

INTEGRATED NATIONAL FINANCING FRAMEWORK

INTEGRATED NATIONAL FINANCING STRATEGY

FOR PRO-EMPLOYMENT ECONOMIC GROWTH



GOVERNMENT OF NEPAL
MINISTRY OF FINANCE

INTEGRATED NATIONAL FINANCING FRAMEWORK

INTEGRATED NATIONAL FINANCING STRATEGY

FOR PRO-EMPLOYMENT ECONOMIC GROWTH



GOVERNMENT OF NEPAL
MINISTRY OF FINANCE

Integrated National Financing Framework
Integrated National Financing Strategy for Pro-Employment Economic Growth

Copyright © Ministry of Finance, 2025

All rights reserved. Ministry of Finance encourages printing or copying information exclusively for personal and non-commercial use with proper acknowledgement. Users are restricted from reselling, redistributing, or creating derivative works for commercial purposes without the written consent of the Ministry of Finance.

Published by:

Ministry of Finance

Telephone: +977-1-4211837

E-mail: info@mof.gov.np

Singha Durbar, Kathmandu, Nepal

Technical Support: This document is prepared with the technical support of UNDP Nepal.

Designed and Processed by Spandan Design Communication

Tel: (+977)-5435884, Lalitpur, Nepal

Printed in Nepal

Foreword

Nepal's development trajectory over the next decade will be shaped by its ability to mobilise and direct the financing toward investments that create jobs, and accelerate progress toward the Sustainable Development Goals (SDGs). Nepal is graduating from Least Developed Country (LDC) status in 2026. Mobilisation and effective management of development finance is thus crucial for Nepal's smooth transition from the LDC. The Integrated National Financing Framework (INFF) Financing Strategy for Pro-Employment Economic Growth of Nepal with Action Plan offers a coherent platform to align public budgets, private capital, and development cooperation with our national priorities.

Significance of the INFF lies with its wider scope. It connects macro-fiscal policy to sectoral investment plans, public budgets to private capital markets, and national strategies to provincial and local priorities. It includes concrete measures for public investment reform, financial sector strengthening, Public-Private Partnership (PPP) mobilisation, climate and risk finance integration, and labour market transformation.

The Government of Nepal is aware that the financing is not an end in itself, but a means to deliver inclusive and climate-resilient growth. This Strategy places employment generation at the centre of resource allocation and investment decisions. It connects fiscal reform with capital market development, and targeted support to enterprises and households so that growth reaches every community.

The Financing Strategy will also strengthen our capacity to withstand external shocks. By integrating climate finance into our planning and budgeting systems,



improving the efficiency of public investment, and diversifying sources of capital, Nepal will be better positioned to protect livelihoods and maintain momentum in the face of global and domestic challenges.

The work ahead will require effective coordination and accountability across all levels of government. The Ministry of Finance stands ready to drive implementation, supported by our development partners and private sector actors.

This strategy will serve as a key reference document aligning all development financing to ensure resources are mobilised efficiently towards high-impact areas.

Rameshore Prasad Khanal
 Finance Minister

Preface

Nepal has made significant progress over the past decades, particularly in poverty alleviation and improvement in key social indicators. However, the country continues to face modest economic growth constrained by persistent structural and cyclical challenges. As Nepal prepares to graduate from Least Developed Country (LDC) status in 2026, it has already implemented a strategy to ensure a smooth transition.

This Integrated National Financing Strategy with Action Plan is the result of an exceptional process of national dialogue. Ministries, government agencies, development partners, the private sector, and civil society engaged in a series of consultations and validation sessions to define a realistic path forward. The strategy reflects both the aspirations of our people and the fiscal and economic realities we face as a country in transition.

The Financing Strategy responds to these challenges with a coordinated set of fiscal, financial, and institutional reforms designed to channel resources into productive, employment-generating sectors while strengthening resilience. It brings six interconnected pillars together—fiscal policy and public finance; monetary policy and private finance; public-private partnerships; financial inclusion and digital finance; climate and risk finance; and skills, labour market, and just transition—into a single implementation platform.

For each pillar, the strategy identifies specific priorities, reform sequences, and institutional responsibilities, with clear early actions to close financing gaps in infrastructure, enterprise growth, and climate adaptation.



These will help address immediate bottlenecks in capital spending, private investment mobilisation, and resource alignment with national priorities.

I recommend all stakeholders to adopt this strategy as a key reference document and to work collaboratively toward the effective implementation of the actions committed within it. Engagement with development partners and the private sector will be critical to scale the financing needed, particularly as concessional flows evolve in the post-LDC graduation period. Through this coordinated effort, the INFF will mobilise and channel resources toward reforms that restore growth momentum and expand quality employment in a challenging global context.

Ghanshyam Upadhyaya, PhD

Finance Secretary

Acknowledgment

The Integrated National Financing Strategy for Pro-employment Economic Growth with Action Plan is at the core of Nepal's Integrated National Financing Framework (INFF). Its preparation has been a demanding process that required both technical rigour and extensive institutional engagement. The Ministry of Finance took forward this work with the objective of developing a nationally owned framework to align diverse sources of finance with our employment and resilience goals. The process brought together fiscal, monetary, institutional, and sectoral reforms into a single integrated agenda with sequenced actions and institutional roles.

From the outset, the Ministry approached this as more than a strategy drafting process. It was conceived as an extended exercise in national dialogue and technical validation. Over forty bilateral meetings were convened, supported by six thematic consultations, and two different validation workshops for the strategy and action plan. These consultations provided space for critical dialogue and ensured that this strategy reflects the perspectives of ministries, regulators, provincial and local governments, development partners, the private sector, and civil society.

On behalf of the Ministry of Finance, I wish to record our deep appreciation to those who made significant contributions to this process. We are grateful to Dr. Yuba Raj Khatiwada, former Finance Minister, Dr. Prakash Kumar Shrestha, Hon'ble Vice-Chair of the National Planning Commission, Mr. Juddha Bahadur Gurung, Hon'ble Acting Chair of the National Natural Resources and Fiscal Commission, Mr. Dandu Raj Ghimire, the then Joint Secretary of the Ministry of Labour, Employment and Social Security (MoLESS) who is currently serving as the Principal Secretary at the Office of the Chief Minister and Council of Ministers, Gandaki Province, Dr. Ram Sharan Kharel, Executive Director of the Nepal Rastra Bank, Mr. Jitendra Basnet, Joint Secretary of the Ministry of Industry, Commerce and Supplies, Mr. Babu Raj Adhikari, Joint Secretary of



the Office of the Investment Board Nepal, Mr. Prakash Dahal, Joint Secretary of the Ministry of Federal Affairs & General Administration, Mr. Dinesh Prasad Bhatt, Chief Executive of the National Disaster Risk Reduction and Management Authority, Susil Dev Subedi, Executive Director of the National Insurance Authority, and Mr. Ramesh Ghimire, Chief Executive Officer of the Deposit & Credit Guarantee Fund.

The Ministry extends its appreciation to the United Nations Development Programme (UNDP) Nepal in supporting the entire process. Special thanks to Ms. Kyoko Yokosuka, Resident Representative, Mr. Julien Chevillard, Deputy Resident Representative and Mr. Dharma Swarnakar, Assistant Resident Representative, and Ms. Diyora Kabulova, Regional SDG Finance Policy Specialist for their substantive contribution and institutional support.

Special thanks go to the team of INFF experts - Ms. Bushra Ferdous Khan, Lead Expert, and Mr. Shishir Kumar Dhungana, former Finance Secretary, who served

as national consultant during the early phase, and Dr. Narayan Dhakal, former Joint Secretary, who contributed as national consultant in the later phase of the work.

I also wish to acknowledge the contribution of the officials at the Ministry of Finance and UNDP for their support for coordination and facilitation. Mr. Dolindra Prasad Sharma, Under Secretary and Mr. Subas Parajuli, Section Officer at the Ministry, and Mr. Prakash Ghimire, Policy Specialist and Mr. Pravat Mijar, Administrative and Finance Associate at UNDP, have provided immense support in the several stages of its development and validation.

Development partners have been central to this process, not only as financiers but as thought partners. We acknowledge the Asian Development Bank (ADB), the World Bank, the International Monetary Fund (IMF), the European Union (EU), the United Nations Children's Fund (UNICEF), the UN Capital Development Fund (UNCDF), the International Labour Organization (ILO), and the Food and Agriculture Organization (FAO) for their sustained engagement. These institutions provided written inputs across multiple rounds, joined bilateral discussions, and participated actively in the workshops and validation sessions. Their interest in the INFF has been evident throughout, and this Strategy has been benefited greatly from their technical contributions.

We also thank the Nepal Bankers' Association, and other private sector organisations and civil society groups, including the NGO Federation of Nepal, for providing perspectives on private investment, employment, and local service delivery.

A wide range of line ministries participated and offered substantive technical guidance. These include: the Ministry of Education, Science and Technology; the

Ministry of Federal Affairs and General Administration; the Ministry of Agriculture and Livestock Development; the Ministry of Physical Infrastructure and Transport; the Ministry of Industry, Commerce and Supplies; and the Ministry of Labour, Employment and Social Security. The Ministry of Women, Children and Senior Citizens; the Ministry of Urban Development; and the Ministry of Forests and Environment also contributed during its designing process.

Nepal's regulatory agencies and financial institutions played a central role in shaping the financial and risk management aspects of the strategy. We thank the Nepal Rastra Bank, the Securities Board of Nepal (SEBON), the Deposit & Credit Guarantee Fund (DCGF), the Nepal Insurance Authority (NIA), and the Investment Board Nepal (IBN) for their detailed inputs.

Other constitutional and statutory bodies that engaged in the process include the National Planning Commission (NPC) and the National Natural Resources and Fiscal Commission (NNRFC). Their perspectives on planning, resource allocation, and fiscal equalisation informed the design of reforms across both national and subnational levels.

The Action Plan of this Strategy provides sequenced reforms, risk mitigation measures, and clear institutional responsibilities to guide this next stage. The INFF is a living framework that must be updated and refined in line with Nepal's evolving context, but it now provides the country with a clear, nationally owned foundation to advance its development ambitions.

This Strategy is the product of a collective national effort, and I am confident that it will serve as a lasting reference point for financing Nepal's pro-employment and climate-resilient growth.

Dhaniram Sharma, PhD

Joint Secretary
International Economic Relations Division
Ministry of Finance

Table of Contents

List of Acronyms	x
Introduction	1
Understanding the Nepalese Economy and Labour Market	7
Structure of the Economy	7
Labour Market Profile	7
Impending LDC Graduation and Its Possible Impacts	8
Sectoral Opportunities for Economic Diversification in Nepal	9
Structure of the Strategic Framework	13
Driver 1: Public and Private Investments, and PPPs for Driving Labour Demand	13
Driver 2: Investments in Skills, Shock-Responsive Social Protection, and Just Transition for Strengthening Labour Supply	14
Driver 3: Cross-Cutting Enablers – Climate and Risk Finance, Financial Inclusion, and Digital Finance	15
Pillar 1: Fiscal Policy and Public Finance	19
Priority 1.1: Improve Public Investment Planning, Execution, and Financing for Infrastructure	19
Priority 1.2: Introduce Targeted Fiscal Incentives to Attract Private Investments in Sectors with High Employment Elasticity	23
Priority 1.3: Broaden the Tax Base by Rationalizing Distortive Exemptions while Preserving Equity	25
Pillar 2: Monetary Policy and Private Finance	29
Priority 2.1: Translate Credit to the Private Sector into Pro-Employment Economic Growth	29
Priority 2.2: Strengthen the Financial Architecture for Private Capital Mobilisation	32
Priority 2.3: Increase Credit Access for MSMEs	38
Priority 2.4: Increase Credit Access for Rural Enterprises	41
Pillar 3: Public-Private Partnerships	47
Priority 3.1: Effectively Address Risk Allocation between Public and Private Sectors	47
Priority 3.2: Provide Sufficient Incentive for Private Sector Participation in Non-Hydro Projects	50
Priority 3.3: Strengthen Project Preparation and Dispute Resolution Mechanisms to Enhance PPP Bankability	53
Priority 3.4: Facilitate Local Currency Financing for PPPs to Reduce Exchange Rate Risk	54
Pillar 4: Financial Inclusion and Digital Finance	57
Priority 4.1: Enhance the MFIs' Financial Viability	57
Priority 4.2: Link Digital Finance with Rural Value Chains and Enterprise Ecosystems	60
Pillar 5: Climate and Disaster Risk Finance	63
Priority 5.1 Mobilise a Higher Volume of Climate Finance	63
Priority 5.2 Expand Disaster Risk Financing Mechanisms through Market-Based Instruments, Municipal Aggregation, and Sovereign Liquidity Tools	68

Pillar 6: Skills Development and Just Transition	73
Priority 6.1: Expand Equitable Access to Skills and Education	73
Priority 6.2: Promote Entrepreneurship and Local Job Creation	75
Priority 6.3: Pursue a Just Transition of the Agriculture Sector	76
Action Plan	79
Pillar 1: Fiscal Policy and Public Finance	79
Pillar 2: Monetary Policy and Private Finance	83
Pillar 3: Public Private Partnerships	89
Pillar 4: Financial Inclusion and Digital Finance	91
Pillar 5: Climate and Disaster Risk Finance	92
Pillar 6: Skills Development and Just Transition	95



List of Acronyms

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
BFI	Bank and Financial Institution
CAFS	Climate Adaptation Finance Support
CBT	Climate Budget Tagging
CIBN	Credit Information Bureau of Nepal
COVID-19	CoronaVirus Disease
CRR	Cash Reserve Ratio
CTEVT	Council for Technical Education and Vocational Training
DCGF	Deposit & Credit Guarantee Fund
DFA	Development Finance Assessment
DFIMS	Development Finance Information Management System
DHM	Department of Hydrology and Meteorology
DoC	Department of Cooperatives
DoR	Department of Roads
ESC	Employment Service Centre
ETF	Exchange-Traded Fund
FCCL	Fiscal Commitments and Contingent Liabilities
FCGO	Financial Comptroller General Office
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act, 2019
FY	Fiscal Year
GA	Global Accelerator on Jobs and Social Protection
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
ICT	Information and Communication Technology
IDA	International Development Association
IFI	International Financial Institution
IFMIS	Integrated Financial Management Information System
INFF	Integrated National Financing Framework
IBN	Investment Board Nepal
IRD	Inland Revenue Department
LAPAs	Local Adaptation Plans of Action
LDC	Least Developed Country
LMBIS	Line Ministry Budget Information System
MDB	Multilateral Development Bank
MFI	Microfinance Institution
MoALD	Ministry of Agriculture and Livestock Development
MoEST	Ministry of Education, Science & Technology
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs & General Administration

MoFE	Ministry of Forests and Environment
MoHA	Ministry of Home Affairs
MoICS	Ministry of Industry, Commerce and Supplies
MoLJPA	Ministry of Law, Justice and Parliamentary Affairs
MoLESS	Ministry of Labour, Employment and Social Security
MTEF	Medium-Term Expenditure Framework
MSME	Micro, Small, and Medium Enterprise
NAP	National Adaptation Plan
NCCSP	National Climate Change Support Programme
NDC	Nationally Determined Contribution
NEPSE	Nepal Stock Exchange
NGO	Non-Governmental Organization
NIA	Nepal Insurance Authority
NIFRA	Nepal Infrastructure Bank
NPB	National Project Bank
NPC	National Planning Commission
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
NRN	Non-Resident Nepali
NTB	Non-Tariff Barrier
OAG	Office of the Attorney General
ODA	Official Development Assistance
OSSC	One-Stop Service Centre
PDMO	Public Debt Management Office
PFM	Public Financial Management
PPP	Public-Private Partnership
PPPIA	Public-Private Partnership and Investment Act, 2019
PPMIS	Public Procurement Management Information System
PPMO	Public Procurement Management Office
PRG	Partial Risk Guarantee
PSP	Payment Service Provider
R&D	Research and Development
SEBON	Securities Board of Nepal
SIB	Social Impact Bond
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SOP	Standard Operating Procedure
SSF	Social Security Fund
STRO	Secured Transactions Registry Office
STEM	Science, Technology, Engineering and Mathematics
SuTRA	Sub-National Treasury Regulatory Application
TA	Technical Assistance
TVET	Technical and Vocational Education and Training
UGC	University Grants Commission
USD	United States Dollar
VAT	Value-Added Tax
VGF	Viability Gap Funding



Introduction

Nepal faces a persistent employment problem, with both joblessness and labour underutilization strikingly high. The most recent National Living Standards Survey IV (NLSS IV) estimated the overall unemployment rate at around 12.6 percent, and youth (15-24 years) unemployment rate at around 22.7 percent in FY 2022/23. Likewise, women's participation in the economy is very low; only 24.6 percent of working-age women are in the labour force (versus 52.7 percent of men).¹ The economy faces challenges to generate enough decent jobs for its people, especially for youth entering the labour market and for women who remain out of labour force. The result has been massive labour migration; millions of Nepalis seek work abroad,² easing domestic unemployment but creating a reliance on foreign jobs. This human capital exodus creates a lost opportunity for domestic growth and makes the need for an employment-focused development financing strategy urgent.

Much of Nepal's recent growth has been shaped by remittance-driven consumption and import-linked demand with limited expansion in domestic production or value-added sectors. Remittance money is mostly spent on household needs and imports, with little channelled into domestic business expansion or capital formation. As a result, past economic growth has not been accompanied by productivity gains or structural transformation. Nepal has essentially transformed from an agriculture-based subsistence economy into a remittance-based consumption economy, without developing a strong industrial or high-productivity sector at home. Also, the more than half of the total public

revenue is collected at customs point as customs duty, Value Added Tax (VAT) and excise duties. This model is unsustainable for long-term development. It leaves Nepal vulnerable to external shocks and fails to build the foundation for self-sufficient growth. A new strategy is needed to diversify the economic base, boost productivity, and create jobs domestically so that Nepali workers can thrive at home rather than looking for livelihood abroad.

On top of these structural challenges, Nepal's key economic sectors like agriculture, and tourism are highly vulnerable to climate change and environmental shocks. As a Himalayan country with diverse ecosystems, Nepal is on the frontlines of the climate crisis. In recent years, farmers have faced more frequent and intense floods, droughts, and landslides that devastate crops and rural livelihoods. Changing monsoon patterns and rising temperatures are already disrupting agricultural productivity and food security. The tourism industry is at risk from glacial retreat, extreme weather, and ecological degradation. Communities in the southern plains are seeing heat stress, depleting ground water, and flooding, while those in the hills and mountains face water scarcity and the threat of glacial lake outburst floods. This vulnerability indicates that Nepal's narrow economic base is further constrained by climate risks; agricultural output is unreliable, infrastructure is regularly damaged, and tourist flows can be suddenly disrupted by natural disasters. Climate-induced shocks hit the poorest and most marginalized groups the hardest, undermining hard-won gains in poverty reduction. The World Bank warns that climate change is already dragging on Nepal's

¹ NLSS IV 2024

² According to 2021 Census, more than 2.1 million Nepali citizens were living outside the country which represented 7.4 percent of the national population (MoLESS 2022). This number has sharply increased since then as during financial year FY2022/23, half a million Nepalese workers went abroad, 42 percent more than the previous year, and more than twice as many as in FY2019–2020 (ILO 2024). As per MoLESS, the trend of over half a million Nepali workers out migrating every year has since then persisted.

GDP growth, and without adaptive action, Nepal's GDP could be at least 7 percent smaller by 2050 due to unchecked climate impacts.³

Amidst this context, Nepal is on the verge of graduating from the Least Developed Country (LDC) status by 2026. While this marks a milestone in its development trajectory, it also presents risks. Nepal qualified based on improvements in human assets and reduced vulnerability, but its Gross National Income (GNI) per capita surpassed the income threshold only recently. Although Nepal technically meets the criteria, the underlying economic base remains fragile. Graduation will phase out certain international benefits like duty-free export privileges, concessional financing, and special aid programs tailored to LDCs. If Nepal graduates LDC status with a weak economic base, it could struggle to compete in global markets and to finance development on harder terms. The government recognized this risk when it secured a five-year preparatory period (instead of the usual three) before graduation, aiming to strengthen the economy in the interim.

However, with little more than a year left until LDC graduation, progress in expanding domestic industries and exports has been limited. The economy continues to rely on subsistence agriculture and remittances rather than higher-value production. Graduating without robust growth in jobs and incomes could leave Nepal, in disadvantage, stripping away external support before the country has achieved a self-sustaining, middle-income economy. This makes it all the more urgent to implement an employment-focused development financing strategy aimed at boosting productive employment, growing national income, and building resilience before LDC benefits taper off. A pro-employment Integrated National Financing Framework (INFF) Financing Strategy (Box 1) will support Nepal in capitalizing on the remaining window to strengthen its economy and manage a smooth transition.

Nepal's population structure offers a one-time opportunity for rapid growth, but only if the country can provide productive jobs for its working-age people. Nepal currently enjoys a 'demographic dividend'

phase in which the share of working-age adults is at an all-time high (about two-thirds of the population) while the dependent population (children and elderly) is relatively low. This window opened in the 1990s and is expected to last until roughly the 2040s.⁴ For the next few decades, Nepal has a youthful population that, in theory, can fuel economic expansion as even though the median age is rising but still around 25, and labour force growth is strong. However, the dividend will not automatically translate into growth. Without sufficient employment opportunities at home, Nepal's youth have been migrating abroad or remaining idle, and the country risks missing the dividend.

A major barrier to addressing these challenges has been the fragmentation of Nepal's development finance policies. Efforts to spur job creation have so far been piecemeal; spread across various ministries, short-term projects, and uncoordinated programs. For example, there are parallel initiatives on youth skilling, entrepreneurship, agriculture modernisation, climate adaptation, among others, often funded by different sources without alignment. Planning and budgeting processes are not fully integrated; as a result, national development plans have not been backed by a unified financing strategy.

The adoption of a Pro-Employment INFF Financing Strategy is, thus, timely to break these silos and align all financial flows behind a common goal of employment-focused growth. The Financing Strategy, which sits at the heart of INFF, provides a holistic approach to managing the public and private resources for development. In Nepal's case, a pro-employment INFF Financing Strategy would link together planning, budgeting, and investment policies around the objective of job creation. This means government expenditures, donor funding, private sector investments, and even remittances and diaspora funds can be steered in a complementary way to stimulate productive sectors and employment. Currently, Nepal's institutions face some disconnect between planning and financing; strategies are devised in national plans and Vision documents, but the budgeting and execution hardly follow through coherently. The INFF Financing

³ World Bank 2022

⁴ UNFPA Nepal 2017

BOX 1: INFF: A Whole-of-Government Approach to Financing Sustainable Development

INFFs are country-led frameworks designed to align public and private financing flows with national sustainable development priorities.

First introduced in the Addis Ababa Action Agenda (2015), INFFs emerged in response to the recognition that achieving the Sustainable Development Goals (SDGs) would require not only more financing but smarter, more coherent financing. The INFF concept was developed to help countries systematically identify financing gaps, improve planning-budgeting linkages, and sequence policy reforms that enable sustainable and inclusive development. INFFs do not replace national development plans or fiscal frameworks; rather, they provide a structured process for aligning financing decisions across public, private, domestic, and international sources with national development ambitions.

INFFs were designed to address three inter-related gaps:

misalignment between planning and budgeting, fragmentation across financing actors and instruments, and underutilization of non-traditional financing sources such as private investment, green finance, and diaspora capital. These challenges are particularly acute in low- and lower-middle income countries where development plans often remain underfunded despite a wide range of fragmented financing flows. INFFs seek to bring order and integration by providing a unified, government-led process to assess the financing landscape, identify bottlenecks, and coordinate reform efforts. The result is a more strategic and evidence-based financing pathway that moves beyond project-based approaches and one-off funding solutions.

Countries adopt INFFs not as an external mandate but as a voluntary tool to strengthen national ownership and coherence.

They explicitly promote a whole-of-government process, engaging planning commissions, finance

ministries, sectoral agencies, central banks, and subnational authorities in a coordinated manner. This integration is essential to resolve longstanding policy coordination failures such as disconnected capital budgets, overlapping incentive regimes, or ineffective credit schemes that dilute development impact. INFFs also strengthen the government's ability to negotiate with external actors by clearly articulating national priorities, financing strategies, and implementation trade-offs. For Nepal, which faces structural constraints and external vulnerabilities, the INFF offers a framework to align fragmented efforts behind a shared national objective - employment-rich and resilient economic growth.

The INFF is built on four interdependent building blocks:

(i) Assessment and Diagnostics; (ii) Financing Strategy; (iii) Monitoring and Accountability Framework; and (iv) Governance and Coordination Arrangements. These building blocks are not a linear checklist but an iterative cycle, where assessments inform strategy, strategies inform institutional reform, and progress is tracked through measurable indicators. As the Financing Strategy, in particular, is the centrepiece of the INFF, it distills insights from diagnostics into a sequenced, context-specific set of reform priorities, anchored in national policy frameworks. It is through the Financing Strategy that the INFF becomes operational, identifying actionable reforms that mobilise, align, and deliver financing for development results. The strategy sets clear priorities for public finance, private capital, and financial system regulation, while also coordinating reforms across ministries and subnational actors.

For Nepal, the INFF Financing Strategy offers a timely and institutionally grounded platform to address critical macro-fiscal, investment, and employment challenges.

Nepal's development status is characterized by low private investment, high dependence on remittances, persistent capital

under-execution, and weak coordination across tiers of government. These structural issues cannot be addressed through standalone fiscal measures or isolated sector reforms. The INFF provides a framework to tackle these constraints through integrated, sequenced, and politically feasible financing reforms. The current Pro-employment Financing Strategy under Nepal's INFF sets out a clear priorities across six pillars— fiscal policy and public finance, monetary policy and private finance, PPPs, financial inclusion and digital finance, climate and disaster risk finance, and skills development and just transition— each grounded in evidence and linked to labour market transformation.

Nepal's INFF process began with extensive diagnostics under the Development Finance Assessment (DFA). The DFA identified critical

gaps in planning-budgeting alignment, MSME financing, capital market depth, diaspora investment channels, and subnational fiscal coordination. These assessments were complemented by detailed stakeholder consultations across government, private sector, civil society, and development partners leading to the financing strategy's development. The Financing Strategy was then developed as the operational core of the INFF, translating findings from the diagnostics and stakeholder consultations into reform priorities, institutional responsibilities, and implementation pathways. This iterative, consultative process has positioned Nepal among the frontrunners globally in INFF operationalization; moving from concept to a context-specific, actionable Financing Strategy that addresses the country's development and employment imperatives.

Strategy aims to fix this by establishing coordination mechanisms that unite stakeholders (government agencies, development partners, private sector, cooperatives, civil society) under one financing roadmap.

This pro-employment INFF Financing Strategy will inject much-needed coherence and longevity into Nepal's development efforts, moving beyond isolated projects toward a sustained, well-financed push for inclusive growth. By mobilising and directing funds strategically; whether for infrastructure, MSMEs, green jobs, or skills training; the INFF Financing

Strategy aims help Nepal shift from jobless growth to job-rich growth, and from ad-hoc interventions to a consistent long-term development trajectory. This strategy anchors all funding sources to the common objective of expanding decent employment, thereby addressing the macroeconomic, demographic, and climate challenges in a holistic way. With the demographic dividend still available, LDC graduation on the horizon, and climate threats growing, the time to act is now to set Nepal on a path of inclusive, job-rich sustainable development helping to achieve the national vision of 'Prosperous Nepal, Happy Nepali.'





Understanding the Nepalese Economy and Labour Market

Structure of the Economy

Nepal's economy is characterized by a large agricultural base, a small industrial sector, and a growing services sector. Agriculture (including forestry and fishing) contributes roughly 25 percent of GDP and industry about 13 percent.⁵ However, agriculture absorbs a vastly disproportionate share of the labour force. Broadly defined, over 64.8 percent of Nepali workers are engaged in agriculture-related activities,⁶ even though the sector produces only about one-quarter of output. This mismatch reflects very low productivity in subsistence farming, where many workers generate little value added. By contrast, services now account for over 62 percent of GDP signalling a shift toward a more service-oriented economy. Yet, the expansion of higher-productivity sectors has been sluggish, and the economy has not created enough modern jobs to draw labour out of farming. Overall labour productivity remains low, as majority of workers are in small-scale informal enterprises or low-value agriculture.

Macroeconomic imbalances equally exert structural constraints in Nepal's economy. The country faces a chronic and massive trade deficit, importing far more than its export. Over the last decade, Nepal's exports of goods and services have been only around 5–10 percent of GDP, while imports have ranged between 34–42 percent of GDP.⁷ This gap, which was nearly 36 percent of GDP in 2022 at its peak, is financed largely by remittance inflows. Remittances from millions of Nepalis working abroad have become a pillar of the economy. While these inflows support household consumption and help stabilize the external balance, they also reveal the economy's heavy reliance on labour migration rather

than domestic production. Industrialization remains very limited: the manufacturing sector has been in gradual decline from an already low base, and industry as a whole comprises only about one-seventh of GDP.⁸ With weak domestic manufacturing, Nepal depends on imports even for many basic goods, from fuel and machinery to processed foods. This import dependency, coupled with narrow export capacity, results in a large trade imbalance and vulnerability to external shocks.

Labour Market Profile

As per the NLSS IV⁹, only 32.4 percent of Nepal's working age population (15 years and above) were employed in FY 2022/23, while 4.7 percent were unemployed and the remaining 62.9 percent were outside the labour force. This yields a labour force participation rate of just 37.1 percent. The large share of inactive adults reflects both methodological tightening in NLSS IV (where subsistence farmers now count as inactive) and a genuine detachment of women, youth and discouraged job seekers from formal labour market activities. Such detachment erodes the productive potential of Nepal's demographic dividend and magnifies fiscal pressures on social support systems.

Wage employment has become the dominant form of work in Nepal's evolving labour market. In FY 2022/23, 67.0 percent of all employed persons held wage earning jobs, up sharply from earlier rounds of NLSS where self employment prevailed; self employment now accounts for only 24.5 percent, and unpaid family work just 8.4 percent. This transformation is driven almost entirely by non farm sectors: the share

⁵ MoF 2025

⁶ MoALD 2023

⁷ NRB 2024

⁸ World Bank 2025

⁹ This section primarily builds on the findings of NLSS IV 2024. Other data sources, when use, have been cited.

of wage employment in non agriculture rose from 9.5 percent in FY 1995/96 to 56.6 percent in FY 2022/23 due to growing opportunities in manufacturing, construction and services. By contrast, only 10.4 percent of agricultural workers receive wages, meaning that most rural households still rely on subsistence and family labour rather than stable farm incomes. While the rise of wage jobs outside agriculture indicates structural diversification, the limited reach of paid work in farming constrains productivity gains and rural livelihoods.

Yet the bulk of these wage employment remains precarious and informal. NLSS IV shows wage earners average only 72 working days per year, with 64.9 percent employed on a daily wage basis; long term (monthly) positions cover just 28.7 percent of wage workers, and contracts only 6.4 percent. Daily wage earners have annual cash earnings of Rs 54,632, less than one fifth of the Rs 290,682 earned in long term jobs, exposing daily earners to extreme income volatility. The absence of formal contracts, paid leave or social protection in these roles leaves the households vulnerable to seasonal downturns, health shocks and market disruptions. Consequently, despite significant growth in wage employment, the prevalence of short term, informal work limits the sector's ability to deliver stable livelihoods and sustain inclusive economic growth.

Gender disparities are pronounced and systemic. Male labour force participation stands at 46.0 percent, with an unemployment rate of 11.3 percent; female participation is only 21.9 percent and unemployment rate 14.7 percent. Social norms, caregiving burdens and mobility constraints confine many women to unpaid or marginal self employment. Province level data show that, in Madhesh, female participation falls to 16.5 percent versus 54.9 percent for men. These gaps undermine gender equity and weaken aggregate labour supply and GDP growth.

Youths (15–24 years) experience the toughest labour market entry barriers. Their participation rate is 26.5 percent, the employment to population ratio 20.5 percent and unemployment rate 22.7 percent. Vocational and technical training remain misaligned with market

needs with many graduates lacking practical skills in manufacturing, hospitality or IT services. At the same time, formal sector entry level positions are scarce. This mismatch fuels youth underemployment, discouragement and outward migration, draining Nepal of critical human capital.

