity and Trade Improvement Project and the Rural Enterprise and Economic Development Project. Similarly, the Asian Development Bank (ADB) committed USD 151.65 million in concessional loans for electricity grid modernisation, transmission lines and distribution project. By contrast, the lowest inflow was recorded in 2016 at USD 100.53 million.

Multilateral development banks emerged as the dominant source of climate finance during 2016–2023, contributing USD 2133.02 million, or 66.83% of total climate finance. MDB financing displayed pronounced volatility, with significant increases in 2017 (USD 459.76 million) and an exceptional surge in 2020 reaching USD 790.94 million. This was followed by a sharp contraction in 2021 before a partial recovery in 2022. The strong but uneven MDBs contribution indicates that overall climate finance flows are highly influenced by large-scale project cycles and global economic or crisis-driven responses.

Finance from bilateral sources (2016–2022) were the second-largest contributors, providing USD 828.38 million or 25.96% of total climate finance. Bilateral finance showed strong engagement in 2017 and 2022, with notable rebounds after relatively low contributions in 2016

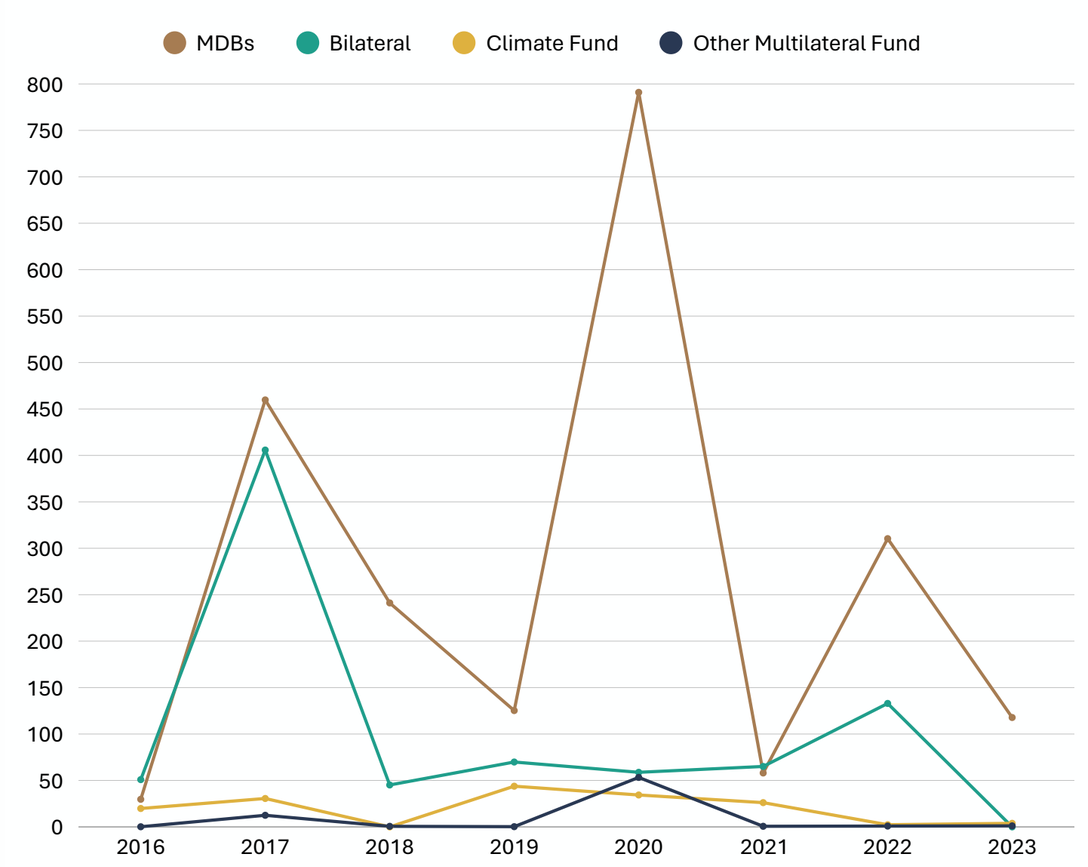


Figure 2 **Trend Of International Climate Finance By Source**

4 Time coverage varies by data source: 2016–2023 for MDBs, climate funds, and other multilateral organisations; and 2016–2022 for bilateral development partners' climate finance flows.
5 This total includes contributions from multilateral development banks (MDBs), climate funds, and other multilateral mechanisms for the period 2016–2023, as well as bilateral development partner support for 2016–2022.

and 2018. This trend indicates a more adaptive but less consistent funding pattern compared to MDBs, potentially influenced by shifting donor priorities and geopolitical considerations.

Climate Funds contributed a modest USD 160.79 million or 5.04%. Their donor commitments were irregular, with no climate finance recorded in 2018 and notable declines in 2022 and 2023 after moderate peaks in 2019 and 2020. This inconsistency may reflect delays in project approvals, fund replenishment cycles, or limited project pipeline readiness.

Other multilateral funds accounted for the smallest share of climate finance, totalling USD 69.32 million or 2.17%, with minimal contributions in most years except for 2020, when financing rose to USD 53.27 million. This indicates a highly episodic engagement, likely driven by a small number of targeted interventions. Overall, the analysis highlights a strong dependence on MDBs as the primary source of climate finance in Nepal. While bilateral funding provides important support, it comes with unpredictability.



The trend analysis of international climate finance in Nepal indicates an overall declining trajectory during the study period. Total climate finance shows a downward trend of approximately USD 22.24 million per year. Similarly, bilateral climate finance exhibits a significant decline of about USD 19.90 million annually, while climate funds also show a moderate decrease of approximately USD 3.21 million per year. Finance from MDBs remains relatively stable, with a marginal decline of approximately USD 0.17 million per year. In contrast, finance from other multilateral sources shows a slight upward trend of approximately USD 0.02 million annually, although the magnitude remains negligible.

5.2 TRENDS OF INTERNATIONAL CLIMATE FINANCE BY THEMATIC AREAS

Following the Paris Agreement, from 2016 to 2023, climate finance was concentrated in adaptation and mitigation, while cross-cutting interventions was allocated a small share. Although mitigation dominates the global climate finance landscape, in the context of Nepal, adaptation accounted for the largest share, receiving approximately 56.79% of total climate finance.

A total of USD 1,812.53 million, representing approximately 56.79% of the total climate finance during the period, was set aside for adaptation in Nepal. Funding increased significantly in 2017 to USD 403.30 million and peaked in 2020 at USD 610.05 million, reflecting growing investment in climate resilience, risk reduction, and community-level climate responses. However, financing declined sharply in 2021 to USD 64.47 million, rebounded strongly in 2022 to USD 303.98 million, and then fell sharply again in 2023 to USD 105.09 million.

Mitigation finance totalled USD 1,351.91 million, representing approximately 42.36% of total climate finance during the period. Financing peaked in 2017 at USD 504.34 million before declining to USD 110.92 million in 2018 and USD 134.25 million in 2019. Funding recovered to USD 321.44 million in 2020 but fell steadily thereafter, reaching just USD 12.90 million in 2023. These fluctuations reflect changing investment in emissions reduction, renewable energy, and low-carbon development initiatives.

Cross-cutting interventions were allocated limited support, with total financing amounting to USD 27.02 million, representing less than 1% of total climate finance. Although funding rose modestly in 2019 to USD 8.01 million and in 2020 to USD 5.83 million, allocations remained minimal in other years. This indicates that integrated approaches addressing governance, capacity building, and cross-sectoral links have not yet been a major focus of international climate finance.

The thematic distribution of climate finance highlights a clear prioritisation of adaptation and mitigation, reflecting Nepal's immediate need to strengthen climate resilience while supporting long-term goals of reducing greenhouse gas emissions. Greater investment in cross-cutting interventions could further strengthen institutions, build capacity, and improve the effectiveness and sustainability of climate finance across sectors.

The trend analysis of thematic climate finance in Nepal demonstrates an overall declining pattern. Similarly, mitigation finance shows a downward trend, declining by around USD 23.38 million per year. In contrast, adaptation finance exhibits a marginal upward trend, increasing by approximately USD 0.56 million annually. These findings suggest a gradual shift in climate finance allocation toward adaptation-related interventions, while mitigation-related financing has comparatively declined over time.

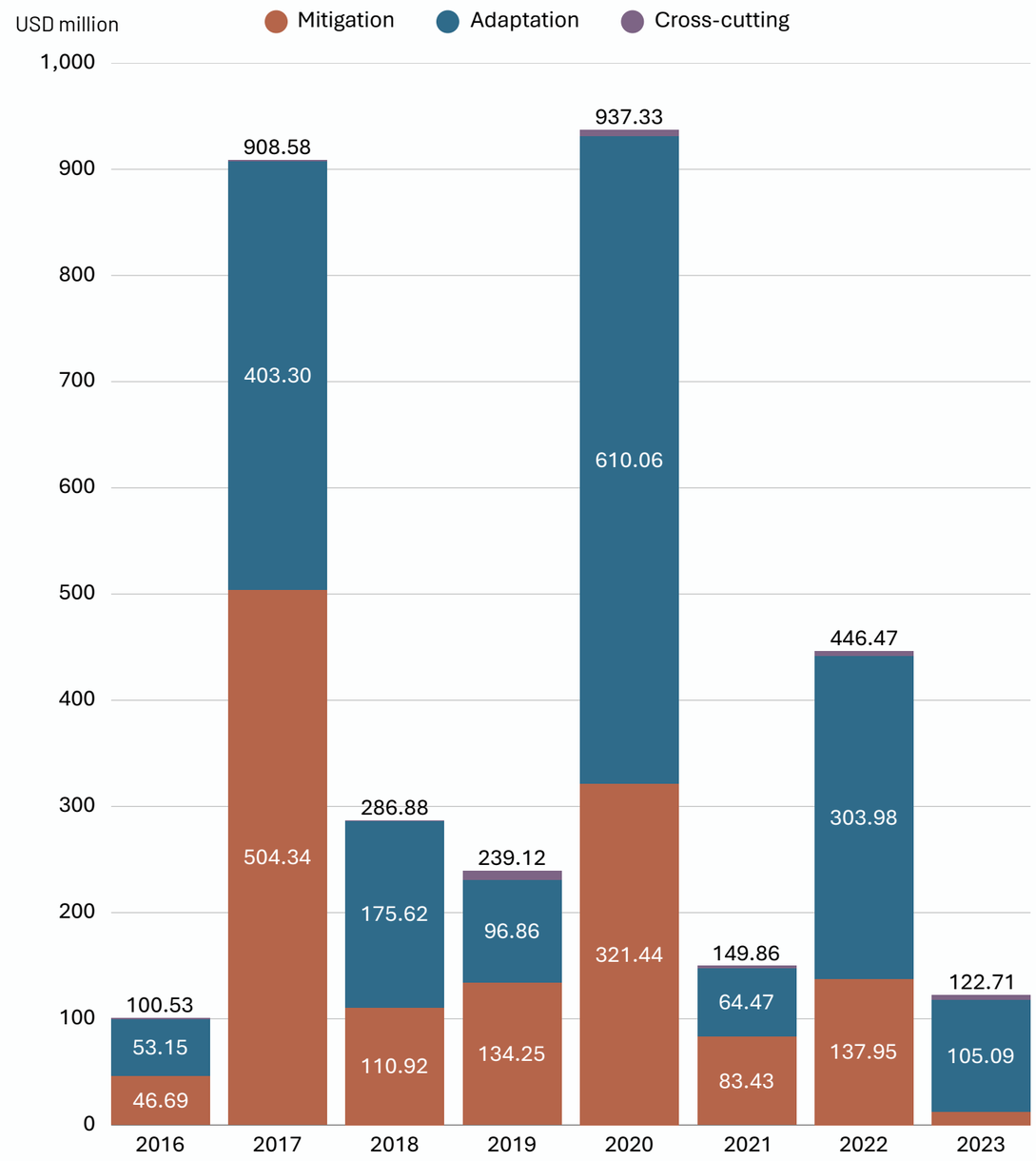


Figure 3 **Trend Of International Climate Finance By Thematic Area**

5.3 TREND OF INTERNATIONAL CLIMATE FINANCE BY FINANCIAL INSTRUMENT

Between 2016 and 2023, international climate finance to Nepal amounted to USD 3,191.51 million, with financing patterns strongly shaped by the choice of financial instruments. Concessional loans dominated the portfolio, accounting for USD 2019.70 million or 63.28% of total climate finance, making them the primary source of funding. Grants contributed USD 969.06 million or 30.36%, while non-concessional loans and equity financing played relatively minor roles, accounting for USD 198.84 million or 6.23% and USD 3.86 million or 0.12% respectively.

Concessional loans remained the principal financial instrument throughout the period, with a cumulative total of USD 2,019.70 million. Financing through concessional loans rose sharply in 2017 to USD 473.01 million and reached its highest level in 2020 at USD 739.93 million. These peaks were largely driven by large-scale climate-relevant funding to Nepal supported by the World Bank, including USD 431.55 million in concessional financing for the Earthquake Housing Reconstruction Project in 2017 and USD 588.59 million for the Nepal Strategic Road Connectivity and Trade Improvement Project and the Rural Enterprise and Economic Development Project in 2020. Although concessional loans decreased substantially in 2021 to USD 57.38 million, it rebounded in 2022 to USD 308.25 million, reaffirming its central role in climate finance.

