

## Barriers to Green Financing in Developing Nation: An Investor's Perspective for Promoting Sustainable Development

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#### ABSTRACT

Green financing plays a pivotal role in addressing environmental challenges and fostering sustainable development, particularly in emerging economies. However, its adoption is often hindered by systemic barriers. This study examines the barriers to green financing in Nepal, focusing on four critical factors: the incapability of banks and financial institutions (BFIs), limited accessibility, political constraints, and public perception. Using a quantitative, cross-sectional survey design, data were collected from 228 investors across Nepal's Kathmandu Valley. Statistical analyses, including correlation and regression, reveal that all four factors significantly influence investor participation in green financing, with political constraints and accessibility emerging as the most prominent barriers. The findings highlight a considerable communication gap, insufficient institutional capacity, and weak policy support as key obstacles. This study underscores the need for enhanced public awareness, institutional capacity building, and supportive regulatory frameworks to overcome these challenges. By addressing these barriers, Nepal can unlock the potential of green financing, advancing its sustainability goals and economic resilience. The research contributes valuable insights to the growing body of literature on green finance, offering actionable implications for policymakers, financial institutions, and investors in similar emerging markets.

### 1. INTRODUCTION

Green finance, a pivotal mechanism for sustainable development, involves financial investments aimed at generating environmental benefits while addressing global challenges such as climate change, resource depletion, and biodiversity loss (Xu,

2013; Klein, 2019). It plays a critical role in fostering sustainable economic growth and tackling significant environmental issues (Fisher, 2019; Sharif & Kaushal, 2018; Khan & Farooqui, 2021). This concept encompasses various financial instruments, including green bonds, environmentally

targeted loans, and climate risk insurance, all designed to support sustainable projects (Florea & Morales, 2021; Khan & Farooqui, 2021). By integrating the financial sector with environmental advancement and economic progress, green finance serves as a cornerstone of sustainability (Soundarrajan & Vivek, 2016). Key stakeholders, including institutional investors, international financial institutions, regulatory authorities, and central banks, are instrumental in driving the transition toward a greener financial system (Berensmann & Lindenberg, 2019). The expansion of green finance faces persistent challenges, underscoring the need for robust frameworks and precise definitions to mitigate risks such as greenwashing (Agrawal et al., 2023; Berensmann & Lindenberg, 2019). While the concept continues to evolve, with varying interpretations across academic and policy domains, it is generally defined as the financing of initiatives that promote ecological balance, resource efficiency, and environmental restoration (Zhang et al., 2019). Overall, green finance is indispensable for achieving a balance between economic development, environmental protection, and social equity (Soundarrajan & Vivek, 2016).

The significance of green finance has grown as global economies recognize its potential to bridge the gap between environmental protection and economic growth. Researchers have highlighted its role in achieving international frameworks like the Paris Agreement and the Sustainable Development Goals (Alexander et al., 2019). For instance, private eco-friendly investments have been shown to reduce carbon emissions and drive the transition to low-carbon economies (Azhgaliyeva et al., 2018). Moreover, the adoption of innovative financial instruments, including green bonds, carbon markets, and community-based green funds, has gained traction as a means to enhance environmental benefits while attracting private investment (Duchene, 2020; Adhikari et al., 2024). However, emerging and developing markets face

substantial challenges, including inadequate infrastructure, bureaucratic inefficiencies, and limited access to green financing (Ashraf, 2023; Sameer, 2016; Ghimire & Adhikari, 2023).

Nepal, a country grappling with the dual pressures of environmental degradation and economic development, represents a unique case for examining the barriers to green financing. While initiatives such as the Nepal Rastra Bank's Environmental and Social Risk Management (ESRM) guidelines have laid a foundation, systemic obstacles—such as capacity constraints among financial institutions, limited information accessibility, political interference, and public skepticism—continue to hinder investor participation (Dhakal & Pradhan, 2023; UNDP, 2021). Addressing these barriers is crucial to unlocking the country's potential for climate-resilient growth and sustainable development.

This research focuses on four critical barriers to green financing in Nepal: the operational incapability of banks and financial institutions, restricted accessibility to green finance, political constraints, and public perception. By exploring these variables, the study aims to provide insights into the factors influencing investor participation in green financing and identify actionable pathways for enhancing engagement. From an investor's perspective, the research seeks to illuminate the interplay between institutional and systemic barriers, public attitudes, and policy frameworks, ultimately fostering a deeper understanding of how green financing can align with Nepal's sustainable development goals.