Spatial divides reflect infrastructure and opportunity gaps. Kathmandu Valley posts a labour participation rate of 52.3 percent, employment rate 48.3 percent and unemployment rate at 7.6 percent, while rural provinces like Karnali record participation under 30 percent and unemployment above 20 percent. Poor transport, limited access to markets and inadequate vocational centres in remote districts restrict non farm job growth. Addressing these spatial imbalances will require targeted investment in rural infrastructure and decentralised skills training.

Overall, Nepal's labour market struggles with employment quality and absorption capacity. Formal job creation has not kept pace with the number of new entrants each year. Many educated youths cannot find jobs matching their skills, contributing to a skills mismatch alongside skill shortages in certain sectors. Employers often cite scarce skills among workers as a barrier to business growth,¹⁰ even as many graduates remain unemployed or underemployed indicating misalignment between education outcomes and market needs. Underlying these issues is the economy's structural inability to generate sufficient decent jobs; most workers eke out livelihoods in low-productivity sectors or in informal arrangements. Enhancing employment quality will require not only faster economic growth but targeted efforts to improve skills training, expand formal enterprises, and incentivize the hiring of women and youth. Without such efforts, Nepal will continue to see its workers either migrate abroad or remain trapped in informal, precarious jobs at home, undermining inclusive development.

Impending LDC Graduation and Its Possible Impacts

Nepal is on the verge of graduating from the LDC status which brings both opportunities and challenges. Graduation reflects Nepal's gradual progress in

¹⁰ World Bank 2020

indicators such as health, education, and income levels. However, it also means the impending loss of special international support measures that Nepal has enjoyed as an LDC. These include trade preferences (duty-free/quota-free access for exports to many markets), concessional financing, and various forms of technical assistance and flexibilities in global regimes. As graduation approaches, Nepal faces the task of transitioning to reliance on standard arrangements which could expose gaps in the country's economic competitiveness and preparedness.

A key concern is the loss of trade preferences that have benefited Nepal's exports. As an LDC, Nepal currently exports many goods without duty to the major markets under schemes like the EU's Everything but Arms (EBA) and similar Generalized System of Preferences (GSP) programs. After graduation (and the grace period), Nepal will be subject to higher tariffs on its exports to those markets. Estimates suggest that Nepal could see about a 4.3 percent decline in its total exports due to tariff increases in the post-graduation period.¹¹ This impact may seem modest in aggregate, but it will be concentrated in certain industries, especially garments, carpets, and agricultural products, where preferential access has given Nepali exporters a slight edge.

Beyond trade preferences, concessional financing and international support for Nepal may be scaled back after graduation. As an LDC, Nepal has benefited from favourable terms in mobilising development finance, as well as dedicated funding mechanisms (for example, the LDC Fund for climate adaptation and technology transfer programs exclusively for LDCs). Graduation could gradually reduce Nepal's eligibility for certain grant-based aid and soft loans. However, it is important to note that Nepal will still likely qualify for many forms of assistance due to its low-income status; for example, it will remain eligible for World Bank International Development Association (IDA) and Asian Development Bank (ADB) concessional windows until its income rises further.

The impending graduation, thus, amplifies the urgency for Nepal to address its competitiveness gaps and economic vulnerabilities before LDC

benefits are withdrawn. At present, Nepal's economy is not well-diversified and exports have played only a minor role in growth. Structural challenges, from high production costs and infrastructure bottlenecks to bureaucratic hurdles, have constrained Nepal's export competitiveness. Transport and logistics inefficiencies, in particular, raise the cost of getting Nepali goods to global markets. These issues mean that when protective LDC preferences fall away, Nepali industries could struggle to compete on equal footing. Unless Nepal accelerates reforms to improve its business climate, infrastructure, and skills, the country may find it difficult to attract the investment needed to grow new industries in a post-LDC era.

Sectoral Opportunities for Economic Diversification in Nepal

To generate employment-intensive growth, Nepal needs to diversify and develop tradeable sectors where it has comparative advantages. A more diverse production base oriented toward exports or efficient import substitution can create a large number of jobs and reduce the reliance on remittances. Several sectors stand out as high-potential areas for pro-employment growth, given Nepal's resource endowments, location, and labour pool. These include agribusiness and agro-processing, tourism and hospitality, light manufacturing and industry, and information technology and business process outsourcing (IT/BPO). Prioritizing and investing in these sectors while addressing structural constraints can stimulate job creation on a substantial scale. Below key tradeable sectors with strong job-generation prospects are outlined, focusing on how Nepal can capitalize on its advantages in each sector and address potential barriers to development:

Agribusiness and Agro-Processing

Modernising agriculture and expanding agro-processing industries can absorb labour while raising productivity. Nepal's varied agro-climatic zones allow it to grow a range of high-value crops such as tea, coffee, spices, herbs, and fruits that are in demand in regional and global markets. Developing value chains for these products (for example, processing tea and coffee or producing herbal

¹¹ UN 2022

oils and medicinal plant extracts for export) can create jobs in rural areas and small towns. Agribusiness is labour-intensive across the supply chain, from improved farming practices to processing and logistics. Currently, the largest share of Nepal's labour force is engaged in low-yield subsistence farming. By improving irrigation, seeds, and cultivation techniques, agricultural output can increase, freeing workers to transition into agro-processing and related services. Nepal has a comparative advantage in niche exports such as large cardamom, ginger, lentils, and orthodox tea, which could be expanded with support for quality control, branding, and farmer cooperatives.

Food processing for domestic markets can offer potential to substitute imports of processed foods and beverages while creating local manufacturing jobs. To realize this potential, key constraints must be addressed: inadequate rural infrastructure— particularly farm-to-market roads, storage, and cold chains— limits market access; and lack of finance and technology holds back agro-processing growth. Investment in agribusiness can offer dual benefits; it can increase incomes for the majority of Nepalis who depend on farming as well as create off-farm employment in higher-value segments. A shift from subsistence farming to commercial agriculture and food industries would directly reduce rural underemployment. Agro-processing is also suited for MSMEs, which can be scaled up with appropriate training, credit, and market access.

Tourism and Hospitality

Nepal's natural and cultural assets make tourism a labour-intensive sector with strong potential for inclusive job creation. From the Himalayas to Lumbini and the heritage sites of the Kathmandu Valley, Nepal attracts both international and domestic travellers. The sector supports a wide range of jobs¹² and generates demand in agriculture, crafts, and local services. It also opens opportunities for women and remote communities by bringing employment to the locations where tourists spend. Yet, despite having attractions comparable to its neighbours, Nepal continues to receive fewer visitors. Targeted improvements in infrastructure and marketing, such as expanding air links, increasing hotel capacity, developing new circuits, and addressing safety and cleanliness, could help raise arrivals and extend

stays. If planned and managed well, tourism can channel spending directly into local economies, support cultural heritage, and become a driver of pro-poor growth. While the sector was hit hard by COVID-19, impressive recovery in recent years provides an opportunity to build resilience. Addressing issues like seasonality, environmental pressures, and shortages of skilled hospitality workers through training and better destination management will be essential. Tourism's high labour absorption and Nepal's attractions make it a top priority sector for employment-led growth.

Light Manufacturing and Industry

Revitalizing light manufacturing presents an opportunity to create jobs and diversify Nepal's export base. While the sector's contribution to GDP and employment has declined over time, Nepal retains competitiveness in selected sub-sectors. Garment and textile production, once a major employer, still benefits from an available semi-skilled workforce and experience in export markets. As production costs rise in neighbouring countries, there may be scope for Nepal to attract investment in high-value or regional garment manufacturing. Similarly, traditional sectors such as carpet weaving and pashmina production continue to employ skilled artisans and could scale with the right market linkages. Assembly-type manufacturing targeting the Indian market also holds potential, particularly in consumer goods or light equipment. Manufacturing can support direct employment and generate indirect jobs in logistics, maintenance, and services. However, the sector's job-creation potential remains unrealized. Recent survey data show that manufacturing plants were operated at an average capacity utilization of just 62 percent in FY 2023/24, Q2—leaving nearly two-fifths of installed capacity idle. Further, the sector imports about 41 percent of raw-material requirements which indicates an increased exposure to currency and logistics risks.¹³

Realizing this potential will require addressing persistent constraints. These include high energy and transport costs, regulatory complexity, limited access to industrial land, and challenges in scaling production. Investment in industrial infrastructure, particularly in planned zones and corridors, remains uneven. Reliable electricity and improved road access to production hubs could improve investors'

¹² E.g. guides, porters, hotel and transport workers, artisans.

¹³ CNI 2024

interest. Foreign direct investment (FDI) can complement domestic capacity by bringing technology, financing, and trade access. Progress on trade facilitation and logistics would strengthen Nepal's position in regional supply chains, particularly with India. Sub-sectors such as textiles and apparel, food and beverage processing, construction materials, and light machinery offer employment potential if policy and infrastructure gaps are addressed appropriately. Continued efforts in skills development, simplification of regulatory processes, and targeted industrial promotion may contribute to a gradual rebuilding of the sector. Manufacturing remains important not only for employment but also for diversifying sources of growth and expanding Nepal's participation in regional trade.

Information Technology and Business Process Outsourcing (IT/BPO)

Nepal, with its young, English-speaking workforce and diaspora linkages, has the conditions to expand its IT/BPO services sector. A growing number of Nepali firms now operate in areas such as software development, animation, digital content, and remote back-office services for overseas clients. These tradeable services provide relatively high-quality employment opportunities, particularly for educated youth, and often offer more formal and better-paid roles than typical domestic alternatives. Jobs in IT and BPO, ranging from software engineering to customer support and digital design, are increasingly accessible to women, especially when training and work environments support their participation. Nepal's lower labour costs, compared to regional competitors, strengthen its appeal for international clients seeking cost-efficient service delivery. Domestic firms have already established track records in outsourced accounting, medical transcription, and software development for clients abroad. These activities have low capital requirements and align with global demand trends, allowing for employment growth across urban centres. They also present an alternative for skilled youth considering migration, by creating opportunities that retain talent within the country.

Expansion of IT/BPO sector will depend on the progress in creating enabling environment. Reliable electricity supply and broadband connectivity, particularly beyond the Kathmandu Valley, are critical to maintaining service quality. Despite growing numbers of IT and

engineering graduates, limited practical exposure and weak links between academic curricula and industry needs have constrained workforce readiness. Targeted collaboration between universities and firms for internships, certification, and updated curricula could improve job readiness. The legal and regulatory environment will also influence the sector's trajectory; streamlined firm registration, data protection provisions, and cross-border digital trade facilitation can reduce business friction. Digital literacy gaps and fragmented infrastructure remain barriers in many parts of the country. Dedicated IT parks with shared infrastructure, access to export incentives, and business incubation services may help lower entry barriers for startups. Nepal's diaspora in global tech centres presents opportunities for mentorship, market connections, and subcontracting relationships. With these enablers in place, the IT and outsourcing services sector could become a major source of employment for tertiary-educated youth, contributing to diversification of exports and formal job creation in line with the country's digital transformation ambitions.

Across all sectors, several cross-cutting constraints need resolution for Nepal to unlock their job-creating potential. Inadequate infrastructure, including roads, electricity, and internet, raises business costs and must be improved to attract investment in productive sectors. Complex regulations and evolving capacity of institutions deter entrepreneurship; streamlining business registration, customs procedures, and licensing will encourage more formal enterprises. Easy access to finance is another hurdle, as many small firms and farmers cannot obtain affordable credit to expand operations. Strengthening financial services, such as microfinance, cooperatives, and banking outreach outside urban centres, is important for MSME growth in agribusiness, tourism, and manufacturing. Skills and entrepreneurship developments are equally important; Nepal will have to invest in vocational training targeted at growth sectors like hospitality, industrial skills, and IT coding bootcamps. This would reduce the mismatch between available jobs and job seekers' skills. Boosting competitiveness will require lowering input costs—such as reducing transport bottlenecks at border points—to make Nepali exports more cost-competitive and reviewing high import tariffs on raw materials to aid local manufacturers.

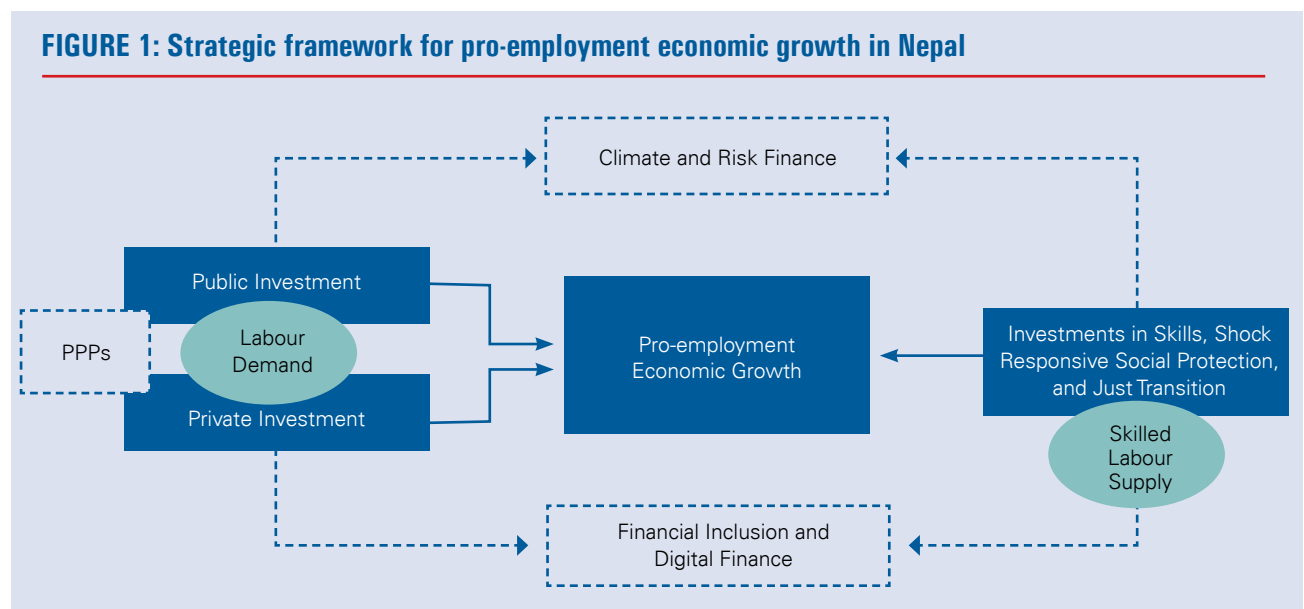


Structure of the Strategic Framework

Nepal’s pro-employment INFF Financing Strategy rests on three interconnected drivers: (1) public and private investments to drive labour demand, bridged by public-private partnerships (PPPs) as needed; (2) investments in skills, shock-responsive social protection, and just transition policies to secure a skilled and adaptable labour supply; and (3) cross-cutting enabling conditions—specifically climate and risk finance, and financial inclusion including digital finance— that address systemic frictions by expanding access to capital, improving resilience to shocks, and lowering the risk and transaction costs of employment-generating investments and labour market participation. In Figure 1, solid arrows represent primary flows which are investments driving labour demand and skills development supporting labour supply; while dashed boxes and arrows denote enabling conditions that reduce frictions and enhance the connectivity between labour demand and supply. Below the figure is a brief discussion on how these drivers interact to promote sustainable and job-rich growth in Nepal.

Driver 1: Public and Private Investments, and PPPs for Driving Labour Demand

Nepal’s capacity to generate employment at scale will depend on the structure, efficiency, and quality of its investment environment. While public capital expenditure has grown in absolute terms over the years, persistent under-execution continues to constrain its labour market impact. Budgeted capital allocations remain significantly underutilized; in recent years, capital budget execution has averaged only 65–75 percent of planned outlays, with a large share disbursed in the final quarter of the fiscal year.¹⁴ This is reflective of upstream and downstream challenges related to public investment management, including fragmented project preparation, delays in procurement approvals, limited project readiness, and institutional coordination gaps across tiers of government. Similar issues affect the disbursement of external concessional loans, where signed commitments remain underutilized due to low readiness of pipeline projects, procurement bottlenecks, and compliance burdens.



Source: Author’s elaboration

¹⁴ DFA 2024

These structural inefficiencies limit the potential of public investment to deliver both short-term employment and long-term productivity gains.

Investment in transport, energy, irrigation, and digital infrastructure directly creates jobs through construction and ancillary services, while also improving connectivity, reducing business costs, and stimulating private sector activity. Investment in trade related infrastructure can raise firms' productivity and expand market access, especially for agribusiness and manufacturing sectors with high employment elasticity. Within Nepal, improved road and energy infrastructure are repeatedly cited by firms as prerequisites for expansion, including job creation. In this context, well-prioritized and well-executed public investment can play a catalytic role, not only by absorbing labour in the short term, but by crowding in private investment that sustains longer-term job creation.

Private sector investment will shape Nepal's employment outcomes, given that more than 80 percent of the workforce is engaged outside the public sector.¹⁵

However, firms continue to face a mix of structural and policy-related barriers that constrain expansion. These include regulatory unpredictability, delays in administrative procedures, and limited and costly access to long-term finance. Logistics costs remain high, particularly due to gaps in transport infrastructure and trade facilitation systems, which limit competitiveness in employment-rich sectors such as agro-processing, light manufacturing, and tourism. While power availability has improved significantly with the expansion of hydropower, challenges persist around distribution reliability, quality, and cost for industrial users. Public investment and policy reform are therefore needed not only to close remaining infrastructure gaps but also to improve service delivery and reduce transaction costs faced by private firms. These measures are central to raising private investment and expanding formal job opportunities at scale.

PPPs are relevant where investment needs exceed public fiscal capacity, yet market conditions are not sufficient to attract private investment without risk-sharing. In Nepal, PPPs have potential beyond

large infrastructure, particularly in addressing service gaps in transport, logistics, urban service delivery, and digital connectivity- areas that directly affect firms' productivity and investment decisions. Yet, PPP uptake has remained low and concentrated in energy sector. Institutional constraints, including weak project preparation capacity, unclear risk allocation, and delays in land and regulatory approvals, have limited the pipeline. The Public-Private Partnership and Investment Act, 2019 (PPPIA) provides a legal foundation; however, implementation gaps persist, especially in structuring bankable projects and managing fiscal and contingent liabilities. Strengthening upstream capacity and clarifying modalities such as viability gap funding and blended finance will be necessary to crowd in investment where high spillovers exist but private interest remains weak under current conditions.

Driver 2: Investments in Skills, Shock-Responsive Social Protection, and Just Transition for Strengthening Labour Supply

Nepal's ability to generate employment at scale depends not only on investment and firm growth, but also on the readiness of its workforce to meet evolving labour market demands. While Nepal has made strides in expanding education access, the transition from school to work remains weak. The country's skills development ecosystem is fragmented, heavily supply-driven, and insufficiently connected to the sectors with the highest employment potential, including agribusiness, tourism, light manufacturing, construction, and digital services. As a result, youth underemployment remains high even as employers report shortages of job-ready talent.

Training programs often lack alignment with occupational demand, and most of them operate in isolation from industry.

Enrolment remains concentrated in low-productivity sectors, and there are limited opportunities for practical learning or workplace exposure. Quality and affordability also act as barriers, and most MSMEs lack the capacity to invest in in-house training. Addressing these gaps will require a shift toward demand-responsive skills systems, supported

¹⁵ FNCCI and IFC 2023

by competency-based curricula, modular certification, and strong engagement with employers. Investments in industry-linked TVET and apprenticeships tailored to the needs of priority sectors and subnational labour markets can expand employment pathways, particularly for women and youths. Regional training centers could be set up in the future, with local governments and industry pooling their resources, to offer targeted training in places with high out-migration or limited private-sector jobs.

However, technical skills alone are not sufficient to improve labour supply in a context of income insecurity, sectoral disruptions, and environmental shocks. Many workers are unable to transition between jobs or sectors due to lack of safety nets and high-risk aversion. Existing social protection systems are fragmented and largely coverage-based rather than responsive to livelihood or climate-related shocks. Schemes such as social security allowances and employment programs are administered across multiple agencies with limited coordination, and ill-equipped to maintain labour market participation during periods of disruption. A more adaptive social protection regime is needed which links social protection instruments to employment and reskilling outcomes. Aligning social protection with labour market triggers (disaster events, seasonal downturns) and strengthening early warning and targeting systems will support households in navigating disruption without falling out of the workforce.

This is especially important in sectors undergoing structural change. The informal economy continues to dominate Nepal's labour market, particularly in agriculture, subsistence services, and microenterprise-based livelihoods. As these sectors gradually formalize, some forms of labour will become redundant or unviable. Agriculture, specially, remains the largest source of employment in Nepal and is also the dominant source of non-CO₂ greenhouse gas emissions. Methane and nitrous oxide emissions (mainly from rice cultivation, enteric fermentation, and fertilizer use) accounted for 70 percent of Nepal's total GHG emissions in 2021.¹⁶ As the sector transitions toward higher productivity and

increased agro-processing, many subsistence-based or environmentally unsustainable practices will no longer be viable. Just transition frameworks will be important to support workers and smallholders affected by this shift. Well-designed support packages that combine training, access to credit, cooperative participation, and links to off-farm employment can help affected groups shift into more productive, formalized livelihoods. Transition pathways will need to account for regional disparities, crop systems, and household vulnerability, and can build on recent initiatives in Gandaki and Lumbini provinces that promote climate-smart agriculture and model village programs.¹⁷

Driver 3: Cross-Cutting Enablers – Climate and Risk Finance, Financial Inclusion, and Digital Finance

Nepal's employment outcomes depend not only on investment and labour supply but also on the enabling conditions that support capital allocation, mitigate risk, and connect people and firms to opportunity. Three interconnected enablers - climate and risk finance, financial inclusion, and digital finance – need to play a foundational role in translating Drivers 1 and 2 into sustainable, job-rich outcomes. These enablers will help reduce market segmentation, cushion against shocks, and widen participation in growth sectors, particularly for households and enterprises operating at the margins.

Climate and risk finance instruments, including concessional lending, insurance products, and guarantee schemes, can shift the risk-return profile of projects in sectors vulnerable to climate variability or reliant on long investment cycles. In infrastructure, blended finance and viability gap funding can make resilient investments financially feasible, especially where adaptation benefits accrue broadly but do not generate direct user fees. For example, concessional climate finance can improve the bankability of irrigation, slope stabilization, or flood control projects that unlock agricultural productivity and reduce climate-related employment losses. At the firm level, products such as weather-indexed crop insurance or disaster-linked

¹⁶ [Climate Action Tracker 2023](#)

¹⁷ In 2020, Gandaki Province introduced the Chief Minister's Environment-Friendly Model Agriculture Village Program to build climate-resilient, sustainable farming through climate-smart practices. In 2021, Lumbini Province financed and managed a smart-agriculture initiative covering 116 villages. Source: [Climate Action Tracker 2023](#)

working capital facilities can enable continuity of operations, helping enterprises and workers recover quickly from adverse events. Availability of risk management tools can raise private sector willingness to invest in new technologies, high-risk geographies, or employment-rich sectors sensitive to climate risks. However, the current use of climate finance in Nepal remains largely project-based and siloed. Mainstreaming risk financing into the broader investment and employment agenda, through fiscal instruments, financial sector regulation, and subnational programs, will be necessary to realize its full employment impact.

Financial inclusion is equally important. Despite recent progress, access to affordable and appropriate financial services remains uneven, particularly among rural households, informal workers, and small enterprises. Credit constraints limit investment in skills, enterprise growth, and job creation, while lack of savings and insurance amplifies vulnerability to shocks. Enhancing financial inclusion, especially among women and youths, will require both expanding the reach of formal institutions and tailoring products to employment-linked use cases. Financial infrastructure upgrades, including credit information systems, digital Know Your Customer (KYC) protocols, and secured transaction registries, will be essential to reduce transaction costs and enable collateral-light lending. Building such systems around employment-linked applications can align financial access with labour market transitions.

Digital finance acts as both a delivery channel and a market connector. Mobile money, and agent banking networks can reduce the cost and time of delivering financial services in remote areas. Digital finance platforms can reduce frictions in job matching, and enterprise development by linking users to information. As digital ecosystems mature, they will also generate

transaction data at scale that can inform credit decisions, reduce reliance on collateral, and enable rapid loan origination.

Together these enablers can improve allocative efficiency, reduce risk, and lower barriers to entry in job-rich sectors. Aligning risk-sharing instruments, financial access, and digital infrastructure with employment objectives will enable Nepal to improve the effectiveness of public and private investments, support firm growth, and expand workforce participation in a more dynamic and resilient labour market.

The three drivers– labour demand, labour supply, and enabling conditions– constitute the strategic foundation of Nepal’s INFF Financing Strategy for employment-focused growth. Public and private investments will expand employment across high-potential sectors. Skills development and adaptive social protection will prepare workers to take up emerging opportunities and navigate sectoral transitions. Climate and risk finance, combined with improved financial access, will reduce exposure to shocks and support capital flow to underserved regions and enterprises. This structure will enable a shift toward higher-quality, more inclusive, and resilient labour market outcomes.

This strategic framing is operationalized through six thematic pillars that define the INFF’s priorities and financing strategies. They are: (1) Fiscal Policy and Public Finance, (2) Monetary Policy and Private Finance, (3) Public-Private Partnerships, (4) Financial Inclusion and Digital Finance, (5) Climate and Disaster Risk Finance, and (6) Skills Development and Just Transition. The following chapters outline these pillars in sequence, detailing institutional responsibilities, financing instruments, and action points that collectively support a more inclusive and employment-rich economy.





Pillar 1: Fiscal Policy and Public Finance

The Government of Nepal will use fiscal policy and public financial management (PFM) systems to promote pro-employment economic growth.

Persistent high levels of unemployment and fiscal constraints require aligning fiscal frameworks with labour market priorities so that public expenditures, tax policies, and institutional reforms generate employment. Investments in infrastructure, tighter procurement rules, and targeted incentives will address structural inefficiencies and raise labour demand.

Fiscal policy will specifically focus on reallocating resources to labour-intensive sectors and improving public spending efficiency. Priority will be given to projects in transport, rural infrastructure, renewable energy, and agro-industrial development, with strengthened public financial management systems supporting effective project appraisal, monitoring, and execution. Tax policy reforms will be utilized to incentivize formal sector employment and skill development. Key fiscal policy and PFM-reform related priorities for pro-employment economic growth are outlined below, followed by targeted strategies to address them.

Priority 1.1: Improve Public Investment Planning, Execution, and Financing for Infrastructure

Enhancing public investment is a key priority for Nepal, as the current infrastructure deficits in transport, energy, water and sanitation, urbanization, and irrigation limit economic activity and job creation. Investment in these sectors can generate both direct employment through labour-intensive public works and indirect employment by reducing logistic bottlenecks and enabling private sector growth. Improving infrastructure and service delivery through well-executed public investment can promote private investment and unlock economic opportunities and drive inclusive growth, but this will require efficient and

timely execution of expenditures.¹⁸ To maximize the employment impact of public investment, the government will adopt the following strategies:

Strategy 1.1.1: Strengthen multi-year capital budgeting frameworks to improve public investment selection and sequencing

Nepal's capital budgeting will benefit from stronger integration between the medium-term expenditure framework (MTEF) and a structured system for project appraisal and selection. This will help align capital allocations with economic priorities and improve the sequencing of projects based on readiness and employment impact.

Currently, the MTEF includes capital expenditure estimates for two years beyond the annual budget, disaggregated by ministry, sector, project, funding source, and climate relevance. However, these outyear estimates tend to be optimistic and are seldom used to guide real funding decisions.¹⁹ Budget discussions remain focused on the budget year, limiting the MTEF's role in medium-term capital prioritization. While the Financial Procedure and Fiscal Responsibility Act, 2019 mandates total project cost estimates in the MTEF, these estimates are often unpublished or outdated. As a result, decision-makers lack full lifecycle cost visibility, making it difficult to compare the long-term economic and employment benefits of competing projects. To support disbursement tracking and lifecycle budgeting, project milestones and funding schedules will be integrated into the Integrated Financial Management Information System (IFMIS); this step will require modest system upgrades and a data-discipline drive within line ministries.

To strengthen project selection, the government will fully operationalize National Project Bank (NPB) guidelines, incorporating tools such as cost-benefit analysis, economic rate of return estimates, and

¹⁸ High-level Economic Reforms Commission Report 2025

¹⁹ World Bank 2022

BOX 2: Fiscal Policy and Public Finance - Strategic Framing and Reform Logic

Problem Statement

Nepal's fiscal tools are not sufficiently aligned with employment and productivity objectives. Capital spending is often delayed, and poorly prioritized. Public investment suffers from weak execution, inconsistent project appraisal, and coordination bottlenecks. Meanwhile, tax incentives are applied broadly without measurable development outcomes. MSMEs, which form the backbone of employment, face high compliance costs and limited access to fiscal support. Some tariff exemptions narrow the tax base and weaken sectoral price signals.

Strategic Response

Pillar 1 of the INFF Financing Strategy outlines an integrated fiscal policy reform agenda centred on three priorities:

- 1. Improve the quality and execution of public investment through** multi-year capital budgeting frameworks, operationalization of the NPB, and standardized project appraisal tools that factor in employment outcomes (both direct and indirect). Strengthen procurement systems and contract management to support timely execution and workforce participation. Enhance monitoring through digital platforms and milestone-linked fund disbursement.
- 2. Reform tax policy instruments to incentivize private sector employment and formalization.** Introduce performance-based tax credits linked to job creation, training, and social security enrolment. Expand MSME access to simplified registration and digital filing systems, with phased compliance pathways. Update depreciation and customs duty provisions to reward firms investing in employment-intensive sectors.

3. Rationalize tax exemptions and tariff structures to improve allocative efficiency while protecting equity and competitiveness.

Replace blanket corporate and VAT exemptions with targeted, outcome-linked provisions. Adjust import tariffs to reduce production costs in labour-intensive and export-oriented sectors. Strengthen monitoring, enforce sunset clauses, and cap total tax expenditures to safeguard fiscal sustainability.

Expected Results

- Higher-quality public investment with improved execution, better economic returns, and increased employment effects.
- A tax system that rewards productive, formal-sector employment and MSME growth.
- More efficient use of fiscal space through targeted incentives and reduced leakage from ineffective exemptions.
- Improved private sector response in high-employment sectors, particularly in agro-processing, light manufacturing, and services.

Key Implementation Assumptions

- Line ministries and subnational governments adopt new appraisal and procurement systems.
- IRD systems are strengthened to support digital onboarding, automated credit claims, and risk-based audits.
- Firms respond to phased compliance incentives and enrol in social protection schemes when supported by local outreach.
- Fiscal trade-offs from incentive reforms are managed through expenditure caps, periodic policy reviews, and improved targeting mechanisms.

investment readiness scores. Additional metrics, including projected employment impact, will be introduced to align project appraisal with labour market priorities. Project sequencing will be guided by sectoral priorities, implementation readiness, and downstream job creation potential, as scored through the NPB and reflected in rolling MTEF ceilings.

To improve the consistency and quality of capital project evaluation, line ministries will adopt sector-specific appraisal guidelines. These will be developed by adapting existing tools used by the National Planning Commission (NPC) and Investment Board Nepal (IBN), particularly in energy, transport, and urban infrastructure. Standardizing appraisal practices will address current fragmentation, where ministries apply varied methodologies that limit comparability and hinder strategic prioritization. All large projects submitted to the NPB will be required to complete feasibility assessments that include technical, financial, and market analysis, along with indicative employment and productivity impacts. To strengthen credibility and reduce delays, feasibility reviews will be subject to third-party validation using a roster of pre-qualified firms engaged under framework agreements.

Feasibility assessments will include scenario-based stress testing, risk analysis, and verification of readiness conditions, such as land acquisition, environmental clearances, and implementation planning.²⁰ Priority will be given to projects that address infrastructure gaps constraining private sector expansion in sectors with high employment elasticity. The phased rollout of appraisal guidelines and tailored training for ministries and provincial governments will improve investment quality and support employment-oriented capital budgeting.

Strategy 1.1.2: Streamline procurement processes and strengthen contract management capacity
Nepal's public investment faces challenges in procurement and contract oversight which reduces

employment impact of capital spending. To address this, the Government of Nepal will update procurement laws to mandate public disclosure of contract details and discourage splitting of contracts into smaller packages.²¹ The government will prioritize operationalization of the e-Government Procurement (e-GP) system across all stages and strengthen its integration with the Public Procurement Management Information System (PPMIS). PPMIS, which is part of the e-GP system, was designed to analyse procurement data and support monitoring but remains underutilized, with the e-GP system currently capturing data only up to the bid submission and opening stages which limits its utility for tracking contractor compliance. e-GP and PPMIS will be fully operationalized to support end-to-end procurement tracking and compliance monitoring. Addressing the existing administrative and technical limitations of these systems will require investments in capacity building, and coordination among agencies.