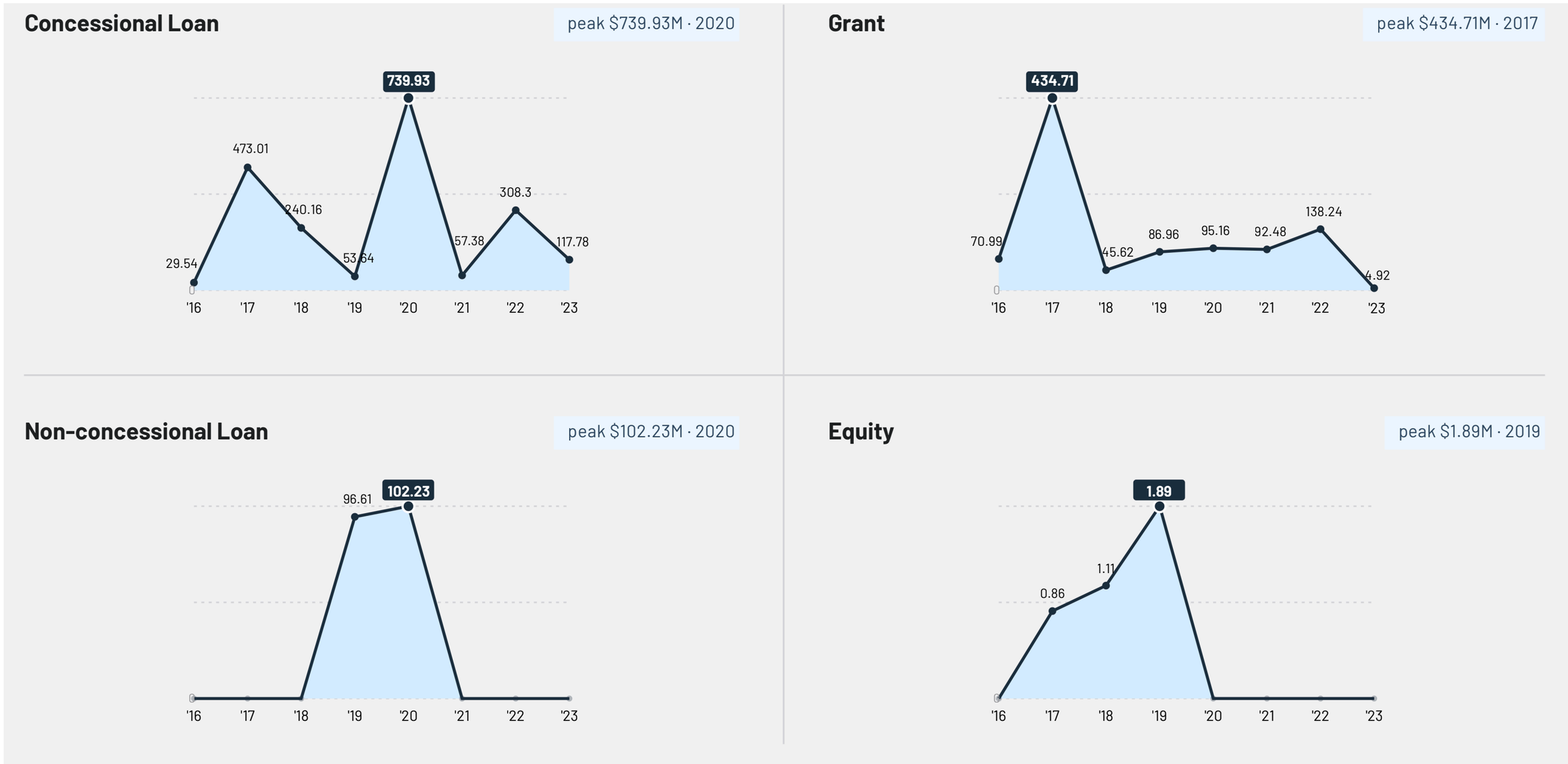
Grants were the second largest source of climate finance during 2016–2023, amounting to USD 969.06 million. Grant financing increased from USD 70.99 million in 2016 to USD 473.01 million in 2017. Between 2018 and 2020, grant financing showed a gradual rise, followed by a notable increase to USD 138.29 million in 2022. However, grant inflows declined sharply in 2023, falling to USD 4.92 million.

Non-concessional loans totalled USD 198.84 million and were provided only in 2019 and 2020, amounting to USD 96.61 million and USD 103.23 million respectively, indicating a temporary use of non-concessional loan instruments during that period. Equity financing played a limited role in international climate finance, totalling just USD 3.86 million across the entire period, with small equity investments recorded between 2017 and 2019.

Climate finance was dominated by concessional loans and grants. Concessional loans primarily supported large-scale climate-related infrastructure and long-term programmes, while grants financed support for vulnerable communities, capacity development, and interventions where debt financing was not suitable.

Trend analysis of financial instruments indicates an overall decline in climate finance over the study period. Grant financing shows a pronounced downward trend, decreasing by approximately USD 21.38 million annually, reflecting a reduction in grant-based support over time. Concessional loans also exhibit a slight decline of approximately USD 0.81 million annually, suggesting relatively stable but gradually contracting flows. Overall, these trends indicate a shift in Nepal's climate finance landscape, characterised by declining grant-based financing and a mild contraction in concessional loan flows.

USD million



Total $3,191.51M

Figure 4 **Trend Of International Climate Finance By Financial Instrument**

ENERGY RELATED PROJECT: A CASE EXAMPLE

Project:

South Asia Subregional Economic Cooperation Power Transmission and Distribution System Strengthening Project

PROVIDER TYPE

Multilateral Development Bank (MDBs)

PROVIDER

Asian Development Bank (ADB)

APPROVED

2020

TOTAL PROJECT BUDGET

USD 287 million

(where Norwegian govt provided USD 35 million cash grant and USD 6 million technical assistance)

ADB FINANCING

USD 200 million

CLIMATE-RELATED (OECD)

USD 119.90M

CLIMATE-SPECIFIC

USD 85.85M

Concessional Loan

Adaptation / Mitigation

SECTOR

Energy (Electricity Transmission and Distribution)

Project Description

The Asian Development Bank (ADB) will provide a loan to the Government of Nepal (the government) to:

(a) upgrade 220/132 kilovolt (kV) substations to 400/220/132 kV substations to enable electricity generated from independent power producer (IPPs) plants in the Khimti hydropower corridor to be exported to India,

(b) construction of three 132/11 kV substations in Teku, Koteshwor, and Thapathali which will increase supply capacity into the Kathmandu Valley,

(c) modernizing and reinforcing four distribution centers around Kathmandu Valley to be able to meet increasing domestic demand for electricity, and

(d) construction of 33 kV, 11 kV, and 0.4 kV lines and substations to facilitate connection of approximately 150,000 new customers in Nepal Province 2 in the country southeast region.

The proposed project complements the efforts of Millennium Challenge Corporation (MCC) to strengthen parts of Nepal's high-voltage transmission network and complete Nepal
portion of the second cross-border transmission line with India for increasing electricity trade.

In post the Paris Agreement period, climate finance trends indicate that the development of large infrastructure projects in Nepal has increasingly been supported by MDBs, particularly the ADB and the World Bank, through concessional loans for climate-related interventions. One example is the South Asia Subregional Economic Cooperation (SASEC) Power Transmission and Distribution System Strengthening Project, an MDB-led investment aimed at expanding and modernising Nepal's electricity transmission and distribution network. The project demonstrates the growing integration of climate objectives into infrastructure investments by incorporating both mitigation measures, such as improved energy efficiency, reduced system losses, and increased hydropower-based electricity trade, and adaptation benefits through enhanced reliability and resilience of the power distribution system.

However, the project also highlights the complexities of estimating the climate-specific share of financing within large infrastructure investments, as only a portion of the total investment is classified as climate finance. More broadly, it reflects Nepal's evolving climate finance landscape, where MDB-supported infrastructure projects account for a significant share of climate finance, with concessional loans increasingly replacing grant-based support.

5.4 TRENDS OF INTERNATIONAL CLIMATE FINANCE BY SECTOR

Between 2016 and 2023, Nepal was allocated USD 3,191.51 million in international climate finance. Guided by the National Climate Change Policy (2019), which identifies eight priority climate sectors and four cross-cutting sectors, this section examines the distribution of climate finance across these eight sectors to understand funding priorities and emerging trends.

The Energy and Water Resources sector was allocated the largest share of climate finance, amounting to USD 982.91 million, which represents 30.80% of total climate finance during the period. Annual flows peaked in 2017 with USD 476.84 million and in 2020 with USD 234.87 million, reflecting strong international support for renewable energy, energy system strengthening, and climate-resilient infrastructure.

The Industry, Transport, and Physical Infrastructure sector was the second-largest recipient, amounting to USD 574.92 million or 18.01% of total climate finance. A significant share of this funding was concentrated in 2020 with USD 256.32 million, supporting transport systems and climate-resilient infrastructure development. The Disaster Risk Reduction and Management sector was allocated USD 519.60 million, representing 16.28% of total climate finance. Investments in this sector were particularly high in 2017 and 2020, reflecting increased investment in disaster preparedness, response capacity, and risk reduction, with particularly strong alignment in post-earthquake reconstruction.

The Agriculture and Food Security sector was allocated USD 265.66 million or 8.32% of total climate finance. Funding levels varied across years, with higher allocations in 2017 (USD 66.43 million), 2020 (USD 70.17 million), and 2022 (USD 61.62 million) supporting climate-smart agriculture and food security, resilient livelihoods, as well as ecosystem, watershed, and policy-focused initiatives. The Health, Water Supply, and Sanitation (WASH) sector attracted USD 217.45 million or 6.81% of total climate finance. Investment in this sector increased notably in 2018 (USD 59.28 million) and 2022 (USD 85.73 million), reflecting a growing recognition of climate-sensitive health risks, water security, and sanitation challenges.

Over the period, cross-cutting interventions including governance, social infrastructure, education, communication, banking and financial services, government and civil society, and trade and regulation were allocated USD 215.82 million or 6.76% of total climate finance, with relatively stable funding and a marked increase in 2021.

The Rural and Urban Settlements sector was allocated USD 127.76 million, accounting 4%, with most investments occurring in 2019 (USD 39.03 million) and in 2020 (USD 80.71 million), suggesting targeted investments in housing, urban resilience, and settlement-level adaptation. The Forest, Biodiversity, and Watershed Conservation sector was allocated only USD 36.22 million (or 1.13%), indicating limited investment despite the sector's importance for ecosystem-based adaptation and climate resilience. Furthermore, during the same period, Nepal was allocated USD 58.75 million in other multisector interventions and USD 192.45 million in other sectors that could not be aligned with the priority areas of the National Climate Change Policy (2019).

International climate finance was concentrated in the energy and water resources, industry, transport, infrastructure, and disaster risk reduction and management sectors, reflecting donor priorities for large-scale infrastructure and resilience-building investments. Notably, priority sectors such as Tourism and Natural and Cultural Heritage did not receive any recorded international climate finance during this period, highlighting a significant gap despite their important role in climate resilience, biodiversity conservation, and sustainable development.

Sector-wise patterns show considerable variation in climate finance allocations. Energy and Water Resources recorded the steepest decline, decreasing by about USD 31.03 million annually, followed by Disaster Risk Reduction and Management, which declined by approximately USD 12.91 million per year, indicating reduced investment in resilience-building interventions.

In contrast, the Agriculture and Food Security sector showed a marginal positive trend, increasing by approximately USD 0.28 million annually. Industry, Transport and Physical Infrastructure increased by approximately USD 7.24 million per year, while Health and WASH recorded an increase of about USD 3.44 million per year, indicating moderate growth but nowhere sufficient to offset declines in major sectors.



The findings indicate a structural reallocation of climate finance across sectors, with steep declines in the Energy and Water Resources sector and the Disaster Risk Reduction and Management sector, while select development-oriented sectors showed modest increases. However, the dominance of negative trends indicated an overall downward trajectory of climate finance over the study period.

USD million

	2016	2017	2018	2019	2020	2021	2022	2023	Total
Energy	46.21	476.84	80.61	91.14	234.87	33.40	19.83	0.00	982.91
Industry, Transport & Infrastructure	29.70	48.24	58.61	12.64	256.32	13.07	72.18	84.16	574.92
Disaster Risk Reduction & Management	2.21	268.04	17.55	1.59	205.53	1.53	23.14	0.00	519.60
Agriculture & Food Security	0.04	66.43	11.69	41.04	70.71	11.45	61.62	2.68	265.66
Health, Water Supply & Sanitation	0.44	13.39	59.28	3.03	31.72	16.68	85.73	7.18	217.45
Cross-cutting	4.83	13.38	31.09	43.09	33.73	50.89	34.63	4.17	215.82
Other	0.29	1.59	22.27	1.54	0.71	14.22	144.10	7.72	192.45
Rural and Urban Settlement	3.60	0.00	0.00	39.03	80.71	3.32	1.09	0.00	127.76
Other Multisector	0.02	17.20	0.00	2.68	19.18	4.51	0.03	15.13	58.75
Forest, Biodiversity & Watershed Conservation	13.18	3.46	5.80	3.32	3.84	0.77	4.19	1.66	36.22
Tourism, Natural & Cultural Heritage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	100.53	908.58	286.89	239.11	937.32	149.85	446.65	122.70	3,191.51

$0 $476.84M
Lower Higher

Figure 5 **Trend Of International Climate Finance By Sectoral Distribution**

06
SECTION

DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE IN NEPAL POST-PARIS AGREEMENT

In the post-Paris Agreement period, Nepal was allocated USD 3,191.51 million in international climate finance, primarily from MDBs (66.83%), followed by bilateral development partners (25.96%), climate funds (5.04%), and other multilateral mechanisms (2.17%). Thematic allocation was relatively balanced, with 56.79% directed towards adaptation and 42.36% toward mitigation, while cross-cutting interventions accounted for only 0.85%. Climate finance was predominantly delivered through concessional loans, followed by grants with minimal non-concessional loans and negligible equity, reflecting a debt-oriented financing structure. Sectoral investments were concentrated in energy and water resources, industry transport and physical infrastructure, and disaster risk reduction and management, whereas agriculture and food security, health and WASH, and forest and biodiversity sectors allocate comparatively lower shares. Overall, Nepal's post-Paris climate finance landscape is characterised by MDB-led financing and a strong reliance on concessional loans.

