Fourth International Conference on Financing for Development 2025

Nepal Country Inputs to the Elements Paper

### A Joint Submission by the Ministry of Finance, Government of Nepal, the United Nations Nepal, Private Sector and Academia

|  |  |
| --- | --- |
|  |  |
| Ministry of Finance, Government of Nepal | **United Naitons Nepal** |
| A red and white logo  Description automatically generated | **A blue and white logo  Description automatically generated** |
| Federation of Nepalese Chambers of Commerce & Inudstries | **Confederation of Nepalese Industries** |
| A red logo with a symbol on it  Description automatically generated |  |
| Nepal Chamber of Commerce | **South Asia Watch on Trade, Economics and Environment** |
| Kathmandu University |  |
| Kathmandu University | **Institute for Integrated Development Studies** |

## A global financing framework (including cross-cutting issues)

More than halfway to the deadline for the 2030 Agenda, international community is determined to find better solutions to accelerate the progress towards the 2030 targets of the Sustainable Development Goals (SDGs). One of their efforts envolves mobilizing financial resources for sustainable development. Today, the estimated annual SDG investment gap in developing countries, which was $2.5 trillion in 2015, has risen to over $4 trillion. Investment across various SDGs is uneven, leaving financial resources for particularly for SDG 1 (No Poverty), SDG 5 (Gender Equality), SDG 10 (Reduced Inequality), SDG 13 (Climate Action), and SDG 16 (Peace, Justice, and Strong Institutions) significantly insufficient. Current levels of public spending and private investment are inadequate to meet these goals, and global disruptions—such as the COVID-19 pandemic, geopolitical shifts, supply chain issues, and the galloping cost of living —have severely hindered progress. This collective failure to adequately finance the SDGs has been particularly costly for developing countries.

Inequality in the allocation of financial resources has emerged as one of the pressing issues, with funding gaps reaching up to 30 of GDP in Least Developed Countries (LDCs). Despite representing 14 percent of the global population, LDCs account for only 1.3 percent of global gross domestic product (GDP), 1.4 percent of foreign direct investment (FDI), and less than 1 percent of global merchandise exports. Additionally, global macroeconomic and macro-financial conditions have changed significantly, with GDP growth rates in developing countries averaging just over 4 percent annually between 2021 and 2025. Since 2020, about $42 trillion—two-thirds of new wealth, according to Oxfam—has gone to the richest 1 percent of the population.

While LDCs are heavily dependent on public resources to finance the SDGs, both the domestic revenue and official development assistance (ODA) remain low in these countries. Median tax-to-GDP ratio in LDCs stood at 11.6 percent in 2020, compared with 16.3 percent in other developing countries and 23.2 percent in the developed countries. ODA remains crucial for financing sustainable development in LDCs, as innovative sources of finance, such as blended finance, have been limited in these countries. However, ODA to LDCs from Development Assistance Committee countries declined from 0.10 percent to 0.08 percent between 2011 and 2019.

In recent years, financial resources for LDCs have become increasingly scarce, harder to access, and more costly. Consequently, these countries have experienced a rise in debt, with debt service obligations diverting vital resources away from essential social services, such as health and education. By 2023, government debt in LDCs had significantly increased to around 60 percent of GDP, with six LDCs classified as being in debt distress and 15 more at high risk of debt distress. As a result, the limited resources are increasingly being diverted from basic social services—such as health, education, and social security—towards the debt service payments.

This country input paper recommends collective actions for the international communities to address the challenges faced by LDCs including emerging risks arising from the impact of climate change and the loss of bio-diversity .

## Action areas

### Domestic public resources

At the core of all efforts to bridge SDG financing gaps lies improved domestic revenue mobilization (DRM) and their efficient allocation. The median tax-to-GDP ratio in LDCs increased slowly, from 13.3 percent in 2011 to 16.2 percent in 2018, with some countries still remaining below 10 percent. This is partly due to their economic structures, high poverty rates, weak tax administration, informality, and the nature of their tax systems. Efforts to broaden tax bases, enhance compliance and transparency, and implement tax system digitalization have been underway.