Furthermore, this study highlights the dual imperatives of profitability and sustainability in green financing, emphasizing the role of socially responsible investments in driving environmental stewardship and economic resilience. By examining investor perceptions, this research contributes to the growing body of knowledge on green finance, offering valuable implications for policymakers, financial institutions, and academics.

## 1.1 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Green finance has emerged as a pivotal strategy for addressing climate change, fostering environmental sustainability, and supporting global sustainable development goals. Broadly defined as financial investment aimed at promoting environmentally sustainable economic activities, green finance encompasses instruments such as green bonds, sustainable loans, and investments in renewable energy, carbon reduction, and sustainable infrastructure (Lindenberg, 2014; Höhne, 2012). Despite its significant environmental and economic benefits, the concept of green finance remains ambiguous, with scholars yet to achieve a unified definition (Zhang et al., 2019).

Global research on green finance has surged since 2016, fueled by increasing environmental awareness, international climate commitments, and advancements in policy frameworks (Zhang et al., 2019). Studies have highlighted its transformative potential across diverse contexts, such as the role of green finance in Russia's economic transition (Tarkhanova et al., 2020), the impact of carbon tax policies on emissions (Ionescu, 2020), and the synergy between macro-prudential regulation and climate finance (D'Orazio & Popoyan, 2019). However, barriers to green financing participation—such as limited institutional capacity, accessibility challenges, and political constraints—remain critical areas requiring systematic exploration (Azad & Devi, 2022).

In emerging economies like Nepal, green finance is still at a nascent stage, predominantly shaped by regulatory frameworks rather than proactive environmental commitments (Mishra & Aithal, 2022). The Nepal Rastra Bank's Environmental and Social Risk Management (ESRM) guidelines, introduced in 2018, represent a significant regulatory milestone; however, systemic barriers persist. These include inadequate institutional capacity, limited transparency, political interference, and restricted access to long-term financing (Dhakal & Pradhan, 2023; UNDP, 2021).

Moreover, low sovereign credit ratings and poor bond issuer ratings further discourage potential investors, emphasizing the need for robust policy interventions and financial innovations (Azad & Devi, 2022).

Despite these challenges, green financing holds immense potential for fostering climate-resilient growth and advancing sustainability in Nepal. Climate-smart investment opportunities in the country are estimated at \$46 billion between 2018 and 2030, underscoring the urgency of addressing barriers and enhancing investor participation (Dhakal & Pradhan, 2023). Initiatives such as green bonds, public-private partnerships, and targeted credit schemes have shown promise in aligning local practices with global sustainability goals (Mishra & Aithal, 2022).

Empirical studies underscore the need for collaborative stakeholder engagement, capacity building, and conducive policy environments to promote green investments in Nepal and similar economies (Aryal et al., 2022; Azad & Devi, 2022; Wu et al., 2024). For instance, enhanced accessibility through comprehensive information systems, coupled with measures to reduce political interference, can significantly boost investor confidence and participation (D'Orazio & Löwenstein, 2020; Nepal et al., 2024). Furthermore, integrating public perceptions and expectations into green finance strategies is vital for ensuring broader acceptance and sustained momentum (Falcone & Sica, 2018; Wang et al., 2019).

In conclusion, while green finance has demonstrated transformative potential globally, its successful implementation in Nepal requires overcoming systemic challenges through innovative policies, enhanced public-private collaboration, and institutional strengthening. Addressing these barriers is crucial to unlocking the full potential of green financing as a driver of sustainability and economic resilience in the region.

### 1.1.1 INCAPABILITY OF BFIS

The operational inefficiency of Banks and Financial Institutions (BFIs) is a significant barrier to the adoption and scaling of green finance initiatives. Guild (2020) emphasizes that many financial institutions lack the expertise and resource allocation necessary for implementing green financing smoothly. This inefficiency is particularly evident in emerging economies where technical skills, capacity, and familiarity with green finance structures remain underdeveloped. In India, for instance, it took banks and financial institutions between five and ten years to adapt fully to green financing frameworks, illustrating the steep learning curve required to transition towards sustainable finance (Lee, 2020).