6.1 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY SOURCE

During the post-Paris Agreement period, Nepal was allocated climate finance from four major public sources: MDBs, bilateral development partners, climate funds, and other multilateral institutions. Among these, MDBs were the dominant contributors, providing USD 2,133.02 million, or 66.83% of total climate finance. Bilateral development partners contributed USD 828.38 million (25.96%), supporting adaptation, mitigation, and cross-cutting initiatives. Climate funds, including the Green Climate Fund (GCF) and the Global Environment Facility (GEF), allocated USD 160.79 million (5.04%) for climate change action. Other multilateral funds contributed USD 69.32 million (2.17%), representing a comparatively small share of total climate finance.

These findings highlight Nepal's heavy dependence on MDBs financing, supported by moderate bilateral assistance and relatively limited direct access to dedicated international climate funds.

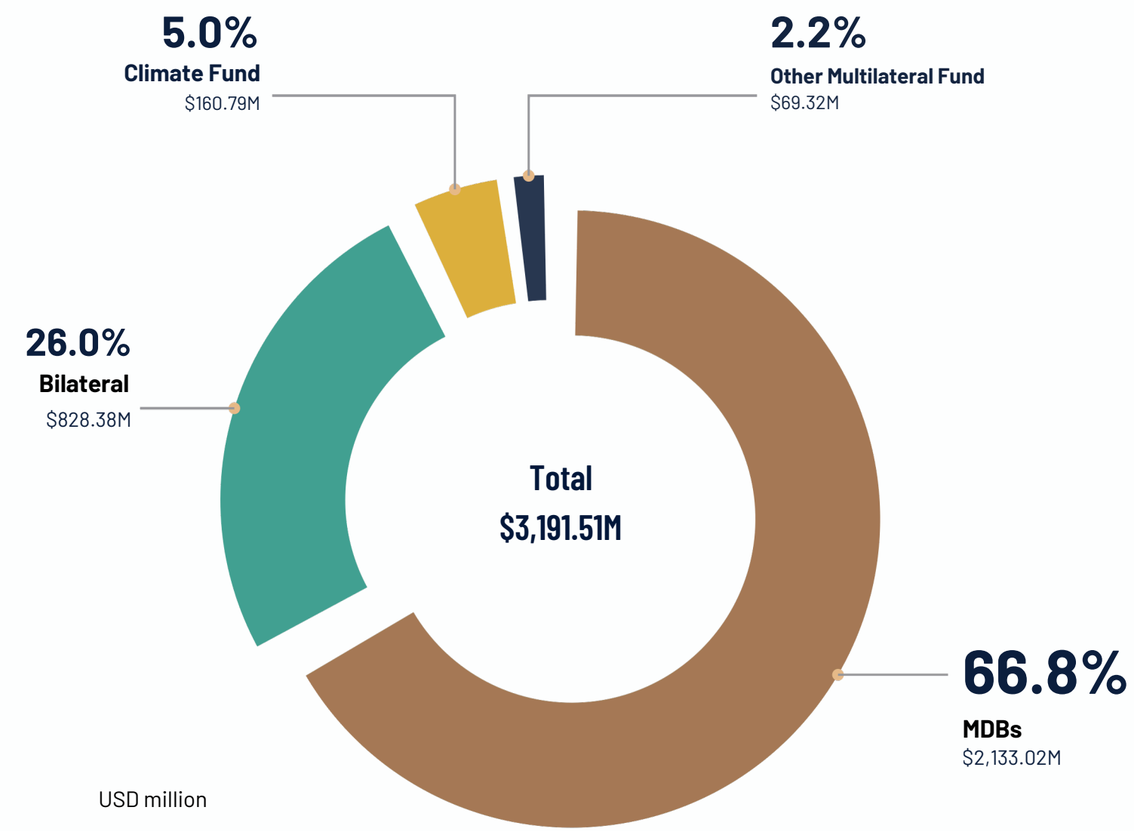


Figure 6 **Distribution Of International Climate Finance By Source**

6.2 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY THEMATIC AREA

The thematic distribution of international climate finance in Nepal shows that adaptation was allocated the largest share, amounting to USD 1,812.53 million or 56.79% of the total climate finance. Mitigation was allocated USD 1,351.91 million or 42.36%, while cross-cutting interventions was allocated only USD 27.02 million or 0.85%, indicating limited investment in projects that simultaneously address both adaptation and mitigation objectives. The distribution reflects a relatively balanced allocation between adaptation and mitigation priorities, with a slight emphasis on adaptation. This reflects Nepal's dual need to strengthen resilience against severe climate vulnerabilities while simultaneously pursuing sustainable and low-carbon development.

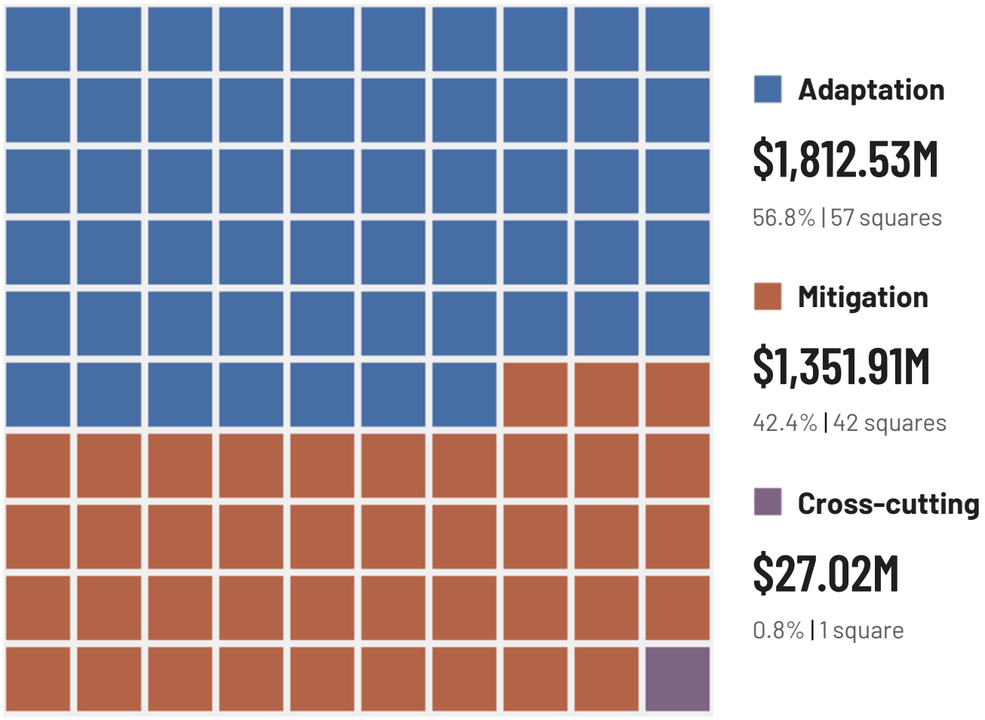


Figure 7 **Distribution Of International Climate Finance By Thematic Area**

6.3 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY FINANCIAL INSTRUMENT

During the post-Paris Agreement period, climate finance provided and committed to Nepal by the public sector was channelled through four main financing instruments. Out of the total climate finance inflow of USD 3,191.51 million, concessional loans accounted for the largest share, amounting to USD 2,019.70 million (63.28%), followed by grants, amounting to USD 969.06 million (30.36%). Non-concessional loans accounted for USD 198.84 million (6.23%) of total climate finance while equity financing was negligible at USD 3.86 million. The distribution indicates that international climate finance structure in Nepal is heavily dominated by concessional loans, followed by grants, while equity finance remains minimal.

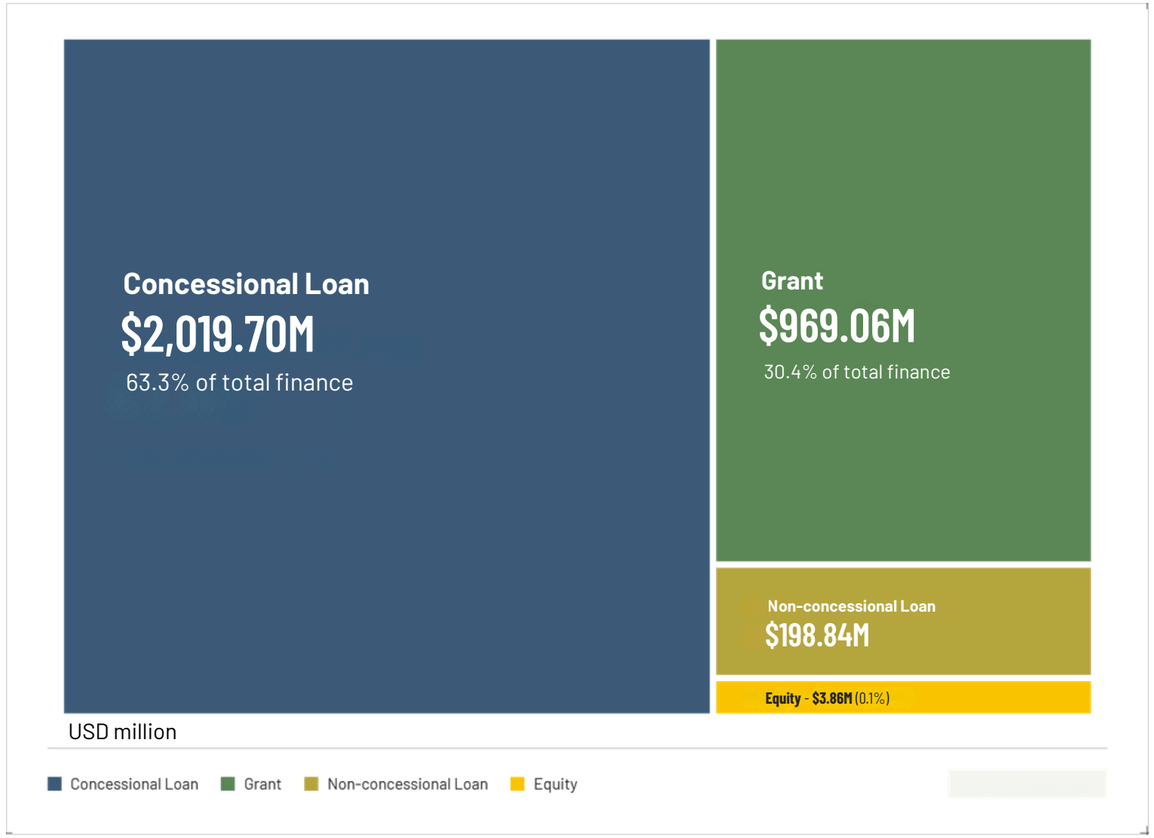


Figure 8 **Distribution Of International Climate Finance By Financial Instrument**

6.4 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY SECTORAL DISTRIBUTION

The sectoral distribution of climate finance indicates a strong concentration in energy and infrastructure-related sectors. Energy and Water Resources accounted for the largest share of climate finance at USD 982.91 million, highlighting its major role in Nepal's climate mitigation and adaptation priorities, particularly through investments in hydropower, energy transition, and water resource management. The second largest allocation was directed to the Industry, Transport, and Physical Infrastructure sector with USD 574.92 million, followed closely by Disaster Risk Reduction and Management at USD 519.60 million. Moderate levels of financing were allocated to Agriculture and Food Security (USD 265.66 million) and Health, Water Supply, and Sanitation (USD 217.45 million). However, compared to infrastructure-heavy sectors, these social and livelihood-related sectors remain relatively underfunded.

The Rural and Urban Settlement sector was allocated USD 127.76 million, while Forest, Biodiversity, and Watershed Conservation accounted for only USD 36.22 million, indicating limited investment in ecosystem-based adaptation and natural resource management despite their importance in long-term climate resilience. Cross-cutting interventions were allocated USD 215.82 million, reflecting integrated approaches that address multiple sectors simultaneously, although their overall share remains moderate. The sectoral distribution of international climate finance has been heavily concentrated in energy and infrastructure-related areas with relatively lower allocations to biodiversity, social, and livelihood-focused sectors.