Even those LDCs that performed well in DRM are vulnerable to external shocks, such as the far-reaching impact of the global pandemic, disruptions in global supply-chain and the declining international trade. For example, Nepal performed better than its South Asian peers and the LDC median in tax-to-GDP ratio, but in recent years, the country has witnessed a decline in tax revenue.The Government of Nepal unveiled a domestic revenue mobilization strategy to address these issues, but domestic efforts alone could not produce desired results. Therefore, the paper recommends the following actions.

* **Support for institutional strengthening**: Illicit financial flows, inappropriate transfer pricing, tax avoidance and evasion, and a higher dependence on import-based taxes have become bottlenecks for LDCs. Therefore, technical support to LDCs to strengthen their tax regimes, could help reduce tax evasion, close international tax loopholes, and improve DRM.
* **Taxing digital transactions**: Many multinational companies, especially tech giants, operate globally without any physical presence. As a result, developing countries struggle to tax the revenues generated by these companies within their borders. With the further advancement of technology and the expansion of the global digital ecosystem, this trend will likely become the norm, depriving developing countries of much-needed revenue for public spending. A global tax framework must be developed to ensure that these corporations contribute fairly to the economies where they generate revenues and profits. Until such a system is in place, these corporations should voluntarily contribute to various global initiatives, including financing the SDGs, based on their revenue from each country.
* **Develop comprehensive tax framework for better taxation**: Reform in the tax system and domestic borrowing is essential for sustaining domestic public resource mobilization. This reform should involve a comprehensive tax framework that adheres to international standards, a professional and efficient tax administration, and a structured approach to addressing non-compliance. The goals of tax reform are not only to boost up long-term revenue but also to enhance fairness and justice within the system. Additionally, internal borrowing must be managed carefully and aligned with the SDGs. In many least-developed and low-income nations, borrowing mechanisms are often not diversified, and resources are not utilized effectively.
* **Sustainable foreign currency inflows**: LDCs and LMICs find it challenging to raise funds from international markets due to either no or low sovereign ratings in the absence of which they resort to tapping credit lines from multiple creditors. However, excessive reliance on external funding over an extended period without creating a commensurate capacity to generate revenues in foreign currency can lead to vulnerabilities to various shocks. Therefore, it is imperative that international communities identify solutions to manage the external liabilities in a way that promotes sustainable foreign currency inflows.

### Domestic and international private business and finance

The private sector plays a crucial role in financing SDGs, yet it is often least motivated to invest in enterprises supporting the SDGs unless there is a clear prospect of profitability. Developing countries, with limited resources, face challenges in providing adequate incentives for private sector participation, and the lack of well-structured, investment-ready projects further complicates this issue. Despite these barriers, private finance has the potential to significantly advance SDGs by increasing investment in sustainable infrastructure, innovation, technology, and sustainable business practices. Therefore, the following steps are recommended to address some of the challenges.