Alongside technical reforms, procurement will be repositioned as a tool for promoting local employment and MSME participation where feasible. New scoring criteria will award points for job creation commitments, hiring of local workers, subcontracting to local MSMEs, and workforce development activities. To address the concerns about fairness and compliance with the procurement law, the introduction of such criteria will be structured as point-weighted elements within the technical evaluation and applied only in sectors or contract types where labour intensity is relevant and where economic inclusion goals are justified in advance. These scoring provisions will be implemented through amendments to the procurement laws and will be accompanied by clear thresholds, standard documentation requirements, and safeguards to prevent misuse or exclusion. Project-level assessments will identify where labour-intensive methods can be used without compromising efficiency or quality. The Public Procurement Management Office (PPMO) will develop contract templates that include enforceable

²⁰ Currently, feasibility studies are inconsistently conducted across line ministries. Project readiness criteria, including land acquisition, environmental clearances, and detailed implementation plans, are not systematically incorporated into the appraisal process. For example, the Ministry of Physical Infrastructure and Transport (MOPIT) uses a two-page project proposal format summarizing objectives, activities, and cost estimates, but omits detailed cost-benefit and risk analyses. The NPB guidelines mandate rigorous appraisals but their implementation remains limited, and sector-specific methodologies have not been developed yet.

²¹ The Public Procurement Act, 2007 and Public Procurement Rules, 2007 provide strong legal foundations for competitive bidding and fairness in procurement processes. While procurement opportunities and intentions to award contracts are publicly advertised under this framework, there is no mandatory requirement for the publication of awarded contract details. The framework also encourages open and competitive bidding for works procurement; however, this is sometimes undermined by practices such as fragmenting contracts into smaller packages to bypass competitive thresholds.

labour clauses and define minimum local hiring and training obligations. These templates will be rolled out incrementally, with accompanying training for procurement officials and implementing agencies.

Improved contract enforcement is critical to realizing the employment potential of public procurement.

A phased rollout of employment audits will follow the operationalization of scoring criteria and labour-linked clauses to allow contractors and agencies time to adjust. Audits will focus on verifying workforce commitments and detecting noncompliance in large and labour-intensive contracts. In the medium term, a procurement analytics dashboard will be developed to consolidate data from e-GP and PPMIS, providing insights on job creation, local hiring, contractor performance, and workforce composition (e.g. women, youth, returnee migrants). This will address current gaps in post-award oversight and improve transparency by enabling public access to selected performance metrics.

Public procurement reform will serve dual objectives: increasing execution efficiency and using infrastructure delivery to expand employment, particularly in regions and sectors with limited formal job creation. Strengthened systems, aligned incentives, and enforceable employment clauses will help translate capital spending into inclusive labour market outcomes.

Strategy 1.1.3: Strengthen project implementation and monitoring capacity to improve public investment outcomes

Delays, cost overruns, and weak capital budget execution continue to limit the return of the projects.²²

This will ultimately limit the employment and productivity impacts of public investment in Nepal.

These problems stem from fragmented project management, weak interagency coordination, and limited monitoring capacity at both central and subnational levels. The Government of Nepal has already initiated reforms to improve implementation readiness, streamline land and clearance processes, and strengthen project oversight systems. Strategy 1.1.3 builds on these efforts to consolidate execution protocols, expand digital monitoring tools, and address institutional capacity gaps.

Standardized execution guidelines will be rolled out to harmonize project delivery across ministries and provinces.

These will clarify roles, timelines, and escalation procedures for multi-year and large-scale projects. Pre-construction readiness will remain a priority. Coordination for land acquisition, forest and environmental clearances, and utility relocation will be improved through expanded use of e-clearance systems and integrated workflows now under development.

A centralized digital platform will be launched to monitor implementation progress using real-time data from the NPB, DFIMS, and IFMIS.

This will support systematic tracking of physical milestones and financial disbursements and enable timely corrective action. At the same time, provincial and local governments will receive technical support and digital tools to strengthen decentralized monitoring and address local execution challenges.

Accountability will be reinforced through regular project reviews and selective third-party audits, focused on timelines, contract compliance, and budget execution.

Public disclosure of findings will improve transparency and strengthen enforcement. Training programs for project managers will be expanded in core areas such as scheduling, contract management, risk mitigation, and safeguards. These investments will build implementation capacity across agencies and reduce systemic execution delays.

Strategy 1.1.3 will strengthen the delivery of approved investments.

Combined with upstream reforms in project selection (Strategy 1.1.1) and procurement (Strategy 1.1.2), it will raise capital budget execution rates and increase the employment and economic impact of public infrastructure spending.

Strategy 1.1.4: Expand development financing through diversified instruments and market-based mechanisms

Nepal's fiscal space remains constrained by limited domestic revenue and rising debt servicing costs, while capital investment needs in infrastructure continue to grow. Although concessional finance from multilateral institutions remains a major source of

²² High-level Economic Reforms Commission Report 2025

development funding, it alone cannot meet the scale or predictability required for sustained public investment. This strategy proposes a targeted expansion of public infrastructure financing through a mix of market-based instruments, blended finance tools, and policy reforms to improve the government's access to long-term capital.

MoF will begin by operationalizing a pipeline of commercially viable infrastructure projects for co-financing through domestic bond markets and PPPs.

Municipal and project-specific bonds such as infrastructure bonds or diaspora-linked instruments will be introduced for matured urban and energy projects. SEBON will develop issuance guidelines covering project eligibility, repayment safeguards, and investor protection aligned with Nepal's debt management framework. At the federal level, longer-dated treasury instruments tied to specific sectors (for example green bonds for climate-resilient transport or energy access) will be explored in coordination with development partners offering partial credit guarantees or first-loss mechanism. The proposed Alternative Development Finance Bill will provide a dedicated legal vehicle for issuing such bonds, establishing pooled funds, and creating risk-sharing facilities, including guarantees backed by domestic institutions or MDBs.

To catalyse domestic investor participation, MoF and NRB will coordinate with institutional investors such as pension funds, insurance companies, and mutual funds to increase allocations to infrastructure debt.

This may include revising prudential regulations to recognize credit-enhanced infrastructure securities and piloting structured vehicles (like pooled municipal investment platforms) to lower transaction risk. The forthcoming operationalization of the Alternative Development Finance Fund, to be established under the proposed legislation, will create a specialized facility to mobilise mixed financial instruments, attract diaspora capital through remit funds, and offer credit or equity participation in high-return infrastructure projects. PPPs will be deepened for sectors such as transmission, logistics, and water

infrastructure, with project preparation support channelled through a dedicated project development facility and VGF windows for commercially marginal but socially important investments.

Multilateral and bilateral lenders will continue to provide concessional loans and grants, but new co-financing models will be adopted.

For example, blended finance will be used to crowd in private and philanthropic capitals into public service infrastructure (solar schools, health posts, rural roads). Aligned with the Foreign Aid Mobilisation Policy, 2025, development assistance will increasingly support private sector development and alternative financing models that enhance leverage and local co-ownership. MoF will also explore opportunities for results-based financing and social impact bonds, especially for labour-intensive public investment programs linked to verified employment or service delivery outcomes. Feasibility of using carbon finance or Article 6-based mitigation credit²³ revenues to co-finance infrastructure with dual climate and economic impact will be assessed with technical assistance. To manage contingent liabilities and fiscal risks associated with these instruments, a central unit within MoF will maintain a registry of all infrastructure-linked guarantees, VGF exposures, and off-balance-sheet commitments. The Public Debt Management Office (PDMO) will oversee fiscal appraisals and ceiling compliance for all new borrowing instruments. In line with the Foreign Aid Mobilisation Policy's emphasis on risk-informed project selection and execution accountability, all borrowing and blended finance operations will be subject to screening for fiscal sustainability, debt ceilings, and environmental-social compliance.

Priority 1.2: Introduce Targeted Fiscal Incentives to Attract Private Investments in Sectors with High Employment Elasticity

Nepal's fiscal incentives are not well aligned with employment and productivity goals. MSMEs, which account for most private employment, face high compliance costs and limited access to support.

²³ Article 6 of the Paris Agreement enables countries to cooperate in achieving their climate targets through market-based mechanisms. Under Article 6.2, countries can trade Internationally Transferred Mitigation Outcomes (ITMOs) bilaterally or multilaterally. Article 6.4 establishes a UN-supervised global carbon market to issue credits from mitigation activities that generate verified emission reductions. Revenues from the sale or transfer of such credits, when linked to host-country approval and aligned with national NDCs, can be used to co-finance climate-compatible infrastructure.

To address these gaps, the government will introduce performance-based tax incentives, simplify MSME registration and compliance, and revise sector-specific depreciation and duty rebate provisions. The following strategies outline these reforms:

Strategy 1.2.1: Link tax incentives to employment outcomes and formal sector expansion

Nepal's current tax incentive regime lacks strong linkages to employment or productivity outcomes.

Existing provisions, such as corporate tax holidays, VAT exemptions, and customs concessions are broadly applied, with limited differentiation based on firm behaviour or developmental impact. This strategy aims to recalibrate incentives around measurable outcomes tied to job creation, skills development, and formalization of enterprises, with tailored provisions for MSMEs and large firms.

For MSMEs, which account for the largest share of employment but operate mostly outside the formal tax system, the focus is on easing entry into the tax system and incentivizing gradual compliance.

Reforms will expand simplified regimes (turnover-based taxes, cooperative rates), streamline registration procedures, and introduce phased compliance paths. Flat-rate tax credits will be made available to newly formalized firms based on documented job growth, vocational training investment, or productivity gains. These credits will be time-bound and conditional on filing labour declarations, and digital onboarding. Region-specific credits will support firms in lagging provinces.

For larger firms operating in labour-intensive sectors such as agro-processing, construction, and tourism, performance-based credits will be introduced.

Incentives will be tied to quantifiable metrics like new jobs registered with social security, verified training programs, or integration of informal suppliers. Additional provisions will reward firms employing marginalized groups or investing in workforce certification. Credit ceilings will vary by sector and firm size, with allocation informed by employment elasticity and GDP contribution.

Implementation will rely on digital systems to validate claims using payroll, social security, and

audit records. Credit values will be capped under fiscal ceilings and reviewed periodically to balance revenue trade-offs with employment and productivity impacts. These reforms will shift Nepal's tax incentive regime toward greater efficiency and equity, supporting enterprise growth and formal sector job creation.

Strategy 1.2.2: Update accelerated depreciation allowances and customs duty rebates for machinery in priority sectors

Nepal currently offers accelerated depreciation allowances and customs duty rebates for machinery in select sectors. However, these incentives are not tied to employment, productivity, or export outcomes, limiting their development impact.

This strategy will refine the incentive regime by linking eligibility to measurable performance criteria.

In line with Domestic Revenue Mobilisation Strategy, 2024 (DRMS), all depreciation and duty rebates will be transparently reported through an integrated digital portal, allowing real-time visibility of fiscal exposure. To mitigate the risk of short-term or artificially inflated figures, qualification for incentive will be based on composite outcomes that reflect both the scale and sustainability of enterprise contributions. Updates will be introduced through the Finance Act and implemented under the Income Tax Act, 2058 (2002) and Customs Act, 2064 (2007). Firms will qualify based on outcomes such as: creation of at least 50 formal jobs maintained for a minimum of 12 consecutive months (verified through social security and payroll data), minimum 10 percent annual export growth (supported by customs records), or at least 15 percent production efficiency gains (audited and documented). Initial focus will be on agro-processing, renewable energy, and ICT. For example, firms importing machinery for food traceability, hydropower efficiency, or R&D infrastructure will receive targeted support.

Compliance will be streamlined via a one-time certification process during asset registration, with IRD conducting periodic, risk-based audits.

Digital systems for tax filing and customs tracking will be upgraded to support automated claims and real-time verification. A pilot program in agro-processing and

renewable energy will inform scale-up, with sector eligibility reassessed every two years. Sunset provisions will return firms to standard depreciation schedules after five years, confirming a shift from subsidy dependence to competitive performance. These reforms will better align Nepal's capital incentives with job creation and productivity goals, while managing fiscal risk through clear eligibility rules, review cycles, and time-bound benefits.

Priority 1.3: Broaden the Tax Base by Rationalizing Distortive Exemptions while Preserving Equity

Nepal's tax system contains broad exemptions that reduce revenue but are not consistently aligned with employment, productivity, or equity goals. Many lack outcome-based criteria, narrowing fiscal space and distorting sectoral incentives. Larger firms and urban areas benefit disproportionately, while smaller enterprises face high compliance costs and limited relief. The government will rationalize VAT and corporate tax exemptions, recalibrate import tariffs to support competitive production, and strengthen enforcement and monitoring capacity. These reforms aim to align fiscal policy with employment and competitiveness objectives while maintaining equity and revenue stability. The following strategies outline the proposed reforms.

Strategy 1.3.1: Reform distortive tax exemptions to enhance employment outcomes and economic efficiency

The Government of Nepal will reform VAT and corporate tax exemptions to align incentives with employment generation and inclusive growth. Current exemptions are broad-based and account for 37 percent of VAT revenue and 3.1 percent of GDP.²⁴ While intended to reduce tax burdens and stimulate investment, they often lack outcome-based criteria, limiting their developmental impact. VAT exemptions, for instance, apply to education and agricultural inputs, but benefit higher-income households more due to greater consumption. Corporate tax holidays and reduced rates have disproportionately benefited large firms in urban regions such as Bagmati Province, with limited impact on employment or regional equity.

To address these gaps, VAT exemptions will be rationalized to focus on intermediate goods in labour-intensive sectors such as agro-processing, textiles, and tourism. Large firms will verify employment growth through payroll and social security data, whereas SMEs will access flat-rate refunds or standardized thresholds to reduce compliance burdens. Exemptions for services like education will be refined, not removed, to preserve access for low-income groups. Revenue savings will be redirected toward targeted employment-support programs using digital payment platforms, improved beneficiary targeting, and pilot-tested transfer schemes.

Corporate tax exemptions will be recalibrated to align with measurable developmental outcomes. Blanket provisions will be replaced with incentives linked to verified job creation in underserved regions and sectors with high employment elasticity, as detailed under Strategy 1.2.1.

Effective implementation will require stronger institutional capacity at the provincial and local levels.

This includes digital tools, targeted training, and adequate resources to support compliance monitoring and impact evaluation. Joint working groups led by the Ministry of Finance (MoF) including the IRD, NPC, and subnational governments will conduct annual performance reviews. To safeguard fiscal space, total tax expenditures from exemptions will be gradually capped at 2 percent of GDP, guided by updated cost-benefit analyses. Exemptions will be reviewed every three to five years and adjusted based on employment impact, equity outcomes, and revenue performance.

Strategy 1.3.2: Reform import tariff structure to support job-creating sectors and export competitiveness

Nepal will recalibrate its import tariff structure to reduce production costs, improve export competitiveness, and support formal employment in priority sectors. The current regime applies high duties on finished goods to encourage domestic production, but does not adequately support firms that rely on imported raw materials, intermediates, and machinery. This structure increases input costs for labour-intensive,

²⁴ World Bank 2021

export-oriented industries such as agro-processing, textiles, and light manufacturing.

To address these distortions, the government will assess the feasibility of a two-slab tariff system;

a 5 percent duty on production inputs (raw materials, intermediates, and capital goods) and a 10 percent duty on finished goods. This structure will support domestic value addition while maintaining moderate protection for local producers. Recognizing the revenue importance of border tariffs, implementation will be phased. Higher tariffs will be retained on selected non-essential consumer goods, and strategic imports such as fuel will remain outside the reform. To mitigate revenue risks, the reform will be paired with improvements in domestic tax mobilisation including through execution of DRMS that MoF has recently introduced and periodic assessments of trade elasticities and consumption trends.

Targeted tariff exemptions will be introduced to support firms pursuing export certifications, sustainability upgrades, or traceability systems.

Firms that source at least 40 percent of inputs from

registered cooperatives or domestic SMEs will qualify for performance-linked duty rebates. This is intended to strengthen local supply chains and incentivize backward linkages in export-oriented production.

Phased implementation will begin with agro-processing and textiles, where tariff distortions currently constrain job creation and competitiveness.

Pilot programs will test the effects of reduced input duties on production costs, domestic value addition, and export growth. In agro-processing, the focus will be on reducing dependence on imported processed foods and promoting exports such as organic tea and spices. A two-year review cycle will guide recalibration based on sectoral outcomes, trade performance, and fiscal impact.

To protect domestic producers from unfair competition, anti-dumping safeguards will be reinforced in sensitive categories such as processed foods and garments.

Reforms will be monitored through regular evaluation of sector competitiveness, trade balance trends, and employment contributions.





Pillar 2: Monetary Policy and Private Finance

Nepal's financial system remains weakly connected to the country's employment goals. Although directed lending mandates and concessional programs exist, credit allocation is skewed toward low-risk sectors and urban borrowers, with limited uptake by small enterprises and underserved regions. Most of the lendings remain heavily collateralized, excluding productive firms that lack fixed assets but generate employment. Partial guarantees and refinance schemes are fragmented and underutilized, while credit information coverage is narrow. Capital markets are concentrated, with limited instruments, shallow investor participation, and few incentives to mobilise long-term domestic or diaspora capital. Regulatory and institutional bottlenecks, from outdated insolvency rules to inconsistent project facilitation, constrain investment flows into labour-absorbing sectors like agro-processing, tourism, manufacturing, and services.

This pillar focuses on reforming the architecture of credit allocation, private investment, and financial access to support broad-based employment generation. It addresses key constraints through outcome-oriented lending incentives, expanded partial guarantees, and better use of refinancing and collateral mechanisms. It also emphasizes legal and institutional reforms to mobilise long-term capital, including through modernised diaspora bond instruments, improved FDI frameworks, and diversified capital market instruments. At the local level, the pillar focuses on financial deepening in rural areas through blended finance, digital platforms, and local co-funding. These strategies aim to build a more inclusive and responsive financial system by shifting from collateral-heavy, low-impact credit toward performance-linked finance that supports employment generation.

Priority 2.1: Translate Credit to the Private Sector into Pro-Employment Economic Growth

Private sector credit in Nepal has expanded but remains poorly aligned with employment outcomes.

Directed lending focuses on sectoral quotas without assessing job creation. Banks often meet mandates through low-risk lending, bypassing SMEs and labour-intensive firms due to credit and enforcement concerns. Collateral-heavy practices and weak credit guarantees further limit access for asset-poor borrowers. This priority proposes shifting to employment-linked credit incentives, expanding outcome-based guarantees, and targeting high-employment sectors more effectively.

Strategy 2.1.1: Introduce credit allocation framework linked to verified employment outcomes

Nepal's directed lending framework mandates financial institutions to allocate credit to designated sectors, but its impact on employment remains limited. Quotas are fulfilled through low-risk lending within eligible sectors, often bypassing MSMEs and informal firms due to collateral constraints. The emphasis on volume rather than outcomes has weakened the developmental return on credit. In agriculture, for example, directed lending has expanded credit volumes without catalysing structural change; much of the sector remains subsistence-oriented, with limited uptake of modern practices. Misallocation of credit and diversion of funds toward non-productive uses are also reported, exacerbated by weak enforcement and limited outcome monitoring.

The strategy proposes a shift from sectoral quotas to an outcome-based system that links financial sector performance with job creation. Employment-linked credit incentives will be piloted, offering

BOX 3: Monetary Policy and Private Finance -- Strategic Framing and Reform Logic

Problem Statement

Nepal's financial system does not adequately channel capital toward employment-intensive sectors. Directed lending quotas have limited effectiveness due to weak enforcement and reliance on input-based targets. Credit flows remain collateral-heavy, excluding MSMEs and rural borrowers without fixed assets. Capital markets lack depth, and firms in high-growth sectors struggle to raise long-term finance. Legal frameworks for investor protection, insolvency, and movable asset financing remain underdeveloped. Credit guarantee schemes are underutilized and expose systemic risk without effective governance. Large remittance inflows are concentrated in consumption and real estate rather than productive investment.

Strategic Response

Pillar 2 proposes a four-part reform program to align monetary policy and private finance with employment generation:

1. Link credit policy to employment outcomes.

Replace input-based directed lending quotas with employment-linked credit incentives. Pilot CRR/tax relief for banks meeting job creation benchmarks. Expand and calibrate partial credit guarantees to support lending in labour-intensive sectors with clear accountability mechanisms.

2. Mobilise private capital through financial market reform.

Modernise credit infrastructure by expanding credit registry coverage and operationalizing movable asset lending frameworks. Deepen capital markets through new instruments, diaspora bonds, and FDI reforms backed by updated insolvency and investor protection legislation.

3. Improve access to finance for MSMEs.

Deploy tiered NRB refinancing to incentivize

banks to lend to underserved MSMEs with strong business models. Integrate movable asset lending, partial guarantees, and targeted capacity-building to reduce reliance on fixed collateral and expand formal financing.

4. Scale rural enterprise finance through blended and digital models.

Combine agent banking, mobile wallets, and diaspora-backed microloans to reduce geographic exclusion. Expand contract farming, warehouse receipt systems, and climate-aligned provincial co-financing. Coordinate financial literacy, local training, and cooperative channels to support inclusive rural access.

Expected Results

- Stronger alignment between credit flows and employment generation.
- Improved credit access for MSMEs, rural borrowers, and informal enterprises.
- Increased long-term private capital for manufacturing, tourism, agribusiness, and technology.
- More inclusive financial intermediation supported by legal and institutional reform.

Key Implementation Assumptions

- NRB adopts employment-linked credit incentives and strengthens supervision of lending outcomes.
- CIBN, STRO, and DCGF systems are upgraded to support expanded risk-sharing and asset-based lending.
- SEBON, NEPSE, and MOF coordinate capital market development and investor protection reforms.
- Provincial and local levels support rural credit expansion through co-funding and policy alignment.

regulatory and fiscal benefits, such as lower reserve requirements, targeted tax deductions, or performance-based grants to institutions that demonstrate measurable job creation through their lending activities. For example, benchmarks may include verified employment outcomes per unit of lending (e.g. 50 jobs per NPR 10 million disbursed), verified through social security registration or payroll records. This is expected to shift lending patterns toward labour-intensive sectors such as agro-processing, small-scale manufacturing, and tourism, and strengthen the financial sector's contribution to employment generation.

To support this transition, baseline data on employment multipliers by sector and region will be developed by Nepal Rastra Bank (NRB) and the Nepal Statistics Office (NSO). This will inform the design of differentiated employment targets and allow credit allocations to align with the absorption capacity of different industries. NRB will also develop employment impact assessment tools for use in credit appraisal, allowing financial institutions to integrate projected labour market outcomes into their risk assessment and lending decisions.

Monitoring systems will be upgraded to track job creation attributable to credit. A real-time Credit-Employment Dashboard will be established, drawing data from credit registries, payroll submissions, and social security contributions. Independent audits will validate employment claims and promote accountability.

The strategy will be implemented in phases, beginning with pilot regions and sectors with high employment elasticity. Lessons from the pilots will guide scale-up and adjustments. Sectoral and geographic diversification of employment-linked targets will reduce concentration risks and align credit incentives with Nepal's broader development priorities.

Strategy 2.1.2: Devise credit guarantee schemes linked to employment outcomes

Nepal's Deposit & Credit Guarantee Fund (DCGF) faces some challenges that limit its potential to support financial inclusion and economic development. Despite its mandate to support access to finance for underserved sectors, especially MSMEs, certain operational bottlenecks limit its impact. A core issue is the exclusion of Class B and C financial institutions from meaningful participation, despite their contributions to the fund, while commercial banks dominate access but primarily use guarantees to meet regulatory obligations rather than expand credit to underserved sectors.²⁵ This inequity undermines the fund's broader inclusivity objectives, especially in reaching marginalized borrowers. The DCGF operates with a small fund size of NPR 3.55 billion (0.1 percent of FY2022/23 GDP) against a total guaranteed credit worth NPR 265.28 billion (4.9 percent of GDP), including NPR 62 billion in concessional loans (1.1 percent of GDP). A claims rate exceeding 5.7 percent of guaranteed loans would exhaust the fund. Rising non-performing loans (NPLs), particularly in microfinance and SME loans, and low recovery rates (below 0.01 percent)²⁶ point towards serious risks to the fund's sustainability.

In the backdrop of these challenges, this strategy proposes a more targeted and risk-calibrated expansion of partial credit guarantee schemes (CGS) to support lending in labour-intensive sectors. It will complement on steering credit toward high-employment sectors, without overextending the DCGF's capacity or exposing it to undue risk. Guarantee design will be refined through clearer eligibility criteria, sector prioritization, and phased implementation. High-risk exposure will be avoided through conservative ceilings tied to existing fund capacity and co-guarantee arrangements with multilateral partners.

²⁵ Class A institutions in Nepal refer to commercial banks, while Class B and Class C institutions represent development banks and finance companies, respectively, as classified by NRB. These categories delineate institutions by their regulatory mandates, operational scope, and capitalization requirements. While all these financial institutions contribute to the DCGF through mandatory fees, the utilization of the fund remains disproportionately skewed toward Class A commercial banks. These banks leverage the DCGF primarily to comply with NRB's priority sector lending mandates, which obligate them to allocate a portion of their lending portfolios toward agriculture, MSMEs, and other underserved sectors. Despite contributing to the DCGF, Class B and Class C institutions have largely been excluded from meaningful participation. These smaller institutions, which are often closer to rural and underserved communities, face structural barriers to accessing guarantees. This dynamic perpetuates inequities in financial access limiting the fund's potential impact in underserved areas.

²⁶ Data are sourced from IMF Country Report No. 23/159 published in May 2023. Low recovery rates (below 0.01 percent) mean banks recover almost none of the defaulted loans reimbursed by the DCGF. Once the Fund pays out guarantees, banks are responsible for recovery, but weak enforcement and borrower non-compliance leave most claims unrecovered, increasing fiscal risks and moral hazard.

Guarantee coverage will be linked to demonstrable employment outcomes. While uniform job creation metrics may not fully reflect Nepal's informal labour dynamics, sector-specific benchmarks will be used to assess labour absorption. These could include increases in seasonal employment, formalization of local suppliers, or regional hiring targets. Smaller financial institutions, particularly those lending to rural or underserved regions, will be encouraged to bring forward such projects for guarantee support.

The current guarantee pricing will also be reviewed. The DCGF currently applies an annual premium of around 0.6 percent on SME loans, rising to 1 percent for microfinance and up to 6 percent for livestock insurance. Within these bounds, a more nuanced fee schedule can reward job-rich sub-sectors with marginally lower premiums, while maintaining higher rates for segments with higher default risks or weak employment impact. For example, agro-processing firms demonstrating verified hiring or value chain development could be offered lower premiums, while high-risk sectors would retain existing rates.

Legal and institutional reforms will complement these design changes. Regulatory amendments will allow Class B and C institutions to access the fund on equal terms, addressing long-standing inclusion gaps. At the same time, audit and recovery protocols will be strengthened. Low recovery rates (now under 0.01 percent) have undermined the Fund's credibility and exposed systemic risk. Enhanced claims verification, stricter recovery follow-up, and improved dispute resolution processes will reinforce fund governance.

These reforms aim to reposition the DCGF from a compliance instrument to a proactive tool that steers credit toward job-creating investments. Aligning guarantee coverage with employment metrics and tightening oversight will enable the DCGF to support more inclusive and developmentally effective credit expansion, while maintaining fiscal prudence.

Priority 2.2: Strengthen the Financial Architecture for Private Capital Mobilisation

Nepal's financial system is dominated by bank lending, with limited capital market activity and persistent barriers to long-term private investment. Lending remains heavily collateralized and concentrated in urban areas and large firms. Gaps in credit information, weak enforcement of creditor rights, and rigid insolvency procedures further limit access to finance, particularly for employment-rich sectors. This priority focuses on modernising credit infrastructure, operationalizing movable asset financing, expanding capital market instruments, and revitalizing diaspora bond channels. It also includes legal and institutional reforms to improve investor confidence, lower transaction costs, and expand financing options for job-creating sectors.

Strategy 2.2.1: Modernise credit frameworks to improve access to credit

Nepal's financial institutions rely on collateral-based lending, sidelining risk-based credit assessments. This disadvantages MSMEs that lack fixed assets but have strong job creation potential. Banking and financial institutions (BFIs) lack credit-scoring systems that assess cash flow, business viability, or sectoral prospects. A weak credit registry and limited bureau coverage hinder credit evaluation, especially for informal and rural borrowers. Movable asset collateral laws exist but are underused due to low borrower awareness and weak institutional capacity. These gaps sustain a credit shortfall for asset-light, employment-intensive enterprises.

To address these gaps, NRB and the Credit Information Bureau of Nepal (CIBN) have initiated reforms to expand credit data coverage and improve risk assessment. CIBN manages credit data effectively for its current scope. To enhance the credit information ecosystem, the NRB will encourage the CIBN to deepen its existing efforts to bring MFIs and cooperatives into a unified reporting platform. While ongoing initiatives have led to partial data-sharing between some MFIs and the CIBN, comprehensive coverage of cooperatives

remains an objective that requires collaboration with the Department of Cooperatives (DoC) and attention to data reliability. Under the current legal framework, the CIBN is allowed to collect data only from NRB-licensed institutions. Recent amendments to the Cooperatives Act, 2017 offer an initial legal basis; but further statutory reforms are needed to grant explicit authority to CIBN to cover cooperatives. This inclusion will require rigorous quality-control measures and technological upgrades as many cooperative records remain paper-based or lack consistent reporting standards. This will begin with digitizing cooperative records and piloting standardized reporting system in select regions.

In parallel, the NRB is laying the groundwork for a centralized credit registry to complement and eventually extend beyond CIBN's current mandate.

As of 2024, the NRB has initiated stakeholder consultations and technical studies to design a reporting architecture that encompasses all licensed institutions, including banks, finance companies, MFIs, and large cooperatives. Current efforts are focused on developing legal mandates for uniform data submission, standardizing credit risk definitions, and designing penalties for noncompliance. To support transition, the NRB is working with CIBN to align data formats and definitions, reducing duplication and preparing institutions for seamless integration once the centralized registry becomes operational. This strategy proposes acceleration of these reforms by sequencing implementation and prioritizing institutional readiness and legal clarity across participating entities.

Reforms are also underway to operationalize Nepal's movable asset collateral laws, which remain underutilized.

Although the legal framework exists, few financial institutions currently accept movable assets such as equipment, inventory, or receivables as collateral. Legislative updates proposed in 2024 aim to clarify the pledging process, define acceptable collateral classes, and set up a user-friendly online registry for movable assets. Building on these efforts, this strategy proposes sequencing the rollout of the collateral registry alongside targeted enforcement protocols, standardization of documentation

practices, and outreach to financial institutions to promote usage. CIBN has operated the Secured Transactions Registry Office (STRO) since 2017, but uptake remains low due to the absence of binding directives. To accelerate adoption, the NRB will introduce incentives such as risk-sharing schemes and preferential regulatory treatment for loans secured by movable assets. Mandatory registration of all security interests under the STRO will be introduced through regulations to increase compliance and improve registry coverage. CIBN and STRO will continue public outreach through seminars, digital campaigns, and training programs for financial institutions.

Over time, the NRB will integrate the collateral and credit registries into a single platform to improve transparency and streamline credit risk assessment.

This will allow lenders to verify both borrower credit histories and existing liens on movable property in one place. The integration, however, will follow the successful rollout of individual registries allowing time to address operational and data governance challenges.

Strategy 2.2.2: Strengthen local capital markets to channel investment into employment-rich sectors

Nepal's capital markets remain shallow and concentrated, limiting their role in financing sectors with high employment potential. Despite rising investor interest, most of the equity flows are directed toward hydropower and financial services. Employment-intensive sectors such as manufacturing, agro-processing, ICT, and tourism continue to face limited access to long-term finance due to a narrow instrument base, low institutional participation, and weak investor protections.

To address these constraints, the government will broaden the range of investable instruments and align market reforms with employment and diversification goals. Initial efforts will include reviewing existing capital market instruments and removing regulatory barriers such as Initial Public Offering (IPO) pricing caps that deter potential issuers from going public at valuations aligned with fundamental performance. It will also strengthen minority shareholder protections

and corporate governance codes so that investors can trust the disclosures of companies seeking equity or debt financing. An expanded product mix will include guaranteed corporate bonds, infrastructure bonds, and municipal bonds, followed over time by structured instruments such as asset-backed securities and venture debt, depending on regulatory readiness and market appetite. Mutual funds and exchange-traded funds (ETFs) targeting to underrepresented sectors will also be explored to diversify participation. As a prerequisite, efforts will be made to establish market indices to support ETF design and pricing. Regulatory clarity and market infrastructure will be enhanced to enable index development and support ETF market readiness.