In the context of Nepal, operational challenges within BFIs are compounded by insufficient awareness and training among banking professionals, limiting their ability to cater to the growing demand for credit assistance from green industry players (Dhakal & Pradhan, 2023). Despite the Nepal Rastra Bank's regulatory efforts, including the adoption of the Environmental and Social Risk Management (ESRM) guidelines, systemic inefficiencies persist (NRB, 2022). These include inadequate assessment mechanisms for green projects, limited technical knowledge, and a lack of tailored financial products to support eco-friendly ventures. Consequently, BFIs struggle to meet the high demand for green credit, thereby slowing the progress of green financing in the country.

Addressing these inefficiencies requires a multifaceted approach, including capacity building within financial institutions, integrating green finance training into professional development programs, and fostering collaborations with international green finance networks. Improved operational efficiency is vital to aligning BFIs with Nepal's sustainability objectives and fostering investor confidence in the sector's ability to manage green financing effectively.

**H1: There is a significant relationship between green financing and the operational incapability of Banks and Financial Institutions (BFIs).**

### 1.1.2 ACCESSIBILITY AND BARRIER TO GREEN FINANCING

Accessibility remains a critical barrier to the widespread adoption of green financing, particularly in emerging economies (Mustaffa et al., D'Orazio and Löwenstein (2020) highlight the absence of comprehensive databases, technical assistance systems, and equitable entry points into green finance markets. These gaps create significant hurdles for both financial institutions and end users, limiting their ability to engage effectively with green finance opportunities.

In Nepal, the challenges are even more pronounced for small and medium enterprises (SMEs), which often lack the resources and technical capacity to align with sustainability standards. High transaction costs, collateral-based lending practices, and the absence of project-specific financing mechanisms exacerbate these challenges (UNDP, 2021). Additionally, the lack of accessible and centralized information systems further inhibits SMEs and other stakeholders from navigating the green finance ecosystem. Without adequate technical assistance, many potential investors and businesses remain unaware of green financing options or are unable to meet eligibility criteria.

Addressing accessibility barriers requires the establishment of robust, user-friendly systems that centralize green finance information, technical support, and eligibility frameworks. Enhanced collaboration between government agencies, financial institutions, and private stakeholders is also essential to ensure equitable access to green finance markets. Such initiatives would enable a broader range of stakeholders, particularly SMEs, to participate in green financing, thereby accelerating the transition to sustainable economic practices.

**H2: There is a significant relationship between green financing and accessibility.**

### **1.1.3 POLITICAL CONSTRAINTS**

Political constraints pose a significant challenge to the successful implementation and scaling of green financing. Excessive bureaucracy, weak governance, and potential fund misallocations are commonly cited barriers that discourage participation in green finance (Falcone & Sica, 2018). Governments often hold considerable control over the administration and monitoring of green finance initiatives, creating opportunities for inefficiency and abuse of power. Funds intended for green projects are sometimes diverted for other purposes, undermining the credibility and effectiveness of green finance mechanisms (Aller et al., 2018). Such governance issues not only impede the adoption of green finance but also erode public trust and investor confidence in sustainability-focused initiatives (Guild, 2020; Janicka, 2016; Jones et al., 2020).

Empirical evidence highlights the detrimental impact of political interference on green finance uptake. In Indonesia, for example, governance challenges and inconsistent policy enforcement delayed the growth of sustainable investments (Guild, 2020). In Nepal, weak inter-agency coordination and limited alignment between financial institutions and government policies further exacerbate these challenges (Dhakal & Pradhan, 2023). The lack of transparent decision-making frameworks and accountability mechanisms discourages potential investors and stakeholders from engaging in green finance markets.

Overcoming political constraints requires a holistic approach involving enhanced transparency, stronger regulatory frameworks, and improved inter-agency collaboration. Establishing independent oversight mechanisms and adopting international best practices can mitigate the risks of bureaucracy and mismanagement. Furthermore, fostering

public-private partnerships and involving multiple stakeholders in decision-making processes can ensure equitable and efficient allocation of green finance resources, thereby enhancing trust and participation.