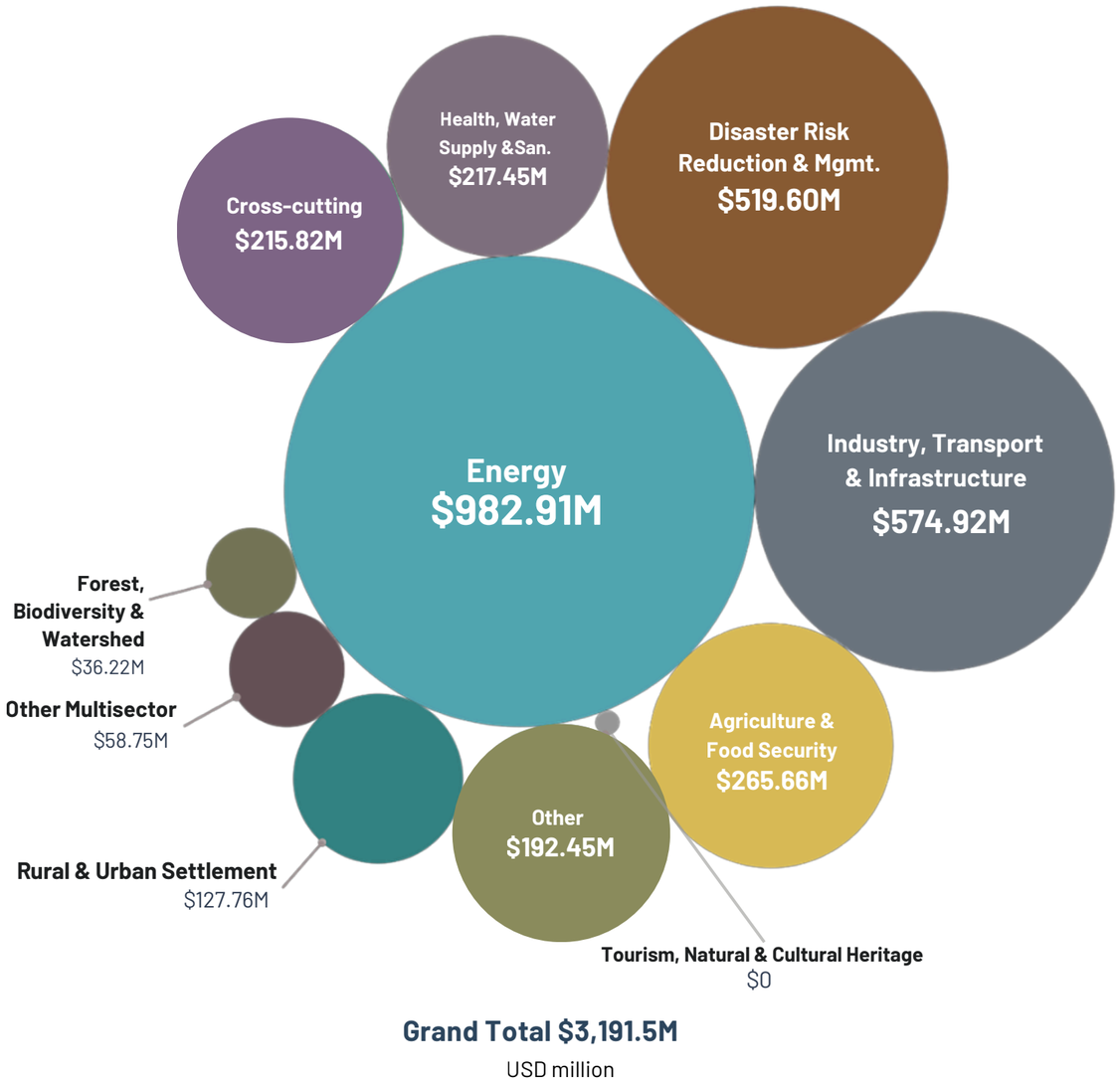


Figure 9 **Distribution Of International Climate Finance By Sectoral Distribution**

6.5 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY SOURCE AND THEMATIC AREA

Climate finance allocated to Nepal was distributed across adaptation, mitigation, and cross-cutting thematic areas, with notable variation by funding source. During the study period, multilateral development banks (MDBs) were the largest providers, contributing USD 2,133.02 million, equivalent to 66.83% of total climate finance. Of this amount, USD 1,406.40 million was allocated to adaptation and USD 726.62 million to mitigation, with no funding reported for cross-cutting activities.

Bilateral development partners provided USD 828.38 million in climate finance, with mitigation accounting for the largest share (USD 534.75 million), followed by adaptation (USD 275.74 million) and cross-cutting activities (USD 17.87 million). Climate funds contributed USD 160.79 million, allocating USD 88.57 million to mitigation, USD 65.17 million to adaptation, and USD 7.03 million to cross-cutting activities. Other multilateral institutions provided USD 69.32 million, primarily supporting adaptation (USD 65.21 million), with smaller allocations to mitigation (USD 1.96 million) and cross-cutting activities (USD 2.13 million).

Adaptation and mitigation accounted for the vast majority of international climate finance provided and committed to Nepal, while only a small share was allocated to cross-cutting activities. Adaptation finance exceeded mitigation finance overall, largely due to substantial MDB investments in adaptation. In contrast, bilateral development partners and climate funds allocated a greater proportion of their financing to mitigation.

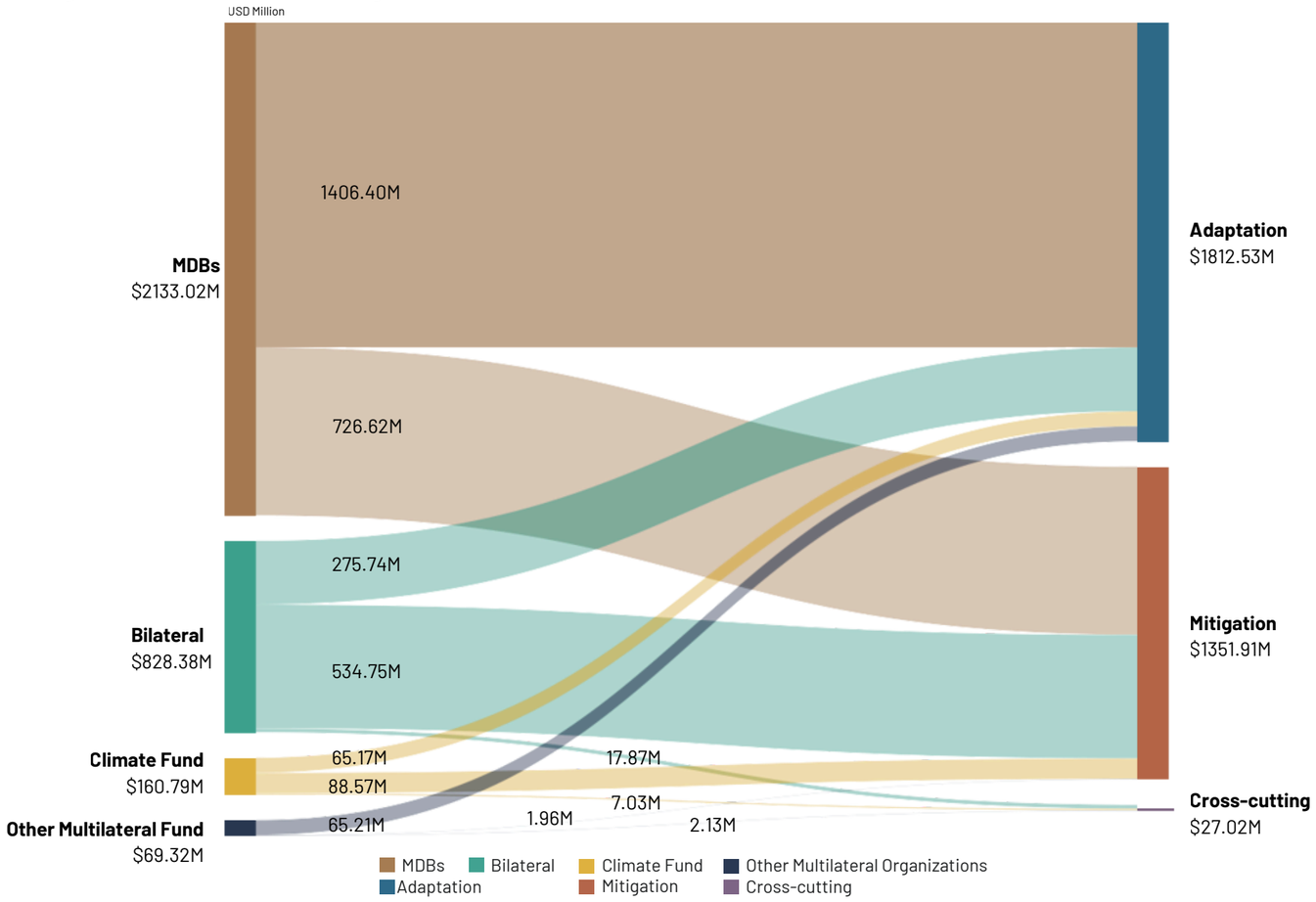


Figure 10 **Distribution Of International Climate Finance By Source And Thematic Area**

6.6 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY SOURCE AND FINANCIAL INSTRUMENT

Multilateral development banks were the largest contributors to Nepal's climate finance during the study period, providing a total of USD 2,133.02 million, equivalent to 66.83% of total climate finance. Most of the financing was channelled through concessional loans amounting to USD 1,953.65 million, followed by non-concessional loans of USD 173.69 million, and grants of USD 5.67 million. Bilateral development partners contributed USD 828.38 million, representing 25.96% of total climate finance, primarily through grants of USD 799.39 million, with smaller amounts provided as non-concessional loans of USD 25.15 million and equity investments of USD 3.86 million. Climate funds provided USD 160.79 million, accounting for 5.04% of total climate finance, mainly in the form of grants amounting to USD 158.80 million and a small share of concessional loans of USD 1.98 million. Other multilateral funds accounted for USD 69.32 million, with concessional loans as the primary instrument at USD 64.06 million and a small portion of USD 5.25 million provided as grants.

Concessional loans were the dominant instrument for multilateral banks. In contrast, bilateral development partners and climate funds relied predominantly on grants to support climate-related activities.

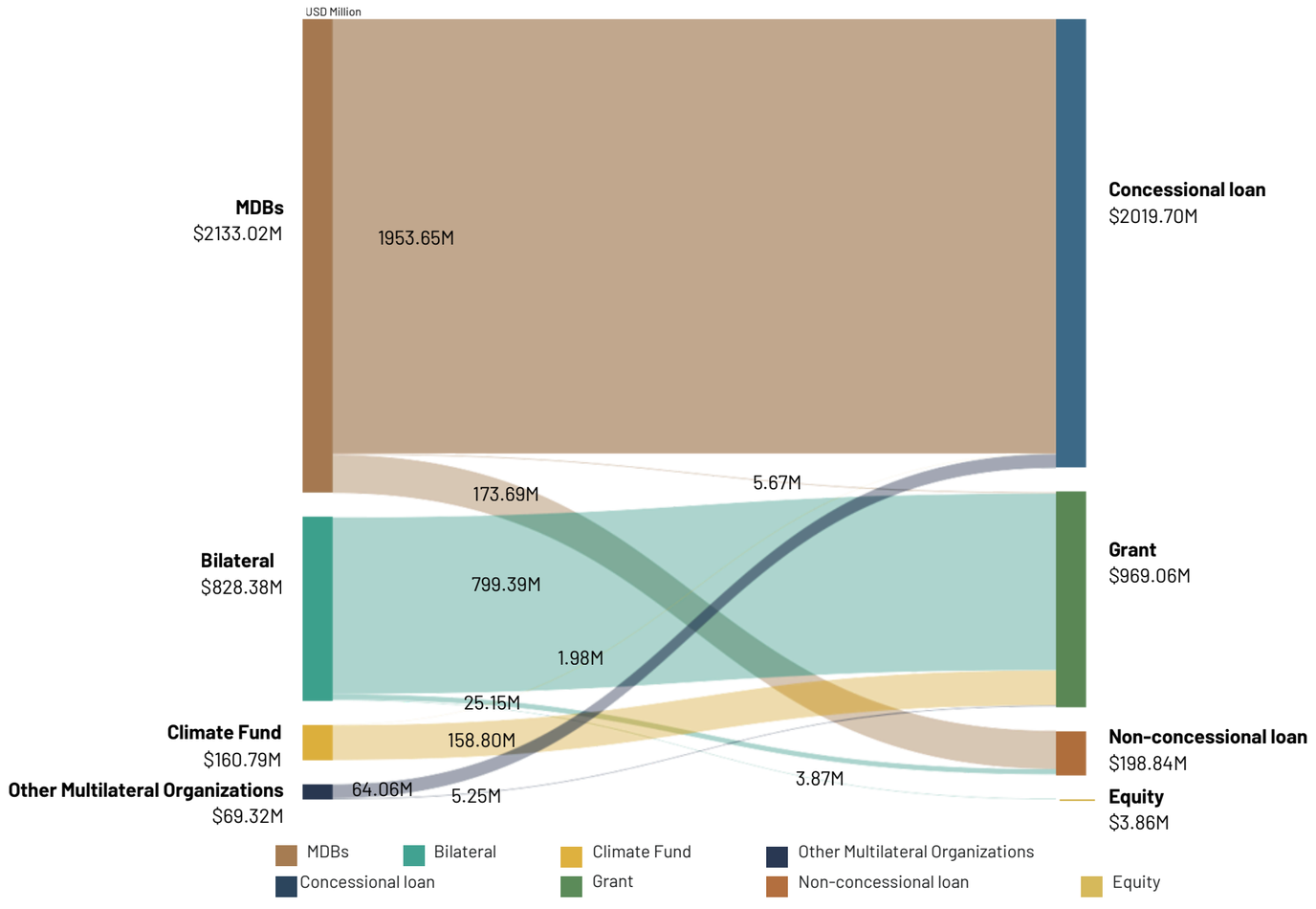


Figure 11 **Distribution Of International Climate Finance By Source And Financial Instrument**

6.7 DISTRIBUTION OF CLIMATE FINANCE BY SECTOR AND SOURCE

Among sectoral allocations, the Industry, Transport, and Physical Infrastructure sector dominated MDB financing with USD 538.07 million, largely targeting transport systems and climate-resilient infrastructure development. The Energy and Water Resources sector ranked second, accounting for USD 479.30 million, driven by investments in renewable energy and energy efficiency. This was closely followed by Disaster Risk Reduction and Management at USD 477.57 million, focusing on preparedness and risk mitigation initiatives, while Agriculture and Food Security accounted for a comparatively lower share of USD 91.83 million. Cross-cutting interventions, including governance, social infrastructure and services, education, communication, banking and financial services, government, and civil society, accounted for USD 98.87 million. Similarly, the health and WASH sectors accounted for USD 127.40 million, while the Rural and Urban Settlements sector was allocated USD 97.79 million. Smaller allocations were made to Forest, Biodiversity, and Watershed Conservation (USD 8.56 million) and Other Multisector Interventions (USD 30.87 million).