Addressing the needs of sectors like manufacturing, ICT, and tourism will require improvements in both primary and secondary market frameworks. In the primary market, the government will streamline listing processes, allow phased disclosures for high-growth firms, and introduce targeted incentives, such as reduced listing fees or tax offsets tied to employment generation. In the secondary market, persistent illiquidity and low free float continue to deter institutional investors and increase volatility. Reforms will include upgraded clearing and settlement systems, tighter oversight of margin lending, and market-making mechanisms led by major institutions or specialized dealers. To support new listings and reduce speculative oversubscription (particularly evident in hydropower IPOs), the government will establish transparent allocation and pricing mechanisms. Strengthening the capacity of Securities Board of Nepal (SEBON) for risk-based supervision and prompt enforcement will further improve the market integrity, uphold fair disclosure standards, and protect minority shareholders from mismanagement and price manipulation.

Mobilising institutional investors will be a parallel priority. Banks, insurers, and pension funds, which hold large volumes of long-term capital, will be incentivized to diversify portfolios into growth-oriented sectors. This will involve regulatory amendments and tax policy changes to support investment in instruments backed by government guarantees or co-financing from development finance institutions (DFIs). Market-making measures will be a key, especially for bonds issued by corporate and

municipal entities that need predictable exit channels to encourage the broad participation. Further, diaspora-focused securities will be restructured to offer competitive yields, clearer repatriation terms, and links to job-generating national projects (see Strategy 2.2.3).

Specialized investment vehicles aimed at priority sectors will be explored. Sector-specific funds dedicated to manufacturing, agribusiness value chains, technology ventures, or tourism infrastructure will track explicit job creation and productivity targets. These funds will benefit from partial guarantees or co-financing with DFIs, especially when financing high potential start-ups or early-stage projects. Regulatory provisions will be introduced to strengthen Nepal's emerging private equity and venture capital (PEVC) market—directing investments toward employment-rich sectors such as agribusiness and SMEs. These reforms will include amendments to existing licensing and investment guidelines to align Venture Capital and Private Equity flows with priority sectors for generating employment. Strict fiduciary guidelines and advanced reporting on performance metrics will reinforce investor trust. Enterprises that demonstrate genuine growth trajectories and sound governance can use these pools of capital to secure mid- to long-term financing without facing the friction associated with overly burdensome listing rules designed primarily for larger institutions. As the range of investable assets broadens, the government intends to introduce incremental foreign portfolio participation, focusing first on Nepali diaspora communities and then selectively opening up to reputable global funds once currency stability and prudential safeguards are in place.

Implementation will follow a phased timeline aligned with regulatory capacity. In the initial phase (1–2 years), regulatory reforms will be introduced, Nepal Stock Exchange (NEPSE) infrastructure will be upgraded, and investor education will be expanded outside major urban areas. In the medium term (3–5 years), product offerings will scale, backed by new sectoral funds and pilot guarantees. In the long term (beyond 6 years), with improved market depth and oversight, more complex instruments such as structured finance and derivatives may be introduced cautiously.

A cross-agency task force involving the MOF, NRB, SEBON, and NEPSE will monitor capital flows, investor participation, and sectoral outcomes. This will enable data-driven adjustments to regulatory policy, fiscal incentives, and investment promotion tools. Improving settlement platforms and expanding brokerage access in underserved regions will also help broaden market participation and reduce concentration risks.

Strategy 2.2.3: Revitalize diaspora bond programs with employment-linked use

Despite large and growing remittance inflows, Nepal's diaspora bonds have historically failed to attract sustained investor interest. Subscription rates have been low due to complex application procedures, limited tradability, and regulatory constraints, including currency repatriation restrictions and lack of clear market access pathways. Previous issuances, such as the Foreign Employment Bond, were narrowly targeted and lacked alignment with broader capital market reforms.

This strategy proposes a comprehensive overhaul of the diaspora bond framework to mobilise long-term capital from the Nepali diaspora into sectors with high employment potential. Reforms will focus on five drivers: regulatory clarity, currency risk mitigation, market access, employment-linked bond design, and investor protection.

The government will tackle the legal and regulatory bottlenecks that deter non-resident Nepalis (NRNs) and other prospective investors from committing capital to Nepalese sovereign and quasi-sovereign bonds. Current capital controls, coupled with the complexity in obtaining NRB clearance for interest and principal repatriation, have constrained the tradability of diaspora bonds. In an effort to reverse these outcomes, the government will, over the short term (one to two years), streamline approval procedures for outward remittances tied to bond redemptions and introduce explicit guarantees of foreign-currency convertibility for interest and principal. This change will be codified in revised NRB directives so that investors can reliably convert Nepali rupees to hard currency upon bond maturity or coupon payment. Government will commit

to a pre-authorized process in which diaspora investors receive clearance at the time of subscription, thereby mitigating the administrative uncertainty that currently deters participation.

In conjunction with these immediate reforms, government will expand eligibility criteria beyond narrowly defined labour migrants and short subscription windows. Lessons from earlier Foreign Employment Bond issues indicate that complex application procedures, limited marketing, and scattered sales agents were key factors in weak uptake. Future issues of diaspora bonds will be marketed year-round through Nepali embassies abroad, specialized broker portals, and, where feasible, global digital investment platforms. All NRNs, including those who have assumed foreign citizenship, will be explicitly recognized as eligible investors, and bilateral arrangements will be pursued with the securities regulators at host countries to permit the legal distribution of Nepal's diaspora bonds without contravening local laws on financial promotions.

As a medium-term goal (over three years), these bonds will be integrated fully into the domestic capital market infrastructure by listing them on the NEPSE and establishing over-the-counter mechanisms to facilitate secondary trading. With support from SEBON, the government will incentivize licensed brokers to offer diaspora bond trading services to enable NRNs to buy and sell positions with minimal friction. Government-affiliated primary dealers or a syndicate of Nepali financial institutions may be designated to act as market makers providing bid-ask quotes that help stabilize prices and offer liquidity. This measure will respond directly to the illiquidity problem that has historically discouraged diaspora investors who are otherwise locked into five- or ten-year maturities with no exit mechanism.

To address currency risk at a more advanced stage, the government, in collaboration with DFIs, will introduce hedging facilities or partially dollar-denominated bonds. Although this will shift certain foreign-exchange liabilities to the government, offering a mix of rupee-denominated and hard-currency diaspora

bonds can attract a wider spectrum of investors, including highly skilled NRNs who demand greater security for their capital. These product variations will enable the government to calibrate the interest rates and risk-sharing structures based on evolving market conditions and the fiscal capacity to honour foreign-currency obligations. Over the medium-to-long run, government aims to strike a balance between encouraging participation and safeguarding reserves by adopting a phased liberalization of capital account controls, contingent on macroeconomic indicators, such as foreign exchange reserves, external debt sustainability, and inflation stability.

Building confidence will further require articulating a clear and transparent framework for how bond proceeds will be allocated to employment-centric projects. Rather than depositing diaspora bond inflows into the general budget, the government will link each issuance to specific infrastructure, manufacturing, or vocational training initiatives with demonstrable potential for job creation. Project implementers will be mandated to disclose quarterly milestones and audited employment figures to reinforce investor confidence that their funds directly stimulate local industries. Where practical, the government will also explore performance-linked coupon adjustments to reward investors with incremental interest if funded projects exceed predetermined job targets or output metrics.

Regulatory coordination will be a cornerstone of these reforms. An inter-agency task force comprising representatives from the MOF, NRB, SEBON, and Nepal's embassies at relevant countries will oversee the new diaspora bond framework so that legal amendments, foreign market-access approvals, and capital-market infrastructure upgrades proceed in unison. This body will monitor subscription volumes, gauge investor feedback, and review the on-the-ground employment impact of bond-financed ventures, making iterative policy adjustments as needed.

In the long-term, the strategy envisions Nepal integrating diaspora bonds into a broader capital account liberalization trajectory, akin to how other developing countries have balanced attracting foreign portfolio investment while preserving

exchange-rate stability. By three to five years into implementation, these diaspora instruments may be co-listed or recognized on regional trading platforms if technical and regulatory conditions permit. Further, the government will consider dual-currency or USD-denominated diaspora bonds for specialized infrastructure or industrial development funds that can attract NRNs with a lower risk tolerance. Over time, successful diaspora bond issuances will help pave the way for Nepal to engage more actively with international financial markets, eventually allowing a controlled opening to non-Nepali foreign investors subject to the country's broader monetary and economic conditions.

Throughout these phases, clear investor protections and transparent dispute-resolution mechanisms will be necessary to building sustained trust. The government will expand the remit of existing complaint and arbitration channels to address issues such as delayed repatriations, misapplication of bond proceeds, or inadequate disclosures. At the same time, strict enforcement of securities laws, particularly concerning fraud, insider trading, and material misstatements, will signal that the Nepalese market is equipped to guard diaspora investments responsibly. These measures aim to modernise the overall ecosystem making it more compatible with the expectations of an internationally dispersed investor base.

Strategy 2.2.4: Improve legal and institutional framework for FDI in priority sectors

Nepal's difficulties in attracting FDI stem from different challenges. Although foreign investors routinely cite multiple factors ranging from infrastructure gaps to a small domestic market, challenges surrounding investor protections and an outdated insolvency regime consistently emerge as core impediments. Viewed through Nepal's broader institutional landscape, the challenge lies not simply in amending a few statutes, but in creating a coherent, medium-term framework that addresses legal, administrative, and infrastructural constraints in tandem. To that end, the government will adopt a more advanced strategy aimed at crafting a stable and transparent environment capable of pulling in the kind of long-term foreign capital that directly translates into sizable employment gains.

The government will modernise insolvency procedures under the Insolvency Act, 2006. At present, bankruptcies proceed with little predictability, protracted timelines, and a regulatory 'blacklist' that discourages legitimate restructuring. This erodes asset values and discourages entry by foreign firms wary of being trapped in unproductive ventures with no recourse. By adopting a two-tiered restructuring system modelled on international best practices, combining out-of-court workouts (pre-packaged) with court-led reorganizations under clear statutory timeframes, Nepal can provide investors with a transparent route to salvage or exit. The strategy will mandate specialized 'Insolvency Benches' within designated commercial courts, staffed by judges trained in the mechanics of restructuring, liquidation, and creditor protection. A revised code of conduct for licensed insolvency practitioners will detail professional standards and fee schedules, preventing cost overruns and unscrupulous practices that erode creditors' recoveries. The blacklisting clause, where promoters of insolvent firms are automatically banned from future borrowing, will be replaced by a more nuanced assessment process, aligning Nepal with modern jurisdictions that emphasize rehabilitation over punitive measures. These reforms aim not just to protect investors' downside but also to promote an entrepreneurial climate wherein local and foreign capital can risk new ventures without facing irrevocable sanctions if circumstances shift.

A key complement to these legal updates will be tackling the structural and administrative environment that amplifies foreign investors' perceived risk. Despite recent progress, such as the partial implementation of a one-window service at the IBN, foreign investors still confront various hurdles. Multiple agencies oversee registration, environmental clearances, tax compliance, and labour permits, often issuing conflicting directives or imposing duplicative paperwork. To streamline this process, the government will roll out a fully digitized FDI Clearance Portal, integrating approvals from the Department of Industry (DOI), MOF, NRB, and relevant sectoral ministries. Each investor will have a single reference number, enabling them to track approvals online, submit digital documents, and receive time-bound decisions. This measure will be reinforced

by a transparent negative list, clarifying which industries remain off-limits for strategic or security reasons, while opening the rest of the economy by default. It will also rationalize the current minimum capital requirements, allowing smaller foreign investors, especially those focusing on knowledge-intensive or service-based operations, to enter the market without hitting an arbitrary financial threshold. Together these measures aim to bring genuine predictability to the FDI process, lowering the friction that often pushes prospective investors to other regional destinations.

Governance enhancements, particularly around transparency and anticorruption, will accompany these reforms. Decentralizing power to regional investment facilitation offices may reduce Kathmandu-centric bottlenecks, but it also risks inconsistency in local-level decision-making. Therefore, government will implement standardized training and a code of ethics for all frontline officials who interact with foreign investors, from local land registration offices to the Department of Customs (DOC). An e-procurement system for public works and a digital land registry system will tackle core sources of corruption reinforcing a stable business environment that extends beyond a single act or regulation. Through collaboration with Nepal's Commission for the Investigation of Abuse of Authority (CIAA) and civil society partners, the government will minimize discretionary interventions in investor approvals or license renewals by implementing mandatory digital tracking of official actions on major FDI projects. These measures may appear tangential to insolvency or investor protection, but international experience indicates that such governance overhauls are often decisive in whether improved laws translate into real confidence from foreign firms.

The government will launch a specialized 'FDI-Employment Nexus Program' linking newly admitted investments to sectoral roadmaps with clear hiring targets and vocational training incentives. For example, manufacturing or agribusiness ventures that commit to employing a high ratio of local labour or implementing skill-upgrading for workers may qualify for additional tax rebates or subsidized infrastructure. This aims to steer foreign capital into job-rich segments and also enable the government to monitor the real labour

impact of FDI. Each major project receiving incentives will file annual workforce reports to the Ministry of Industry, Commerce, and Supplies (MOICS), verifying direct and indirect employment figures as well as local supply chain linkages. As infrastructure remains a persistent obstacle, especially regarding transport and energy reliability, the government will expedite the development of selected Special Economic Zones (SEZs) in Bhairahawa, Simara, and other strategic sites. These enclaves will operate under special administrative regimes that adopt the new investor protection norms but also offer accelerated dispute resolution options (like onsite arbitration panels) and fully integrated land lease procedures.

This strategy will be implemented in a phased manner. In the short term (up to two years), the focus will be on legislative amendments. Parallel to these legal reforms, the FDI Clearance Portal will be soft-launched for a subset of priority industries such as electronics assembly or agro-processing, providing immediate feedback loops on where bureaucratic snags remain. In the medium term (three to five years), the government will integrate the reformed insolvency regime fully into judicial practice, and train a new cohort of insolvency professionals. By this stage, each SEZ will be operational with streamlined approval processes.

Priority 2.3: Increase Credit Access for MSMEs

MSMEs account for the bulk of employment in Nepal but face systemic barriers in accessing formal finance. Key constraints include the reliance of financial sector on immovable collateral, limited adoption of cash-flow-based lending, weak credit risk assessment tools, and insufficient reach of existing guarantee and refinance programs. Available financial instruments often fail to account for the diverse risk profiles and sectoral characteristics of MSMEs across different regions. The following strategies aim to address these structural gaps and expand access to tailored and productivity-linked financing that supports MSME formalization, growth, and employment generation.

Strategy 2.3.1: Deploy tiered refinancing facilities at the NRB, calibrated to incentivize banks and microfinance institutions to lend to MSMEs with robust business models

Nepal's MSMEs collectively form the backbone of the country's economy. Yet, many of these enterprises remain locked out of formal financing channels, and is unable to secure loans under manageable terms. Despite the provision of NRB's directed lending mandates, the presence of numerous MFIs, and government-led interest-subsidy programs, the bulk of smaller ventures struggle to obtain credit at affordable rates. Several factors including heavy reliance on property collateral, complex loan documentation, limited credit histories, and regional disparities in banking reach undermine the capacity of MSMEs to expand and generate employment. Moreover, recent tightening of monetary conditions and a rise in non-performing loans (NPLs) have heightened risk aversion among banks discouraging them from engaging with segments of the market that lack conventional guarantees or proven balance sheets.

In recognition of these structural gaps, NRB has been experimenting with refinancing schemes to channel lower-cost funds to priority sectors. While these efforts proved crucial during the COVID-19 crisis, when banks were able to offer concessionary interest rates to pandemic-hit enterprises, refinance usage in normal times has been less effective in addressing the persistent shortfall of credit to MSMEs. The facilities, in their current uniform format, neither differentiate between the vastly heterogeneous profiles of small businesses nor adjust for regional circumstances that can amplify the operational costs of reaching dispersed borrowers. This points the need for a more targeted and flexible instrument: a tiered refinancing facility that adapts to both the risk profile of MSMEs and the specific developmental outcomes government is aiming to achieve.

Under this strategy, NRB will structure multiple tiers of refinance, ranging from highly concessional rates for micro ventures to a slightly higher,

close-to-market rate for mid-sized firms that still need some help to close their financing gap.

At the bottom tier, small family-run enterprises, especially those in the deprived sector, geographically remote areas, or with no tangible collateral, could access refinance at minimal interest rate, provided partner lenders conduct thorough cash-flow analyses or apply group lending methodologies. This emphasis on cash-flow-based underwriting, rather than asset-heavy collateral, will be key in incentivizing banks and MFIs to step outside familiar lending norms. Enterprises that present stronger track records but still need moderate cost reduction, such as cottage industries, low-tech manufacturers, or businesses in intermediate stages of formalization, would fall into a mid-tier that retains some concession on interest. Recognizing that not all MSMEs should be treated uniformly, this strategy also guards against over-subsidizing well-established firms that could potentially access regular market credit on their own.

The DCGF will serve as a partial guarantor for the riskiest category of loans.

By covering a share of the principal in case of default, DCGF will lower the effective credit risk to lenders and thus spur uptake. At the same time, partial coverage will ensure that banks retain sufficient exposure to conduct proper due diligence. For additional guidance on phasing in DCGF expansions under prudent capacity limits, see Strategy 2.1.2, which addresses maximum ceilings and co-guarantee structures. To prevent misuse of these guarantees, NRB will implement rigorous eligibility checks, like requiring that micro entrepreneurs maintain basic accounting ledgers or that medium enterprises demonstrate at least a year of tax compliance. Lenders, in turn, will be required to show that they are not simply recycling the refinance for borrowers already well-served by conventional loans. NRB will conduct periodic audits, collecting data on borrower profiles, geographic distribution of refinanced loans, and differential interest rates offered to safeguard that cheaper funds indeed translate into lower end-user rates rather than being absorbed into broader bank margins.

To further enhance the equity and developmental impact, the strategy will incorporate location-based add-ons.

Provinces and localities with documented credit deficits, especially the high-hill and mountainous regions, will command an additional discount for lenders that finance MSMEs in those areas. The reality is that many banks remain reluctant to extend operations into sparsely populated or less-developed areas, where borrower education, logistics, and economic opportunities can be less predictable. A location-based incentive layered atop the tiered facility can help nudge financial institutions to invest in branch expansion, staff training, and partnership-building with local cooperatives and NGOs. These local partnerships will often prove key for identifying and mentoring potential borrowers who lack the experience or confidence to approach banks directly.

The proposed system will integrate with ongoing government programs, such as the concessional loan initiatives for agriculture, women entrepreneurship, or youth-led ventures.

In practice, that means MSMEs which qualify for an interest subsidy under a relevant scheme can simultaneously tap the tiered refinance if they meet its distinct requirements around documentation, business potential, and risk classification. Such coordination will prevent duplication of efforts and avoid a scenario where a policy instrument undermines or crowds out another. Instead, the tiered refinance will become one piece of a broader policy environment, comprising DCGF guarantees, priority lending quotas, interest subsidies, and capacity-building measures, all geared toward elevating MSMEs into viable engines of job creation and local economic diversification.

To reinforce long-term creditworthiness, the strategy will be supported by parallel investments in financial literacy, recordkeeping, and business training.

The lesson from prior concessions is that lower interest rates alone do not translate into durable business growth if borrowers lack the financial acumen to plan cash flows, optimize inventory, or navigate market fluctuations. Thus, the tiered refinance program will partner with local skill-development centres,

cooperatives, and NGOs to deliver tailored trainings on record-keeping, marketing, and basic enterprise formalization. BFIs will be encouraged to design 'credit-plus' products, where approval of a refinanced loan is conditional on the borrower attending short modules on financial literacy or adopting a simplified bookkeeping system. Over time such capacity-building will raise the creditworthiness of small entrepreneurs enabling them to graduate from the lower tiers of concession to more standard financing arrangements.

Strategy 2.3.2: Operationalize movable collateral lending for MSMEs

Nepal's MSMEs continue to face systemic credit constraints due to the reliance of financial sector on immovable collateral. Although amendments to the Secured Transactions Act, 2006 have broadened the definition of eligible collateral to include movable assets, such as receivables, inventory, equipment, and warehouse receipts, these legal provisions have not translated into widespread lending practices. Lenders remain hesitant due to limited enforcement mechanisms, lack of valuation protocols, and underdeveloped registry infrastructure. A functioning collateral registry is critical to scaling asset-based finance beyond land and buildings.

The government is now preparing to operationalize a dedicated Secured Transactions Registry Office (STRO), supported by a legal mandate and digital infrastructure. This strategy builds on that momentum to make movable asset-based lending a credible and scalable solution for MSMEs. The registry will provide real-time functionality for lien filing and search, giving legal priority to registered claims and preventing double-pledging. To enhance enforceability, the government will also align secured transaction procedures with insolvency law and establish clearer protocols for out-of-court repossession and liquidation. Parallel reforms will clarify priority rules between secured creditors and tax authorities which has been a longstanding barrier to lender confidence.

To support adoption, the strategy proposes integrating movable-asset finance into NRB's priority-sector lending guidance and provisioning

incentives. The DCGF will expand partial guarantees for loans backed by non-land collateral, especially in segments like inventory and equipment finance. These measures aim to reduce the perceived risk for lenders while preserving underwriting discipline.

Addressing lender capacity will be another important step. Most lenders lack standard procedures to appraise, monitor, and repossess movable assets. The strategy will promote sector-wide capacity building in partnership with industry associations, focusing on valuation standards, legal documentation, and asset monitoring. Templates for common collateral types—such as receivables financing, inventory hypothecation, and equipment leases—will be developed to improve legal clarity and consistency across institutions.

On the borrower side, the government will launch broad outreach efforts to educate MSMEs about the new collateral possibilities. For decades, small businesses in Nepal have assumed that land or buildings are the only reliable way to secure a bank loan, and those lacking property have either turned to informal finance or remained chronically undercapitalized. The strategy will promote awareness among MSMEs and cooperatives about the types of movable assets that can be pledged and the documentation needed to qualify. Examples from leasing and hire-purchase models will be leveraged to demonstrate viability. In agriculture and rural trade, the government will expand the use of warehouse receipts and explore models that allow livestock and other productive assets to be formally pledged with appropriate tagging and insurance.

Institutional coordination across the MOF, NRB, CIBN, DoC, and judiciary will be essential to sustaining reform momentum. The registry's credibility will depend on regular system audits, streamlined dispute resolution mechanisms, and consistent enforcement. Overlapping mandates will also need resolution. For example, vehicle-related liens are currently recorded by the Department of Transport Management, creating confusion for borrowers regarding where to register liens. STRO's legal mandate could be reinforced as the single platform for registering all movable asset pledges.

Inter-agency coordination will be required to unify registration rules and eliminate duplication. This could be supported by a regulatory directive requiring financial institutions to register security interests with STRO, backed by incentives such as risk-sharing schemes or preferential risk-weighting. Clear operational rules and a phased rollout, beginning with well-defined asset classes, will allow the financial sector to adopt movable asset financing with greater confidence and impact. Integration between the collateral registry and the forthcoming centralized credit registry will be pursued in later phases to provide lenders with a comprehensive view of borrower obligations and existing liens.

Priority 2.4: Increase Credit Access for Rural Enterprises

Rural enterprises in Nepal, particularly in agriculture and allied sectors, remain underserved due to high transaction costs, geographic isolation, and weak financial infrastructure. Traditional lending models are poorly suited to rural realities, which often involve seasonal income patterns, informal cash flows, and fragmented value chains. These structural issues contribute to the exclusion of rural enterprises from formal finance. Following strategies aim to expand financial access through context-appropriate delivery channels, improved risk-sharing mechanisms, and stronger coordination across central and local institutions:

Strategy 2.4.1: Expand rural credit via digital and diaspora-linked models

Nepal's geography and settlement patterns make traditional branch-based banking costly and inefficient for serving rural areas. While regulatory mandates have achieved full geographic branch coverage, physical presence has not translated into meaningful financial access in many mountainous and sparsely populated regions. To address this, the government will scale alternative delivery models— focusing on agent banking, mobile wallets, and diaspora-linked digital lending— to extend affordable credit to rural micro and small enterprises.

Agent banking is already expanding through commercial and development banks, with outlets deployed in areas where permanent branches are not viable. Building on this base, the strategy will deepen agent coverage in underserved provinces and equip agents to support onboarding, transactions, and basic financial literacy under simplified know your customer (KYC) procedures. These services will be backed by digital infrastructure to reduce reliance on cash and improve access to formal financial products.

Parallel efforts will expand mobile wallet adoption.

Nepal has 4G coverage in most of the areas and mobile wallets such as eSewa, Khalti, IME Pay, and Namaste Pay already serve millions of users. Under NRB's 2023 Licensing Policy, Payment Service Providers (PSPs) are required to support interoperability through the National Payment Switch (NPS). The strategy will promote Unstructured Supplementary Service Data (USSD)-based services for feature phone users and enforce cross-platform compatibility to support seamless rural payments. This will enable remote businesses to transact electronically without visiting physical banks.

The strategy will tap into diaspora savings as well for rural development.

Most of Nepal's remittance inflows are spent on consumption or housing. Through dedicated diaspora-backed loan funds and partial guarantee schemes administered by the DCGF, remittance inflows can be redirected toward micro-loans for rural producers. Borrowers will access these loans digitally via agent outlets or mobile platforms under simplified lending frameworks already permitted by NRB's digital lending guidelines. Loan caps of up to NPR 500,000 and cash-flow-based underwriting will be prioritized. To build trust, banks and PSPs will be required to provide diaspora investors with transparent, real-time reporting on how their funds are allocated and repaid. Meanwhile, financial literacy campaigns under NRB's 2023 guidelines will be expanded in collaboration with local governments, using radio, school programs, and in-person sessions to familiarize rural users with QR transactions, mobile wallets, and remote loan access.

This combined strategy aims to shift rural financial intermediation from high-cost, cash-based systems to digitally enabled models that can scale across remote areas. Over time, structured diaspora capital, interoperable digital platforms, and decentralized agent networks will lower transaction costs, reduce credit exclusion, and support the growth of rural enterprises across agriculture, crafts, and local services.

Strategy 2.4.2: Expand contract-farming agreements and cooperative-led blended finance models to connect rural producers with stable credit pipelines, mitigating risk and boosting agricultural value chains

Nepal's agricultural sector remains dominated by dispersed smallholders who face persistent constraints in accessing formal credit and modern inputs. Fragmented landholdings, weak market linkages, and reliance on informal lending continue to undermine productivity across high-value chains such as tea, cardamom, dairy, and seed production. These structural bottlenecks constrain competitiveness and limit the sector's employment potential, particularly in remote and food-insecure regions.

Contract farming, though emerging, remains semi-formal and narrowly applied. Select pilots in tea and cardamom demonstrate the potential of structured arrangements to stabilize farmer incomes and enable credit access. Dairy cooperatives, with over 1,800 units nationwide, have also helped reduce credit volatility by facilitating short-term finance and digitized payments. These models offer a foundation for broader expansion under formal legal frameworks.

This strategy proposes strengthening the financial architecture underpinning contract farming. Banks will be encouraged to recognize buy-back contracts as de-facto collateral, supported by targeted guarantees from the DCGF. This can mitigate the credit risk associated with smallholder lending. Cooperatives will play an expanded intermediation role, aggregating wholesale credit from formal lenders and redistributing it to farmer groups tied to structured market channels. Blended

finance will be used to de-risk pilot models and build institutional capacity.

Complementary tools such as warehouse receipt financing will address price seasonality. Pilots in ginger and cardamom-growing districts show that certified storage paired with lending enables farmers to delay distress sales. The government plans to formalize warehouse receipts as negotiable financial instruments improving collateral acceptability and enforcement. Parallel expansion of agricultural insurance, supported by up to 80 percent premium subsidies, will reduce climate-related repayment risk. Together these tools can help shift rural credit from asset-based to value-chain-based lending.

Strategy 2.4.3: Integrate climate-focused lending products with provincial co-funding initiatives to promote resilient farming methods, eco-friendly infrastructure, and sustainable rural development

Rural livelihoods in Nepal are increasingly exposed to floods, droughts, and other climate risks. Vulnerability is highest in ecologically fragile areas with limited adaptive capacity. With provinces now holding greater fiscal authority under federalism, there is new potential for co-investment in climate adaptation. This strategy connects climate-focused credit instruments with provincial co-funding tools, such as matching grants and performance-based adaptation funds, to improve the viability of community-led projects in climate-smart agriculture, renewable energy, and green infrastructure.

The idea is to leverage national green finance frameworks and provincial budgets to scale climate-resilient rural lending. NRB has expanded its priority-sector lending requirements to include agriculture, and the Green Finance Taxonomy, 2024 now classifies climate-resilient infrastructure and farming as eligible green sectors. Existing concessional agriculture loans have mobilised large credit volumes, but climate-specific targeting remains limited. Under this strategy, provinces will co-finance interest subsidies or guarantee pools for adaptation-linked investments. For example, a drought-prone province could subsidize

loans for solar irrigation or water-harvesting systems, aligning NRB's refinance with local budget commitments. This will create blended financing structures that address both credit and resilience gaps.

Crop and livestock insurance can complement this.

The central government already provides up to 80 percent premium subsidies for agriculture insurance. Provinces can add top-ups in high-risk districts to improve uptake. Similarly, climate-resilient warehouses co-financed by local budgets can facilitate warehouse receipt finance, enabling farmers to borrow against stored produce during price troughs. Banks are more likely to lend when infrastructure mitigates post-harvest losses and reduces collateral risk.

Policy alignment will be essential for the success of scheme.

Nepal's National Climate Change Policy, 2019 emphasizes decentralized adaptation finance, creating a basis for linking fiscal devolution with climate finance mobilisation. NRB can establish a dedicated climate adaptation refinance window, while provinces can earmark a portion of their agricultural capital budgets to co-finance adaptation-linked investments. If these instruments are structured to demonstrate clear and measurable adaptation benefits, Nepal could also access international climate finance, including performance-based grants and concessional funds from sources such as the Green Climate Fund and Adaptation Fund.

Cross-provincial collaboration may follow. Larger adaptation projects such as climate-proof roads or renewable energy could be financed through syndicated loans or bond issuance backed by multiple subnational treasuries. Over time, these changes will shift rural finance norms toward resilience, building a pipeline of climate-compatible, employment-generating investments across Nepal's provinces.

Strategy 2.4.4: Elevate rural financial literacy and unify policy frameworks to drive inclusive credit expansion

Nepal's growing rural banking footprint, microfinance outreach, and donor-funded credit lines have

improved physical access to finance. Yet uptake remains limited among smallholder farmers, women's groups, and microenterprises due to weak financial literacy and fragmented institutional coordination. Many rural households still lack basic familiarity with budgeting, digital transactions, or credit terms. This strategy links deeper financial literacy with a unified policy framework that enables local governments, regulators, and donors to collectively support informed credit use and inclusive financial participation.

Recent initiatives show promising progress in expanding financial literacy across rural areas.

Inline with NRB's Financial Literacy Framework, 2022, Circular No.10/2024/2025 now mandates BFIs to allocate 5 percent of Corporate Social Responsibility (CSR) budgets to financial education in underserved areas. This has shifted efforts from sporadic awareness campaigns to more structured initiatives such as radio programming, school modules, and rural banking camps that are often tied to immediate account openings or product demonstrations. Local governments are increasingly integrating literacy into annual work plans and coordinating with banks, MFIs, and NGOs to adapt content to local needs. In several provinces, municipalities have supported community-based literacy camps that have improved trust and financial uptake, especially among women. Development partner supported programs further reinforce these efforts through culturally relevant tutorials and field-based modules targeting women and youths. However, these initiatives remain fragmented, with limited alignment across institutions and inconsistent quality in design and delivery.

To improve coherence, the strategy builds on the Financial Literacy Framework and calls for a formal coordination mechanism involving NRB, MOF, provincial governments, and development partners.

While current guidelines promote standardized content, provincial implementation and monitoring remain inconsistent. A dedicated platform for joint oversight will enable province-level adaptation within a unified national framework, aligning efforts across cooperatives, MFIs, and NGOs while minimizing fragmentation.