**H3: There is a significant relationship between green financing and political constraints.**

### **1.1.4 PUBLIC PERCEPTION AND BARRIERS TO GREEN FINANCING IN NEPAL**

The relationship between financing and environmental sustainability presents a key dilemma: while green financing aligns with long-term environmental goals, the immediacy of the environmental crises demands timely interventions. Green financing is often associated with higher funding amounts, which in turn necessitate longer repayment periods for borrowers. However, green projects are intended to be part of immediate solutions to environmental degradation, creating a contradiction between the long-term nature of the financing instruments and the urgent environmental needs. This has led to a perception that green financing is a long-term solution to an urgent problem (Falcone & Sica, 2018; Lee, 2020; Wang et al., 2019).

Public perception of green financing often presents a significant challenge. One of the most prominent barriers is the skepticism surrounding the costs and long-term commitments associated with green financing options. Many people view green financing as a costly endeavor that may not yield immediate returns. As Falcone and Sica (2018) assert, this perception can discourage participation in green financing initiatives, particularly in developing economies where immediate financial pressures outweigh the perceived benefits of long-term environmental investments.

In the context of Nepal, these perceptions are amplified by several specific barriers. Public awareness campaigns about green financing are limited, and the incentives for participating in green financing schemes are often not well-

aligned with the short-term financial interests of the local population. Mishra and Aithal (2022) highlight that limited public knowledge and inadequate educational campaigns regarding the benefits and structures of green financing further hinder the uptake of such financial instruments. Furthermore, the misalignment of financial products with the needs and priorities of local communities exacerbates this issue, resulting in a lack of motivation for individuals and organizations to engage in green financing.

In Nepal, where financial literacy remains relatively low and environmental concerns are often overshadowed by immediate economic survival, the reluctance to embrace green financing becomes more pronounced. While the overarching goal of green financing is to promote environmental sustainability, the public's view of its immediate costs, compounded by insufficient understanding, creates a significant barrier to widespread adoption.

The combination of public skepticism and insufficient awareness campaigns thus becomes a key challenge to expanding green financing in Nepal. There is a strong need for both government and private institutions to invest in comprehensive public outreach programs that highlight the long-term benefits of green financing and align incentives more closely with the financial interests of the public.

**H4: There is a significant relationship between green financing and public perception.**

## **2. RESEARCH METHODOLOGY**

This study employs a quantitative, cross-sectional survey design to examine the barriers to green financing in Nepal from the perspective of investors. The design enables the exploration of relationships between the dependent variable (green financing) and the independent variables (incapability of banking and financial institutions (BFIs), accessibility, political constraints, and public

perceptions) at a single point in time. A causal-comparative research design was adopted to analyze how the independent variables impact green financing.

The target population consists of investors in Nepal, specifically those from Kathmandu, Lalitpur, and Bhaktapur districts. The sampling process adheres to the recommendations by Hair et al. (2016), suggesting that the sample size should be at least five to ten times larger than the number of items used in the study. Considering 27 questionnaire items, the recommended sample size ranges between 160 and 320.

A purposive sampling method was employed, ensuring the inclusion of participants directly relevant to the research objectives. The final sample consisted of 228 respondents, exceeding the minimum requirement and ensuring sufficient representation. Data saturation was considered; whereby additional responses were unlikely to provide significant new insights. This approach enhances the trustworthiness of the data and aligns with Campbell et al. (2020) on rigorous purposive sampling practices. Primary data were collected using a structured questionnaire, informed by validated instruments from previous studies. The questionnaire was divided into two sections, Demographic Information is to capture the background characteristics of the respondents, Perceptions about Green Financing Containing 27 statements assessing the independent and dependent variables.

The survey used a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree) to measure perceptions. The questionnaire was administered online, ensuring accessibility for participants across the target districts. The questions were adapted from prior literature to ensure relevance to the study context. A pilot test was conducted to evaluate the questionnaire's reliability and clarity. Reliability was confirmed using Cronbach's alpha, ensuring internal consistency of the scale.

