

CARBON TRADING & NEPAL

Nepal earned NPR 4.75 billion from eight carbon trading projects in October 2024.

In the recent budget of F.Y. 2082/83 (25/26), the Finance Minister announced continued implementation of emission reduction programs to sustain carbon trading. Through its laws and legislative framework, the government alongside the private sector aims to facilitate the sale of reduced emissions and verify carbon savings in national and international markets via sustainable forest management.

Will Nepal unlock its full potential in the global carbon market ?

WHAT IS CARBON CREDIT TRADING?



CARBON CREDIT TRADING ALLOWS COUNTRIES, INDUSTRIES AND COMPANIES TO BUY AND SELL PERMITS FOR CARBON DIOXIDE EMISSIONS.



ONE CREDIT REPRESENTS THE REMOVAL OR REDUCTION OF ONE METRIC TON OF CO₂.



IT INCENTIVIZES EMISSION REDUCTIONS BY CREATING A FINANCIAL VALUE FOR GREENHOUSE GAS REDUCTIONS.



THERE ARE TWO MAIN MARKETS: COMPLIANCE MARKETS (REGULATED BY LAW) AND VOLUNTARY MARKETS (DRIVEN BY SUSTAINABILITY GOALS).



CARBON CREDITS MAY BE OBTAINED THROUGH CARBON SEQUESTRATION AND EMISSION AVOIDANCE. CARBON SEQUESTRATION PROJECTS ARE DESIGNED TO CAPTURE AND STORE CARBON DIOXIDE (CO₂), WHEREAS EMISSION AVOIDANCE PROJECTS SEEK TO PREVENT THE RELEASE OF CO₂ EMISSIONS ALTOGETHER.



SUCH CREDITS CAN BE GENERATED THROUGH A VARIETY OF ACTIVITIES, INCLUDING BUT NOT LIMITED TO REFORESTATION, AFFORESTATION, ENHANCED FOREST MANAGEMENT, AND THE IMPLEMENTATION OF SUSTAINABLE AGRICULTURAL PRACTICES

4 MOST RELEVANT INSTRUMENTS

01

KYOTO PROTOCOL (1997): AN INTERNATIONAL AGREEMENT WITH 192 SIGNATORIES TO REDUCE GREENHOUSE GAS EMISSIONS THROUGH CARBON CREDITS, OPERATIONALIZING THE UN FRAMEWORK CONVENTION ON CLIMATE CHANGE.

02

PARIS AGREEMENT (2015): SIGNED BY 196 PARTIES TO LIMIT GLOBAL TEMPERATURE RISE TO BELOW 2°C AND PROMOTE EMISSIONS TRADING AND NATIONAL CLIMATE ACTION.

03

GLASGOW CLIMATE PACT (2021): RESULTING FROM COP26, IT URGES NATIONS TO FUND FOREST CONSERVATION AND GREEN ENERGY, ENABLING CARBON CREDIT USE TO MEET EMISSION GOALS.

04

U.S. CARBON CREDIT INITIATIVES: STARTING WITH THE 1990 CLEAN AIR ACT, THE U.S. HAS LED CAP-AND-TRADE EFFORTS VIA PROGRAMS LIKE RGGI, CALIFORNIA'S SYSTEM (2013), AND THE 2022 INFLATION REDUCTION ACT TO REDUCE CO2 EMISSIONS.

LEGAL FRAMEWORK IN NEPAL

Section 28 of the Environment Protection Act, 2019 empowers the Government of Nepal (GoN) to engage in carbon trading.

Rule 28 of Environment Protection Regulations, 2020 (EPR) allows the Government of Nepal (GoN) to: i) Sell carbon stock obtained from the sustainable management of forests in national or international markets, ii) Sell reduced carbon emissions from other activities through the GoN, an association, or the private sector. The rule further enables GoN or through other entities to trade in carbon reduced through Clean Development Mechanism (CDM),

Rule 29 of EPR establishes a **Technical Committee** responsible for evaluating the concept paper and Project Design Document (PDD).

Rule 30 of EPR establishes a **Steering Committee** to provide recommendations on the PDD.

Currently, the following institutions are engaged in implementing GHG emission reduction projects and programmes: i) **REDD Implementation Centre (IC)** through a World Bank-supported programme ii) **Alternative Energy Promotion Centre (AEPC)** through Clean Development Mechanism (CDM), Programme of Activities (PoA), and Green Climate Fund (GCF) projects

Rules of EPR 29 and 30 provide for representation from both REDD IC and AEPC in the permanent Technical and Steering Committees.

Under **Rule 31**, the **Ministry of Forests and Environment (MoFE)** is designated to function as the **Designated National Authority (DNA)** with specified roles, rights, and duties.