Structurally underserved regions where literacy gaps, branch density, and exclusion remain high will be prioritized. In areas with limited physical access, digital literacy pilots using smartphones, local-language content, and wallet onboarding have demonstrated positive results. NRB and local governments will work to scale these models through co-funding and integrated reporting platforms.

Deeper engagement with the microfinance and cooperative sectors will be central. These institutions reach rural clients through regular group interactions, which can be used to reinforce financial literacy linked to product use. NRB and the DoC will coordinate with industry associations to monitor outreach and offer compliance-linked incentives such as refinance access or targeted grants, to improve program quality and governance.

Technology providers are already expanding literacy outreach through mobile apps and Interactive Voice

Response (IVR) systems that deliver customized tutorials in local languages. Some pilots have successfully linked these tools to wallet onboarding and savings uptake, demonstrating how digital content can translate into actual financial usage. Building on these examples, the strategy proposes integrating such digital platforms more systematically with government-led and bank-driven programs. This will improve reach in remote areas and create a seamless pathway from financial awareness to product adoption.

The strategy prioritizes outcome-based monitoring to track real behavioural change, not just activity levels. NRB will move beyond counting training sessions to tracking behaviour change such as shifts in savings, digital activity, and repayment performance. A national portal will consolidate data from CSR programs, MFI campaigns, and donor-funded projects. This will inform policy adjustments in literacy interventions based on measurable gaps in financial access and usage.





MARS TANGIT

PLTA

Pillar 3: Public-Private Partnerships

Nepal's infrastructure financing gap continues to constrain inclusive growth. Despite increased public investment, limited fiscal space and underutilization of private capital— especially in non-hydro sectors— have slowed project delivery. While the PPPIA provides a legal base, weak risk allocation, ad-hoc project preparation, and the absence of viable funding instruments have hindered bankable deal flow.

This pillar focuses on strengthening Nepal's Public-Private Partnerships framework by improving project quality, reducing transaction risks, and creating tools to mobilise private capital without overexposing public finances. It prioritizes standard contracts, performance-linked viability gap funding, risk-sharing instruments, and domestic currency financing. It also proposes integration of enforceable labour and skills components into PPP design to link infrastructure delivery with job creation.

Priority 3.1: Effectively Address Risk Allocation between Public and Private Sectors

Despite the enactment of PPPIA, risk allocation in Nepal's PPPs remains inconsistent, with unclear responsibilities for land acquisition, permitting, and cost overruns. The absence of standardized contracts and sector-specific risk matrices leads to protracted negotiations, legal uncertainty, and weak investor confidence. This priority identifies risk clarity as a

foundational gap in PPP implementation and sets the direction for strategies that embed uniform contractual norms, codify sectoral risk sharing, and improve alignment with recent regulatory reforms to support timely, bankable project delivery.

Strategy 3.1.1: Develop standardized PDA clauses and sector-specific risk allocation matrices rules, Nepal's PPP regime has evolved with the passage of the PPPIA and subsequent reforms, including the 2024's Ordinance streamlining land and forest clearance for nationally important projects.²⁷

Despite this legal progress, implementation remains inconsistent. In the absence of standardized project development agreement (PDA) and sector-specific risk matrices, each project must separately negotiate key responsibilities, particularly around land acquisition²⁸, permitting, and risk-sharing, resulting in delays, uncertainty, and elevated transaction costs.

These inconsistencies are especially acute in high-value sectors such as transport, hydropower, and urban infrastructure. In principle, the PPPIA mandates the public side to facilitate land and approvals, but in practice, responsibilities often fall into grey areas across federal, provincial, and local authorities. While some projects have progressed with strong interagency coordination, others have experienced years-long delays in land handover, local consent, or regulatory clearance. Developers face divergent contract structures even within the same sector, undermining predictability. For

²⁷ An Act to Make Amendment to Some Nepal Acts relating to Investment Facilitation, 2024

²⁸ The foundation of this strategy is the recognition that land acquisition, environmental permits, and multi-layered approvals have historically delayed PPPs. The PPPIA envisions government entities facilitating these processes - particularly for large-scale infrastructure that the Investment Board of Nepal designates as nationally significant. For example, Section 8 of the Act empowers IBN to simplify regulatory pathways, while the 2024's Ordinance clarifies priority-project exemptions in forest areas and revises the Land Acquisition Act 1977 to expedite property transfers for large infrastructures. Despite these legislative advances, the responsibility for actually securing right-of-way and resolving local disputes often falls into grey areas where private concessionaires, local governments, and central ministries must coordinate. This has led to uneven project experiences: some hydropower developers, for example, overcame land disputes relatively quickly with strong local buy-in, while others faced years of compensation negotiations. In theory, the public side is meant to carry land-acquisition risk, but in practice, the private partner frequently bears the brunt of scheduling overruns or community backlash. Creating standardized clauses that explicitly state how and when the government will deliver land, along with remedies if it fails to meet deadlines, would allow developers to factor timelines and costs more accurately into their project proposals.

BOX 4: Public-Private Partnerships – Strategic Framing and Reform Logic

Problem Statement

Nepal's PPP pipeline remains underdeveloped despite legal reforms. Projects face delayed land acquisition, fragmented approvals, and unclear risk allocation. Financing instruments such as viability gap funding (VGF), partial risk guarantees (PRGs), and local currency debt are absent or inconsistently applied. Contract enforcement, project preparation, and dispute resolution processes remain weak. Smaller PPPs led by provinces or municipalities often lack access to central guidance, funding, or technical expertise. Labour and skill development linkages remain ad-hoc.

Strategic Response

Pillar 3 introduces a four-part PPP reform agenda:

- 1. Standardize risk allocation and legal frameworks.** Issue sector-specific Project Development Agreement (PDA) templates and risk-sharing matrices anchored in the PPPIA and updated Public-Private Partnership and Investment Rules, 2020 (PPPIR). Clarify land, permitting, and regulatory obligations across government tiers and formalize roles of federal, provincial, and local authorities in subnational PPPs.
- 2. Operationalize fiscal instruments to improve project viability.** Establish a rules-based PRG program linked to Nepal's FCCL framework to mitigate public-sector delivery and regulatory risks. Launch milestone-linked VGF programs to support commercially weak but high-priority infrastructure projects. Embed labour and skills clauses in concession agreements, particularly for VGF-backed and service-linked PPPs.
- 3. Enable stable, NPR-denominated financing. Expand access to long-tenor local currency debt through a dedicated PPP refinancing window under NRB.** Deepen the domestic

bond market via infrastructure debentures and municipal instruments, backed by partial credit guarantees. Align these tools with risk allocation frameworks and project preparation protocols to reduce currency and maturity mismatches.

4. Build upstream project readiness and legal enforceability.

Establish a central PPP project preparation facility to support transaction structuring, feasibility analysis, and document standardization. Integrate a tiered, contractually embedded dispute resolution mechanism referencing international arbitration centres for large projects, and streamlined domestic panels for subnational deals.

Expected Results

- Accelerated PPP deal closing and higher project quality.
- Increased private capital mobilisation in non-hydro PPPs.
- Lower risk premiums and financing costs via PRGs and stable NPR-denominated debt.
- More predictable land, permitting, and dispute resolution frameworks.
- Sustained local employment and skill development from PPP-linked construction and operations.

Key Implementation Assumptions

- Model PDA and risk allocation frameworks are issued and applied across national and subnational projects.
- Ministry of Finance adopts and enforces FCCL ceilings for PPP-linked guarantees and VGF.
- NRB and SEBON align monetary and regulatory instruments to support NPR-based infrastructure finance.
- Provincial and local levels receive capacity support to structure and monitor subnational PPPs.

example, power purchase agreements differ widely in their treatment of demand risk or *force majeure*, while road concessions lack common terms on tolling, availability payments, or termination events.

This strategy addresses those gaps by proposing a standardized suite of PDA templates, backed by legal authority under the PPPIA and Public-Private Partnership and Investment Rules, 2021 (PPPIR)

These will include a core agreement framework and annexes tailored to the specific risk, revenue, and regulatory conditions of key sectors such as hydropower, toll roads, urban services, and logistics. Each template will be anchored in the risk-sharing principles outlined in the Act and will reflect practical implementation constraints such as land acquisition procedures under the revised Land Acquisition Act, 1977 and exemptions for forest permits under the 2024's Ordinance.

At the heart of each template will be a sector-specific risk allocation matrix.²⁹

Risks such as construction delay and cost overruns will remain with the private party, while the public side will assume responsibility for land access, core permits, and certain macro-level risks such as currency volatility or changes in legal frameworks, where appropriate. For example, viability gap funding may be triggered for projects where tariff or toll structures cannot cover investment costs. The matrix will also address regulatory risk, incorporating provisions for compensation or time extensions where state agencies fail to act within defined periods.

The strategy also reinforces the principle of a single-point public interface for project approvals.

Under the PPPIA, the IBN is empowered to coordinate clearances for large-scale projects falling under its jurisdiction. This strategy extends that principle by calling for explicit designation of a project sponsor, either IBN

or other relevant line ministries, within each contract. Where subnational permits are required, the lead agency will be responsible for internal coordination, using memoranda of understanding where needed, to prevent project developers from having to negotiate separately with each government tier.

The respective roles of federal, provincial, and local authorities in subnational PPPs will further be clarified.

For projects led by provinces or municipalities, the contract templates will specify whether the central government will provide support such as backstopping land acquisition, issuing guarantees, or coordinating co-financing or whether subnational entities bear full responsibility for project preparation and risk. This demarcation is essential under Nepal's federal structure to prevent duplication and avoid regulatory fragmentation.

While the strategy builds on the legal framework already established, it introduces three key refinements:

1. Codifying risk allocation in model contracts and requiring justification for deviations;
2. Linking land and permit delivery timelines to contractual remedies (e.g. compensation or schedule relief);
3. Integrating future policy tools, such as the Land Bank or foreign exchange hedging mechanisms, into standard clauses as these instruments become operational.³⁰

Institutional responsibility for issuing and updating these templates will rest with IBN with guidance from sectoral agencies.

As new instruments are developed (e.g., updates to VGF rules or subnational PPP laws), the standard contracts will be revised to reflect these changes. Feedback loops will be built in, drawing from lessons in past transactions to improve structure and enforceability.

²⁹ These uniform contracts would be sector-specific. Hydropower PPPs have different commercial logic than toll roads or airport concessions. A hydropower PPA might revolve around capacity payments and guaranteed offtake by the Nepal Electricity Authority, whereas a highway concession typically depends on toll collection or availability payments from the government.

³⁰ If the Land Bank concept envisioned in the PPPIR for pre-identifying project sites finally becomes operational, the standardized text should incorporate references to how these designated lands are assigned to concessionaires, under what compensation formula, and how local communities are engaged. If a new mechanism emerges for foreign exchange hedging, it too would appear in the template. This iterative process will allow all relevant new tools such as updated VGF guidelines or subnational PPP rules to be gradually incorporated into contract structures, avoiding case-by-case improvisation.

Strategy 3.1.2: Introduce government-backed PRGs and a contingent liability framework appropriate to Nepal's fiscal space and foreign exchange constraints, protecting private sponsors from state-owned entity non-compliance and adverse regulatory shifts

Nepal currently lacks a standardized partial risk guarantee (PRG) framework for PPP projects.

Existing guarantees are granted ad-hoc and limited in scope. The only precedent, the World Bank's IDA PRG for the 216 MW Upper Trishuli-1 hydropower project, helped mobilise over USD 450 million by shielding investors from public-sector non-compliance risks.³¹ However, this guarantee was available only to a foreign-led venture, raising concerns among domestic developers about unequal treatment and the absence of a uniform policy. Strategy 3.1.2 proposes a rules-based PRG program to enhance investor confidence, address unequal access, and improve the bankability of infrastructure PPPs, particularly in sectors such as energy, transport, and urban utilities.

The MOF is developing a Fiscal Commitments and Contingent Liabilities (FCCL) framework to track public guarantees systematically. A recent World Bank–IMF review estimated Nepal's implicit PPP-related liabilities at over 2 percent of GDP.³² To manage fiscal exposure, the proposed PRG program will be anchored in this FCCL framework. Guarantees will be subject to formal fiscal appraisal, capped under a pre-set GDP threshold, and reviewed periodically to maintain consistency with debt sustainability objectives.

The PRG program will cover specific public-sector performance risks such as payment default by state-owned utilities or regulatory breaches that commonly deter private investment. Broader commercial risks will remain with the private partner. To mitigate foreign exchange risk, the program will complement Hedging Rules, 2022 allowing the government to separate currency-related exposure from institutional performance guarantees. Where necessary, PRGs may be co-structured with multilateral development banks (e.g. Multilateral Investment Guarantee Agency, ADB, World Bank), on a project-specific

basis, improving creditworthiness and reducing the fiscal burden on the state.

Eligibility will be restricted to PPPs with demonstrated economic and employment benefits. Partial coverage will apply only to verifiable government obligations, such as PPA enforcement, land availability, or tariff approvals. A uniform set of criteria covering sector priority, readiness, fiscal impact, and employment contribution will guide PRG approval. These criteria will be formally published by MoF to support consistent treatment across projects and reinforce investor expectations. Risk-based pricing will apply, with fees pooled into a guarantee reserve fund. Initial capitalization may require a one-time budgetary allocation or donor support, especially in early years before fee accumulation is sufficient. Over time, this fund may evolve into a dedicated Contingent Liability Fund managed by the Public Debt Management Office (PDMO) under MoF.

The PRG strategy will expand the scope beyond national energy and transport PPPs to include subnational infrastructure. Entities such as the Town Development Fund or provincial utilities may receive partial guarantees, provided the projects fall within the FCCL ceiling and meet fiduciary standards. This expansion will diversify Nepal's PPP pipeline while supporting regional development goals.

Priority 3.2: Provide Sufficient Incentive for Private Sector Participation in Non-Hydro Projects

Private investment in non-hydro infrastructure remains limited due to weak cost recovery, tariff uncertainty, and the absence of bankable payment structures. Sectors such as urban services, transport, and rural infrastructure offer high public value but lack commercial appeal. This priority addresses those gaps by introducing structured fiscal instruments, VGF and performance-based annuities, that compensate for revenue shortfalls while maintaining performance accountability. These strategies aim to reduce demand risk, improve project bankability, and enable PPPs in fiscally constrained but socially important sectors.

³¹ IFC 2020

³² World Bank-IMF 2020

Strategy 3.2.1: Operationalize a performance-linked VGF for non-commercial PPPs

Nepal's previous experience with PPPs in non-hydro sectors has demonstrated the limitations of relying on ad-hoc capital grants to mobilise private investment. While legal provisions for viability gap funding (VGF) exist under the PPPIA and the earlier Public-Private Partnership Policy, 2015, these have not translated into a systematic mechanism accessible across sectors. In the absence of such structure, several projects have failed to achieve financial closure or reverted to public procurement. This strategy addresses the gap by prioritizing establishment of a dedicated VGF facility, governed by binding criteria and tied to both construction and early operational outcomes.

The proposed VGF framework will target commercially weak but socially essential infrastructure.

It will focus on sectors such as urban transit, waste management, and rural connectivity, where low user fees and high upfront costs deter private investment. Grants will be disbursed against verifiable construction milestones (like partial civil works completion) and early service delivery benchmarks (like minimum ridership levels or waste collection coverage within the first three years). This will build accountability into subsidy disbursement, discourage underperformance and reduce the risk of stalled or abandoned projects.

Urban transport PPPs face high capital costs and fare affordability constraints, particularly in lower-income municipalities.

Likewise decentralized waste systems struggle with weak cost recovery models and volatile revenue streams. These gaps have historically required patchwork support from municipalities and donor funds, which VGF will now consolidate into a unified mechanism. In rural infrastructure, PPPs in roads, bridges, and transport nodes often fail to attract bids due to low returns despite high economic value. Through partial grants covering a portion of capital expenditure and early maintenance, the VGF will enable projects that otherwise would not proceed.

The VGF facility will operate under a dedicated budget ceiling and be integrated into Nepal's public finance architecture.

The MoF, in coordination with the

IBN and the PDMO, will define eligibility criteria focused on economic viability, public benefit, and inability to secure full commercial financing. Disbursements will be tied to competitive bidding processes and robust project appraisal, in line with global good practices. To promote transparency and track value-for-money, projects receiving VGF will be listed on a public digital portal, with disbursement status and performance indicators disclosed. A designated unit within MoF will maintain oversight and consolidate fiscal exposure to avoid accumulation of off-budget liabilities.

To strengthen employment and equity outcomes, VGF-backed PPPs will incorporate provisions that promote local hiring, skills development, and subcontracting to cooperatives and MSMEs.

These social performance clauses will be embedded in concession agreements, especially in urban transit and waste services, where operating roles can absorb local labour and generate economic spillovers. In rural settings, projects supported by VGF may link disbursements to region-specific development indicators, such as first-year connectivity improvements or integration of remote municipalities. Projects not meeting these social or operational thresholds will be subject to reduced or withheld VGF tranches.

The strategy will reinforce complementarity with other PPP-support instruments as well.

For example, the operationalization of a revolving land acquisition fund first proposed in the Public-Private Partnership Policy, 2015 will reduce delays that often undermine financially marginal PPPs. Additionally, integration with viability-linked partial risk guarantees (Strategy 3.1.2) will allow blended support structures where capital grants address viability gaps and risk instruments cover delivery or regulatory risks. Coordination between these tools will help optimize fiscal outlays and reduce the risk of subsidy overuse.

To maintain fiscal discipline, the VGF envelope will be capped annually and reviewed through Nepal's debt and contingent liability frameworks.

Projects will be appraised for cost realism, equity commitment, and funding leverage, with minimum private sector equity thresholds to prevent over-subsidization. Similar

to India's VGF model, the grant will be the minimum required to make a project viable, not a negotiated figure. These conditions will help protect public resources while still expanding Nepal's PPP pipeline beyond the energy sector.

Nepal will shift from fragmented grants and donor-funded pilots to a structured VGF program with defined annual ceilings. It will be financed through a mix of national budget allocations, development partner contributions, and co-financing from climate funds, impact investors, and blended finance platforms. This will reduce investor uncertainty by specifying grant eligibility, disbursement conditions, and project stages upfront. Grounding the VGF in the PPPIA and regulating it through binding guidelines will remove the need for discretionary approvals and improve coordination with permitting and land processes. Over time, completed projects in urban transport, waste management, and rural connectivity will demonstrate how performance-based grants can make essential infrastructure viable and accountable. The government will build PPP capacity as well in central and local agencies to prepare a pipeline of bankable projects. Linking VGF disbursements to verified milestones and operational targets will balance fiscal constraints with the need for credible private participation.

Strategy 3.2.2: Introduce performance-based annuity PPP models where government compensates the private sector through fixed, inflation-indexed payments contingent on service delivery quality, thereby minimizing revenue risk for the concessionaire

Some infrastructure sectors such as rural roads, solid waste, and water services, remain non-bankable even with viability gap funding, due to weak revenue potential and affordability constraints. These structural limitations make user-pay models unviable and leave high-priority projects without credible financing paths. Conventional engineering, procurement, and construction (EPC) procurement has also underperformed, with poor maintenance outcomes and limited accountability for service delivery. To address these gaps, this strategy recommends performance-based annuity PPPs, where government makes

fixed, inflation-indexed payments over time, conditional on verified service levels. This structure will reduce demand risk while embedding incentives for long-term asset quality.

Early experience reinforces the need for this model.

The Kathmandu–Terai Fast Track Road, for example, failed as a toll-based Built-Operate-Transfer (BOT) project due to insufficient traffic to justify private investment. In response, annuity frameworks are being explored inspired by India's Hybrid Annuity Model (HAM), where a portion of construction cost is paid upfront and the rest repaid through indexed instalments over 10 to 15 years. The Department of Roads (DoR) has piloted maintenance-linked contracts funded in part by development partners that test the logic of paying contractors based on sustained asset quality. These experiences, alongside Nepal's successful hydropower PPAs, demonstrate how predictable payments from a creditworthy public agency can attract private sponsors and reinforce quality performance.

In annuity PPPs, the concessionaire will design, finance, build, and operate the asset, while the public entity will make periodic payments tied to performance benchmarks. This is particularly suitable for sectors where upfront capital recovery through tariffs is implausible. Contracts will embed indicators such as road condition indices, uptime and throughput for treatment facilities, or service frequency for transit systems, with penalties for underperformance. This model will enhance project bankability while maintaining fiscal control.

To operationalize this strategy, the government will issue policy guidance under the PPPIA framework, covering eligibility criteria, contract standards, and fiscal safeguards. Guidance will define how annuity liabilities are reflected in medium-term expenditure ceilings and integrated into the PDMO's contingent liability framework. Escrow or reserve mechanisms will be considered to ring-fence payment risks, particularly for municipal projects. Where foreign financing is involved, inflation indexation and currency hedging will be aligned with relevant NRB regulatory provisions. Annuity exposure will be capped as a share of annual

capital spending, and all projects will be tracked through a centralized annuity PPP registry maintained by IBN. The registry will record fiscal liabilities, disbursements, and performance outcomes, enabling transparency, oversight, and mid-course correction.

Priority 3.3: Strengthen Project Preparation and Dispute Resolution Mechanisms to Enhance PPP Bankability

Nepal's PPP pipeline remains constrained by the absence of institutional capacity to prepare commercially viable projects outside a few national-level entities. While Investment Board Nepal supports a limited number of large-scale PPPs, most line ministries and subnational governments lack access to qualified legal, financial, and environmental expertise needed to structure credible transactions. As a result, project proposals often suffer from fragmented feasibility work, unclear risk allocation, and inconsistent documentation. In parallel, PDAs lack standardized dispute resolution pathways. Although arbitration is permitted under national law, enforcement delays and the absence of pre-agreed international forums continue to raise investor concerns. This priority focuses on improving the quality and consistency of PPP design across all levels of government, while reducing post-contract uncertainty through enforceable, pre-defined dispute resolution arrangements.

Strategy 3.3.1: Establish a central project preparation facility to support bankable PPP structuring across all government levels

Nepal lacks a dedicated institutional mechanism to prepare technically sound and commercially viable PPPs across line ministries and subnational governments. Outside IBN's work on large projects, most agencies proceed with limited internal expertise, relying on donor-funded consultants or ad-hoc technical inputs. This has led to fragmented feasibility studies, poorly structured risk allocation, and weak financial analysis, reducing project credibility and market interest. In many cases, delays in reaching financial close are traceable to upstream gaps in project preparation.

This strategy proposes the creation of a central project preparation facility that brings legal,

financial, and environmental expertise under one roof. The facility will work directly with line ministries, provinces, and municipalities to support project identification, early-stage screening, financial modelling, risk structuring, and the development of standardized tender documents. The facility will support line ministries, provinces, and municipalities, particularly for PPPs that fall outside the statutory mandate of IBN.

The facility will be capitalized initially by government and development partners, but its operations will be structured around a revolving project development fund. Project preparation costs will be recovered from private partners at financial close, either through agreed recovery clauses in the agreement or through direct reimbursement. This funding model will allow smaller agencies to access expert support without upfront cost while requiring private concessionaires, who benefit directly from bankable project preparation, to contribute once the project is awarded. The structure limits fiscal exposure and links public support to results.

The facility will serve as a technical filter as well for allocating public co-financing tools such as viability gap funding. Only projects that meet clearly defined preparation standards, including demand forecasts, cost-benefit metrics, and fiscal risk assessments, will proceed to funding approval. This will improve the targeting of limited fiscal resources and avoid politically driven project selection without commercial discipline.

Support will extend to local governments preparing PPPs in priority sectors such as roads, water supply, waste, and market infrastructure. The facility will guide project scoping, coordinate with sectoral ministries, and verify compliance with procurement and safeguard rules. These functions are critical given uneven capacity and the high transaction risks faced by municipalities operating under federalism.

Strategy 3.3.2: Set up PPP-specific dispute resolution mechanism with reference to international arbitration centres

Nepal's existing dispute resolution processes are slow and fragmented. PPP contracts fall under general legal provisions, and enforcement through domestic

courts is often delayed, particularly in cases involving public agencies. While the Arbitration Act, 1999 allows for international arbitration and Nepal is party to the New York Convention, there is no dedicated framework that systematically embeds credible dispute resolution into PPP design. The absence of a structured mechanism raises investor risk premiums, weakens the credibility of concession agreements, and discourages serious bidders, especially for complex, capital-intensive projects.

This strategy introduces a standardized, contractually embedded dispute resolution framework for PPPs. All PPP agreements above a defined threshold will include a tiered mechanism, starting with time-bound negotiation and mediation, and progressing, if unresolved, to reference to pre-identified international arbitration centres such as Singapore International Arbitration Centre (SIAC) and the Hong Kong International Arbitration Centre (HKIAC). These centres offer enforcement credibility, procedural clarity, and neutrality that investors trust. For smaller subnational projects, domestic arbitration panels may be used, but with defined time limits and pre-agreed procedures to avoid open-ended legal exposure.

The framework will be developed in coordination with IBN, and the Office of the Attorney General (OAG). Model clauses will be integrated into all PPP template documents, and oversight bodies will monitor adherence as part of the bid review process. Sectoral agencies and municipalities will receive guidance on how to structure contracts to prevent jurisdictional ambiguity and avoid discretionary dispute escalation.

Priority 3.4: Facilitate Local Currency Financing for PPPs to Reduce Exchange Rate Risk

Non-hydro PPPs in Nepal—such as those in roads, solid waste, urban utilities, and logistics—rely on domestic revenue streams but often depend on foreign currency debt. This mismatch exposes projects to exchange rate volatility and undermines long-term financial viability. Local banks, constrained by short-tenor deposits and rollover risks, are unable

to meet the financing needs of capital-intensive infrastructure with 12–15-year repayment profiles. At the same time, Nepal's bond market remains shallow, with limited use of project-specific instruments and low participation from institutional investors. These structural gaps restrict investment in employment-intensive infrastructure and weaken the credibility of domestic PPP pipelines. Addressing the financing side of this equation is important as without stable, NPR-denominated funding channels, viable projects remain delayed, undersubscribed, or overly dependent on concessional foreign lending. This priority focuses on extending the maturity and depth of local currency financing by expanding refinancing tools, unlocking domestic bond capital, and aligning these instruments with PPP project preparation and risk-sharing frameworks.

Strategy 3.4.1: Develop local currency refinancing instruments and project bond structures to mitigate exchange rate risk in non-hydro PPPs

Exchange rate exposure presents a structural barrier to scaling PPPs in sectors where revenues are denominated in Nepali Rupees. While most operational PPPs to date are in hydropower, where dollar-indexed PPAs mitigate currency risk, non-hydro sectors do not have equivalent hedging mechanisms. Without access to long-tenor NPR financing, emerging non-hydro PPPs risk becoming dependent on hard-currency loans, introducing volatility into revenue models and reducing bankability. It is important to address this constraint to enable a broader PPP pipeline beyond energy.

While Nepal Infrastructure Bank Limited (NIFRA) provides long-term debt and equity for select infrastructure projects, it does not address the system-wide financing constraints that prevent broader market participation. It does not function as a refinancing facility for commercial banks, nor does it lead coordination across regulatory, monetary, and capital market institutions. Nepal lacks a standardized mechanism as well for issuing infrastructure bonds at scale or mobilising institutional investors into PPPs with NPR-denominated revenue streams. This strategy fills those gaps by building a consolidated financing framework that enables longer tenors, risk-aligned

instruments, and institutional coordination to support PPPs that fall outside hydropower.

This strategy will expand local currency financing through two channels: long-tenor refinancing facilities at market rates and the development of infrastructure-specific bond instruments.

A dedicated PPP refinancing window under NRB would provide long-term funds to commercial banks lending to NPR-denominated PPPs. This will stabilize the supply of project finance at tenors aligned with infrastructure timelines and directly address the maturity mismatch caused by short-duration deposits in Nepal's banking system. Risk-pricing, interest rate terms, and credit allocation would remain market-driven, but the availability of refinance would enable lenders to extend project tenors without rollover exposure. The mechanism would build on NRB's existing facilities but apply specifically to commercially viable, NPR-based PPPs, with public co-financing eligibility determined through project screening under Strategy 3.3.1.

In parallel, the Government will work to deepen the domestic bond market for infrastructure.

Government will prioritize the introduction of infrastructure debentures, municipal bonds, and diaspora-targeted NPR instruments tied to PPPs. Project bonds backed by partial credit guarantees from IFIs

and DFIs can mitigate investor risk and raise ratings, allowing insurance firms, pension funds, and mutual funds to participate. Bond terms would be linked to verifiable cash flow profiles, and investor protections aligned with SEBON disclosure requirements and NRB prudential norms.

Partial risk and credit guarantee from IFIs and DFIs can complement the local currency instruments described above by covering repayment risks that domestic lenders or bond investors may be unwilling to bear.

These guarantees are particularly relevant in NPR-denominated PPPs where public-sector obligations like tariff approval or timely payment present residual risk. Their application is especially useful in subnational PPPs, where balance sheets are weaker and transaction sizes are smaller, but financing needs remain significant. When deployed in coordination with upstream project preparation (Strategy 3.3.1), standardized risk allocation (Strategy 3.1.1), and enforceable dispute resolution frameworks (Strategy 3.3.2), these instruments can improve credit quality, extend loan maturities, and attract domestic institutional investors. Used selectively, guarantees can help unlock NPR-based financing for PPPs that would otherwise be considered too risky by lenders or bond investors, especially when the private sector is unwilling or unable to take on all project-related risks without some form of public or third-party backstop.



QR code
GORKHALI FALFUL TARKARI PASAL
Terminal: 2222020018293551
Bina Bazar: KALIMATI

QR code
Gorkhali Falful & Tarkari Pasal
Terminal: 2222020018293551
Address: Kathmandu, NP



Pillar 4: Financial Inclusion and Digital Finance

Nepal has made visible progress in expanding financial access, driven by microfinance outreach, mobile wallet penetration, and priority sector lending. However, rural enterprises and informal workers remain underserved due to two persistent constraints: the financial and operational fragility of MFIs, and the limited integration of digital finance with productive activity. MFIs face rising costs, funding gaps, and regulatory pressure that limit their ability to offer affordable, long-tenor credit outside urban areas. At the same time, digital finance systems, though expanding, are not yet connected to rural value chains or enterprise finance. This pillar addresses both challenges as interlinked problems; improving the viability of MFIs while enabling them to partner with digital platforms that deliver credit, savings, and bundled services to rural users. These reforms aim to expand access, reduce delivery costs, and strengthen the financial linkages that support rural employment, resilience, and enterprise growth.

Priority 4.1: Enhance the MFIs' Financial Viability

MFIs are central to rural finance in Nepal but face rising pressure from thin operating margins, interest rate caps, and high service delivery costs in remote areas. These challenges limit their ability to expand credit access, invest in systems, or reach underserved groups at scale. Strengthening the financial and operational foundations of MFIs is essential to sustain their role in inclusive finance. The following strategies focus on improving pricing, diversifying funding sources, and upgrading governance to support long-term institutional sustainability.

Improving the financial sustainability of MFIs is essential for preserving and expanding their ability to finance small-scale enterprises, informal producers,

and rural livelihoods. Viable MFIs are better positioned to support working capital for micro-enterprises, seasonally constrained farmers, and self-employed youths. As MFIs regain financial strength, lending can be targeted toward sectors with high labour absorption through tailored credit products linked to cash flow cycles and local value chains. The following reforms will also enable stronger MFIs to participate in employment-linked finance schemes and thematic portfolios backed by donors or climate funds. Combined with accountability for outreach and use of funds, institutional viability of MFIs will become a platform for inclusive job creation.

Strategy 4.1.1: Reform MFI pricing framework to support sustainability and responsible access

Nepal's MFIs operate under a fixed interest rate ceiling of 15 percent, with additional limits on service charges. While intended to preserve affordability, this cap has become binding for many institutions as funding costs have risen. In some cases, MFIs are borrowing at rates higher than the regulated lending ceiling creating a structurally unsustainable margin. This has led to erosion of financial buffers, reduced appetite for rural expansion, and growing risk of non-viability among second- and third-tier MFIs.

NRB has acknowledged these challenges and is considering a shift toward a base rate plus premium model, similar to that applied to other classes of financial institutions. This strategy supports such a transition by recommending a pricing framework grounded in transparent disclosure of operating costs, cost of funds, and risk margins. The model would permit MFIs to set lending rates within defined premium bands, based on borrower characteristics and loan type, while maintaining affordability ceilings for core microcredit segments.