The collected data were refined and analyzed using Statistical Package for Social

Sciences (SPSS). Key analytical methods included:

**Descriptive Statistics:** To summarize demographic data and variable distributions.

**Reliability Tests:** To assess the internal consistency of the questionnaire.

**Correlation Analysis:** To evaluate the strength and direction of relationships between variables.

**Regression Analysis:** To test the hypotheses and assess the impact of independent variables on green financing. The model used for regression analysis of the independent and dependent variables in this research is given:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

where:

Y = Dependent variable: green financing

$\beta_0$  = Constant

X1 = Incapability of BFIs

X2 = Accessibility

X3 = Political constraints

X4 = Public perception

### 3. RESULTS AND ANALYSIS

#### 3.1 DEMOGRAPHIC PROFILE OF THE RESPONDENTS

A total of 228 respondents contributed to this research. All respondents were aware of financing and investment concepts whether on personal or professional grounds. The demographic characteristics of them included their age group, gender, education qualifications and duration of their involvement in investment.

*Table 1: Demographics of survey respondents*

		Frequency	Percent (%)
Age	15-20	33	14.4
	20-25	102	44.7
	25-30	59	25.9
	30-above	34	14.9
Gender	Male	127	55.7
	Female	101	44.3
Educational Qualification	+2	37	16.2
Qualification	Bachelor's level	165	72.4
	Masters level	26	11.4
Duration of investment	Less than 1 year	40	17.5
	1-3 years	108	47.4
	3-5 years	48	21.1
	Above 5 years	32	14.0
Total		228	100.0

*Table 2: Cronbach's Alpha, Mean & Standard Deviation for Each Variable*

Variables	Cronbach's Alpha	No. of Items	Mean	Std. Deviation
Incapability of BFIs	.0.762	5	2.71	0.642
Public Perceptions	0.723	5	2.49	0.57
Accessibility	0.842	6	2.5	0.54
Political Constraints	0.811	6	2.54	0.56
Green Financing	0.847	5	2.89	0.57

Sources: SPSS Output

Table 2 provides an overview of the reliability and descriptive statistics for the key variables in this study. It presents the Cronbach's alpha values, which measure the internal consistency of each variable, alongside the mean and standard deviation values, which describe the central tendency and variability of respondents' perceptions.

The **Incapability of BFIs** variable, with a Cronbach's alpha of 0.762, demonstrates good reliability. The mean score of 2.71 suggests that respondents perceive a moderate level of concern regarding the ability of banks and financial institutions to support green financing. The standard deviation of 0.642 indicates that there is some variation in how respondents view this issue, but there is still a reasonable degree of agreement.

For **Public Perceptions**, the Cronbach's alpha of 0.723 reflects an acceptable level of consistency in the responses. With a mean score of 2.49, respondents generally hold a neutral to slightly negative view of green financing, and the standard deviation of 0.57 indicates moderate consistency in these perceptions, with only slight variation in how the respondents assess public understanding and attitudes towards green financing.

The **Accessibility** variable shows the highest internal consistency with a Cronbach's alpha of 0.842, suggesting that the respondents' views on the ease of accessing green financing options are reliable. The mean score of 2.5 indicates a moderate level of perceived difficulty in accessing green financing, and the standard deviation of 0.54 points to relatively

consistent responses among the participants.

For **Political Constraints**, the Cronbach's alpha of 0.811 indicates good reliability, with a mean of 2.54 reflecting a moderate concern about the political environment's impact on green financing. The standard deviation of 0.56 shows that there is a moderate agreement among respondents about the role of political factors in influencing green financing participation.

Finally, the **Green Financing** variable, as the dependent variable, has the highest Cronbach's alpha of 0.847, signaling very good internal consistency. The mean score of 2.89 suggests that respondents have a slightly positive perception of the potential of green financing, with the standard deviation of 0.57 indicating moderate variability in opinions.

Overall, the Cronbach's alpha values across all variables indicate reliable measures, and the mean and standard deviation values highlight the respondents' generally moderate perceptions and concerns about the factors influencing green financing in Nepal. These statistics confirm the validity of the variables used in the study and provide a solid foundation for understanding the barriers to green financing.

### 3.1 CORRELATION ANALYSIS

Pearson's Correlation have been used in order to analyze the relationship between all the independent and dependent variables.

Table 3: Correlation Matrix

	Incapability of BFIs	Public Perception	Accessibility	Political constraints	Green financing
Incapability of BFIs	1				
Public Perception	.150*	1			
Accessibility	.325**	.416**	1		
Political constraints	.358*	.395**	.732**	1	
Green financing	.250*	.403**	.557**	.582**	1

\*\* Correlation is significant at the 0.01 level (2-tailed)

\* Correlation is significant at the 0.05 level (2-tailed).