Bilateral development partners provided USD 828.38 million (25.96%) of climate finance across sectors, with a balanced mix of infrastructure, social, and policy-oriented interventions. The Energy and Water Resources sector accounted for the largest share at USD 469.37 million. Cross-cutting interventions accounted for USD 115.07 million, reflecting engagement in climate policy support and institutional strengthening. Health and WASH accounted for USD 62.62 million; Agriculture and Food Security, USD 58.76 million; Disaster Risk Reduction and Management, USD 42.04 million; Rural and Urban Settlements, USD 29.89 million; Industry, Transport, and Physical Infrastructure, USD 23.17 million; and Forest, Biodiversity, and Watershed Conservation, USD 16.33 million over the period. Other Multisector Interventions were allocated USD 1.49 million, while other sectors accounted for USD 9.69 million.

Climate Funds provided USD 160.79 million (5.04%), primarily supporting adaptation-focused and community-level interventions. Among sectors, the Agriculture and Food Security sector accounted for the largest allocation at USD 48.80 million, emphasising climate-smart agriculture, food system resilience, and livelihood adaptation. This was followed by the Energy and Water Resources sector (USD 33.61 million); the Health and WASH sector (USD 27.44 million); the Industry, Transport, and Physical Infrastructure sector (USD 12.55 million); and Forest, Biodiversity, and Watershed Conservation (USD 11.06 million). Cross-cutting interventions were allocated USD 1.74 million, while Other Multisector Initiatives accounted for USD 25.58 million.

Other Multilateral Funds contributed USD 69.32 million (2.17%) across sectors, overwhelmingly supporting Agriculture and Food Security, which accounted for USD 66.27 million. Smaller allocations were made to Industry, Transport, and Physical Infrastructure (USD 1.12 million), followed by Energy and Water Resources (USD 0.63 million). Cross-cutting actions accounted for USD 0.14 million; Forest, Biodiversity, and Watershed Conservation, USD 0.27 million; Other Multisector Interventions, USD 0.80 million; and Rural and Urban Settlements, USD 0.07 million. No financing from this source was recorded for Disaster Risk Reduction and Management, or Health and WASH.

Overall, the Energy and Water Resources sector emerged as the primary financing sector for MDBs, bilateral development partners and the climate funds. Bilateral climate finance was particularly concentrated in this sector, accounting for nearly 57% of its total climate finance, while approximately 14% supported cross-cutting interventions such as climate policy and institutional strengthening. Climate funds, though small in volume, were distributed proportionately across different priority sectors.

	MDBS	BILATERAL	CLIMATE FUND	OTHER MULTI.	TOTAL
Energy and Water Resources	479.30	469.37	33.61	0.63	982.91
Industry, Transport & Infrastructure	538.07	23.17	12.55	1.12	574.92
Disaster Risk Reduction & Management	477.56	42.04	0.00	0.00	519.60
Agriculture & Food Security	91.83	58.76	48.80	66.27	265.66
Health, Water Supply & Sanitation	127.40	62.62	27.44	0.00	217.45
Cross-cutting	98.87	115.07	1.74	0.14	215.82
Others	182.76	9.69	0.00	0.00	192.45
Rural and Urban Settlement	97.80	29.89	0.00	0.07	127.82
Other Multisector	30.87	1.49	25.58	0.80	58.75
Forest, Biodiversity & Watershed Conservation	8.56	16.33	11.06	0.27	36.22
Tourism, Natural & Cultural Heritage	0.00	0.00	0.00	0.00	0.0
Total	2,133.02	828.38	160.79	69.32	3,191.51

Lower — Higher

$0 – $538.1M
USD million

Figure 12 **Distribution Of International Climate Finance By Sector And Source**

6.8 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY THEMATIC AREA AND FINANCIAL INSTRUMENT

During the eight-year post-Paris Agreement period from 2016 to 2023, adaptation was allocated USD 1,812.53 million, accounting for 56.79% of the total climate finance. Finance for adaptation was predominantly provided through concessional loans, which amounted to USD 1,377.49 million. Grant financing contributed USD 347.24 million, while non-concessional loans played a relatively minor role, accounting for USD 87.78 million. This distribution highlights that adaptation interventions are primarily financed through concessional loans.

Mitigation activities accounted for a total of USD 1,351.91 million (42.36%). Similar to adaptation, concessional loans constituted the largest share, totalling USD 642.21 million, followed by grants (USD 596.72 million), non-concessional loans (USD 111.06 million), and a small amount of equity financing (USD 1.97 million). This indicates that mitigation financing relies mainly on concessional loans, supplemented by grants and limited non-concessional loans.

Cross-cutting interventions was allocated USD 27.02 million (0.85% of overall climate finance). This thematic area was predominantly supported through grants, which amounted to USD 25.16 million. No financing was recorded in the form of concessional or non-concessional loans, while equity played only a minimal role, contributing USD 1.87 million. This pattern suggests that cross-cutting activities were largely grant-financed, reflecting their focus on institutional strengthening, capacity building, and integrated climate actions.

The findings demonstrate that concessional loans are the primary financing instrument for adaptation and mitigation, whereas grants play a central role in financing cross-cutting thematic areas.

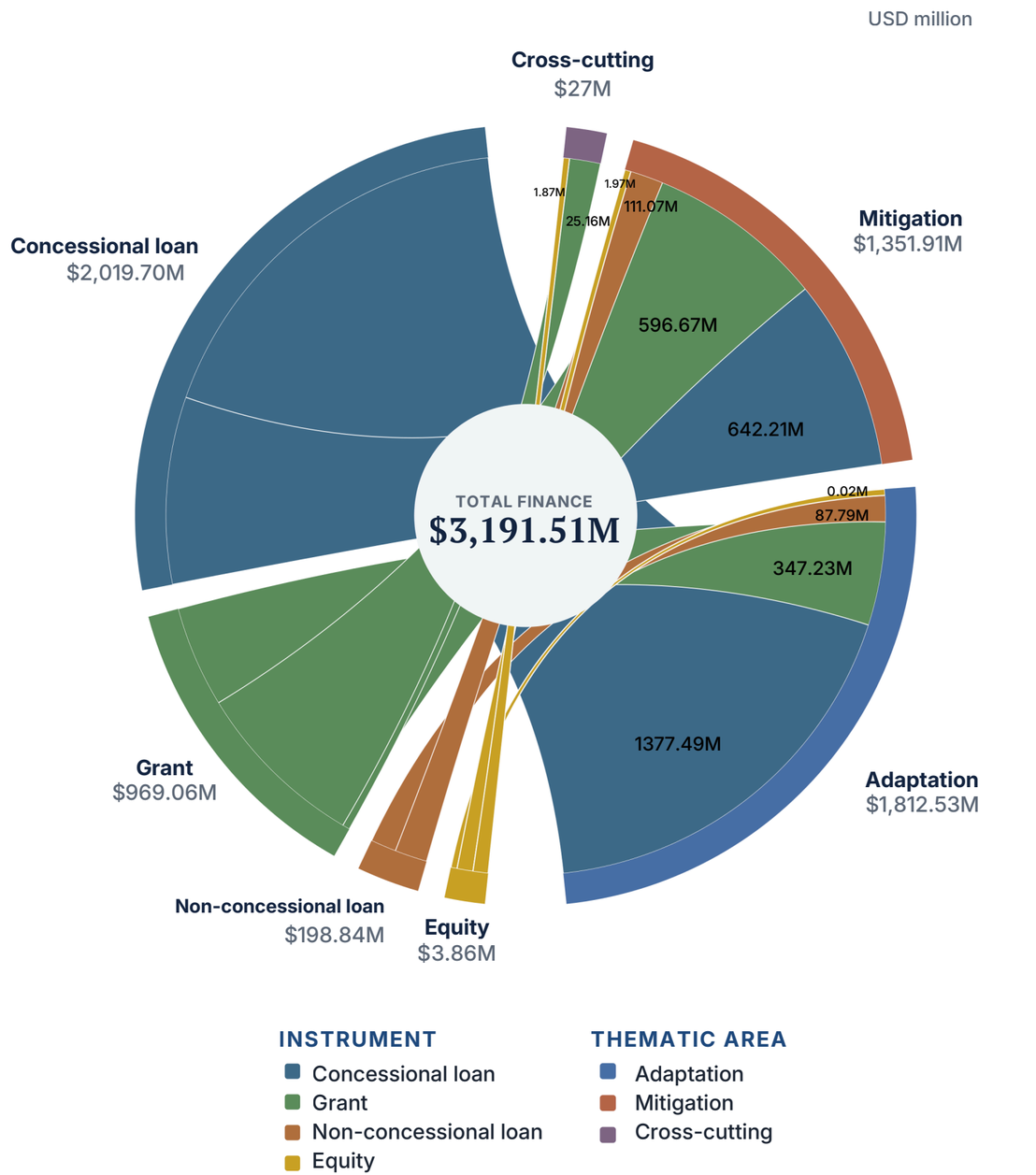


Figure 13 **Distribution Of International Climate Finance By Thematic Area And Financial Instrument**

6.9 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY SECTOR AND THEMATIC AREA

Between 2016 and 2023, Nepal was allocated a total of USD 3,191.51 million in international climate finance, distributed across adaptation, mitigation, and cross-cutting thematic areas with notable sectoral differences in both scale and purpose.

The Energy and Water Resources sector was allocated the largest amount of USD 982.91 million, overwhelmingly directed toward mitigation at USD 939.26 million, with smaller allocations for adaptation at USD 36.56 million and cross-cutting interventions at USD 7.05 million. This distribution highlights a strong international focus on renewable energy expansion, energy efficiency, and low-carbon energy systems. The Industry, Transport, and Physical Infrastructure sector was allocated the second largest share of USD 574.92 million, with financing primarily supporting adaptation at USD 428.76 million, followed by mitigation at USD 145.33 million, and a negligible amount for cross-cutting interventions at USD 0.83 million, highlighting investments in climate-resilient and low-carbon infrastructure.

The Disaster Risk Reduction and Management sector was allocated USD 519.60 million, of which USD 497.68 million supported adaptation, underscoring the priority placed on resilience building and disaster preparedness. Mitigation activities accounted for USD 20.36 million, while USD 1.56 million was allocated to cross-cutting actions. The Agriculture and Food Security sector was allocated USD 265.66 million, with adaptation accounting for USD 197.23 million. Mitigation was allocated USD 61.51 million and cross-cutting interventions accounted for USD 6.87 million. This pattern reflects donor priorities related to climate-resilient agriculture, food security, and livelihood protection.

Governance, Gender Equality and Social Inclusion (GESI), Capacity Building, Research and Technology Development were allocated a combined total of USD 215.81 million. Of this amount, USD 171.80 million supported adaptation, USD 42.01 million supported mitigation, and USD 2.01 million was allocated to cross-cutting thematic actions, reflecting strong support for institutional and policy-level climate engagement. The Health and WASH sector was allocated USD 217.45 million, with adaptation finance dominating at USD 170.84 million, followed by USD 44.30 million for mitigation and USD 2.31 million for cross-cutting actions, highlighting the recognition of climate-sensitive health systems and water services as key adaptation priorities. The Rural and Urban Settlements sector was allocated USD 127.76 million, of which adaptation accounted for USD 71.42 million and mitigation accounted for USD 56.13 million. Only USD 0.20 million was allocated to cross-cutting interventions, indicating limited integrated programming in this sector.

Smaller allocations were directed at Other Multisector Interventions at USD 58.75 million and the Forest, Biodiversity, and Watershed Conservation sector at USD 36.22 million. In the latter sector, USD 14.20 million supported adaptation and USD 17.04 million supported mitigation. Other sectors collectively accounted for a relatively small share of USD 192.45 million.

Adaptation finance was allocated across sectors including Disaster Risk Reduction and Management; Industry, Transport, and Physical Infrastructure; Agriculture and Food Security; Health and WASH; and Rural and Urban Settlements. However, the Energy and Water Resources sector remained the single largest sector for mitigation finance allocations throughout the study period.