BOX 5: Financial Inclusion and Digital Finance – Strategic Framing and Reform Logic

Problem Statement

Nepal has expanded access to financial services through microfinance, cooperatives and mobile wallets, but credit for rural enterprises remains limited. MFIs face binding interest rate caps, high delivery costs, and weak supervision that constrain their ability to lend sustainably. At the same time, digital finance has not been effectively integrated into rural value chains, leaving micro and small enterprises dependent on informal finance. Data gaps, high onboarding costs, and fragmented infrastructure continue to exclude informal producers and seasonal workers from enterprise-linked credit.

Strategic Response

Pillar 4 addresses these gaps through two parallel priorities:

1. Strengthen MFI viability and oversight.

Reform the pricing framework to allow cost-reflective interest rates under a base rate plus premium model. Shift NRB's supervision toward proportionate, risk-based oversight, with differentiated expectations based on size and institutional role. Improve governance and reporting among large MFIs to enable access to direct wholesale capital from IFIs and climate-linked funds.

2. Link digital finance to enterprise credit and rural value chains.

Connect MFIs to digital transaction platforms that track sales and procurement cycles, enabling short-term working capital loans and bundled risk-

mitigation products. Develop shared credit infrastructure including a scoring utility, borrower registry, and adoption incentives, to lower underwriting costs and expand access to informal enterprises.

Expected Results

- Expanded lending by MFIs to small-scale firms, youth enterprises, and rural producers.
- Reduced MFI dependence on quotas and interest rate subsidies, with improved financial resilience.
- Scaled delivery of bundled credit, savings, and insurance tools through interoperable digital platforms.
- Structured credit expansion for underserved microenterprises, linked to verified sales and cooperative transactions.

Key Implementation Assumptions

- NRB publishes base rate calculation standards and allows differentiated pricing under regulatory oversight.
- NRB revises inspection protocols and formally segments MFIs by size and complexity.
- Certified MFIs meet governance and reporting standards for direct access to wholesale capital from IFIs.
- NRB, CIBN, and PSPs cooperate to establish a shared borrower registry and scoring system for low-documentation lending.
- MIS integration support and agent-based onboarding are prioritized for MFIs operating in underserved districts.

NRB will publish base rate calculation standards and require MFIs to disclose effective interest rates in loan documents and client communications. The definition of microcredit will be clarified to separate subsidized, inclusion-focused lending from larger, commercially priced loans. Pricing flexibility will be supported by stronger consumer disclosure rules and targeted financial literacy efforts to reduce the risk of confusion or misuse.

The transition will begin with MFIs that meet minimum governance and reporting thresholds. Coverage will expand as supervisory tools improve and market data become more reliable. The revised framework links loan pricing to actual cost and risk, restoring financial viability without undermining access for low-income borrowers.

Strategy 4.1.2: Introduce tiered supervision framework for MFIs

Nepal's MFIs are supervised using standard templates applied across all financial institutions, regardless of size, risk profile, or institutional model. Field inspections are often led by generalist NRB staff unfamiliar with microfinance methodologies. This results in compliance-driven, low-value supervision that fails to catch underlying risks or guide institutions on business model adjustments.

This strategy proposes a shift to proportionate, risk-based supervision tailored to institutional complexity. It calls for revised supervisory manuals, formal segmentation of MFIs by size and risk, and inspection protocols that include at least a trained microfinance specialist. These changes would enable NRB to allocate supervisory resources more effectively and apply appropriate oversight to higher-risk institutions.

At the policy level, NRB will articulate a formal sector vision that distinguishes MFIs from commercial banks. The vision will preserve their inclusion role while setting clear expectations for capital adequacy, service delivery, and innovation. This strategic clarity will help MFIs, donors, and wholesale lenders align investments with institutional purpose and risk appetite.

A supervision framework that differentiates between high-risk and stable MFIs will free regulatory capacity to focus on institutions expanding outreach into employment-intensive sectors. Stronger oversight of client protection, credit quality, and loan purpose tracking can help identify which MFIs are lending to productive, enterprise-linked borrowers. Tiered regulation can gradually be used to align supervisory incentives with employment outcomes by rewarding institutions that maintain lending volumes to small-scale firms and rural economic activities without compromising asset quality.

Strategy 4.1.3: Strengthen governance and transparency of large MFIs to access direct wholesale finance

Nepal's largest MFIs play a critical role in reaching underbanked regions but remain dependent on domestic bank credit, NRB quotas, and short-term

funding. In a context of rising costs and interest rate caps, this model is no longer sufficient. Rather than expanding public refinance schemes, which face clear fiscal constraints, this strategy aims to position large, well-performing MFIs to access long-term wholesale capital directly from IFIs, climate funds, and international impact investors.

The first step is to strengthen the fiduciary governance and transparency standards of eligible MFIs.

This includes formalizing risk management frameworks, improving board oversight, enhancing audit independence, and adopting disclosure practices aligned with international microfinance and Environmental, Social, and Governance (ESG) reporting norms. MFIs would also need to publish standardized portfolio-level data and undergo periodic external ratings or assessments focusing on repayment performance, client protection, and operational resilience.

To qualify for direct wholesale access, MFIs must also meet minimum thresholds on digital loan tracking, audited financials, and NPL reporting.

NRB can work with apex associations and regulators to define a voluntary compliance framework, accompanied by a certification process. Certified MFIs can then be supported in developing tailored financing proposals, engaging with IFIs, or partnering with local financial intermediaries to co-structure debt facilities.

Larger MFIs with certified governance and transparent portfolios can direct these funds toward employment-linked lending in sectors such as small manufacturing, agriculture, and services. Wholesale finance can be used to support term loans for youth enterprises, working capital for local value chains, or expansion finance for informal producers. MFIs participating in these transactions can report job creation and enterprise development outcomes as part of their financing agreements, linking access to capital with demonstrable social impact.

This strategy encourages NRB and MoF to facilitate regulatory recognition of foreign financing for MFIs supported by simplified reporting and repatriation procedures for approved lenders. MFIs

with certified governance status would be permitted to access NPR-denominated funds directly from eligible external sources under clear foreign exchange and risk-sharing rules, without relying on public refinancing.

This strategy directs public resources toward oversight, certification, and transparency rather than direct liquidity support. Strong institutions that meet these standards can gradually move away from donor dependency and position themselves as credible partners in blended finance, social bond issuance, and thematic lending tied to employment, gender, or climate priorities.

Priority 4.2: Link Digital Finance with Rural Value Chains and Enterprise Ecosystems

While digital finance usage in Nepal has expanded, its integration with enterprise finance remains weak. Digital tools are primarily used for payments, not for extending or managing credit linked to productive activity. Rural enterprises continue to rely on informal finance due to seasonality, cash flow variability, and lack of collateral. This priority addresses that gap by embedding microfinance into digital value chains and strengthening MFIs' capacity to offer working capital, insurance, and savings products anchored in transaction data. It also focuses on building the institutional and data infrastructure required to shift from static loan products to responsive, enterprise-linked digital finance.

Strategy 4.2.1: Integrate MFIs with digital value chains to scale working capital and resilience tools

Rural MSMEs in Nepal face persistent working capital constraints due to the mismatch between seasonal cash flows and rigid repayment structures. MFIs, still reliant on uniform product cycles, are poorly equipped to lend to enterprises with volatile or delayed revenues. This strategy aims to close that gap by embedding MFIs within digital value chains (particularly in agriculture, crafts, and small retail) and using transaction-level data to tailor short-term finance and risk-mitigation tools.

MFIs face structural barriers in serving microenterprises that lack collateral, have irregular income flows, or operate outside formal registration.

However, segments such as dairy, vegetables, handicrafts, and tourism are increasingly linked to digital systems through cooperatives, aggregators, and marketplace platforms that record transactions. These systems generate verifiable data on sales volumes, delivery patterns, and client history – creating a new basis for credit assessment. This strategy leverages those data flows by linking MFI loan origination platforms to these digital transaction records. Working capital loans can then be timed to procurement cycles and repaid through future earnings, reducing the need for physical collateral. This will improve repayment predictability and expand credit access to informal but economically active microenterprises.

To improve financial resilience among rural borrowers, MFIs participating in digital pilots may begin offering bundled products that link working capital loans to savings features and climate-linked insurance. These bundles can be structured using NRB's digital lending provisions and delivered through partnerships with PSPs, cooperatives, or aggregators that are managing digital transaction records. Existing subsidies for crop and livestock insurance create an opportunity to embed risk protection at the point of credit disbursement. Targeted pilots in sectors such as dairy and horticulture can test how credit, insurance, and savings tools delivered through a single channel can jointly stabilize household finances and support enterprise continuity in the face of shocks.

To operationalize this strategy, pilot programs will target sectors with existing digital transaction records. Participating MFIs will design credit products and repayment models aligned with real-time sales data, leveraging NRB's digital lending guidelines where applicable. The newly established Digital Finance Innovation Hub at Nepal Rastra Bank will serve as a collaborative platform, providing regulatory insights and facilitating dialogue between innovators and policymakers. Insights from these pilots will inform the

design of credit products and delivery models tailored to platform-based enterprises and cooperative-linked producers. As digital transaction data becomes more widely available, these models can be extended to other high-employment segments where MFIs have struggled to offer flexible, collateral-free credit at scale.

Strategy 4.2.2: Build shared digital credit infrastructure to expand lending to informal enterprises

Despite advances in digital payments, most rural and informal enterprises in Nepal remain excluded from formal credit due to lack of verifiable data, duplication across lenders, and high onboarding costs. This strategy focuses on building a shared digital infrastructure layer, anchored in NRB's regulatory framework, to support low-cost, data-driven lending by MFIs, cooperatives, and PSP-linked platforms.

The first component is a shared scoring utility that will convert wallet usage, cooperative transaction records, repayment history, and seasonal income data into eligibility scores. This scoring utility will be open-access for licensed MFIs and cooperatives, reducing their dependence on internal MIS or private scoring vendors. Algorithms will be co-designed with local credit practitioners and embedded with fail-safes to avoid exclusion based on geography or social identity.

The second component is a borrower registry system linking e-KYC, CIBN data, and biometric verification.

This registry will allow lenders to verify identities, check for loan duplication or overexposure, and tag borrowers by segment (farm, retail, youth-run etc.). MFIs using this system will benefit from streamlined onboarding, standard reporting, and automated eligibility checks. In the future, this registry can anchor risk pooling mechanisms or partial guarantee schemes for higher-risk segments.

The third component is an incentive framework for adoption.

Smaller lenders will receive MIS integration support, transaction fee waivers, or co-funded agent training to help shift from paper-based processes. Institutional investors or climate-linked funds can provide guarantee schemes or liquidity facilities aligned with this credit infrastructure. These instruments can be targeted to MFIs serving high-risk or underserved borrower segments, using borrower and transaction data from the system to inform eligibility and monitoring.

This will lower onboarding and assessment costs, improve borrower visibility, and enable structured credit expansion without increasing portfolio risk.

It will also enable targeted interventions such as youth enterprise finance, green microloans, or market-linked working capital to be delivered at scale through interoperable and accountable channels.



Pillar 5: Climate and Disaster Risk Finance

Nepal faces growing exposure to climate-related and systemic risks that directly threaten household incomes, micro-enterprises, and rural jobs. The financial system lacks instruments to manage these risks at scale. Climate-related lending remains minimal, and insurance uptake is limited despite heavy public subsidies. Blended finance for resilient infrastructure and livelihoods is underutilized, and only few mechanisms exist to protect borrowers or MFIs from income disruptions caused by climate shocks. This pillar focuses on strengthening the financial system's capacity to support employment and enterprise resilience in climate-vulnerable areas. Embedding climate and risk finance into enterprise support, financial protection, and local infrastructure delivery will strengthen household resilience and expands opportunities for job creation in climate-vulnerable regions.

Priority 5.1 Mobilise a Higher Volume of Climate Finance

Nepal's transition to a climate-resilient and employment-rich economy depends on its ability to mobilise and absorb a much larger volume of climate finance within national systems. Although multiple global and bilateral funds have committed resources, access remains constrained by fragmented coordination, limited fiduciary readiness, and weak subnational delivery mechanisms. Existing climate-related projects operate largely as isolated pilots with low predictability of funding flows and limited integration with fiscal and planning systems. This priority seeks to translate Nepal's climate policy commitments into a functional financing architecture that channels resources efficiently toward adaptation, mitigation, and resilience-building investments with strong local and

employment co-benefits. It focuses on strengthening institutional capacity to operationalize the 80 percent localization rule, embed climate priorities in planning and budgeting frameworks, and align external and domestic climate finance with national investment priorities. Through these reforms, climate finance will shift from project-based interventions to a coordinated, multi-tiered financing system that supports both resilience and sustained job creation at the local level.

Strategy 5.1.1: Strengthen local access to climate finance by operationalizing the 80 percent allocation rule

Nepal's National Climate Change Policy, 2019 commits to allocating at least 80 percent of climate finance received from international mechanisms to local-level program implementation. In practice, this commitment is inconsistently applied due to definitional ambiguity, unclear compliance criteria, weak enforcement, and limited capacity at the subnational level. Case studies from major adaptation projects such as Nepal Climate Change Support Program, Phase 2 (NCCSP2), Climate Change Adaptation for Food Security in Karnali (CAFS-Karnali), and Building Climate Resilience of Watersheds in Mountain Eco-Regions (BCRWME) show subnational allocation shares ranging from 61 percent to over 90 percent, but none of them followed a uniform methodology for calculating the 80 percent allocation.³³ Many projects classify technical assistance, capacity-building, and central staff costs as 'local delivery' without clear parameters. Monitoring systems do not disaggregate expenditures by government tier or beneficiary level, and most local governments remain unaware of the 80 percent commitment or are excluded from project planning and oversight.³⁴

³³ MoFE 2021

³⁴ Ibid.

BOX 6: Climate and Disaster Risk Finance—Strategic Framing and Reform Logic

Problem Statement

Nepal faces growing exposure to climate-related and disaster risks that directly threaten household incomes, micro-enterprises, and rural jobs. The financial system lacks instruments to manage these risks at scale. Climate-related lending remains limited; insurance penetration is low despite subsidies, and most public disaster financing is mobilised only after shocks occur. The 80 percent local allocation rule for international climate finance is not systematically applied. Private capital remains largely untapped for climate-aligned investments; and subnational entities have limited access to structured climate or risk financing mechanisms.

Strategic Response

Pillar 5 introduces a two-part strategy to embed climate and risk finance into Nepal's employment and resilience agenda:

1. **Mobilise higher volumes of climate finance** through operationalization of the 80 percent local allocation rule, stronger integration of climate priorities into public investment systems, alignment of external flows with national frameworks, and targeted instruments to attract private investment in climate-aligned sectors.
2. **Expand risk financing mechanisms** using market-based insurance products, municipal and sovereign-level risk pools, improved actuarial and data systems, and pre-arranged liquidity tools to support timely disaster response and livelihood protection.

Expected Results

- Greater volume and share of climate finance allocated to subnational and employment-linked investments.
- Expanded use of risk financing tools among municipalities, cooperatives, and vulnerable enterprises.
- Increased uptake of agricultural and disaster insurance supported by improved pricing and data systems.
- Timely, predictable liquidity for post-disaster response, reducing reliance on ad-hoc fiscal reallocations.
- Private capital mobilised through green bonds, concessional credit lines, and blended instruments in climate-resilient sectors.

Key Implementation Assumptions

- MoF and MoFE apply binding criteria for the 80 percent local allocation rule and integrate tracking into Aid Management Information System (AMIS)/DFIMS and SuTRA.
- Subnational entities receive technical support to prepare and manage climate finance projects under national systems.
- SEBON and NIA finalize green finance and insurance market regulations aligned with updated risk and sustainability standards.
- Climate Finance Unit and Catastrophe Insurance Pool are operational with cross-agency governance.
- Performance-based reporting and fiduciary oversight guide the use of both international and domestic climate finance.

This strategy addresses these implementation gaps through institutional, procedural, and technical reforms that make the 80 percent rule operational. MoF and Ministry of Forests and Environment (MoFE), in coordination with Social Welfare Council (SWC) and NPC, will formally adopt the criteria for

80 percent local-level allocation outlined in the 2021 MoFE assessment. This includes limiting inclusion of technical assistance and administrative costs, defining eligible spending at the ward and community level, and explicitly excluding overheads, international travel, and central monitoring and evaluation from the 80 percent

calculation. The criteria will be made mandatory through project screening guidelines for all international climate finance proposals seeking government clearance. Proposals that do not comply with the 80 percent allocation criteria will not proceed to implementation through national systems and will be returned for revision.

A national registry of climate projects receiving international finance will be established. This will link MoFE's climate finance registry with MoF's Development Finance Information Management System (DFIMS) and Sub-National Treasury Regulatory Application (SuTRA) for subnational tracking. Projects will be required to report disaggregated allocations by government level and spending category. Compliance status with the 80 percent provision will be visualized through a real-time dashboard accessible to MoF, MoFE, and provincial planning units. Compliance reports generated from this dashboard will guide disbursement decisions and inform reporting to development partners and international climate funds. This system will also allow for longitudinal tracking of climate finance allocations relative to vulnerability and employment indicators.

Access to climate finance for subnational entities will be routed through designated intermediaries that meet funder fiduciary and safeguard standards. These may include the Town Development Fund, regional apex facilities, or pooled financing platforms housed within sectoral ministries. Intermediaries will develop internal appraisal tools and reporting frameworks, supported by technical assistance from MoFE and development partners. Municipalities and provinces will receive support to prepare project proposals aligned with Local Adaptation Plans of Action (LAPAs), national vulnerability assessments, and job creation metrics. A uniform set of application templates, climate-risk screening tools, and employment-linked indicators will be adopted to support consistency across project submissions. Provincial planning units will support aggregation of municipal investments, vet proposals, and validate result data for bundled applications.

Initial investment pipelines will target sectors with measurable resilience benefits. This will include climate-proofing of rural roads, slope stabilization, solar

irrigation systems, nature-based flood control infrastructure, and municipal climate-smart waste systems. Municipalities will receive standard templates to support project preparation, incorporating cost-effectiveness metrics, employment-linked indicators, and compliance with international fund requirements. Modest co-financing or in-kind contributions from sub-national governments may be used to satisfy matching requirements by external funders.

Disbursement of international climate finance to subnational projects will be linked to locally verifiable results. Releases will depend on milestones such as completed adaptation infrastructure, target beneficiary coverage, or employment generated through project implementation. Local project units will monitor progress using harmonized reporting tools and submit data into central climate finance tracking systems. Performance-based financing pilots may be launched in priority provinces, bundling climate-related municipal investments under a unified reporting and monitoring framework. These pilots will test results-linked disbursement models and provide inputs for refining eligibility and monitoring criteria. In the medium term, inter-municipal project portfolios that demonstrate strong performance and compliance may qualify for pooled access to international climate funds under enhanced direct access, performance-based agreements, or bundled financing structures managed by accredited national intermediaries. These pooled portfolios will allow subnational entities to access larger and more predictable funding envelopes, tied to transparent, aggregated performance indicators.

This strategy will turn Nepal's 80 percent localization target from a policy principle into a binding allocation rule within national systems. It will strengthen local access to climate finance, embed accountability into allocation systems, and expand funding for employment-linked adaptation investments in high-risk geographies.

Strategy 5.1.2: Integrate climate finance into national and subnational planning and budgeting systems to enable scaled access

Nepal's ability to access larger volumes of international climate finance remains constrained by the

limited integration of climate priorities into national planning, budgeting, and public investment systems.

The government has already institutionalized Climate Budget Tagging (CBT) as the first country globally to do so. CBT is now embedded in the Red Book and applied to all federal ministries' budget submissions. However, implementation challenges persist. Classification criteria are inconsistently applied, line ministry staff often lack technical capacity to assess climate relevance, and CBT tags are not yet used systematically to inform capital budgeting or investment screening decisions. While Nepal has adopted a Climate Change Financing Framework, 2017 and the Green Finance Taxonomy, 2024, climate finance integration into capital budgeting, investment screening, and MTEF ceilings remains limited. As a result, climate-relevant investments are often under-identified, unfunded, or poorly positioned to leverage concessional finance. Existing allocations to adaptation or mitigation measures remain fragmented, and domestic spending cannot be reliably tracked against NDC or NAP targets.

This strategy proposes system-level improvements to embed climate finance more effectively into Nepal's PFM architecture. MoF will strengthen the application of CBT by revising classification guidelines and training focal points across ministries in consistent with scoring methods. Tagging will be extended to subnational programs to support more comprehensive tracking of climate-related expenditures across tiers of government. This will enable MoF and MoFE to monitor compliance with the 80 percent localization provision under Strategy 5.1.1 and to disaggregate how climate finance is allocated, spent, and reported at the local level.

Project appraisal tools will be revised to reflect climate risks and benefits more systematically. NPB guidelines will be updated to include climate screening, avoided loss estimates, GHG impact assessments, and co-benefits such as resilience or employment. These improvements will strengthen the climate rationale in funding submissions and improve eligibility for programmatic access windows from international sources of climate finance.

To institutionalize these reforms a cross-agency working group comprising MoF, MoFE, NPC, and key line ministries will coordinate the rollout of revised tagging, appraisal, and reporting tools. Sector-specific climate investment guidelines will be developed, and training will be provided to finance, planning, and technical staff at federal, provincial, and municipal levels. Performance data from CBT-tagged investments will be reviewed annually to assess allocation trends, delivery efficiency, and financing gaps. These reforms will enable Nepal to transition from project-by-project climate funding to coordinated, nationally owned climate investment programs eligible for multi-year support from international climate finance institutions.

Strategy 5.1.3: Mobilise and align international climate finance with national investment priorities
Nepal remains highly dependent on international support to meet its climate financing needs, particularly for large-scale adaptation and mitigation investments that cannot be met through domestic budgets alone. The volume and pace of climate finance mobilisation remain below potential due to fragmented coordination, weak project pipelines, and limited readiness to absorb funds at scale. This strategy aims to improve the alignment of international climate finance with national priorities by strengthening institutional coordination, accelerating fund access, and integrating external flows into the national budget framework.

The MoF and MoFE will jointly lead efforts to strengthen Nepal's ability to access multilateral climate finance, including from the Green Climate Fund (GCF), Adaptation Fund, Global Environment Facility (GEF), and Climate Investment Funds (CIF). Climate Finance Section within MoF will be tasked with coordinating proposal development, maintaining a pipeline of bankable climate investments, and supporting sector ministries in meeting fiduciary and technical standards. The unit will work closely with accredited entities, development partners, and provincial institutions to prepare projects aligned with NDC and NAP targets in priority sectors such as renewable energy, agriculture, forestry, and urban resilience.

Direct access will be pursued where feasible by supporting national institutions such as the Alternative Energy Promotion Centre (APEC) and Town Development Fund (TDF) to seek GCF accreditation. This will allow them to receive and manage international climate funds directly under national systems, improving efficiency and visibility. To maximize concessional finance uptake, project design will be synchronized with national plans and aligned with eligibility requirements of performance-based or simplified access windows.

A high-level Climate Finance Steering Committee chaired by MoF will be established to guide donor alignment, policy coherence, and track progress on fund absorption. The committee will include NPC, MoFE, key line ministries, development partners, and civil society. It will serve as a formal mechanism to vet funding proposals, deconflict partner programs, and monitor delivery. All international climate finance will be recorded as on-budget expenditures and integrated into DFIMS and SuTRA—enabling co-financing with domestic resources and improving transparency. This will address longstanding concerns over fragmented and off-budget donor projects that bypass national systems.

Employment impacts will be central to project selection. International climate finance can unlock large-scale job creation in sectors such as hydropower, solar energy, agroforestry, and climate-resilient infrastructure. New proposals will include dedicated components for green jobs, skills development, and technology transfer, with particular focus on women, youths, and vulnerable groups. SMEs involved in clean energy and adaptation of supply chains will also benefit from increased demand further expanding employment.

To manage implementation risks, the Climate Finance Unit will prioritize readiness investments, including feasibility studies, early design packages, and streamlined proposal vetting. Development partners will be engaged in project design to match funds to executable investments. Governance risks will be mitigated through transparent fund tracking, annual public reporting, and independent evaluations of fund use and employment impact. Over-reliance on a single

source of funding will be addressed through diversification of partners and the use of blended finance instruments, including green loans, technical assistance grants, and, where appropriate, debt-for-climate swaps tied to domestic climate expenditure commitments.

Strategy 5.1.4: Catalyse private investment through green financial instruments and market-driven climate solutions

Nepal's domestic public finance and concessional aid is insufficient to meet its climate adaptation and mitigation costs. This strategy focuses on unlocking private capital by deepening regulatory reforms, strengthening market infrastructure, and introducing financial instruments tailored to climate-aligned sectors. The objective is to crowd in investment for low-carbon and climate-resilient projects with high employment potential, particularly in renewable energy, sustainable transport, agriculture, and urban infrastructure.

NRB has taken foundational steps, including issuance of Environmental and Social Risk Management (ESRM) guidelines and the introduction of climate-related disclosures. These will be expanded through sustainable finance policies that incentivize private sector lending to green sectors. MoF and NRB will collaborate to introduce dedicated green refinancing windows, sector-specific lending quotas, and targeted interest subsidies. Climate-smart agriculture, energy efficiency, and off-grid renewables will be early priorities. The Green Finance Taxonomy, 2024 will serve as the classification framework for eligible activities, and credit guarantee schemes may be deployed to de-risk lending to emerging climate sectors.

Nepal's capital market is now entering into green finance through structured instruments. In April 2025, NMB Bank issued the country's first green bond, backed by International Finance Corporation (IFC) and other international investors, raising NPR 8 billion to finance clean energy and sustainable infrastructure. This bond is expected to create 8,000 jobs over five years and sets a precedent for other issuers.³⁵ SEBON will issue regulatory guidelines for green bonds, including disclosure standards, eligible project categories, and use-of-proceeds

³⁵ IFC 2025

verification, in line with international practices. MoF may offer partial credit enhancements or tax incentives to promote uptake by banks and corporates. Broader public-private financing structures such as climate-resilient PPPs focused on solar microgrids, waste-to-energy, and urban flood control will be developed, with government assuming selected viability risks.

Sector-specific financing models will be expanded in coordination with technical agencies. AEPC will partner with banks to offer concessional loans for solar rooftop systems, efficient irrigation, and clean cooking technologies, with repayments embedded in utility billing systems to reduce default risk. For urban areas, green leasing models for electric vehicles and battery storage systems will be piloted through Development Finance Institutions (DFIs) and local financial institutions. In rural sectors, microfinance and cooperative-led credit lines will support adaptation investments in climate-resilient inputs, water management, and sustainable livestock systems.

Climate risk insurance will be scaled to protect households and enterprises against weather shocks. The Nepal Insurance Authority (NIA) has introduced targets for agriculture and livestock coverage, but uptake remains limited. Index-based insurance products backed by satellite data and digital platforms will be expanded in coordination with insurers, MFIs, and cooperatives. Premium subsidies will be provided during the initial rollout to build market acceptance, with future sustainability tied to reinsurance partnerships and bundled loan-insurance products. These risk transfer tools will reduce public burden for post-disaster relief and encourage credit flows into vulnerable regions. Detailed institutional and product-level strategies for risk financing are elaborated in Strategies 5.2.1 to 5.2.3.

Priority 5.2 Expand Disaster Risk Financing Mechanisms through Market-Based Instruments, Municipal Aggregation, and Sovereign Liquidity Tools

Nepal faces escalating fiscal and livelihood risks due to climate-induced disasters, but risk disaster

financing systems remain fragmented and under-developed. Most public funding for disaster response is mobilised reactively, while insurance penetration among households, farmers, and MSMEs remains low despite generous premium subsidies. This priority supports the development of a layered and diversified risk financing architecture combining municipal- and co-operative-level insurance products with sovereign-level instruments and reinsurance structures. Strategies under this priority promote the use of cost-effective financial tools to improve the timeliness, predictability, and equity of post-disaster liquidity.

Strategy 5.2.1: Pilot parametric insurance models through cooperatives and municipalities

Nepal's experience with indemnity-based crop insurance has been constrained by low uptake, unsustainable subsidy burdens, high administrative costs, and operational complexity. Despite premium subsidies of up to 80 percent, uptake remains limited, particularly for smallholder crops, with only 7,261 insurance policies for crop sold in FY 2022/23.³⁶ Claims processes are paperwork-heavy and time-consuming, and dissatisfaction persists among farmers over lack of transparency in sum insured calculations and input-based indemnities. Premium disbursement delays from the government have further disincentivized insurer participation. Indemnity-based insurance, which requires individual field loss assessments, has proven operationally unviable for smallholder-dominated systems in challenging terrain.

To address these constraints, under this strategy, the government will introduce pilot programs for parametric insurance products tailored to rice farmers, micro and small enterprises, and municipal public assets in disaster-prone areas. Products will be structured around predefined triggers such as rainfall deviation, flood height, or earthquake intensity using transparent thresholds and independent data sources. Pilots will prioritize weather-indexed insurance for paddy and flood-linked coverage for MSMEs in flood-prone municipalities. Risk modelling and payout rules will be developed in collaboration with insurers and reinsurers drawing from promising models.

³⁶ ADB 2025

Municipalities will serve as risk aggregators, purchasing pooled group policies or sponsoring individual policies for vulnerable groups. Pilot programs will bundle credit with insurance coverage for subsidized farm loans or MSME working capital to strengthen lender participation. To improve inclusivity and local trust, women-led local volunteers will be trained to support onboarding, documentation, and claims facilitation using mobile-based applications. The pilots will integrate satellite and sensor data from Department of Hydrology and Meteorology (DHM), and automated weather stations will be installed in select locations where data coverage is weak. Results from these pilots will inform policy and product refinements for scale-up.

Strategy 5.2.2: Establish a subnational catastrophe insurance pool to expand municipal risk coverage

Nepal's municipalities face rising climate and disaster-related liabilities but have no access to formal pre-disaster risk finance. Annual disaster management allocations remain typically NPR 1–2 million³⁷ and are used reactively. With no fiscal buffers, municipalities rely on delayed post-disaster transfers from the federal government or support from development partners impeding service restoration and local recovery.

This strategy proposes establishing a Nepal Catastrophe Insurance Pool (NCIP), which will offer pooled parametric insurance to municipalities and their constituents. The pool will be capitalized with multi-source contributions like municipal premiums, federal co-payments, grants from development partners, and investment returns, and structured with multiple risk layers. Municipalities may either insure their own disaster response budgets or act as sponsors of group policies for households and MSMEs. Payouts will be determined through real-time hazard monitoring and channelled directly to insured entities or end beneficiaries under pre-agreed terms.

The pool will be governed by a steering committee comprising MoF, National Disaster Risk Reduction and Management Authority (NDRRMA), NIA, municipal representatives, and reinsurers. A dedicated pool management team will oversee product development,

risk pricing, reinsurance placement, and payout verification. The pool will serve as a distribution platform for other insurance schemes, including property, crop, and SME coverage, and may earn commission income to build long-term reserves. This structure will enable layered risk-sharing, reduce procurement and administrative costs, and leverage pooled risk to improve reinsurance terms.

To maintain financial sustainability, municipalities will contribute actuarially priced premiums reflecting local hazard exposure. Reinsurance contracts will be structured to cover peak-loss layers enabling the pool to retain frequent, low-severity risks. Development partners' contributions will be time-bound and front-loaded, used for data systems, actuarial support, and temporary premium subsidies during the initial rollout. Over time, the pool will integrate with Nepal's broader disaster risk financing strategy and link with SuTRA for expenditure traceability.

Strategy 5.2.3: Strengthen risk data systems and actuarial capacity to support insurance market viability

Low insurance penetration in Nepal is rooted not just in demand-side constraints but also in poor data quality, weak pricing models, and fragmented risk information. Most crop and property insurance premiums were set in 2013,³⁸ without accounting for rising hazard frequency, climate variability, or location-specific risk. The lack of historical yield and hazard data impedes accurate parametric product design, while spatial gaps in weather stations increase basis risk for index-based products.

This strategy focuses on upgrading the data infrastructure and actuarial frameworks needed for sustainable insurance expansion. A priority is the installation of automated weather stations and soil moisture sensors in data-sparse districts, certified by the DHM and accessible to insurers through a licensing model. Third-party audits will validate data integrity and build trust with international reinsurers. Historical loss records, crop yields, and hazard footprints will be digitized and compiled to support probabilistic modelling.

³⁷ ADB 2025

³⁸ Ibid.