N= 228



Table 3 shows the correlations between key factors influencing green financing. Incapability of BFIs is moderately correlated with Public Perception and Green Financing, indicating that financial institutions' limitations slightly affect both public views and participation in green financing. Public Perception is significantly related to Accessibility and Political Constraints, suggesting that negative views on green financing are linked to challenges in access and political barriers. Accessibility

is strongly correlated with Political Constraints and moderately with Green Financing, highlighting that difficulties in accessing green financing are tied to political factors and impact participation. Finally, Political Constraints have a strong positive correlation with Green Financing, emphasizing the role of political factors in influencing green financing decisions. These results suggest that improving accessibility and addressing political barriers could boost green financing participation.

### 3.2 REGRESSION ANALYSIS

Table 4: Model Summary

Model	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.688	.675	.40123	2.042

a. Predictors: (Constant), Political constraints, Incapability of BFIs, Public perception, Accessibility

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	68.259	4	17.618	53.322	.000b
Residual	77.781	223	.308		
Total	146.040	227			

a. Dependent Variable: Green financing

b. Predictors: (Constant), Political constraints, Incapability of BFIs, Public perception, Accessibility

The R square value of table 4 indicates that's, the results depict that this model can explain the barriers in green financing by 68.8%. The remaining 31.2% cannot be explained by this model since several other variables might have served as a barrier in green financing that were not included in this research. A Durbin-Watson

value of 2.042 shows that the model is within the acceptable range of  $\pm 2$ . The ANOVA table i.e., table 4 shows that the regression model is significant as its calculated p-value is 0.00 which is less than 0.05. So, this model successfully predicts the relationship between the dependent and independent variables.

Table 5: Hypothesis Test Results

Hypothesis	Variables	Standardized Coefficients	t-value	Remarks
H1	Incapability of BFIs	.240	4.018	Accepted
H2	Accessibility	.184	2.579	Accepted
H3	Political constraints	.280	3.994	Accepted
H4	Public perception	.191	3.471	Accepted

As previously mentioned, above are the hypotheses used in the research to establish a relationship between dependent variable and independent variables. The above table 4 highlights that regression coefficients of independent variables: incapability of BFIs, accessibility, political constraints, and public perception were significant. So, all the hypotheses were accepted which means incapability of BFIs, accessibility, political constraints, and public perception hugely impacted green financing participation. Hence, all the independent variables (incapability of BFIs, accessibility, political constraints, and public perception) have a positive relationship with dependent variable (green financing).

#### 4. DISCUSSION

This study on the barriers to green financing in Nepal offers significant insights into the challenges faced by investors, financial institutions, and policymakers in promoting sustainable investments in the region. Drawing on the results of regression analysis, descriptive statistics, and hypothesis testing, this paper provides a comprehensive analysis of how different factors, such as incapability of banks and financial institutions (BFIs), accessibility of information, political constraints, and public perception, influence the participation of investors in green financing. The implications of these findings are crucial in understanding how Nepal can overcome barriers to green financing and move towards more sustainable development.

The study identifies a critical gap between public awareness and understanding of green financing. While most respondents were familiar with the concept of financing and investment, many lacked a deeper understanding of the specifics of green financing. This highlights a significant communication barrier, where limited public outreach and educational efforts have failed to bridge the knowledge gap. As observed in the findings, investors are skeptical about green financing due to concerns about low returns and high upfront costs. This mirrors the skepticism

identified by Falcone and Sica (2018), who noted that green financing is often perceived as a long-term commitment with limited immediate benefits. The lack of transparency in terms of available green projects, as well as the uncertainty about returns, discourages potential investors from participating in such schemes.

Another prominent barrier identified is the political landscape. Political constraints have a profound impact on investment decisions in Nepal, as many investors base their choices on the political stability and government support for green projects. This finding is consistent with previous research by Guild (2020) and Sachs et al. (2019), which emphasized that political and institutional frameworks significantly influence green financing initiatives. The lack of a supportive political environment in Nepal discourages private sector investments, with respondents indicating that the absence of government incentives and a clear policy direction regarding green projects leads to investor reluctance.