	ADAPTATION	MITIGATION	CROSS-CUTTING	TOTAL
Energy	36.59	939.26	7.05	982.91
Industry, Transport & Physical Infrastructure	428.76	145.33	0.83	574.92
Disaster Risk Reduction & Management	497.68	20.36	1.56	519.60
Agriculture & Food Security	197.23	61.51	6.87	265.66
Health, Water Supply & Sanitation	170.84	44.30	2.31	217.45
Cross-cutting (sector)	171.80	42.01	2.01	215.82
Other	175.11	16.71	0.63	192.45
Rural & Urban Settlement	71.42	56.13	0.20	127.76
Other Multisector	48.91	9.27	0.56	58.75
Forest, Biodiversity & Watershed Conservation	14.20	17.04	4.99	36.22
Tourism, Natural & Cultural Heritage	0.00	0.00	0.00	0.00
Total	1,812.53	1,351.91	27.02	3,191.51

Lower 0 939.26 Higher

USD million

Figure 14 **Distribution Of International Climate Finance By Sector And Thematic Area**

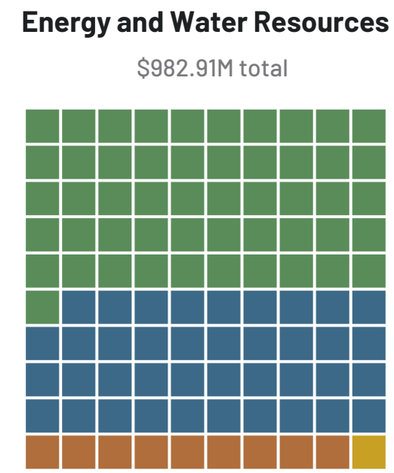
6.10 DISTRIBUTION OF INTERNATIONAL CLIMATE FINANCE BY SECTOR AND FINANCIAL INSTRUMENT

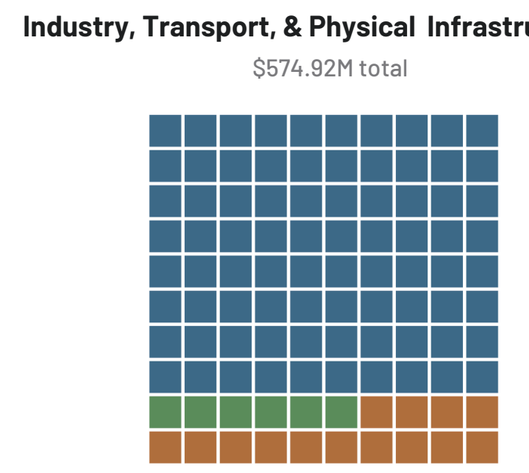
The sectoral distribution of climate finance by financial instrument indicates that concessional loans dominated financing across most sectors during the post-Paris Agreement period. The Industry, Transport, and Physical Infrastructure sector was allocated USD 574.92 million, primarily through concessional loans amounting to USD 460.91 million, followed by non-concessional loans of USD 77.16 million and grants of USD 36.83 million. Similarly, the Disaster Risk Reduction and Management sector was allocated USD 519.60 million, almost entirely financed through concessional loans of USD 477.56 million and grants of USD 42.03 million. The Rural and Urban Settlements sector was allocated USD 127.76 million, mainly through concessional loans of USD 97.22 million and non-concessional loans of USD 25.15 million.

The Energy and Water Resources sector was allocated the largest share of climate finance at USD 982.91 million, primarily financed through grants amounting to USD 498.22 million and concessional loans of USD 384.60 million, with additional support from non-concessional loans of USD 96.53 million and limited equity financing of USD 2.99 million. The Agriculture and Food Security sector was allocated USD 265.66 million, with concessional loans contributing USD 152.89 million and grants amounting to USD 112.73 million. Similarly, the Health and WASH sector was allocated USD 217.45 million, largely financed through concessional loans of USD 127.33 million and grants of USD 90.68 million.

Multisector interventions were allocated USD 58.75 million, with concessional loans and grants contributing in approximately equal proportions. The Forest, Biodiversity, and Watershed Conservation sector was allocated the smallest share at USD 36.22 million, primarily supported through grants of USD 27.66 million with limited concessional loan financing. Cross-cutting interventions were allocated USD 215.82 million, mainly through grants of USD 114.84 million and concessional loans of USD 98.87 million, while the other sector was allocated USD 192.45 million, largely financed through concessional loans of USD 181.60 million.

Overall, concessional loans were the preferred financing instrument for the Industry, Transport, and Physical Infrastructure; Disaster Risk Reduction and Management; and Rural and Urban Settlements sectors. Grant financing dominated only in the Forest, Biodiversity, and Watershed Conservation sector. In contrast, Energy and Water Resources; Agriculture and Food Security; Health and WASH; and multisector interventions relied on both concessional loans and grants.





Disaster Risk Reduction and Management

$519.60M total



92% Concessional Loan · 8% Grant

Agriculture and Food Security

$265.66M total



58% Concessional Loan· 42% Grant

Health and WASH

$217.45M total



59% Concessional Loan · 41% Grant

Cross-cutting

$215.82M total



53% Grant · 47% Concessional Loan

Other

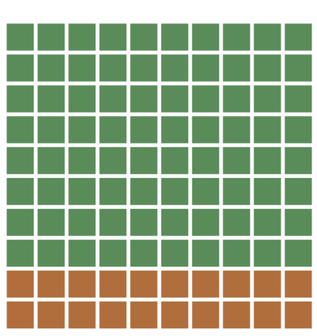
$192.45M total



100% Concessional Loan

Rural and Urban Settlements

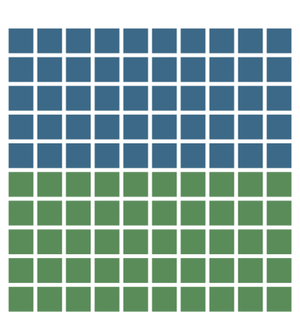
$127.76M total



80% Concessional Loan · 20% Non-concessional Loan

Multisector

$58.75M total



50% Concessional Loan · 50% Grant

Forest, Biodiversity, and Watershed Conservation

$36.22M total



24% Concessional Loan · 76% Grant

Concessional Loan · Grant · Non-concessional Loan · Equity

USD million

Figure 15 **Distribution of International Climate Finance by Sector and Financial Instrument**

07
SECTION

NATIONALLY DETERMINED CONTRIBUTION NDC 3.0 AND NATIONAL ADAPTATION PLAN (NAP) ALIGNMENT WITH POST-PARIS INTERNATIONAL CLIMATE FINANCE

Nepal's NDC 3.0 estimates a total financing requirement of USD 73.74 billion for mitigation actions through 2035, of which USD 62.92 billion (85.32%) is conditional on international climate finance, with an additional USD 18–20 billion required for adaptation. Similarly, the National Adaptation Plan (NAP) for 2021–2050 estimates a total implementation cost of USD 47.4 billion, of which USD 45.94 billion (over 95%) must be mobilised from external sources. However, post-Paris climate finance mobilised during 2016–2023 totalled only USD 3.19 billion far below the financing requirements of both NDC 3.0 and the NAP, highlighting a severe and persistent financing gap.

7.1 NATIONALLY DETERMINED CONTRIBUTION (NDC 3.0) FINANCING AND ALIGNMENT WITH POST-PARIS AGREEMENT CLIMATE FINANCE

Nepal's Third Nationally Determined Contribution (NDC 3.0) (NDC 3.0) (Ministry of Forests and Environment, 2025) outlines an ambitious climate pathway with an estimated USD 73.74 billion required for quantified mitigation actions through 2035. Of this, USD 10.82 billion (14.68%) is expected from domestic resources, while USD 62.92 billion (85.32%) is conditional on international climate finance and support. In addition, NDC 3.0 estimates adaptation financing needs of USD 18–20 billion through 2035, which are also expected to rely predominantly on international support.

Despite these substantial requirements, post-Paris Agreement climate finance flow remains insufficient. During the 2016–2023 period, a total of USD 3.19 billion in climate finance was provided and committed to Nepal by public sector sources, including bilateral partners, MDBs, climate funds, and other multilateral mechanisms. Of this, USD 1.81 billion (56.79%) supported adaptation, USD 1.35 billion (42.36%) supported mitigation, and less than 1% financed cross-cutting activities. While these resources have enabled important climate investments, they fall far short of financing required NDC 3.0.

Sectoral alignment between NDC priorities and historical climate finance is also limited. NDC 3.0 focuses on four mitigation sectors: Energy (including transport); Agriculture, Forestry and Other Land Use (AFOLU); Waste; and Industrial Processes and Product Use (IPPU). In contrast, post-Paris climate finance has been distributed across a much broader range of 20 sectors, including energy, agriculture, water and sanitation, disaster risk reduction, and multi-sectoral interventions. Although the energy sector has allocated the largest share of international climate finance, these inflows remain significantly misaligned with projected investment requirements. The NDC estimates total energy-sector investment needs at USD 65.5 billion, of which USD 55.98 billion is conditional, while post-Paris international climate finance has provided only USD 982.91 million covering less than 1.75% of projected needs.

A similar pattern of under-alignment is observed in the AFOLU sector. While post-Paris climate finance has supported agriculture, forestry, and environmental protection initiatives, these inflows remain well below the USD 5.82 billion required under NDC 3.0, despite its central role in forest conservation and sustainable land-use management. The limited scale and predictability of international climate finance in this sector underscores the need to transition toward long-term, programmatic, and results-based financing modalities. The IPPU sector also remains significantly underfinanced, with estimated investment needs of USD 683 million for industrial decarbonisation, particularly in emissions-intensive sub-sectors such a cement and brick production.

International climate finance allocated, provided, and committed to Nepal during 2016–2023 remains markedly limited relative to the estimated USD 73.74 billion required to implement NDC 3.0. This trend and flow of climate finance indicate a low likelihood of

meeting the international financing requirements estimated under NDC 3.0. The financing gap is particularly pronounced in relation to conditional targets, which remain heavily dependent on sustained international financial and technical support. Although the energy sector dominates both historical climate finance allocations and projected future investment requirements, no sector demonstrates proportional alignment between finance allocated and estimated financing needs. This highlights a persistent mismatch between current climate finance allocation patterns and the priorities outlined in NDC 3.0.

Post-Paris climate finance has provided an important foundation for Nepal's climate actions but remains inadequate to achieve the country's enhanced ambitions under NDC 3.0. Priority sectors such as AFOLU, Waste, and IPPU will require stronger strategic positioning to attract long-term, programmatic, and results-based finance. Strengthening alignment between donor portfolios and national NDC priorities will also be essential to narrowing the financing gap and ensuring effective NDC implementation.

NATIONALLY DETERMINED CONTRIBUTION 3.0 — FINANCING BREAKDOWN

NDC 3.0 Climate Finance Requirement (2025-2035)

Sector allocation of estimated NDC 3.0 costs, with international vs. domestic financing split

TOTAL ESTIMATED COST
USD 73.74B

DOMESTIC CONTRIBUTION
USD 10.82B (14.68%)

EXTRENAL RESOURCES REQUIREMENT
USD 62.92B (85.32%)

Financing Source Split

Share of total cost by funding origin



Domestic Resources Requirement	$10.82B	14.68%
External Resources Requirement	$62.92B	85.32%

Sector-wise Cost Estimates

NDC 3.0 cost by sector, USD billion — Energy accounts for nearly 89% of the sectoral total



Total **USD 73.74B**

Figure 16 **Estimated Climate Finance Requirement For Ndc 3.0 Implementation**

7.2 NATIONAL ADAPTATION PLAN (NAP) FINANCING AND ALIGNMENT WITH POST-PARIS AGREEMENT CLIMATE FINANCE

Nepal's National Adaptation Plan (NAP) (Ministry of Forests and Environment, 2021) for the period 2021–2050 sets out a comprehensive, long-term framework for strengthening climate resilience across key socio-economic and environmental sectors. The total cost of implementing the NAP is estimated at USD 47.4 billion, of which USD 1.5 billion is expected from domestic resources. The remaining USD 45.94 billion (over 95%) is expected to be mobilised from external sources, underscoring Nepal's high dependence on international climate finance to achieve its long-term adaptation goals.

Agriculture and Food Security accounts for the largest share of external financing needs (USD 11.2 billion), followed by Forest, Biodiversity, and Watershed Conservation (USD 8.7 billion), and Disaster Risk Reduction and Management (USD 8.05 billion). Other major investments are also required in the Water Resources and Energy sector at USD 5.35 billion; Health, Drinking Water and Sanitation at USD 4.75 billion; and Industry, Transport and Physical Infrastructure at USD 3.05 billion. Additional priority areas include Rural and Urban Settlements; Tourism, Natural and Cultural Heritage; Gender, Social Inclusion, Livelihood and Governance; and National Capacity Building, Research, and Awareness. This distribution highlights the NAP's strong emphasis on resilience-building, ecosystem-based adaptation, and protection of vulnerable livelihoods.

During 2016–2023, a total of USD 3.19 billion in international climate finance was allocated to Nepal. The largest share was directed to Energy and Water Resources (USD 982.91 million), followed by Industry, Transport, and Physical Infrastructure (USD 574.92 million) and Disaster Risk Reduction and Management (USD 519.60 million). Agriculture and Food Security was allocated USD 265.66 million, while the Health, Water Supply, and Sanitation sector was allocated USD 217.45 million. The Rural and Urban Settlements sector and the Forest and Biodiversity Conservation sector received comparatively smaller allocations, while cross-cutting interventions, including governance and institutional strengthening, received USD 215.82 million.