The NIA, supported by technical partners, will lead actuarial recalibration of crop insurance tariffs across crop-season-district combinations. The process will begin with paddy and maize, using composite risk scores to determine fair premiums. Parametric insurance triggers such as rainfall thresholds or flood depths will be statistically validated against past loss data. A phased model will be used to avoid rate shocks while improving premium adequacy. For urban infrastructure and SME property coverage, hazard-exposure-vulnerability data will be mapped to support product pricing and re-insurability.

A national risk data portal will consolidate multi-source risk information from NDRRMA, DHM, insurers, and municipalities. This will allow transparent pricing, reduce duplication, and enable insurers to benchmark performance and cost ratios across regions. The platform will allow disaster agencies, insurers, and financing institutions to share verified exposure data and use it to design risk-specific financial instruments such as contingent credit lines, parametric insurance pools, or catastrophe-linked debt, based on the scale and frequency of expected losses.

Strategy 5.2.4: Expand and reform agriculture and livestock insurance for climate-resilient livelihoods

Despite covering nearly 65 percent of Nepal's labour force, agriculture remains highly exposed to climate shocks and poorly served by formal insurance. Nepal's Agriculture and Livestock Insurance Directive, 2022 provides up to 80 percent premium subsidies for crops, livestock, poultry, and fisheries. Yet, as of FY2022/23, fewer than 7,300 crop policies were active, compared to nearly 186,000 for livestock.³⁹ Uptake remains low due to opaque valuation methods, procedural burdens, lack of trust, and delayed subsidy disbursement.

This strategy supports a national overhaul and scale-up of agricultural insurance to protect farm incomes and stabilize employment in rural areas. MoF, NIA, and MoALD will coordinate to recalibrate premiums based on updated risk profiles and crop-season-district combinations. Input-based indemnity valuation will be replaced by structured cost-of-cultivation formulas. Where appropriate, index-based triggers (rainfall, yield deviations) will be used to simplify payouts and reduce

disputes. A hybrid strategy combining parametric and minimum indemnity coverage will be piloted to reduce basis risk while improving operational efficiency.

Distribution will shift from centralized agents to cooperative and microfinance-led channels. Proof of insurance will be linked to eligibility for concessional farm loans or public relief assistance. To improve transparency, the sum insured and trigger thresholds will be communicated digitally, and claim settlements will be processed through mobile money or cooperative accounts. A national agri-insurance registry will track beneficiary enrolment, payout history, and geographic spread, allowing targeted outreach.

Strategy 5.2.5: Strengthen sovereign disaster risk financing and post-disaster liquidity mechanisms

Nepal continues to bear the full fiscal brunt of climate-induced disasters with most disaster spending occurring after the event through reallocation and emergency appeals. Local governments have small mandated disaster reserves but these remain inadequate. While the Catastrophe Deferred Drawdown Option (CAT DDO) with the World Bank (\$50 million) was a significant step, Nepal lacks a comprehensive disaster risk financing architecture.

This strategy supports the full institutionalization of pre-arranged sovereign risk financing instruments to ensure timely, predictable liquidity for disaster response. At the national level, the Disaster Management Fund (DMF), as mandated by the Disaster Risk Reduction and Management Act, 2017, will be capitalized annually and legally earmarked for preparedness, response, and reconstruction. Its governance will be reinforced with independent audits, ex-ante allocation plans, and rapid disbursement protocols embedded in the PFM system.

Shock-responsive social protection systems will be linked to these financing lines. Emergency top-ups to social assistance will be pre-financed through contingency reserves allowing cash transfers to be disbursed within days of an event. Coordination between MoF and local governments will be further strengthened according to the Disaster Risk Reduction and Management Act, 2017, to avoid delays in fund release and procurement.

³⁹ ADB 2025





Pillar 6: Skills Development and Just Transition

Nepal's demographic momentum, underemployment, and informal labour dynamics require a forward-looking employment policy framework that links structural transformation, climate adaptation, and social equity. Productivity remains low across agriculture and informal services, and most new labour market entrants face poor-quality jobs, outward migration, or exclusion from formal systems. As Nepal prepares for LDC graduation and green transition, targeted labour market strategies must focus not only on skills supply, but also on institutional and financing mechanisms to improve employment outcomes, protect rights, and support vulnerable groups—especially youth, women, informal workers, and subsistence farmers. This pillar outlines three mutually reinforcing priorities: expanding equitable access to skills and education, promoting entrepreneurship and local job creation, and strengthening the labour system for a just transition that is inclusive and rights-based.

Priority 6.1: Expand Equitable Access to Skills and Education

Strategy 6.1.1: Diversify financing models for local skills development

Nepal will adopt more diversified and sustainable financing models for localized skills development. Many municipalities struggle with limited resources and unstable employer demand making it difficult for them to independently plan and deliver technical and vocational training. Most municipalities lack dedicated budgets, institutional capacity, or private sector partners for vocational training and fit-for-purpose funding structures that pool risk, attract co-investment, and ensure value-for-money for skills development.

To support implementation of the National Vocational Qualifications Framework (NVQF), government will deploy a multi-modal skills financing strategy. This will combine three instruments. First,

MoF will facilitate outcome-linked social impact bonds (SIBs) to pilot employment-oriented training in municipalities with strong Employment Service Centres (ESCs) and demonstrated demand. Under SIB models, private investors will fund training programs upfront, and government or development partners will repay them only upon achieving agreed employment outcomes. These instruments, which have been tested in other emerging markets, enable risk transfer while incentivizing performance and innovation.

Second, for municipalities with limited market depth or weak coordination capacity, skills block grants will be provided based on labour market diagnostics. Grants will be conditional on minimum planning and reporting standards and tied to municipal skills development plans endorsed by provincial authorities. This will avoid ad-hoc project proliferation and build medium-term predictability into local training provision. Block grants may be bundled with co-financing from provincial budgets or line ministries (agriculture, tourism) depending on sector focus.

Third, municipalities will scale PPP-based training delivery by partnering with accredited private or NGO providers using lease-based or equipment-sharing agreements. Under these contracts, providers will deliver NVQF-certified short courses, with cost-sharing mechanisms that allow partial fee recovery and scholarships for disadvantaged groups. The Council for Technical Education and Vocational Training (CTEVT), in coordination with MoF and PPMO, will develop a national PPP framework for TVET delivery including model agreements, reporting templates, and provider eligibility criteria. These partnerships will prioritize underserved areas and sectors with clear employment demand.

Financing mechanisms will be governed by a Skills Financing Coordination Group comprising MoF, CTEVT, MoEST, MoLESS, NPC, and

BOX 7: Skills Development and Just Transition - Strategic Framing and Reform Logic

Problem Statement

Nepal's labour market is shaped by demographic pressure, high underemployment, and fragmentation in both the skill and employment systems. While youth participation in the labour force is rising, training systems remain disconnected from market demand, and access is unequal across regions and groups. Most jobs are informal, unprotected, and low-productivity, particularly in agriculture and informal services. Migration and informality have masked weak domestic labour absorption. Municipalities lack both the capacity and financing to deliver employment-linked programs at scale. Meanwhile, agriculture, the largest employer and emitter, is absent from global just transition frameworks, and social protection systems remain partial and fragmented. Without an integrated agenda, Nepal risks reinforcing inequality and missing the opportunity to align jobs, equity, and climate action.

Strategic Response

Pillar 6 focuses on three interlinked priorities:

1. **Expand equitable access to skills and education** by diversifying training finance, scaling public-private delivery, and strengthening STEM education systems to equip youth and underserved groups for future labour markets.
2. **Promote entrepreneurship and local job creation** through bundled skills and finance schemes for self-employment, and by reserving priority sectors for domestic workers to reduce dependence on informal migrant labour.

3. **Pursue a just transition and strengthen labour institutions** by integrating climate-smart employment in agriculture, expanding social protection to informal workers, and establishing governance platforms for rights-based employment systems.

Expected Results

- Scaled access to inclusive, demand-responsive skills training in underserved regions.
- Increased employment among youth, returnees, women, and informal workers.
- Rural livelihoods aligned with adaptation and just transition finance opportunities.
- Strengthened labour inspection, social protection, and tripartite dialogue systems.
- Institutional coordination and monitoring of decent work outcomes across pillars.

Key Implementation Assumptions

- MoF, MoLESS, CTEVT, and provincial authorities coordinate on labour and skills finance mechanisms.
- ESCs and sector agencies improve data sharing, targeting, and placement systems.
- Social protection reform roadmap is adopted.
- Agriculture just transition approach is validated with stakeholders and embedded in climate finance frameworks.
- Tripartite employment and protection councils are activated at national and provincial levels.

provincial representatives. This group will issue annual investment frameworks and result reports. Development partner contributions, including technical assistance, may be pooled into a common financing window, aligned with national employment goals and focused on sustainability rather than short-term project-based support.

Strategy 6.1.2: Scale public investment in STEM education to support structural transformation

Nepal's long-term development trajectory will increasingly depend on its capacity to generate high-productivity jobs and innovation-driven growth. Yet, public investment in science, technology,

engineering, and mathematics (STEM) education remains minimal, fragmented, and disconnected from the needs of industry and national development strategies. Most university-level STEM programs lack modern laboratories, sector-relevant curricula, or structured pathways to employment in fields such as agro-technology, digital services, applied engineering, and environmental sciences.

This strategy proposes a coordinated program to strengthen STEM education infrastructure, academic–industry collaboration, and applied research capacity across Nepal’s public higher education institutions. MoEST, in coordination with MoF and the University Grants Commission, will identify and upgrade at least 3 flagship public universities and polytechnics with advanced STEM departments. Investment will prioritize lab infrastructure, field demonstration units, faculty development, and digital learning platforms. Curriculum reform will be guided by sector skills councils and employer advisory boards that will be set up to align programs with emerging domestic and global labor-market needs.

To promote industry-relevant research and entrepreneurship, the government will establish competitive research and innovation grants. This will be accessible to STEM departments that demonstrate applied partnerships with national firms, cooperatives, or government agencies. These will be complemented by seed grants and incubator support for student-led innovation addressing agricultural resilience, renewable energy, digital finance, and climate technologies. Graduate placement tracking will be made mandatory for all STEM institutions receiving public funding.

STEM-focused scholarships and preparatory bridge programs will be expanded to increase participation by women, rural students, and underrepresented communities. Provincial STEM outreach centers will offer coding, robotics, and digital science programs linked to secondary schools and municipal ESCs. Over time, these interventions aim to double enrollment in applied STEM fields and increase the share of university graduates absorbed into productive sectors.

Priority 6.2: Promote Entrepreneurship and Local Job Creation

Strategy 6.2.1: Promote self-employment through integrated access to finance and training

Nepal’s challenge of underemployment particularly among returnee migrants, youths, and informal sector workers, demands a structured self-employment support mechanism that links skill acquisition with enterprise finance. Existing programs tend to offer fragmented subsidies or standalone training, without clear alignment to viable business models or financial products. Most local ESCs remain underutilized and are yet to function as integrated labour market intermediaries. In response, the government will operationalize an integrated program that offers bundled financial and technical support to promote self-employment among youths and informal workers.

The program will be delivered through ESCs and accredited cooperatives, combining technical training, business plan mentoring, and access to concessional finance. Loan products will be co-designed with NRB, MFIs, and cooperatives under a streamlined KYC and phased repayment approach. All beneficiaries will be required to complete a pre-qualification training and submit a simplified business concept validated by local ESCs. Financing will be provided through a blended mechanism combining credit lines and startup grants, targeting sectors with high informal participation such as food processing, local services, crafts, and micro-retail.

The program will be initially launched in 20 districts with high youth outmigration and unemployment rates. Delivery will be integrated with existing concessional lending, credit guarantee, and skills programs, allowing for efficient targeting and tracking. A digital registry will record applicant status, training completion, loan disbursement, and enterprise survival metrics. The registry will be linked to the national credit information bureau to avoid over-indebtedness. The program aims to support over 50,000 self-employed entrepreneurs within three years and will be continuously adapted based on implementation feedback, district absorption capacity, and portfolio performance.

Strategy 6.2.2: Reduce external dependence by reserving priority jobs for domestic workers

Despite persistently high domestic unemployment, particularly among technically trained youth, certain sectors such as hospitality, construction, and retail continue to experience displacement of local labour due to a growing inflow of undocumented or unregulated migrant workers. Labour market entry barriers, weak training-to-placement systems, and uncoordinated employment permit enforcement have allowed foreign workers, primarily from neighbouring countries, to occupy job roles targeted for Nepali workers under employment-linked programs.

This strategy aims to reduce such displacement by reforming national labour regulations, improving job targeting systems, and enforcing domestic hiring priority in selected sectors. The government will establish a restricted occupation list in coordination with sectoral ministries and provincial governments. These roles will be reserved for documented Nepali workers with verified training completion under the NVQF or equivalent certified programs. Labour inspectors at municipal level will be authorized to verify hiring compliance and monitor implementation.

The list of restricted occupations will be updated annually based on market absorption capacity, training throughput, and domestic demand–supply gaps. Employers failing to comply will be ineligible for government procurement, tax incentives, or concessional finance schemes. Digital permit systems and ESC job placement records will be cross-verified to track violations and labour migration flows. Capacity of the labour inspectorate will be strengthened at subnational level to enforce compliance in collaboration with the MoHA and MoLESS. The measure will improve employment absorption of domestic workers and reduce dependency on informal foreign labour, while preserving business continuity through phased implementation and consultation with employers.

Priority 6.3: Pursue a Just Transition of the Agriculture Sector

Strategy 6.3.1: Pursue just transition in agriculture through climate-smart rural employment

Agriculture is Nepal’s largest employer and the highest-emitting sector in the national GHG inventory.

While agriculture is also one of the largest sources of GHG emissions globally, it remains absent from global just transition frameworks which focus almost exclusively on energy. Nepal has an opportunity to position agriculture at the centre of its just transition agenda by building a financing case that links emission reduction, rural resilience, and job creation. The core proposition is grounded in the realities of smallholder farming that any effort to cut agricultural emissions must also protect rural incomes and employment. This dual objective will qualify agriculture for both adaptation and just transition finance under international frameworks. Nepal will frame this sector as a legitimate recipient of climate finance by linking emission reductions with employment protection, especially for women, subsistence farmers, and landless labourers.

To operationalize this agenda, Nepal will work with provincial and municipal governments to identify priority districts where agricultural emissions are high and climate vulnerability overlaps with employment dependence. These areas will become demonstration zones for integrated investments in climate-smart agriculture, including low-emission irrigation, agroforestry, organic inputs, and solar-powered processing technologies. ESCs in these districts will be tasked with aligning rural training programs to climate-resilient practices, supported by CTEVT-certified short courses and demonstration farms. Financing will be channelled through blended instruments such as results-based grants, concessional rural credit, and climate-linked guarantees enabling farmers, cooperatives, and agri-MSMEs to adopt clean technologies without compromising livelihood security. This model

will also allow Nepal to meet climate co-benefit requirements under adaptation and just transition financing mechanisms and offer a equity-focused alternative to energy-focused just transition models.

Strategy 6.3.2: Institutionalize labour governance, social protection, and social dialogue to promote inclusive and just employment outcomes

Nepal's labour market continues to suffer from weak institutional capacity, fragmented social protection, and limited regulatory enforcement. This is especially true in informal sectors where most workers are excluded from legal coverage, benefits, or workplace protections. As Nepal graduates from LDC status and positions itself for green and just transitions, a coordinated investment in labour administration, rights-based employment systems, and inclusive policy dialogue is essential. Without this, employment-focused programs risk bypassing the most vulnerable, reinforcing informal

work, and failing to deliver durable improvements in job quality or equity.

This strategy proposes a structured effort to upgrade Nepal's labour governance architecture by consolidating fragmented mandates, scaling labour inspection systems, and embedding tripartite dialogue and evidence-based policymaking across levels of government.

MoLESS, in coordination with MoF and NPC, will lead the development of a national decent work roadmap, aligned with the Global Accelerator on Jobs and Social Protection for Just Transitions (GA), to which Nepal is a pathfinder country. The roadmap will provide a coherent platform to align national employment priorities with international tools and resources, including GA-supported diagnostics, job impact assessments, and social protection expansion strategies. It will also serve as an accountability framework to monitor progress on labour rights, formalization, and equitable access to employment across all INFF implementation pillars.



Action Plan

Pillar 1: Fiscal Policy and Public Finance

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST1.1.1: Strengthen multi-year capital budgeting frameworks	<p>2025–2026</p> <ul style="list-style-type: none"> Strengthen the capacity of line ministries in capital budgeting, project costing, and lifecycle tracking, with a focus on addressing current challenges in the use of the MTEF and NPB to ensure full compliance with the NPB-MTEF guideline Revise NPB scoring criteria to include employment, climate, lifecycle cost, and readiness Complete interface design for NPB-MTEF-IFMIS (LMBIS, PLMBIS, SuTra) integration <p>2027–2030</p> <ul style="list-style-type: none"> Operationalize NPB-IFMIS link to restrict budget codes without validated project entries Publish annual audit of NPB submissions, including data completeness, scoring application, and lifecycle visibility 	<ul style="list-style-type: none"> Revised NPB scoring template Integration blueprint (NPB-MTEF-IFMIS) NPB audit report 	NPC (Lead), MOF, FCGO, Line ministries	<p>ST1.1.2: Procurement must reflect scoring</p> <p>ST1.1.4: Bonds depend on NPB-ready pipeline</p>	<p>Risk: Ministries may bypass or delay entries</p> <p>Mitigation: Block IFMIS codes without NPB ID; publish ministry-level compliance data</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST1.1.2: Streamline procurement process and contract management capacity	2025–2026 <ul style="list-style-type: none"> Fully upgrade e-GP to enable contract tracking, workforce clause enforcement, and data analytics Introduce regulatory provisions⁴⁰ to apply weighted scoring for job creation, MSME participation, and local hiring in eligible contracts Develop standard contract templates with enforceable labour clauses Conduct technical training for procurement officers to address institutional gaps in contract enforcement 2027–2030 <ul style="list-style-type: none"> Apply scoring provisions and contract clauses to all large infrastructure and service contracts for local hiring Launch labour compliance audit system Develop public procurement performance dashboard with job creation, local hiring, and contractor ratings 	<ul style="list-style-type: none"> Regulatory provisions for weighted scoring for job creation, MSME participation, and local hiring e-GP system upgrade report Standard contract templates Labour compliance audit manual Analytics dashboard 	PPMO (Lead), MoF, MoLJPA, Line Ministries	ST1.1.1: Follows project screening ST6.1.1: Links to job creation targets	Risk: Low execution of new clauses Mitigation: Stakeholder orientation and capacity strengthening
ST1.1.3: Strengthen project implementation and monitoring capacity	2025–2026 <ul style="list-style-type: none"> Design digital workflow to track project readiness (land, clearance, permits), approval, implementation conditions, and link to IFMIS/DFIMS Deliver training to project managers on implementation readiness, schedule control, safeguards, and risk mitigation Mandate readiness filters for all ODA projects 2027–2030 <ul style="list-style-type: none"> Operationalize national monitoring platform integrating NPB, IFMIS, and DFIMS Link fund release to milestone achievement Conduct regular audits of implementation delays, contract compliance, and budget execution Publish annual implementation performance reports 	<ul style="list-style-type: none"> Digital workflow tracking systems National multi-system monitoring platform (NPB, IFMIS, DFIMS) Milestone-based fund release guideline Audit and performance reports 	NPC (Lead), MoF, FCGO, Line ministries	ST1.1.1: Readiness input for project scoring ST1.1.2: Tracks clause compliance	Risk: Milestone data may be unreliable Mitigation: Use existing indicators first and validate with audits

⁴⁰ PPMO to identify the necessary scope of regulatory provisions through rules, schedules, directives, or legislative amendment.

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST1.1.4: Expand development financing through diversified instruments and market-based mechanisms	<p>2025–2026</p> <ul style="list-style-type: none"> Identify NPB-screened projects suitable for PPP, bond-based financing, or other alternative/innovative financing modalities Implement thematic bond framework and roadmap Define eligibility criteria for diaspora bonds, green bonds, PPP-linked guarantees, and other blended instruments Deliver training for MoF, SEBON, and subnational entities on bond issuance, guarantee structures, and investor reporting <p>2027–2030</p> <ul style="list-style-type: none"> Launch Alternative Development Finance Fund and issue initial bond(s) Introduce project-linked investor dashboard and credit risk registry Expand co-financing through PPPs and blended finance in sectors beyond hydropower 	<ul style="list-style-type: none"> List of at least 10 projects suitable for PPP and/or bond financing Thematic bond framework and roadmap Investment guideline and eligibility criteria for alternative financing instruments Investor reporting dashboard 	PDMO (Lead), MoF, SEBON, NRB, IBN, NPC, Line ministries, institutional investors	<p>ST1.1.1: Project readiness required</p> <p>ST2.2.2: Bond instruments for job rich sectors</p> <p>ST 6.1.1: Alternative financing models for skills development</p> <p>All strategies under Pillar 3: PPPs</p>	<p>Risk: Projects lack predictable cash flows</p> <p>Mitigation: Start with sectors where revenue streams exist</p>
ST1.2.1: Link tax incentives to employment outcomes	<p>2025–2026</p> <ul style="list-style-type: none"> Conduct a full review of existing tax incentive schemes for linkage with formal job creation, skills investment, and MSME participation Establish a system to link future tax incentives with SSF enrolment Design and deploy digital claims and validation system linked to SSF, IRD, and MoLESS databases Train IRD, SSF, and provincial tax officials on incentive eligibility enforcement and digital verification <p>2027–2030</p> <ul style="list-style-type: none"> Integrate employment-linked incentives into Finance Bills with fiscal caps Conduct biannual audit of tax expenditure by firm size, sector, and employment impact 	<ul style="list-style-type: none"> Employment-linked tax incentives eligibility guidelines Digital claim and validation portal Tax expenditure audit reports Employment-focused Finance Bill amendments 	MoF (Lead), MoLESS, SSF	<p>ST1.3.1: Align with exemption reforms</p> <p>ST6.1.1: Incentivize skill-based jobs</p>	<p>Risk: Firms may overstate employment impact</p> <p>Mitigation: Verify using SSF records; cap claimable credits; audit sample claims</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST1.2.2: Update accelerated depreciation allowance and customs duty rebates for machinery in priority sectors	<p>2025–2026</p> <ul style="list-style-type: none"> Identify priority sectors and define performance-linked eligibility thresholds (jobs, exports, productivity) for capital incentives tied to machinery Issue directives and instructions under Income Tax and Customs Laws Upgrade tax and customs systems to validate claims and flag audit triggers based on job creation, export growth, and productivity thresholds Train officials on claim processing and compliance <p>2027–2030</p> <ul style="list-style-type: none"> Integrate revised incentives into annual Finance Bills Review sector eligibility and sunset clauses every 2–3 years 	<ul style="list-style-type: none"> Sector eligibility criteria and incentive directive Updated IT systems for claim verification and performance-linked audit flags Finance Bill with revised incentives Review reports 	MoF (Lead), Line ministries	<p>ST1.3.2: Tariff alignment</p> <p>ST2.2.1: Capital access for priority sectors</p>	<p>Risk: Firms may underutilize or misreport performance to access rebates</p> <p>Mitigation: Apply strict verification thresholds and integrate audits into automated claim systems</p>
ST1.3.1: Reform distortive tax exemptions	<p>2025–2026</p> <ul style="list-style-type: none"> Compile inventory of tax exemptions by sector, firm size, region, and revenue loss, and identify exemptions with low employment or equity impact Develop equity-sensitive review framework based on findings, and set annual tax expenditure cap Train fiscal policy staff Prepare revised list of exemptions <p>2027–2030</p> <ul style="list-style-type: none"> Amend Finance Bill to replace inefficient provisions with job-linked credits or productivity-based incentives Conduct periodic cost-benefit evaluation of exemptions and redirect revenue toward employment-support programs 	<ul style="list-style-type: none"> Tax expenditure inventory and exemption review framework Updated list of allowable exemptions with employment/equity rationale Finance bill sets cap on tax expenditure Annual tax expenditure evaluation report 	IRD (Lead), NPC	<p>ST1.2.1: Trade-off between exemptions and incentives</p> <p>ST4.1.1: Public goods targeting</p>	<p>Risk: Pushback from vested interests</p> <p>Mitigation: Use phased roll-back, public reporting, and clear job/equity framing</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST1.3.2: Reform import tariff structure	<p>2025–2026</p> <ul style="list-style-type: none"> Analyse import tariffs and NTBs in job creating sectors, and propose revised tariff structure and NTBs for protecting key employment-linked sectors Draft performance-linked duty rebate mechanism for firms sourcing from domestic MSMEs/cooperatives Train Customs and MoF staffs on new tariff enforcement and rebate monitoring <p>2027–2030</p> <ul style="list-style-type: none"> Include tariff changes in Finance Bill Monitor trade balance, sectoral job growth, and domestic value addition Conduct tariff and NTB impact review and adjust them based on outcomes every two years 	<ul style="list-style-type: none"> Tariff and NTB review report with revised tariff schedule and rebate rules Duty rebate rule for MSME/cooperative sourcing Tariff and NTB impact review report 	Customs (Lead), MoICS	<p>ST1.2.2: Align incentives</p> <p>ST6.2.1: Transition in rural value chains</p>	<p>Risk: Revenue or trade disruption</p> <p>Mitigation: Target high-value chains; apply safeguards and sunset clauses</p>

Pillar 2: Monetary Policy and Private Finance

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST2.1.1: Introduce credit allocation framework linked to verified employment outcomes	<p>2025–2026</p> <ul style="list-style-type: none"> Review existing directed lending quota structure Evaluate availability of verifiable employment data for setting employment-linked lending policy Develop sector-wise credit-to-job benchmarks (employment per NPR disbursed etc.) Issue NRB directive on employment-linked credit allocation Develop and deploy Credit-Employment Dashboard using SSF, payroll, and lending data (or other available indicators) Train BFI credit officers and NRB supervisors on employment-linked credit appraisal and reporting system <p>2027–2030:</p> <ul style="list-style-type: none"> Embed employment-linked incentives for BFIs into NRB regulatory instruments Validate employment attribution through independent audits Publish sectoral employment-credit performance annually 	<ul style="list-style-type: none"> Diagnostic report covering (i) performance of directed lending quotas, (ii) availability of data for setting employment-linked lending policy, (iii) sector-wise credit-to-job benchmark Credit-Employment Dashboard 	NRB (Lead), SSF, MoF, NSO, BFI associations	<p>ST2.1.2: Guarantees must align with benchmark logic</p> <p>ST6.1.1: Skills sectors should align with job targets</p>	<p>Risk: Banks may resist the shift to outcome-based allocation due to verification burden or uncertainty in benchmark design</p> <p>Mitigation: Engage BFI associations during benchmark development; align with existing reporting formats; phase implementation with regulatory incentives (CRR relief, compliance recognition)</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST2.1.2: Devise credit guarantee schemes linked to employment outcomes	<p>2025–2026:</p> <ul style="list-style-type: none"> Conduct a survey to understand bank and MFI needs for employment-linked guarantees Develop credit guarantee scheme linked to employment outcomes (verified hiring) Pilot employment-linked CGS targeting underserved MSMEs in selected clusters across all seven provinces <p>2027–2030:</p> <ul style="list-style-type: none"> Scale implementation based on pilot results and performance Finalize employment-linked credit guarantee scheme Develop sector/job-based pricing model Establish claims audit system Publish pilot framework and performance reports 	<ul style="list-style-type: none"> Needs assessment survey Rules on employment-linked CGS Pilot implementation of employment-linked CGS Sector-specific pricing schedule Claims audit system Employment and utilization reports 	DCGF (Lead), MoF, NRB, BFIs, MFIs	<p>ST2.1.1: Must use same benchmarks</p> <p>ST2.3.1: Used for MSME refinance</p> <p>ST5.1.4: Guarantees for green loans</p>	<p>Risk: Guarantees may be misused for regulatory compliance rather than expanding credit to underserved, employment-intensive borrowers</p> <p>Mitigation: Restrict access to verified job-linked loans only; require SSF or payroll validation; enforce claim audits before renewal of guarantee access</p>
ST2.2.1: Modernise credit frameworks to improve access to credit	<p>2025–2026</p> <ul style="list-style-type: none"> Enable CIBN coverage of MFIs and cooperatives through legal and regulatory reform Digitize cooperative loan records in coordination with DoC Enforce use of STRO for 2–3 asset classes (equipment, inventory, receivables) Train lenders on use and enforcement of STRO Launch public and institutional outreach campaigns on movable asset lending <p>2027–2030:</p> <ul style="list-style-type: none"> Link movable collateral registry with CIBN data fields Launch risk-weighting incentives for movable asset-based lending Publish quarterly adoption and usage statistics by institution and asset class 	<ul style="list-style-type: none"> Expanded CIBN registry Operational secured transactions registry Standard pledge contracts Registry–CIBN integration module Training records Adoption tracker dashboard 	NRB (Lead), CIBN, MFIs, DoC, cooperatives	<p>ST2.3.2: Registry underpins movable lending</p> <p>ST4.2.2: Input for digital borrower scoring</p>	<p>Risk: Weak lender adoption</p> <p>Mitigation: Tie usage to risk-weighting incentives and eligibility for refinance or guarantee support</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
<p>ST2.2.2: Strengthen local capital markets to channel investment into employment-rich sectors</p>	<p>2025–2026:</p> <ul style="list-style-type: none"> Address capital market entry barriers in employment-rich sectors (IPO pricing rules, listing thresholds) Develop issuance and disclosure guidelines for job-linked SME and infrastructure bonds Carry out regulatory amendments to align PEVC investments with priority sectors Build issuer pipeline and fund structures for agro-processing, manufacturing, tourism, and ICT Train SEBON/NEPSE staff on risk-based review of SME listings and new instruments <p>2027–2030:</p> <ul style="list-style-type: none"> Pilot 1-2 job-linked bond Initiate legal groundwork for representative index creation to support ETF development, and pilot ETF Launch sector-specific funds with employment-linked performance targets Expand investor outreach across provinces Track investor participation, capital flows, and employment impact by sector 	<ul style="list-style-type: none"> Listing/disclosure rules for SME/infrastructure bonds Regulatory amendments on VC/PE focus ETF preconditions roadmap (index development) Sectoral fund pipeline Pilot job-linked bond issuance and investor performance report 	<p>SEBON (Lead), MoF, NEPSE</p>	<p>ST1.1.4: Issuer pipeline must be vetted</p> <p>ST6.1.1: Skills-linked sectors targeted for listing</p>	<p>Risk: Low investor interest in new capital market instruments (employment-linked bonds, SME listings) due to unfamiliarity, illiquidity, or weak disclosure practices</p> <p>Mitigation: Start with well-understood instruments backed by known SOEs or VGF-supported projects; mandate job-linked disclosures; focus initial rollout on sectors with proven investor demand</p>
<p>ST2.2.3: Revitalize diaspora bond programs with employment-linked use</p>	<p>2025–2026:</p> <ul style="list-style-type: none"> Review the challenges involved in previous diaspora bond issuances, and develop new diaspora bond framework with employment-linked project pipeline Develop online subscription portal and allow NRNs and migrants to subscribe year-round Finalize foreign exchange convertibility and repatriation rules with NRB Train embassy staffs and NRNA focal points on investor onboarding <p>2027–2030:</p> <ul style="list-style-type: none"> Launch diaspora bond with enhanced transparency Explore performance-linked coupon terms tied to verified job creation 	<ul style="list-style-type: none"> Diaspora bond subscription portal Updated legal and foreign exchange rules Diaspora bond use of proceeds policy 	<p>MoF (Lead), NRB, SEBON, NRNA</p>	<p>ST1.1.4: Pipeline for bond proceeds</p> <p>ST2.4.1: Rural credit may be diaspora-backed</p>	<p>Risk: Weak diaspora interest</p> <p>Mitigation: Focus on visible projects and give foreign exchange clarity; show social impact, not just yield</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST2.2.4: Improve legal and institutional framework for FDI in priority sectors	<p>2025–2026:</p> <ul style="list-style-type: none"> Identify and address regulatory issues discouraging FDIs Launch integrated FDI MIS portal (combining IBN, DOI, NRB data) <p>2027–2030:</p> <ul style="list-style-type: none"> Strengthen commercial benches for FDI-related disputes Monitor employment and local supply chain targets under 'FDI-Employment Nexus Program' 	<ul style="list-style-type: none"> Integrated FDI MIS portal Labour impact reports for major FDI projects 	MolCS (Lead), IBN, NRB, MoF	<p>ST2.2.1: Secures creditor rights</p> <p>ST3.1.1: Aligned with PPP risk rules</p>	<p>Risk: Coordination between MolCS, IBN, and NRB may delay data integration and reduce the effectiveness of the FDI MIS portal</p> <p>Mitigation: Establish a joint technical unit with clear data-sharing guidelines and time-bound responsibilities</p>
ST2.3.1: Deploy tiered refinancing facilities to lend MSMEs	<p>2025–2026:</p> <ul style="list-style-type: none"> Define refinancing tiers by borrower type and sector (micro, startup, growth-stage) Issue NRB circular on refinancing eligibility, interest tiers, and reporting rules Link refinance access to SSF registration or verified employment Design MIS template for bank/MFI reporting on end-use, borrower profile, job declaration Train BFIs and MFIs on tiered facility structure and compliance <p>2027–2030:</p> <ul style="list-style-type: none"> Monitor refinance uptake and job attribution by tier Publish annual performance and inclusion audit 	<ul style="list-style-type: none"> Refinance eligibility guideline NRB circular Reporting templates Training reports Uptake and impact audit 	NRB (Lead), BFIs, MFIs	<p>ST2.1.2: Guarantees can support refinanced portfolios</p> <p>ST4.1.3: Wholesale funds for MFIs</p>	<p>Risk: Banks may target low-risk clients</p> <p>Mitigation: Link access to SSF subscription</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
<p>ST2.3.2: Operationalize movable collateral lending for MSMEs</p>	<p>2025–2026:</p> <ul style="list-style-type: none"> Finalize SOPs for asset pledge, registration, and enforcement under updated Secured Transactions Act, 2006 Issue guidance on valuation, documentation, and out-of-court recovery Reinforce STRO mandate and expand registration coverage across defined asset classes Initiate inter-agency coordination to unify lien registration and resolve overlaps Train BFIs, MFIs, leasing firms on collateralization of equipment, receivables, and inventory <p>2027–2030:</p> <ul style="list-style-type: none"> Integrate collateral registry with CIBN and centralized credit registry Publish usage metrics, repossession trends, and recovery timelines 	<ul style="list-style-type: none"> Directive on STRO registration compliance Inter-agency harmonization plan for collateral registration Registry usage dashboard 	<p>NRB (Lead), CIBN, BFI, MFI associations</p>	<p>ST2.2.1: Feeds into registry</p> <p>ST2.4.2: Used for agri and co-op loans</p>	<p>Risk: Weak uptake due to enforcement uncertainty</p> <p>Mitigation: Focus first on low-dispute assets (inventory, receivables); monitor early recovery trends and address gaps</p>
<p>ST2.4.1: Expand rural credit via digital and diaspora-linked models</p>	<p>2025–2026:</p> <ul style="list-style-type: none"> Map underserved wards and agent banking gaps Design mobile/diaspora savings and loan product with wallet-based access and cashflow underwriting Develop interface between MFIs and PSPs; launch onboarding guidelines Train agent networks and diaspora outreach teams <p>2027–2030:</p> <ul style="list-style-type: none"> Enable real-time reporting on loan origination and repayment Track rural job creation from digital lending 	<ul style="list-style-type: none"> Digital product specifications MFI–PSP integration guideline Training and rollout guideline Employment-linked loan analytics 	<p>NRB (Lead), PSPs, MFIs, NRNA</p>	<p>ST2.2.3: Diaspora bond proceeds usable</p> <p>ST4.2.1: Scoring uses wallet data</p>	<p>Risk: Uptake may be low without incentives</p> <p>Mitigation: Provide onboarding grant or subsidy for first 25,000 users</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST2.4.2: Expand contract-farming agreements and cooperative-led blended finance models	2025–2026: <ul style="list-style-type: none"> Finalize legal recognition of contract farming agreements as collateral Develop lending and guarantee guidelines for co-op–bank intermediated credit Pilot DCGF-backed cooperative finance in one province Train co-operatives on record keeping and risk management 2027–2030: <ul style="list-style-type: none"> Monitor repayment and employment data from pilot areas Expand to 3+ provinces with blended finance structure 	<ul style="list-style-type: none"> Cooperative credit guidelines Pilot performance report 	MoALD (Lead), NRB, DCGF, Cooperatives	ST2.3.2: Uses movable collateral ST6.2.1: Supports agri-transition	Risk: Buyers or co-ops default Mitigation: Use verified buyers and limit loan size initially
ST2.4.3: Integrate climate-focused lending products with provincial co-funding initiatives	2025–2026: <ul style="list-style-type: none"> Develop a green blended finance roadmap Define eligible sectors and instruments (solar irrigation, eco-storage, green rural roads etc.) Issue matching grant/refinance guideline to provinces Link co-funded loans to NRB green taxonomy 2027–2030: <ul style="list-style-type: none"> Pilot in 2–3 provinces Track co-financing flows and adaptation/job metrics Expand access to GCF and DFI-backed climate loan pools 	<ul style="list-style-type: none"> Green blended finance roadmap Provincial co-funding rules Green lending guideline Province-level monitoring templates 	NRB (Lead), MoF, Provincial governments	ST5.1.1: Provincial climate funding ST6.2.1: Just transition support	Risk: Provinces may lack liquidity or capacity Mitigation: Begin with co-financing in high-capacity provinces with prior LAPAs
ST2.4.4: Elevate rural financial literacy and unify policy frameworks to drive inclusive credit expansion	2025–2026: <ul style="list-style-type: none"> Issue a uniform guideline for rural financial literacy-related CSR programs Require all implementation partners (NGOs) to register as trainers with local government authorities Roll out financial literacy training through local governments and registered NGO partners Link sessions to wallet use, loan uptake, and grievance redress awareness 2027–2030: <ul style="list-style-type: none"> Launch national reporting platform to track delivery, outreach, and behavioural results 	<ul style="list-style-type: none"> Uniform guideline Local delivery plans Training tracker dashboard National implementation partner registry 	NRB (Lead), Local governments, MoFAGA, NGO Federation of Nepal	ST4.1.1: MFI access training ST2.4.1: Supports rural usage of digital finance	Risk: Limited capacity of local governments to enforce the new rules Mitigation: Capacity development of local government authority to report using national tracker