* **IFIs enable private financing**: In developing countries, International Financing Institutions (IFIs) can play a facilitating role in designing and implementing innovative instruments, such as blended finance, to channel private investment towards high-risk, low-return SDGs. This approach can leverage additional, substantial, and predictable funding that respects countries' priorities and special needs without creating undue burdens. Innovative financing also leads towards policy reforms and an improvement in regulatory frameworks that are conducive to private sector development in the country. It could involve expanding ODA allocations and other international public finance uses to include flexible financing, such as first-loss, concessional, or de-risking capital, to attract additional private sector resources for SDG-aligned investments across the investment continuum. Additionally, it could involve significantly scaling up support through concessional financing and equity via existing mechanisms that provide catalytic investment capital—particularly for micro-, small-, and medium-sized enterprises—to mobilize sustainable private investment that advances SDG achievement and acts as a crisis facility.
* **Private sector engagement in sustainable development**: The private sector needs to recommit to engaging as a partner in the development process, increasing its contribution and reinvigorating a systems approach for achieving the SDGs. This involves committing to invest in areas critical to sustainable development, shifting to more sustainable consumption and production patterns. Private sector also needs to increase its investment in creativity and innovation to solve sustainable development challenges, while fostering a dynamic and well-functioning business sector that upholds labor rights, and environmental and health standards in accordance with relevant international standards and agreements, and adhering to environmental, social, and governance principles.
* **Reduce to remittance transfer costs**: Remittances represent a significant financial inflow for LDCs, often surpassing ODA and foreign direct investment (FDI). In Nepal, remittances accounted for nearly 25 percent to 30 percent of GDP in recent years, providing a critical lifeline for households, reducing poverty, and helping offset the trade deficit. However, high transaction costs—averaging around 4 percent to 5 percent for transfers to South Asian countries—undermine the effectiveness of remittance inflows in SDG financing. Reducing transaction costs, as emphasized in recent LDC statements, could enhance financial inclusion, improve access to essential services, and bolster economic resilience in remittance-dependent economies like Nepal.

### International development cooperation

High-income countries’ contribution of 0.7 percent of their Gross National Income (GNI) toward ODA can raise over $400 billion annually; but the current ODA contributions from OECD countries have fallen short by $143 billion against the SDG aid targets (SDG 17).

* **Multidimensional Vulnerability Index for financing**: Recognizing the emerging context in the aftermath of the COVID-19 pandemic, the 78th United Nations General Assembly (see paras. 7 to 13 in A/RES/78/232) agreed to adopt the Multidimensional Vulnerability Index (MVI) to assess the development status of Member States and more accurately capture the risks arising from the multidimensional nature of the 2030 Agenda and the SDGs. Traditional and emerging ODA providers urgently need to recommit to the target of allocating 0.7 percent of their GNI to developing countries, including 0.20 percent of GNI to LDCs, and scale up their support in the form of concessional financing, using the MVI assessment.
* **SDG-Specific Special Drawing Rights**: The COVID-19-related SDR allocation of $650 billion played a crucial role in stabilizing external balances for many developing countries. However, the current quota-based allocation disproportionately favors larger, wealthier nations; for instance, Italy, with a population of fewer than 60 million, receives more SDRs than the entire group of 46 LDCs, which have a combined population of over 1 billion. Moving forward, a reallocation mechanism must be tailored to the specific goals of each SDR. In collaboration with the UN, the IMF should introduce an SDG SDR worth at least USD100 billion to address funding gaps in countries furthest behind in achieving SDGs, particularly LDCs, targeting the SDR allocation to the countries with the most pressing funding needs.
* **Green Special Drawing Rights**: The IMF should also issue green SDR worth at least $500 billion to bolster climate finance. The allocation must prioritize nations most vulnerable to climate change, despite their minimal contribution to it. Factors such as historical GHG emissions (GHG stock), current emission levels, per capita emissions, climate vulnerability, loss and damage assessments, and adaptation costs should be factored in to ensure equitable allocation. LDCs, contributing less than 1 percent of global carbon emissions, remain among the most affected by climate change impacts.
* **Climate adaptation finance**: The current provision of climate finance for adaptation is insufficient to address the worsening impacts of climate change, particularly for mountain and small island states in developing countries. While developed nations achieved the $100 billion climate finance goal in 2022, this amount is inadequate for meeting the crisis faced by vulnerable nations. Many LDCs struggle to access international public finance due to limited technical capacity. Experts estimate that trillions of dollars are needed for effective climate mitigation and adaptation, especially as developing countries confront escalating climate impacts. Hence, developed countries need to set a new target beyond $100 billion, along with a reasonable target and clearer accountability for delivering climate finance.
* **Simplify application process to climate finance**: LDCs and graduating LDCs face significant challenges in accessing climate finance due to complex procedures and eligibility criteria, which hinder their ability to implement crucial adaptation and mitigation projects. Many of these countries lack the resources for co-financing and project preparation, further limiting their access. Simplifying application processes, providing capacity-building support, and creating dedicated funds for LDCs, including those graduating, without any compromise on the rigor of preparation and scrutiny process, can help address these challenges.
* **Unified international framework for loss and damage fund**: The Loss and Damage Fund remains underfunded, with projected climate-related losses exceeding USD 400 billion annually by 2030. Global coordination on loss and damage is fragmented, slowing fund disbursement. In this context, a it is imperative to develop an unified international framework to enhance access and ensure the efficient distribution of funds to LDCs, mountainous and small island countries, including those graduating LDCs, who risk losing access to key funds such as the Least Developed Countries Fund.
* **Adaptation funds for mountain countries**: Mountain countries face unique climate risks, such as glacier melt and biodiversity loss. Glacier melting has increased the risk of hazards like glacial lake outburst floods (FLOFs) and avalanches, which threaten over 2 billion people downstream from drying of the Asian rivers that originate in the Hindu Kush Himalaya region. However, these countries currently lack a dedicated fund to address these challenges, and fragmentation in global finance, along with bureaucratic hurdles, delays critical support. Therefore, prioritizing the creation of funds focused on glacier protection, water management, and sustainable livelihoods is essential. While most climate finance targets mitigation, mountain regions require more adaptation finance to manage local risks.
* **Smooth Transition Strategy Implementation Finance**: With the anticipated graduation of LDCs and the potential loss of access to International Support Measures, including concessional financing and special and differential treatments, a coordinated approach to mobilizing international support and cooperation can help develop and implement the Smooth Transition Strategy in a timely manner. This will enable LDCs to benefit from innovative financing resources and deepen domestic financial markets, while integrating gender considerations into sustainable finance products.
* Development partners specifically the bilateral partners should carefully assess the reforms in in the LDCs’ public financial management systems and foster cooperation through their national systems. This approach helps increase greater ownership and more sustainable outcomes.