Post-Paris climate finance demonstrates broad thematic alignment with the NAP, particularly in sectors such as Energy and Water Resources; Disaster Risk Reduction and Management; Industry, Transport and Physical Infrastructure; and Agriculture and Food Security. However, the scale of financing remains far below long-term adaptation requirements. Total international climate finance mobilised between 2016 and 2023 represents only a small fraction of the USD 45.94 billion in external financing needed to fully implement the NAP by 2050. Several priority sectors including Agriculture and Food Security; Forest and Ecosystem Conservation; Health, Drinking Water and Sanitation; and Rural and Urban Settlements remain significantly underfinanced relative to their projected needs.

Overall, post-Paris climate finance provides an important foundation for Nepal's adaptation efforts but is insufficient to meet the scale, duration, and predictability required under the NAP framework. Addressing the financing gap will require a substantial scaling-up of international climate finance, stronger alignment with long-term adaptation priorities, and a shift toward programmatic, multi-year, and results-based financing approaches to ensure effective and sustainable NAP implementation.

NATIONAL ADAPTATION PLAN — FINANCING BREAKDOWN

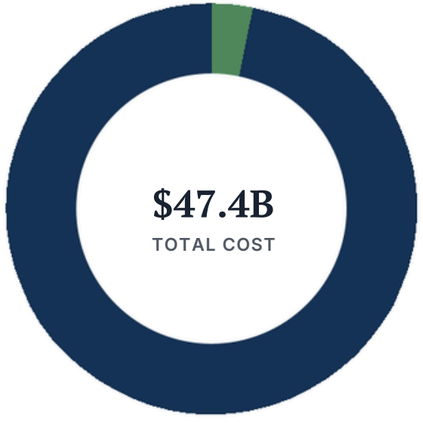
Sector allocation of estimated climate finance needs, with domestic vs. external financing split

Estimated Climate Finance Requirements for NAP Implementation (2021–2050)

TOTAL ESTIMATED COST	ANNUAL REQUIREMENT	DOMESTIC CONTRIBUTION	EXTERNAL EXTERNAL RESOURCES REQUIREMENT
USD 47.4B	USD 2.1B/yr	USD 1.5B	USD 45.9B

Financing Source Split

Share of total cost by funding origin



- Domestic Resources Requirement **$1.5B** 3.2%
- External Resources Requirement **$45.9B** 96.8%

Sector-wise Climate Finance Estimate

Cumulative cost to 2050 by sector, USD billion — dashed line marks the medium-term annual requirement (USD 2.1B/yr)

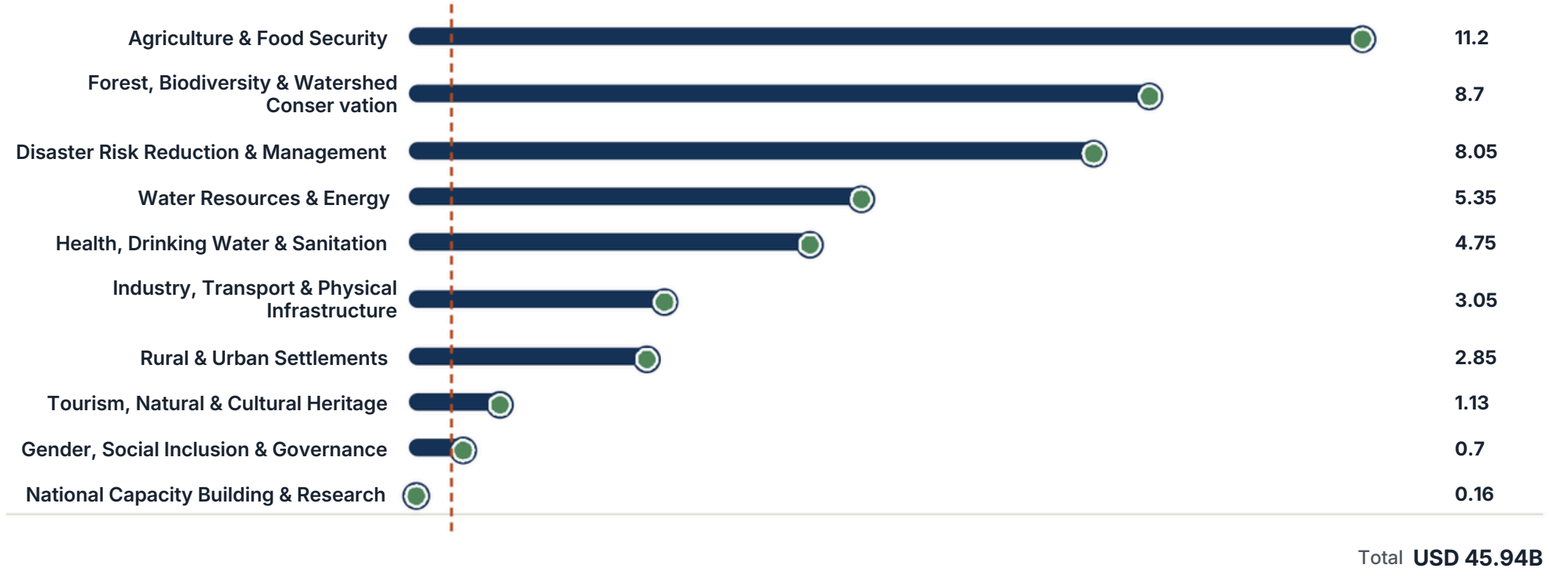


Figure 17 **Estimated Climate Finance Requirements For Nap Implementation**

08
SECTION

OVERVIEW OF MULTILATERAL CLIMATE FUND CONTRIBUTIONS TO NEPAL

This section presents an overview of climate finance allocated, committed, and pledged to Nepal from major multilateral climate funds. The analysis draws on data obtained directly from the official websites and reporting portals of the Green Climate Fund (GCF), Global Environment Facility (GEF), Climate Investment Funds (CIF), and the Adaptation Fund (AF). The figures presented reflect total funding amounts provided, committed and pledged by donors through these multilateral mechanisms. The data reflect donor financing only; co-financing contributions are not included.

It is important to note that no supplementary climate finance tracking methodologies such as the OECD-DAC Rio Markers (OECD, 2011) or the Joint MDB Climate Component Methodology (World Bank & Multilateral Development Banks, 2023) were applied to disaggregate or validate the climate-specific components within these commitments. Accordingly, the values reported reflect official committed and pledged amounts and do not necessarily correspond to actual disbursements or expenditures on climate-related activities.

8.1 DISTRIBUTION AND COMPOSITION OF MULTILATERAL CLIMATE FUND FINANCING TO NEPAL

Multilateral climate funds have collectively allocated and committed approximately USD 435.62 million in climate finance to Nepal. The Green Climate Fund (GCF) (Green Climate Fund, n.d.) is the largest contributor, having allocated and committed USD 157.2 million — representing 36.09% of total multilateral climate fund financing — in addition to USD 5.5 million provided separately for readiness support. GCF-supported initiatives in Nepal have focused on large-scale adaptation and mitigation interventions, including disaster risk reduction, ecosystem-based adaptation, watershed and landscape management, clean energy transitions, and low-emission transport systems. Key intervention areas include community adaptation and ecosystem restoration in the Churia (Chure) region and Gandaki River Basin, flood risk reduction linked to glacial lake outburst events, reduction of greenhouse gas emissions through the promotion of clean cooking solutions, and support for low-carbon transport through an e-mobility programme. Six GCF-funded projects are currently under implementation in Nepal.

The Climate Investment Funds (CIF) (Climate Investment Funds, n.d.) is the second-largest contributor, having allocated and committed USD 155.31 million, representing approximately 35.65% of total multilateral climate fund financing. CIF financing has primarily supported renewable energy development, forest and ecosystem management, climate-resilient infrastructure, disaster risk reduction, and policy and institutional strengthening. Four CIF-funded projects have been completed, with several others currently under implementation in Nepal.

The Global Environment Facility (GEF) (Global Environment Facility, n.d.) has allocated and committed approximately USD 103.58 million to Nepal to date, spanning four intervention areas: climate change, biodiversity, land degradation, and chemicals and waste. GEF support has strengthened climate resilience, promoted sustainable livelihoods, supported low-carbon development, and enhanced national capacity for climate governance and reporting under the UNFCCC. Beyond climate-focused investments, GEF financing has also supported conservation of endangered cold-water fish species, greening of transport infrastructure, agrochemical reduction and management, and restoration of forest and mountain ecosystems.

The Adaptation Fund (AF) (Adaptation Fund, n.d.) has allocated and committed approximately USD 19.53 million to Nepal, representing approximately 4.48% of total multilateral climate fund financing to date. Although modest in scale, AF support has been instrumental in enabling community-level adaptation initiatives — particularly in strengthening the resilience of climate-vulnerable populations, addressing climate-induced risks to food production and security, and improving the food-system resilience of vulnerable communities through community-based adaptation.

Multilateral Climate Fund Allocations to Nepal

USD 581.26 million allocated and committed to date — CIF and GCF together account for ~80% of the total

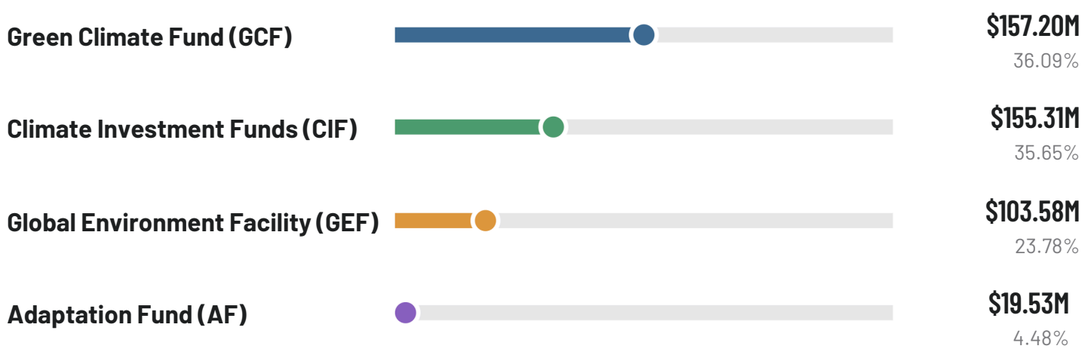


Figure 18 **Multilateral Climate Fund Allocations to Nepal**

Overall, multilateral climate finance allocations and commitments to Nepal are highly concentrated, with the GCF and CIF together accounting for approximately 70% of total allocated and committed climate finance. While this concentration underscores the importance of large multilateral funds in mobilising climate finance at scale, it also highlights the relatively limited contribution of smaller, grant-oriented mechanisms. Strengthening coordination across funds and improving alignment with national policy frameworks — including Nepal's NDCs and the National Adaptation Plan (NAP) — will be essential to ensure more balanced sectoral coverage, enhanced equity, and more effective use of multilateral climate finance in support of Nepal's long-term climate-resilient and low-carbon development goals.

8.2 FINANCING INSTRUMENTS OF MULTILATERAL CLIMATE FUNDS IN NEPAL

Multilateral climate fund support to Nepal has been delivered predominantly through grant-based financing, reflecting the international community's emphasis on concessional resources for climate-vulnerable countries. Of the total USD 435.65 million allocated to date from multilateral climate funds, USD 360.72 million — representing 82.81% of the total has been allocated as grants. This grant-dominant financing structure has enabled Nepal to advance priority adaptation and mitigation initiatives while limiting the accumulation of additional public debt.

The remaining USD 74.90 million, representing 17.19% of total multilateral climate fund financing, has been allocated through loans. The dominance of grant financing reflects both Nepal's high exposure to climate risks and its limited fiscal space, as well as the concessional intent of multilateral climate funds to support highly climate-vulnerable countries. At the same time, the use of loans alongside grants reflects a blended financing approach that supports both immediate adaptation needs and longer-term transformational investments. Overall, the mix of financing instruments highlights the critical role of concessional modalities in enhancing the effectiveness, sustainability, and broader impact of climate finance interventions in Nepal.

Financing Instruments of Multilateral Climate Funds in Nepal

Total multilateral climate fund allocation to date

USD 435.62M

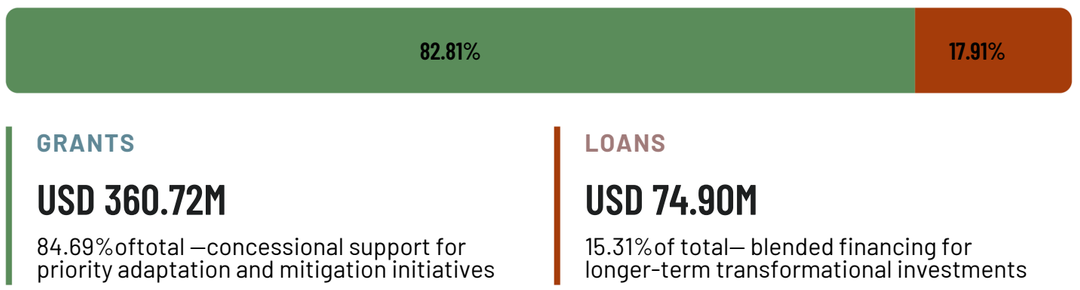


Figure 19 **Financing Instruments of Multilateral Climate Funds in Nepal**

09
SECTION

CONCLUSION

During 2016–2023 in the post-Paris Agreement period, Nepal has allocated approximately USD 3.19 billion in international climate finance from bilateral development partners, MDBs, climate funds, and other multilateral mechanisms. The financing was predominantly delivered through concessional loans, followed by grants and limited equity financing. MDBs accounted for nearly two-thirds of the total climate finance, underscoring their central role in financing climate-related development in Nepal. This architecture reflects a preference for large-scale, capital-intensive interventions, largely implemented through loan-based modalities. Sectoral allocation patterns show a strong concentration of finance in three sectors: energy and water resources; disaster risk reduction and management; and industry, transport, and physical infrastructure. These sectors are undeniably critical for enhancing climate resilience and supporting low-emission development pathways; however, their predominance has resulted in a relatively narrow financing profile that underrepresents several priority areas central to Nepal's climate vulnerability and socio-economic context.