The regression analysis shows that the incapacity of BFIs to provide the necessary financial products and services for green financing poses a moderate barrier to participation. This study constant with the Nguyen et al. (2023) Their findings suggest that while progress has been made, significant efforts are required to overcome existing challenges and fully realize the potential of green finance in driving sustainable economic growth. While this factor is significant, the study reveals that it is not the most critical barrier. The incapacity of BFIs to understand and support green financing approaches, including the provision of green bonds, loans, and other sustainable financial products, limits the financial options available to investors. This aligns with the findings by Azhgaliyeva (2018) and Krushelnyska (2019), who highlighted that financial institutions in emerging economies often lack the necessary infrastructure, expertise, and products to support green investments. Moreover, the conservative approach of banks toward financing high-

risk green projects further exacerbates this issue.

Accessibility to information about green financing also plays a crucial role in influencing investor decisions. The study finds that while respondents are aware of the concept of green financing, they often lack detailed information regarding available green projects, financial incentives, and the processes involved in such investments. This lack of accessibility to comprehensive, clear, and easily understandable information further complicates investor participation. The importance of improving the flow of information to potential investors, as emphasized by Lee (2020) and Sameer (2016), cannot be overstated. The government, private institutions, and relevant stakeholders ensure that transparent, timely, and accurate information is readily available to foster investor confidence.

## 5. CONCLUSION

This study aimed to identify and analyze the barriers to green financing in Nepal from an investor's perspective. The findings reveal that investors perceive green financing as a risky investment option, particularly due to concerns over profitability and returns. While respondents are aware of green financing, they lack comprehensive information, highlighting a significant communication gap between the concept of green financing and its actual implementation. Regression analysis provides strong evidence that investor participation in green financing is significantly influenced by factors such as the incapacity of banks and financial institutions (BFIs), accessibility of information, public perception, and political context. The study further reveals that political constraints pose a substantial barrier, with investment decisions being heavily impacted by the political climate. The lack of government support also discourages potential investors from engaging in green financing. Descriptive and inferential statistics indicate that investors do not hold high expectations for the

operational capacity of financial institutions to manage green financing initiatives effectively. While the incapacity of BFIs does contribute to some level of barrier, other significant challenges such as unclear policies, limited availability of green projects, low returns, long payback periods, and high initial costs were also identified as key deterrents.

This research highlights that green financing remains a relatively nascent concept in Nepal, one that is still in its developmental phase. As such, this study aims to raise awareness and spark attention among potential investors, policymakers, and stakeholders about the value of green financing and socially responsible investing. By addressing the barriers identified in this research—such as improving public perception, enhancing political support, boosting the financial capacity of institutions, and increasing the accessibility of information—Nepal has the opportunity to unlock the full potential of green financing. This, in turn, could play a crucial role in driving environmental sustainability and attracting socially responsible investments.

In conclusion, while green financing offers significant promise for promoting sustainable development in Nepal, substantial barriers must be overcome to encourage greater investor participation. The findings of this study contribute valuable insights to the growing body of literature on green financing in Nepal, offering a foundation for future research and policy initiatives that aim to overcome these obstacles. By addressing these challenges, Nepal can better harness the potential of green financing, thus contributing to both its environmental goals and economic growth.

## 6. IMPLICATION

This study provides valuable insights into the barriers to green financing in Nepal, with implications for policymakers, financial institutions, and investors. The findings highlight that political constraints, the incapacity of banks and financial institutions (BFIs), public perception, and

limited accessibility of information are key obstacles hindering green financing participation in the country.

To address these challenges, several practical strategies are recommended. First, public education and awareness campaigns should be prioritized to clarify the benefits and risks of green financing, reduce misconceptions, and provide detailed information on investment opportunities. Additionally, the government should create a more supportive political environment by offering clear policy frameworks, financial incentives, and regulatory support for green initiatives, as this will help build investor confidence and encourage private sector involvement.

Financial institutions must enhance their technical capacity to manage green financing products by collaborating with international organizations and environmental experts. This will enable them to offer suitable financial instruments, such as green bonds and low-interest loans, which can attract more investors. Lastly, improving the accessibility of information through user-friendly platforms will ensure that potential investors have easy access to comprehensive and up-to-date details about green projects, financing options, and their environmental impact, thereby promoting informed decision-making.

In conclusion, the study underscores the importance of addressing these barriers through a collaborative effort between the government, financial institutions, and investors to unlock the full potential of green financing in Nepal, supporting both environmental sustainability and economic growth.

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