### International trade as an engine for development

LDCs and graduating LDCs face low structural transformation, capital accumulation and technological advancement. One of the major challenges associated with the transition that graduating LDCs such as Nepal are encountering is the potential loss of preferential trade agreements, which could significantly impact their export competitiveness, particularly in sectors like textiles and carpets. While their trade-deficits have been offset by the remittance inflows which, however, have not been able to substitute the benefits from trade gains. Therefore, as they lose access to these trade privileges, the cost of financing for development may increase due to higher tariffs, absence of international support, low trade competitiveness and reduced access to LDC-specific concessional finance. This can be further compounded by the landlockedness of many LDCs, and Nepal is among them.

* **Carbon trade and tax**: LDCs should be incentivized to participate in global carbon markets through transparent carbon pricing mechanisms. By selling carbon credits, these countries can generate additional revenue while promoting decarbonization. This approach can accelerate progress toward the global Net Zero 2040 target while providing a revenue stream to support SDG financing. A global carbon tax should be imposed on the world’s largest emitters, including the G20 countries, with the revenue generated used to create a fund for climate action and SDG financing.
* **Technology transfer support**: Reaffirming Article 66.2 of the Trade-Related Aspects of Intellectual Property Rights Agreement, developed countries are encouraged to provide incentives to enterprises and institutions within their territories to promote technology transfer, helping LDCs build a strong technological foundation. As discussed recently, the FfD4 can clarify the definition of 'incentives' for enterprises and institutions regarding technology transfer in LDCs and LLDCs. With clear provisions, developed countries can support LDCs by offering incentives to enterprises and institutions, encouraging technology transfer to support structural transformation, productivity enhancement, and increased competitiveness. This can help LDCs establish a strong and sustainable technological base.
* **Strengthen multilateral trading system:** It is important to strengthen the multilateral trading system, which can contribute to achieving the SDGs by offering more preferential trade access to LDCs and graduating LDCs to drive export-led growth. This includes extending the existing special and differential treatment measures and exemptions available to LDCs to graduated countries for a period appropriate to their development situation, combined with Aid for Trade support to enhance their productive capacities. In this context, it is noteworthy that formal submissions have been made to the WTO for its consideration: one on October 17, 2021, by the delegation of Chad on behalf of the LDC Group (refer to WT/GC/W/829), and another on December 5, 2022, by the delegation of Djibouti on behalf of the LDC Group (refer to WT/GC/W/807/Rev.2).