The findings indicate that international climate finance has played an important, yet ultimately insufficient, role in supporting Nepal's climate action agenda. While financial inflows have enabled significant investments in climate-relevant infrastructure and resilience-building initiatives, their overall scale, structural composition, and predictability remain misaligned with the magnitude and nature of Nepal's climate challenges. This misalignment is particularly evident when compared with investment requirements outlined under NDC 3.0 and the NAP, both of which emphasise long-term, vulnerability-driven, and system-wide transformations.

In terms of thematic allocation, adaptation and mitigation together account for the majority of climate finance inflows, with adaptation receiving a slightly higher share overall. This distribution is broadly consistent with Nepal's status as one of the most climate-vulnerable countries, where adaptation needs are immediate and multi-sectoral. However, financing for cross-cutting and enabling functions—including institutional strengthening, capacity development, climate governance, data systems, and integrated planning mechanisms—remains limited. This underinvestment constrains the effectiveness, sustainability, and scalability of sectoral investments, particularly within Nepal's evolving federal governance structure.

The financing structure also underscores critical challenges related to financial sustainability and equity. Concessional loans account for nearly two-thirds of total international climate finance, while grants account for less than one-third. Although concessional loan has supported infrastructure and productive investments, this approach is less appropriate for adaptation interventions, especially those targeting community-level resilience, ecosystem-based approaches, and social sector interventions that generate limited financial returns. The continued reliance on loans for such purpose's risks exacerbating fiscal pressures while undermining the principle of climate justice.

A comparison with national frameworks reveals a substantial financing gap. Current international climate finance covers less than 5% of the total estimated resources required to achieve Nepal's conditional mitigation targets under NDC 3.0. Similarly, these flows account for only a small fraction of the external financing required to fully implement the NAP through 2050. Several priority sectors identified in national planning frameworks, including agriculture, forestry, and other land use (AFOLU); waste; industrial processes and product use (IPPU); forest and ecosystem conservation; agriculture and food security; health; water, sanitation, and hygiene (WASH); and rural and urban settlements remain significantly underfinanced relative to their projected investment needs.

This mismatch reflects structural limitations in aligning international climate finance with Nepal's long-term priorities. Financing decisions continue to be shaped largely by donor preferences, project readiness, and the feasibility of deploying large-scale investments, rather than by a comprehensive assessment of vulnerability, equity, and systemic transformation. As a result, climate finance reinforces existing investment patterns rather than catalyse the integrated, cross-sectoral responses envisioned in NDC 3.0 and the NAP.

Overall, the analysis underscores that while international climate finance has established an important foundation for Nepal's climate action, it remains neither sufficient in scale nor is adequately aligned to enable transformative outcomes. Addressing these challenges will require a substantial scaling-up of international climate finance, alongside improvements in predictability, concessionally, and alignment with national priorities. Increased grant-based support, programmatic and multi-year financing approaches, and results-oriented mechanisms will be essential for supporting adaptation, institutional strengthening, and locally driven resilience.

Equally critical is the strengthening of national and subnational institutional capacities for climate finance governance, including project preparation, coordination, monitoring, and data management. Improved alignment between international partners and national planning frameworks, supported by a robust institutional system with clear priority investment pipelines, will be critical to ensuring that climate finance contributes effectively to Nepal's pathway toward climate-resilient and low-emission development in line with its NDC 3.0 and NAP commitments.

10 SECTION

RECOMMENDATIONS

Based on the analysis of international climate finance flows to Nepal, several key recommendations are proposed to improve the accuracy, transparency, efficiency, and effectiveness of climate finance mobilisation, reporting, and utilisation.

For the Government of Nepal

- **Scaling up Climate Finance Inflows in Nepal**
- **Prioritising Grant-Based Climate Finance for Nepal**
- **Enhancing Alignment with National Climate Priorities**
- **Developing a National Climate Finance Reporting Framework**
- **Distinguishing Climate Finance from General Development Finance**

The following recommendations are directed to the Government of Nepal to strengthen the effectiveness, efficiency, and strategic alignment of climate finance mobilisation, allocation, and utilisation in the country.

SCALING UP CLIMATE FINANCE INFLOWS IN NEPAL

To strengthen and diversify climate finance allocations, Nepal needs to reduce its reliance on MDB-dominated concessional loan financing and expand access to a broader range of international climate finance sources. Priority should be given to strengthening direct access to dedicated multilateral climate funds — particularly the Green Climate Fund (GCF) — to scale up grant-based resources and reduce debt accumulation.

Particular emphasis should be placed on mobilising grant financing for highly climate-vulnerable sectors such as agriculture, water resources, health, and ecosystem-based adaptation, where financing needs are significant but current allocations remain disproportionately low. Strengthening institutional capacity for project preparation, pipeline development, and readiness support is essential to improve Nepal's access to international climate finance and enhance its absorptive capacity.

In addition, chronically underfinanced sectors — including forest and biodiversity conservation, watershed management, and cross-cutting governance and institutional interventions — should be prioritised to ensure a more balanced, equitable, and climate-resilient development approach. Enhanced coordination among development partners and stronger alignment with national climate priorities — including Nepal's NDC 3.0 and the National Adaptation Plan (NAP) — will further improve the effectiveness and impact of climate finance flows. Promoting innovative financing mechanisms, including blended finance and private sector engagement, can also help mobilise additional resources beyond traditional public finance channels. Overall, a more diversified, grant-oriented, and strategically aligned climate finance structure is essential for strengthening Nepal's long-term climate resilience and sustainable development pathway.

PRIORITISING GRANT-BASED CLIMATE FINANCE FOR NEPAL

Given Nepal's high vulnerability and limited fiscal space, grant-based financing should be prioritised over loan-based instruments to avoid exacerbating debt burdens and to enhance the effectiveness of adaptation and resilience interventions.

This requires strengthening access to dedicated climate funds such as the GCF and the GEF, with expanded grant windows for adaptation and community-level interventions. Bilateral development partners should also be encouraged to increase the share of grant financing, particularly in priority sectors such as agriculture, forestry and biodiversity, health, tourism, and ecosystem-based adaptation.

Furthermore, improving national project preparation capacity and strengthening readiness mechanisms are essential to enhance Nepal's ability to access competitive grant financing. Sustained engagement with multilateral and bilateral partners is also needed to advocate for a more balanced and grant-oriented climate finance portfolio.

ENHANCING ALIGNMENT WITH NATIONAL CLIMATE PRIORITIES

International climate finance should be more closely aligned with Nepal's NDCs (Ministry of Forests and Environment, 2025) and the NAP (Ministry of Forests and Environment, 2021) NDCs and the NAP to ensure greater coherence and effectiveness in climate action.

Strengthening alignment mechanisms between development partners and national institutions is essential to ensure that external climate finance effectively supports Nepal's priority sectors, identified needs, and long-term sustainable development objectives. This requires improved coordination in project prioritisation, financing allocation, and implementation processes to reduce fragmentation and enhance strategic focus.

In addition, integrating climate finance planning into national planning and budgeting systems would further strengthen ownership and ensure better harmonisation of external resources with domestic climate priorities.

DEVELOPING A NATIONAL CLIMATE FINANCE REPORTING FRAMEWORK

A standardised national climate finance reporting framework should be developed to enhance transparency, consistency, and effectiveness. Such a framework would ensure systematic recording, classification, and reporting of climate finance from all sources, including bilateral, multilateral, and dedicated climate funds.

The framework should be aligned with national priorities such as the NDC (Ministry of Forests and Environment, 2025) and the NAP (Ministry of Forests and Environment, 2021) and adopt internationally recognised methodologies for climate finance tracking. It should clearly define reporting standards, sectoral classifications, and financial instruments, including grants, concessional loans, non-concessional loans, and equity.

Strengthening institutional coordination among relevant government agencies and development partners is essential to ensure data harmonisation and consistency in reporting. In addition, improving data systems and technical capacity for climate finance tracking will support evidence-based policymaking and enhance access to international climate finance. A well-structured reporting framework will improve accountability and strengthen transparency, while also supporting more efficient mobilisation and allocation of climate finance in Nepal.

DISTINGUISHING CLIMATE FINANCE FROM GENERAL DEVELOPMENT FINANCE

It is essential for both the Government of Nepal and development partners to establish a clear and consistent distinction between climate finance and development finance. In particular, only those financial flows that demonstrate direct, intentional, and measurable contributions to climate change mitigation and adaptation outcomes should be classified as climate finance. At present, overlaps between climate-related and broader development interventions risk inflating reported climate finance flows by including general development budget and projects that do not have explicit climate-specific objectives.

To improve the accuracy, transparency, and credibility of climate finance reporting, clear and harmonised criteria should be developed to define climate finance. Such criteria would help prevent the misclassification of development finance as climate finance, reduce the risk of over-reporting, and strengthen the integrity of climate finance tracking systems. A clearer distinction between climate finance and development finance would also enhance the consistency and comparability of reporting across national and international frameworks, thereby supporting more evidence-based decision-making and effective allocation of climate-related resources.

RECOMMENDATIONS

The following recommendations are directed to development partners to enhance transparency, comparability, and effectiveness of international climate finance reporting and delivery.

For Development Partners

- **Strengthening International Climate Finance Reporting Frameworks**
- **Improving Data Transparency and Standardisation**
- **Harmonising Sectoral Classification Systems**
- **Strengthening Equity and Climate Justice in Climate Finance**
- **Distinguishing Climate Finance from Development Finance**

STRENGTHENING INTERNATIONAL CLIMATE FINANCE REPORTING FRAMEWORKS

International reporting systems under OECD-DAC (OECD, 2022) and UNFCCC (UNFCCC, 2022), and related mechanisms should be strengthened to improve transparency and comparability of climate finance data.

To address limitations associated with gross reporting and face-value estimations, the adoption of a Climate-Specific Net Assistance (CSNA) framework is recommended. This approach would estimate the actual net financial benefit of climate finance by accounting for concessionality, repayment terms, interest rates, and grant equivalence. The CSNA framework would provide a more accurate reflection of the real economic value of climate finance received by Nepal and support evidence-based decision-making.

IMPROVING DATA TRANSPARENCY AND STANDARDISATION

Development partners should improve data transparency, consistency, and harmonisation across key climate finance reporting platforms, including OECD datasets, Biennial Reports (BRs), Biennial Transparency Reports (BTRs), and Multilateral Development Bank (MDB) tracking systems.

Strengthening standardised reporting formats and adopting clearer, more consistent definitions of climate finance components will improve comparability across data sources and reduce existing inconsistencies. These improvements will contribute to more reliable, transparent, and evidence-based climate finance reporting and analysis.

HARMONISING SECTORAL CLASSIFICATION SYSTEMS

Significant inconsistencies exist between international classification systems (such as the OECD frameworks; OECD, 2022, UNFCCC 2022) and Nepal's national sectoral classification systems. These differences create challenges in ensuring comparability across data sources and limit the accuracy of sectoral climate finance analysis.

Harmonising classifications—particularly in key sectors such as water, energy, and health—would improve analytical consistency, enhance comparability, and strengthen the reliability and interpretability of climate finance assessments.

STRENGTHENING EQUITY AND CLIMATE JUSTICE IN CLIMATE FINANCE

International climate finance allocation should be guided by principles of equity and climate justice, not only by investment potential.

Greater emphasis should be placed on supporting the most vulnerable countries and communities with limited adaptive capacity, with increased attention to loss and damage financing, particularly for impacts that are severe and irreversible. Least Developed Countries, like Nepal, should have improved access to grant-based financing, including simplified procedures and expanded funding windows.

Overall, a shift toward a needs-based and rights-informed climate finance approach is essential to enhance fairness, effectiveness, and alignment with the Paris Agreement.

DISTINGUISHING CLIMATE FINANCE FROM DEVELOPMENT FINANCE

Development partners should ensure a clear and consistent distinction between climate finance and general development finance across international and national reporting systems.

Development partners are encouraged to apply consistent and transparent criteria for defining climate finance additionality, ensuring that only activities with clear, direct, and measurable climate benefits are reported as climate finance. This would help prevent the over-reporting of climate finance and improve the accuracy of both national and global climate finance assessments.

Strengthening this distinction would enhance the consistency, transparency, and comparability of climate finance data across international reporting frameworks — including the OECD-DAC system and UNFCCC reporting mechanisms — and would contribute to more accurate and credible global and national climate finance assessments.

11
SECTION

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