ACHIEVEMENTS SO FAR



Initial CDM Participation : Nepal joined carbon trading under the Kyoto Protocol by approving biogas projects; AEPC registered 8 CDM projects with MoE (DNA) from 2005.



Additional CDM Approvals: DNA-CDM issued PDD approvals for projects. ADB (2021) reported 6 CDM projects and 4 PoAs from Nepal registered with the CDM Executive Board.



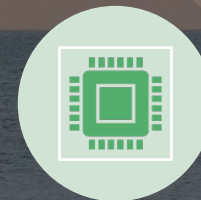
Recent PoA in Brick Sector: A clean bricks production PoA was registered with the CDM EB in August 2022; MoFE-DNA approved this in July 2021 for Climate Advocacy International as managing entity.



Forest Carbon Partnership (2021): Nepal signed a US\$ 45 million results-based agreement with the World Bank to reduce 9 million tons of CO₂ in the Terai Arc Landscape through 2025; forest fires remain a major compliance challenge.



Green Climate Fund Project (2021): GCF approved a US\$ 49.2 million project (US\$ 21.1 million grant) to promote clean cooking solutions in the Terai by 2027, aiming to avoid 6.5 million tonnes of emissions and install 1 million+ clean cooking devices.



Institutional Framework (2007–2017): Nepal developed sustainable development criteria for CDM projects in 2007; MoE's CDM Section under CCMD (est. 2010) facilitated transparent project evaluation and private sector involvement until it ceased in 2017.



MoFE Restructuring (2018): After 2018, MoFE's CCMD included five sections (Climate Change, Adaptation, Mitigation, Climate Tech, and GHG Measurement); the original CDM Section no longer exists, but MoFE continues to issue approvals, such as for the brick programme.



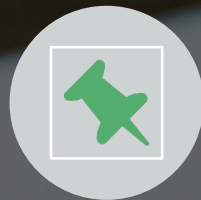
Legal Basis for Carbon Trade: While EPA 1996 lacked carbon trade provisions, Section 28 of EPA 2019 empowers the Government of Nepal to engage in carbon trading and allocate resulting benefits as prescribed.

CARBON LAW IS CHANGING

KEY PROPOSED AMENDMENTS:



After four years of the EPR (2020), Ministry of Forest and Environment (MoFE) proposed the first amendment to prevalent Environment Protection Rules on 16 August 2024, focusing on **impact assessment** (IA) processes and **carbon trade**.



Provisions added for project listing, submission of project documents with local-level recommendation, MoFE approval, and at least 80% of benefits to go to project beneficiaries—raising concerns about private sector interest.



Provincial governments are empowered to participate in carbon trading.

CDM is replaced by any Green House Gases (GHG) -reducing project or activity, including voluntary market-based carbon trading.



Amendments to make Designated National Authority (DNA) responsible for boosting private sector participation and aligning Clean Development Mechanism (CDM) units with the Paris Agreement.



10% of carbon credits from any project allocated to meet nationally determined Contribution (NDC) targets.



Royalty of NRs. 25 per carbon credit to be paid before sale.

WAY FORWARD

Soaring Market Demand: The global demand for carbon credits is projected to grow exponentially from about \$1 billion annually in the current voluntary market to \$100 billion by 2030, driven by both compliance and voluntary mechanisms.

Multiple Demand Drivers: Four key sources are fueling demand: (1) corporate compliance with carbon tax laws (2) national efforts to meet Nationally Determined Contributions (NDCs) (3) voluntary net-zero commitments by companies, and (4) international aviation obligations under CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation).

Strategic Leadership Essential: Officials leading Article 6 of Paris Agreement implementation in Nepal should hold four to five-year terms aligned with UNFCCC (United Nations Framework Convention on Climate Change) processes and MRV (Measurement, Reporting and Verification) cycles. With decisive leadership and swift reforms, Nepal can gain an early-mover edge, particularly in high-demand compliance markets, by meeting the criteria for trading correspondingly adjusted credits.

Nepal's Legal Shift: Nepal is amending its Environmental Protection Regulation 2022 to enable Article 6 participation—marking its first legal step toward engaging in carbon credit trading under the Paris Agreement.

Institutional Readiness and Reform: Nepal must build a robust MRV (Measurement, Reporting and Verification) system, establish a national registry, and secure the capacity to submit biennial transparency reports to avoid overselling and ensure high-integrity transactions in carbon markets.

Act Now: Failure to act swiftly risks Nepal missing vital climate finance needed for energy transition, forest conservation, and development. Other countries are advancing fast—without institutional and regulatory reforms, Nepal could fall behind and lose revenue opportunities.



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