### Debt and debt sustainability

Rising public debt and high debt servicing costs are pushing many developing nations into financial distress. According to the IMF, 25 percent of emerging market economies and 60 percent of low-income countries are either in or at high risk of debt distress—these same countries also face considerable delays in progress toward the SDGs. The economic instability in countries like Sri Lanka and Pakistan underscores how debt distress can severely hinder efforts to achieve the SDGs. The graduating LDCs such as Nepal are encountering increased risk of debt distress upon the loss of concessional finance and ODA. Only in the last six years, Nepal’s debt-to-GDP ratio almost doubled, with 23 percent in 2017 to 42 percent in 2023, indicating that the country can get into debt trap as it faces costly post-LDC graduation financing. High levels of debt, exacerbated by climate-related disasters, could further strain its efforts to sustainable development.

* **Debt relief mechanism**: Debt relief mechanisms, such as debt-for-climate swaps will be crucial in providing the necessary flexibility to prioritize resilience and sustainable development. Implementing state-contingent debt instruments, which adjust repayments based on economic or environmental shocks, can provide LDCs with the flexibility to manage debt more sustainably. Finally, it is imperative to address debt crises through long-term solutions and diversified risk management mechanisms.
* **Local currency lending**: Increasing local currency lending can help reduce the currency risks faced by governments, especially LDCs including Nepal. IFIs are well-positioned to manage currency risk through diversification, while sovereigns face concentrated foreign exchange risks. Expanding local currency lending, along with greater diversification in risk management, as highlighted in the Addis Ababa Action Agenda, can be further supported by leveraging the IFIs system.
* **Global compact on debt servicing moratorium until 2030:** The IMF, World Bank (WB), and key creditors (e.g., Paris Club, China, Saudi Arabia) should adopt a Global Compact to suspend debt servicing obligations for vulnerable nations until 2030. This would allow countries to earmark and redirect public resources toward SDG related investments, reducing the likelihood of economic collapse and setbacks in development progress. According to the WB, developing nations spent over $443 billion on debt servicing in 2022, that could have been used for SDGs.
* **Balance between grants and loans**: The growing shift from ODA grants to loans is exacerbating the debt burden on developing nations. For e.g., Nepal received external loans four times higher than the official grants in the last eight years since the promulgation of the new Federal constitution in the late 2015. Creditors need to strike a better balance between grants and loans to ensure debt sustainability for low and middle-income countries.

### Addressing systemic issues

**Address the issues of safe havens and illicit wealth:** International financial systems must be reformed to curb the illicit flows, ensuring the repatriation and nationalization of such funds. These recovered resources, originating from developing nations, could be redirected to support SDG financing, benefiting the very economies from which they were illicitly siphoned.

**Inclusive financing:** In LDCs and low-income countries, women and minorities encounter systemic barriers in accessing finance due to which limits their participation in businesses. Financial institutions often fail to offer gender-sensitive products, leaving women-led businesses under-served. To address these challenges, IFIs and development cooperation agencies can play a key role in testing and expanding gender-responsive concessional loans and innovative financing instruments like 'multicolored' and gender bonds. These instruments, with flexible terms for developmental and gender goals, can enhance financial inclusion and promote women's economic empowerment.