Pillar 3: Public Private Partnerships

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST3.1.1: Develop standardized PPP contracts clauses and sector specific risk-allocation rules	<p>2025-2026:</p> <ul style="list-style-type: none"> Develop and validate sector specific model contracts specifying the roles of federal, provincial and local governments, and sector-specific risk matrices for at least two sectors beyond hydropower Include contract clauses that define roles of sponsor agency, land delivery timelines, and permit obligations across federal, provincial, and local levels Pilot the use of new model contract template in at least one of the two non-hydro sectors for which the new standard contract template have been developed Develop a web-based One-Stop Service Centre (OSSC) that can be availed by all the PPP implementing agencies across federal, provincial and local levels <p>2027-2030:</p> <ul style="list-style-type: none"> Scale the use of standard PPP contracts for other key sectors 	<ul style="list-style-type: none"> Model contracts including sector specific risk allocation matrix and template annex on institutional roles and land/permit obligations Online OSSC 	<p>IBN (Lead)</p> <p>MoF, Line ministries, PPMO, provincial and local governments, MoFAGA</p>	<p>ST3.2.1: VGF depends on risk allocation</p> <p>ST3.4.1: Refinancing tied to standard terms</p>	<p>Risk: Sectors may resist common terms</p> <p>Mitigation: Pilot with ministries already familiar with PPPs; offer optional use in year 1</p>
ST3.1.2: Introduce government backed PRG and contingent liability framework	<p>2025-2026:</p> <ul style="list-style-type: none"> Develop FCCL framework Develop fiscal rules and eligibility criteria for PRGs under FCCL framework Initiate guarantee approval and monitoring function at MoF Explore MDB co-guarantee structures and capitalization of PRG reserve fund <p>2027-2030</p> <ul style="list-style-type: none"> Pilot PPPs in non-hydro sector with PRG Report exposure and performance in fiscal documents 	<ul style="list-style-type: none"> FCCL framework PRG policy and eligibility rules Concept note on MDB co-guarantees and MoF reserve fund structure Guarantee tracking system 	<p>MoF (Lead: PDMO)</p> <p>IBN, Line ministries</p>	<p>ST3.2.1: VGF must align with PRG use</p> <p>ST5.1.4: PRGs for green infrastructure</p>	<p>Risk: Overuse or unfunded liabilities</p> <p>Mitigation: Cap PRGs; require bankable PPP screening and MoF approval</p>
ST3.2.1: Operationalize a performance-linked VGF for non-commercial PPPs	<p>2025-2026:</p> <ul style="list-style-type: none"> Develop VGF guidelines, define eligible sectors, and minimum equity contribution by the project developer Pilot milestone-linked VGF in one sector with transparent disbursement tracking system <p>2027-2030:</p> <ul style="list-style-type: none"> Publish VGF performance dashboard and link to fiscal reporting 	<ul style="list-style-type: none"> VGF operational guidelines Fiscal reporting template 	<p>MoF / IBN (Lead)</p> <p>Line ministries, NPC</p>	<p>ST3.1.1: Contract template must support VGF</p> <p>ST1.1.4: Projects may also use bond financing</p>	<p>Risk: Weak pipeline or cost overruns</p> <p>Mitigation: Limit VGF to screened, NPB-ready projects with high employment spillovers</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST3.2.2: Introduce performance-based annuity PPP models	<p>2025-2026:</p> <ul style="list-style-type: none"> Develop model structure for availability-payment PPPs with inflation indexation and service KPIs <p>2027-2030:</p> <ul style="list-style-type: none"> Pilot in one sector with escrow-linked payment Integrate payment data into fiscal ceilings 	<ul style="list-style-type: none"> Model annuity contract Escrow/payment rules Pilot review report 	<p>MoF (Lead)</p> <p>IBN, DoR, MoUD, PDMO</p>	<p>ST3.1.1: Templates must support annuity logic</p> <p>ST3.4.1: Refinancing instrument design</p>	<p>Risk: Delays in government payments</p> <p>Mitigation: Use escrow; limit to sectors with steady allocations and measurable services</p>
ST3.3.1: Establish a central project preparation facility for bankable PPPs	<p>2025-2026:</p> <ul style="list-style-type: none"> Define legal and institutional setup for centralized PPP preparation and support unit Develop SOPs for project structuring, appraisal, and risk analysis <p>2027-2030:</p> <ul style="list-style-type: none"> Pilot full-cycle support for 3 projects (one federal, one provincial, one municipal) Recover preparation costs post-financial close 	<ul style="list-style-type: none"> PPP preparation SOPs Facility structure Pilot project dossiers 	<p>IBN (Lead)</p> <p>MoF, NPC, Line agencies</p>	<p>ST3.1.1: Uses risk and contract templates</p> <p>ST3.2.1: Preparation of VGF-ready projects</p>	<p>Risk: Duplication with line ministry efforts</p> <p>Mitigation: Make use of facility optional but incentivized via MoF budget vetting</p>
ST3.3.2: Set up PPP-specific dispute resolution mechanism	<p>2025-2026:</p> <ul style="list-style-type: none"> Develop standard contract clauses for multi-tier resolution (mediation to arbitration) Identify eligible international arbitration centres <p>2027-2030:</p> <ul style="list-style-type: none"> Require ministries to register contracts with dispute clause at IBN Train focal staff on use 	<ul style="list-style-type: none"> Standard clauses IBN contract registry Basic training plan 	<p>IBN / OAG (Lead)</p> <p>MoF, Line ministries</p>	<p>ST3.1.1: Clauses must appear in model contracts</p> <p>ST2.2.4: FDI protection aligned</p>	<p>Risk: Contracting agencies unaware of dispute rules</p> <p>Mitigation: Include training in PPP Preparation facility SOPs; enforce clause use in MoF clearance</p>
ST3.4.1: Develop local currency refinancing instruments and bond structures to mitigate exchange rate risk in non-hydro PPPs	<p>2025-2026:</p> <ul style="list-style-type: none"> Design long-tenor refinancing window for NPR-denominated PPPs in coordination with NRB and NIFRA Draft policy on infrastructure bonds and define eligibility filters tied to PPP pipeline <p>2027-2030:</p> <ul style="list-style-type: none"> Introduction of infrastructure debentures, municipal bonds, and diaspora-targeted NPR instruments tied to PPPs Launch pilot with MoF credit enhancement or partial guarantee 	<ul style="list-style-type: none"> Refinancing policy Infrastructure bond eligibility guideline Pilot bond prospectus 	<p>MoF / NRB (Lead)</p> <p>SEBON, NIFRA, IBN</p>	<p>ST1.1.4: Pipeline must be NPB-screened</p> <p>ST3.2.2: Supports annuity PPPs</p>	<p>Risk: Mismatch between revenue and repayment structure</p> <p>Mitigation: Limit to PPPs with strong payment history or backstopped revenues</p>

Pillar 4: Financial Inclusion and Digital Finance

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST4.1.1: Reform MFI pricing framework to support sustainability and responsible access	<p>2025–2026:</p> <ul style="list-style-type: none"> Assess cost structures and interest cap impacts on MFIs Develop risk-based pricing model (base rate plus premium bands) with affordability protections Finalize NRB directive with consumer disclosure rules <p>2027–2030:</p> <ul style="list-style-type: none"> Require disclosure of effective interest rates by all MFIs and monitor compliance 	<ul style="list-style-type: none"> Revised pricing directive Disclosure templates 	<p>NRB (Lead)</p> <p>MoF, MFI associations</p>	<p>ST4.1.2: Risk-tiering depends on financial data</p> <p>ST4.1.3: Supports access to wholesale capital</p>	<p>Risk: MFIs may raise prices unpredictably</p> <p>Mitigation: Cap margins, require disclosure, monitor client complaints via NRB dashboard</p>
ST4.1.2: Introduce tiered supervision framework for MFIs	<p>2025–2026:</p> <ul style="list-style-type: none"> Classify MFIs by asset size, outreach, and risk profile Update supervision protocols with simplified templates for low-risk MFIs <p>2027–2030:</p> <ul style="list-style-type: none"> Align capital norms, audit requirements, and inspection frequency with risk tier 	<ul style="list-style-type: none"> Segmentation criteria Tailored inspection templates Adjusted capital norms 	<p>NRB (Lead)</p> <p>MoF, MFI associations</p>	<p>ST4.1.1: Pricing linked to financial risk</p> <p>ST4.1.3: Large MFIs prepare for capital market access</p>	<p>Risk: Poor supervision of high-risk MFIs</p> <p>Mitigation: Redirect audit capacity to large MFIs; streamline oversight of low-risk groups</p>
ST4.1.3: Strengthen governance and transparency of large MFIs to access direct wholesale finance	<p>2025–2026:</p> <ul style="list-style-type: none"> Develop governance certification framework with independent rating criteria Identify candidate MFIs for direct IFI engagement <p>2026–2027:</p> <ul style="list-style-type: none"> Support certified MFIs in structuring wholesale capital proposals Enable large MFIs to issue bonds or raise blended capital Publish annual performance rankings 	<ul style="list-style-type: none"> MFIs capital raising eligibility framework MFI governance scorecard Performance disclosure rules 	<p>NRB (Lead)</p> <p>MoF, DFIs, SEBON</p>	<p>ST2.3.1: Refinance linked to scoring</p> <p>ST5.1.4: MFIs deliver green finance</p>	<p>Risk: Large MFIs dominate and distort access</p> <p>Mitigation: Cap facility share; offer TA to Tier 2 MFIs for onboarding</p>
ST4.2.1: Integrate MFIs with digital value chains	<p>2025–2026:</p> <ul style="list-style-type: none"> Identify 2 to 3 rural sectors with existing digital transaction records (dairy) Support 3–5 MFIs to link loan origination to platform data Develop bundled loan, insurance, cash flow-linked savings products <p>2027–2030:</p> <ul style="list-style-type: none"> Scale to additional sectors and MFIs Link repayment to platform earnings Monitor repayment and dropout rates 	<ul style="list-style-type: none"> Digital MFI credit pilots Bundled credit, savings, insurance product structure Client onboarding SOPs 	<p>NRB (Lead)</p> <p>MFIs, PSPs, agri cooperatives</p>	<p>ST4.2.2: Feeds digital scoring engine</p> <p>ST2.4.2: Integrated with co-op guarantees</p>	<p>Risk: MFIs struggle with data use</p> <p>Mitigation: Use simple rules (e.g. sales frequency) and test products in one district first</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST4.2.2: Build shared digital credit infrastructure to expand lending to informal enterprises	<p>2025–2026:</p> <ul style="list-style-type: none"> Develop digital credit scoring system combining wallet/cooperatives /Point of Sale (POS) data Launch borrower registry (linked to CIBN, e-KYC, biometric IDs) Train MFIs to use digital credit scoring <p>2027–2030:</p> <ul style="list-style-type: none"> Integrate risk-pooling tool and lender dashboards Provide adoption incentives to MFIs, cooperatives, PSPs 	<ul style="list-style-type: none"> Scoring system Registry linkage MFIs onboarding incentives 	<p>NRB (Lead)</p> <p>CIBN, PSPs, MFIs</p>	<p>ST2.2.1: CIBN infrastructure</p> <p>ST5.1.4: Used to target climate lending</p>	<p>Risk: Low adoption by lenders or clients</p> <p>Mitigation: Bundle with product subsidies; build in incentive to guarantee programs</p>

Pillar 5: Climate and Disaster Risk Finance

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST5.1.1: Strengthen local access to climate finance by operationalizing the 80 percent allocation rule	<p>2025–2026:</p> <ul style="list-style-type: none"> Define local-level climate investment criteria Issue MoFE circular standardizing calculation method Require LAPA/NDC/LDRCP-linked tagging for fund access Launch dashboard tracking allocations by tier <p>2027–2030:</p> <ul style="list-style-type: none"> Aggregate and bundle subnational projects for pooled access to multilateral climate funds 	<ul style="list-style-type: none"> 80 percent allocation rulebook LAPA screening checklist Allocation tracking dashboard 	<p>MoF (Lead)</p> <p>MoEF, NPC, provincial and local governments</p>	<p>ST5.1.2: Budget tagging must reflect local flows</p> <p>ST2.4.3: Used for provincial co-financing</p>	<p>Risk: Ministries may relabel central spending as “local”</p> <p>Mitigation: Require project-level tagging + LAPA linkage for recognition</p>
ST5.1.2: Integrate climate finance into national and subnational planning and budgeting systems	<p>2025–2026:</p> <ul style="list-style-type: none"> Revise CBT guidelines and scoring criteria Train focal staff in federal and select provinces Integrate CBT into SuTRA/PLMBIS for subnational tagging Add climate indicators to NPB forms <p>2027–2030:</p> <ul style="list-style-type: none"> Publish annual CBT report linked to NDC targets. 	<ul style="list-style-type: none"> Revised CBT methodology SuTRA–CBT integration module NPB form with climate fields Annual CBT report 	<p>MoF (Lead)</p> <p>MoFE, NPC, provincial governments</p>	<p>ST5.1.1: Tracks the 80 percent rule</p> <p>ST1.1.1: NPB scoring includes climate field</p>	<p>Risk: Tagging remains formalistic</p> <p>Mitigation: Require tagging justification + link to NDC action lines</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST5.1.3: Mobilise and align international climate finance with national investment priorities	<p>2025–2026:</p> <ul style="list-style-type: none"> Finalize project preparation manual for GCF/AF alignment Map and support accreditation of national entities for direct access Provide capacity-building support to line ministries for project development Provide capacity-building support to MoF for proposal vetting and coordination <p>2027–2030:</p> <ul style="list-style-type: none"> Strengthen MoF climate finance coordination cell Launch pooled readiness support platform to strengthen pipeline quality 	<ul style="list-style-type: none"> Project preparation manual List of eligible/ accredited entities Alignment screening SOPs Readiness support window 	<p>MoF (Lead)</p> <p>MoFE, NPC, AEPC, development partners</p>	<p>ST5.1.2: Links to CBT and NDC</p> <p>ST1.1.4: Accessing climate finance via bonds</p>	<p>Risk: Fragmented proposals or slow vetting</p> <p>Mitigation: Require vetting clearance before submission; support pipeline aggregation</p>
ST5.1.4: Catalyze private investment through green financial instruments and market-driven climate solutions	<p>2025–2026:</p> <ul style="list-style-type: none"> Expand NRB refinance guidelines; update SEBON bond disclosure rules to include green criteria Develop taxonomy-aligned green finance eligibility criteria <p>2027–2030:</p> <ul style="list-style-type: none"> Pilot one employment-linked green bond or concessional credit line Build results dashboard; link to guarantees 	<ul style="list-style-type: none"> SEBON bond rules Pilot bond term sheet Results monitoring system 	<p>MoF / NRB / SEBON (Joint Lead)</p> <p>DFIs, PSPs, MFIs</p>	<p>ST2.2.2: Bond market infrastructure</p> <p>ST4.1.3: MFIs as green finance channel</p>	<p>Risk: Greenwashing or unclear impact</p> <p>Mitigation: Require third-party verification and impact reporting for any public support</p>
ST5.2.1: Pilot parametric insurance models through cooperatives and municipalities	<p>2025–2026:</p> <ul style="list-style-type: none"> Issue directive for index-based insurance (flood, drought, heat) Partner with cooperatives and municipalities in exposed regions Launch mobile-based claim platform and train stakeholders <p>2027–2030:</p> <ul style="list-style-type: none"> Evaluate pilot impact and scale-up 	<ul style="list-style-type: none"> Parametric insurance directives Cooperative distribution SOPs Claim automation system Pilot impact report 	<p>NIA (Lead)</p> <p>Municipalities, DHM, cooperatives</p>	<p>ST2.4.2: Linked to agri loans</p> <p>ST5.2.3: Uses hazard data</p>	<p>Risk: Delayed or disputed payouts reduce trust</p> <p>Mitigation: Use pre-agreed triggers and automate claim processing</p>
ST5.2.2: Establish a subnational catastrophe insurance pool	<p>2025–2026:</p> <ul style="list-style-type: none"> Design risk tiers, payout rules, and reinsurance contracts Draft fiscal integration guidelines with local budgets <p>2027–2030:</p> <ul style="list-style-type: none"> Launch pilot pool with 5 to 10 municipalities 	<ul style="list-style-type: none"> Pool governance guideline Municipal membership rules Reinsurance contract template Fiscal integration plan 	<p>MoF / NIA (Lead)</p> <p>NDRRMA, local governments</p>	<p>ST5.2.1: Builds from pilots</p> <p>ST5.2.5: Sovereign backstop needed</p>	<p>Risk: Low uptake if premiums unaffordable</p> <p>Mitigation: Start with co-financing; align with public asset protection needs</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST5.2.3: Strengthen risk data systems and actuarial capacity	<p>2025–2026:</p> <ul style="list-style-type: none"> • Certify at least 20 additional weather stations • Launch open-access risk data portal with loss/hazard maps (or integrate in the current Bipad portal) <p>2027–2030:</p> <ul style="list-style-type: none"> • Train insurers and planners; develop pricing models and actuarial capacity 	<ul style="list-style-type: none"> • Weather station certifications • (Updated) Risk portal • Model pricing tools • Trained analysts 	<p>NIA / NDRRMA (Lead)</p> <p>MoF, MoALD</p>	<p>ST5.2.1: Basis for parametric insurance</p> <p>ST5.1.3: Justifies climate finance proposals</p>	<p>Risk: Data not used operationally</p> <p>Mitigation: Integrate into insurance pricing and budget allocation workflows</p>
ST5.2.4: Expand and reform agriculture and livestock insurance	<p>2025–2026:</p> <ul style="list-style-type: none"> • Design hybrid model combining indemnity + index • Pilot in 2 districts via MFIs/cooperatives • Conduct farmer awareness drives; train local agents <p>2027–2030:</p> <ul style="list-style-type: none"> • Link insurance to concessional agri-loans for resilient inputs 	<ul style="list-style-type: none"> • Hybrid product specifications • Pilot results • Loan–insurance integration SOP • Awareness campaign materials 	<p>MoALD / NIA (Joint Lead)</p> <p>NRB, MFIs, cooperatives</p>	<p>ST2.3.2: Bundled with credit</p> <p>ST6.2.1: Protects just transition livelihoods</p>	<p>Risk: Farmers do not trust insurers</p> <p>Mitigation: Simplify process; use local validation; bundle with loan benefits</p>
ST5.2.5: Strengthen sovereign disaster risk financing and post-disaster liquidity mechanisms	<p>2025–2026:</p> <ul style="list-style-type: none"> • Capitalize Disaster Management Fund (DMF) • Issue SOPs for rapid post-disaster release <p>2027–2030:</p> <ul style="list-style-type: none"> • Link DMF to subnational pools and shock-responsive social protection • Report exposure in fiscal statements 	<ul style="list-style-type: none"> • Fund capitalization plan • Disbursement SOPs • Risk exposure report • Fiscal reporting template 	<p>MoF (Lead)</p> <p>NDRRMA, OAG, MoFAGA</p>	<p>ST5.2.2: Backstop for local risk pool</p> <p>ST6.2.1: Supports shock-responsive employment</p>	<p>Risk: Poor coordination or political misuse</p> <p>Mitigation: Automate release rules; require audit + publication of all payouts</p>

Pillar 6: Skills Development and Just Transition

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST6.1.1: Diversify financing models for local skills development	<p>2025–2026:</p> <ul style="list-style-type: none"> Select and pilot the most suitable outcome-linked financing instrument(s) for municipal-level skills development training delivery (social impact bonds, PPPs, conditional fiscal transfers etc) Note: The strategy lists multiple financing options. The most suitable option(s) will be selected for piloting at this stage based on context, demand, and institutional readiness <p>2027–2030:</p> <ul style="list-style-type: none"> Institutionalize multi-source annual financing framework for municipal skills development aligned with labour market demand, planning standards, and NVQF priorities 	<ul style="list-style-type: none"> Piloted financing model(s) for local skills delivery Municipal skills financing framework Planning and reporting template for most suitable skills financing instruments 	<p>MoF / CTEVT (Lead)</p> <p>MoLESS, MoEST, PPMO, provinces, municipalities</p>	<p>ST6.2.1: Local finance aligns with self-employment support</p> <p>ST1.2.1: Tax credits for training investment</p>	<p>Risk: Weak uptake by municipalities or low investor interest</p> <p>Mitigation: Start with high-capacity ESCs; pre-screen sectors; allow hybrid co-financing pathways</p>
ST6.1.2: Scale public investment in STEM education to support structural transformation	<p>2025–2026:</p> <ul style="list-style-type: none"> Identify and prepare detailed investment proposals for 3 public universities/polytechnics with potential for advanced STEM specialization, aligned with labour market demand Establish selection criteria and co-financing modalities with UGC and provincial governments <p>2027–2030:</p> <ul style="list-style-type: none"> Upgrade STEM infrastructure, labs, and faculty in selected institutions Launch competitive innovation grants and STEM-industry collaboration schemes Operationalize graduate placement tracking and outreach centres for women and rural students 	<ul style="list-style-type: none"> STEM infrastructure investment plan UGC selection and co-financing criteria Public–industry innovation grant program National STEM placement tracking system 	<p>MoEST / UGC (Lead)</p> <p>MoF, CTEVT, universities, employers</p>	<p>ST6.2.2: Pipeline for domestic hiring</p> <p>ST1.1.4: Links to climate-smart sectors</p>	<p>Risk: Misalignment with market demand or poor uptake by target groups</p> <p>Mitigation: Use employer advisory boards; require reporting on placements and access metrics</p>
ST6.2.1: Promote self-employment through integrated access to finance and training	<p>2025–2026:</p> <ul style="list-style-type: none"> Finalize standard program model for integrated delivery of training, mentoring, and concessional finance Develop simplified KYC, loan application, and business plan templates Launch program in 20 priority districts with digital registry for tracking beneficiaries and outcomes <p>2027–2030:</p> <ul style="list-style-type: none"> Expand coverage to additional districts based on absorption capacity and performance Integrate self-employed beneficiary registry with national credit information bureau to support responsible lending and portfolio monitoring 	<ul style="list-style-type: none"> Standard program model for integrated financing and training Digital beneficiary registry with performance/outcome tracking 	<p>MoLESS / NRB (Joint Lead)</p> <p>MFIs, cooperatives, municipalities, MoF</p>	<p>ST2.3.1: Refinance linked to borrower data</p> <p>ST6.1.1: ESC-aligned training ecosystem</p>	<p>Risk: High non-performance if selection or mentoring weak</p> <p>Mitigation: Use phased disbursement, monitor repayment and business health digitally</p>

Strategy	Action Plan	Deliverables	Responsible Agencies	Cross-Link	Risk
ST6.2.2: Reduce external dependence by reserving priority jobs for domestic workers	<p>2025–2026:</p> <ul style="list-style-type: none"> Draft and issue restricted occupation list targeting sectors with high displacement risk (hospitality, retail, construction) Develop compliance guidelines, reporting templates, and grievance redress guidelines for ESCs and municipalities Train municipal labour inspectors and ESC focal points on verification and enforcement mechanisms <p>2027–2030:</p> <ul style="list-style-type: none"> Integrate digital labour permit system with ESC placement records and immigration data Conduct annual update of occupation list and publish compliance monitoring report 	<ul style="list-style-type: none"> Restricted occupation list Compliance and enforcement toolkit Labour permit-ESC integration module Annual compliance and labour displacement report 	<p>MoLESS / MoHA (Joint Lead)</p> <p>Provinces, municipalities, ESCs</p>	<p>ST1.2.1: Incentive conditionality</p> <p>ST6.1.2: STEM placement absorption</p>	<p>Risk: Employer resistance or political pushback</p> <p>Mitigation: Start in sectors with surplus certified youth; enforce via benefit-linked compliance</p>
ST6.3.1: Pursue just transition in agriculture through climate-smart rural employment	<p>2025–2026:</p> <ul style="list-style-type: none"> Identify high-emission, high-employment districts through joint MoALD-MoFE-NPC assessment Develop demonstration zones and link ESCs to climate-resilient agriculture training modules (aligned with CTEVT and NVQF) Design blended finance instruments (concessional rural credit, results-based grants etc.) for adoption of climate-smart practices by farmers, agri-MSMEs, and cooperatives <p>2027–2030:</p> <ul style="list-style-type: none"> Roll out integrated rural employment and adaptation investment packages in at least 20 priority districts Monitor job creation, climate co-benefits, and technology uptake through ESC-linked dashboard 	<ul style="list-style-type: none"> Climate-smart agri-transition map Climate smart agriculture training modules Blended finance facility for agriculture sector Agricultural employment-climate impact dashboard 	<p>MoALD / NPC (Joint Lead)</p> <p>MoFE, MoF, ESCs, cooperatives, municipalities</p>	<p>ST5.2.4: Insurance support for resilient agri jobs</p> <p>ST2.4.2: Co-op credit integration</p>	<p>Risk: Fragmented delivery or climate co-benefits not realized</p> <p>Mitigation: Coordinate via district-level working groups; align with LAPAs and climate MRV</p>
ST6.3.2: Institutionalize labour governance, social protection, and social dialogue	<p>2025–2026:</p> <ul style="list-style-type: none"> Develop a national decent work roadmap aligned with the Global Accelerator on Jobs and Social Protection for Just Transitions Consolidate labour mandates across different agencies and layers of government Roll out targeted capacity building for subnational labour inspectorates and local grievance redress units <p>2027–2030:</p> <ul style="list-style-type: none"> Establish a tripartite national employment council and publish annual decent work scorecards Launch interoperable labour registry linked to ESCs, training databases, and social protection platforms 	<ul style="list-style-type: none"> Decent Work Roadmap Subnational inspectorate capacity plan Tripartite employment council TOR Interoperable labour registry Annual decent work scorecard 	<p>MoLESS / NPC (Joint Lead)</p> <p>Other relevant government agencies, employers, unions, local governments</p>	<p>ST1.3.1: Social protection incentive design</p> <p>ST2.2.4: FDI employment compliance</p>	<p>Risk: Roadmap remains symbolic without institutional enforcement</p> <p>Mitigation: Tie budgets of relevant government agencies to implementation milestones; monitor via INFF dashboard</p>



GOVERNMENT OF NEPAL
MINISTRY OF FINANCE

Singha Durbar, Kathmandu, Nepal

Tel: +977-1-4211837

Email: info@mof.gov.np

Web: <https://mof.gov.np>