Nepal’s self-determined development financing options

Nepal's Prime Minister Sharma Oli addresses the Fourth Financing for Development Civil Society Forum, 29 June 2025
Photo Credit: X/KPSharmaOli

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While it might have made barely a blip on the media landscape in Australia, for many countries in the Asia-Pacific region this week’s Fourth Financing for Development Conference (FfD4) in Seville, Spain, is a big deal.

Established in 2002, the four-day United Nations-led summit brings together a wide and diverse range of leaders, including over 70 heads of state, ministers, national delegations, international financial institutions and UN officials, all critical to improving the global financial architecture for sustainable development.

This year, we are witnessing historically low numbers of least developed countries (LDC) making progress toward middle- and upper-income status. The development gains of the past decade — since the last conference — are increasingly overshadowed by rising debt burdens and record levels of debt distress. In Asia and the Pacific, debt crises in countries like Sri Lanka and Myanmar have not only strained economies but also catalysed significant political shifts. In Pacific Island nations and Indonesia, extreme climate vulnerability is shaping urgent conversations about the future of development financing. Meanwhile, in smaller states such as Laos and Timor-Leste, persistent structural development challenges continue to define the contours of development cooperation.

Each country is approaching the summit with distinct priorities shaped by its national context — and with increased agency as countries in the Global South seek to realign historical architectures with their national priorities, vulnerabilities and aspirations.

One such country is Nepal, which is navigating a critical juncture in its development finance trajectory, shaped by the decline — immediate and anticipated — in traditional official development assistance (ODA), growing debt pressures and a deepening sense of financial uncertainty. Land-linked to both India and China, Nepal is defining its financial sovereignty and questioning the legitimacy of old aid models, while carefully working through the design of workable alternatives.

Globally, there's a growing scepticism toward traditional foreign aid models. In Nepal, there is a palpable loss of faith in traditional aid granting across government and civil society. Senior Nepali officials, across political parties, are more vocal than ever in public forums about the inefficiencies of, and political conditions attached to, bilateral aid. While grants targeting marginalised groups still find support, there is clear resentment toward technical assistance perceived as intrusive, interest-based, bureaucratically convenient or politically loaded with values and norms that aren't always seen as consistent with national priorities. The sense is that global finance has become transactional, unreliable and serving geopolitical objectives. Where aid increasingly serves national interests to pursue particular agendas, Nepal becomes a pawn in a larger game, which spurs the search for more self-determined financing options.

Last week, in preparation for FfD4, the Government of Nepal hosted a high-level national consultation, in partnership with non-profit organisations, that brought together senior government officials, civil society, economists, development partners and UN representatives to help map out its national priorities at the conference.

Discussions emphasised the need for inclusive financing, focusing on more accessible climate finance, debt cancellation, global tax justice and shifting from charity models to equitable global partnerships. They also involved reflection on how Nepal can be more effective in negotiating conditions and exercising its agency in these discussions.

That consultation has fed into FfD4 as Nepal is co-chairing the Preparatory Committee alongside Norway, Mexico and Zambia. Together, they are not only helping to host the conference but also shaping its key outcome — the *Compromiso de Sevilla*. Largely agreed in advance, this negotiated yet ambitious document calls for a fairer global financial system, recognising that, without systemic reform, many developing countries cannot meet the Sustainable Development Goals or respond to escalating environmental crises.

While not legally binding, the *Compromiso* sets the tone for post-FfD4 negotiations and global advocacy. As co-chair, Ambassador Lok Bahadur Thapa and Nepal's foreign ministry have played a leading role in finalising the text, which strongly emphasises debt relief, tax reform and closing the estimated $4 trillion development financing gap.

In addition, there is a need to explore the proliferation of new financing actors — from impact investors to local social enterprises and Corporate Social Responsibility funds. These reflect growing experimentation with blended finance, public-private partnerships and community-led business models over the past few years. Here, the Nepali government has taken the initiative. In April, the government advanced an important piece of legislation called the *Alternative Development Finance Mobilisation Bill 2025*, aimed at addressing the country's chronic infrastructure financing gap through innovative and diversified funding methods. Expectations are high that the bill will pass this year.

The bill will establish a fund — with an initial investment by the government of around NPR25 billion (US$180 million) — to mobilise domestic and international capital via bonds, equity investments, hybrid instruments, remittance pools and guarantees. It represents an important, forward-looking policy tool for the government to increase effective private sector investment in development, while containing provisions for monitoring and evaluation, feasibility analysis and gradual government divestment as the performance of the fund improves. Its success is key to supporting the structural transformation of the Nepali economy needed for the country to navigate the many pitfalls of its upcoming graduation from LDC status in late 2026. These aspirations are laudable, yet the participants in the consultation raised questions about the bill's coherence and likely effectiveness.

Despite an overall sense of pessimism, some voices at the national dialogue called for a strategic rethink. If donor dependency is fading, this could create space to rebalance domestic priorities, improve allocative efficiency and pursue sovereign financing strategies (for example, green bonds). There was consensus that knowledge production, evidence-based policies and negotiating capacity will become more vital as Nepal takes on its post-LDC identity, amid shrinking external support from traditional sources.

Given these efforts, it is clear Nepal will be a strong voice for the Global South this week in Seville, as the country champions a variety of reforms of the global finance architecture — around climate change adaptation, debt relief mechanisms, international tax cooperation and domestic resource mobilisation. Compromise is inevitable — indeed, a non-Spanish speaker might mistakenly assume it is written into the title of the concluding document. Yet the historic importance of FfD4 might not depend on what the Global North is willing to will bring to the table, but on the bold leadership of countries like Nepal that are imagining a more inclusive, just and sustainable financing architecture — one that is more innovative and less risk-averse. For the optimists, these are signs of a new system that not only embeds the voices and concerns of the Global South into global policy, but is being shaped by them.

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