### Science, technology, innovation and capacity building

The IMF research shows that artificial intelligence (AI) is expected to transform the global economy and potentially impact 40 percent of jobs worldwide. Understanding how these science-backed up disruptions will affect economies and labor markets, how countries can prepare, and what investments are required to harness them for sustainable development could be crucial component for the 4th International Conference on Financing for Development.

Over the past few hundred years, developed countries have advanced in science, technology and innovation and used them for the improvement in the lives of their people. However, the developing countries, particularly LDCs have not been able to benefit from those technological advancement due to slowed technological transfer and limited capacity in know-how of those technologies. Therefore, it is imperative for the developed countries to meet their commitment of supporting technological transfer in the developing countries, particularly LDCs.

### Emerging issues

**Use of foreign exchange reserves:** Countries with relatively higher foreign exchange reserves (e.g., Nepal, India, Afghanistan, Saudi Arabia, Kuwait, Iraq, Algeria, Libya, Peru and Tonga) should allocate a portion of these reserves toward SDG aligned investments and investing through Special Purpose Vehicles (SPVs) for sustainable and economically viable projects can enhance the productive capacity of developing economies. However, these funds must be governed with transparency and accountability to avoid political misuse. The use of foreign exchange reserves in building productive capacity of economy will assist in significantly supplementing public spending on SDGs.

### Data, monitoring and follow-up

It is also imperative to strengthen the country system and mobilize resources through it for better allocations of resources towards sustainable development practices. Ensuring the fulfillment of the ODA commitments to channel resources in alignment with LDCs’ national priorities can also ensuring better monitoring of financial flows. Therefore, as reaffirmed in the Paris Declaration on Aid Effectiveness (2005) and subsequent international forums, development partners are urged to channel their ODAs aligning with national development cooperation policies and procedures. Development partners are encouraged to provide detailed information on their aid to the relevant government agency to enhance transparency and support informed decision-making by policymakers, researchers, civil society, and other stakeholders.

In Nepal, the Ministry of Finance manages an aid monitoring platform, but there are ongoing challenges in tracking aid flows, particularly those not reflected in the national budget or disbursed through the treasury. The GoN has regularly raised this point in its annual development cooperation reports, and it is ready further improve the budgetry system for development partners to chanel the funds through treasury system ensuring timely monitoring and reporting. Improved transparency in aid reporting could support better coordination and more effective use of resources, benefiting LDCs and graduating LDCs in their development efforts.

## Overarching reflection

The Finance for Development Report 2024 highlights that financing gaps arise from the lack of sufficient and efficient resources allocation and points out the need for the right and just resource allocation. The SDGs are ambitious but they are minimum standards to protect people and planet, and their achievement requires system approach. With the realization of system approach, in the Addis Agenda, the Member States committed to formulate and implement the Integrated National Financing Framework (INFF) for “cohesive nationally owned sustainable development strategies” through “reinvigorated global partnership for sustainable development.

While more than 80 countries are in the process to develop national financing strategies and integrate planning and financing policy functions as a part of the INFFs, they have been confronting competing policy direction from development cooperation agencies, IFIs, bi-lateral donors, private investors and trade partners. Among the main lessons from these pioneering countries is that INFFs need strong political backing and broad-based country ownership. Where such ownership is in place, INFFs hold great potential for the international community to align its efforts with these country-led approaches.

As Nepal advacnes in the formulation and implementation of the INFFs, it realizes importance of cooperation on the side of international development partners too and mobilizing their support through the national budget system. Therefore, Nepal suggests a cohesive approach for authorities and stakeholders in the formulation of INFF, focusing on inclusive and innovative financing instruments that utilizes finances from different sources and channel all financial resources towards sustainable development for the effectiveness of sustainable development strategies and ensure alignment with national priorities.