Article History Received: Jan. 17, 2026 Revised: May 26, 2026 Accepted: May 28, 2026

A Multidimensional Approach to Sustainable Growth of the Capital Market in Nepal: *Developing a Sustainability Framework*

Jugal Kishor Kushwaha[1]

Abstract

An effective capital market is conducive for sustained growth through proper resource allocation and savings mobilization. Though progress has been made in terms of volume and involvement of institutions, Nepal's capital market is still facing many challenges including instability, poor regulation, lack of diversification, and ESG. This study makes use of qualitative approach and data from some of the most important national and international organizations. It is clear from this study that neither macroeconomics nor regulatory framework can ensure sustainable development on its own; stability demands an integrated approach covering regulation, institution, technology, ESG, and investors' protection.

Keywords: Capital market, ESG, Nepal, sustainable growth

Cite as: Kushwaha, J. K. (2026). A multidimensional approach to sustainable growth of the capital market in Nepal: Developing a sustainability framework. *Journal of Business and Social Sciences Research, 11*(1), 17-34. https://doi.org/ 10.3126/jbssr.v11i1.98997

INTRODUCTION AND STUDY OBJECTIVES

The backbone of present-day financial systems are referred to as capital markets, which mobilize savings for the long term and help allocate society's limited resources appropriately so as to enable a sustainable rate of economic growth (Demirgüç-Kunt & Levine, 2008; Levine, 2005). For emerging economies, developing well-functioning capital markets is an important policy goal as they complement a banking system, optimize investment allocation and increase economic resilience (World Bank 2023). Sustainable capital markets offer much more than mere market capitalization and trading volume: resilience, transparency, regulatory quality, technological innovation, investor retention and confidence while having ESG as the focus of these elements (OECD 2023).

The capital market for Nepal over the years has developed immensely since the basis of establishment of Stock Exchange known as NEPSE (Nepal Stock Exchange) in 1993 onwards supported through regulatory reforms from Securities Board of Nepal (SEBON), technological advancement and enhancing participation from investors. Along with market infrastructure in the form of NEPSE, SEBON, CDSC CL (Central Depository System and Clearing Limited), brokerage firms, merchant bankers, mutual

[1]Dr. Kushwaha works as a Director at Nepal Rastra Bank, Baluwatar, Kathmandu. He can be reached via jugal.research@gmail.com

funds and credit rating agencies that improve issuance, trading settlement and regulatory oversight.

Nepal's market capitalization was about NPR 4.4-4.8 trillion (76–83% of GDP) and annual trading turnover was around NPR 2.12 trillion, as of FY 2024/25 depending on the source used for exchange rate and gdp. Despite more than 270 companies being listed, the market remains highly concentrated towards financial institutions suggesting a lack of sectoral diversification. As the top macroeconomic indicators have improved recently: with inflation now down to 1.9%; pick-up in remittance inflows; strong banking liquidity; and recovery of foreign exchange reserves, we hypothesize on a possible assumption for growth in market as well as investor confidence building up accordingly.

Despite this progress, some problems remain such as volatility, speculation trading practices, little institutional investor participation in equity markets, lack of financial literacy across the population, regulatory enforcement issues and a slower pace of development on ESG. Meanwhile technological innovations (e.g., FinTech, artificial intelligence, algorithmic finance and blockchain) provide opportunities to enhance market efficiency and transparency but also necessitate improved regulatory capacity (Arner et al. 2020). The global trend towards Environmental, Social and governance (ESG) and sustainable finance makes it especially important to integrate capital market development with long-term objectives of sustainability (United Nations 2023).

Thus, in this study a multidimensional approach consisting of economic stability and institutional & regulatory efficiency, technological advancement & innovation, legal certainty along with environmental, social and governance (ESG) factors is used to analyze the existence of sustainability in Nepal's capital market as sustainable market development cannot be realized solely through financial growth but also from good governance.

LITERATURE REVIEW

Conceptual Basis of Capital Market Growth Through Sustainability

Sustainable capital market development is not only about enlarging the size and trading volume of the market, but also touches upon legal certainty (legal system), institutional quality, technological innovation, corporate governance, investor protection, financial inclusion & ESG integration (Demirgüç-Kunt & Levine, 2008; OECD 2023). There are many theories that back up this multidimensional view. Theoretical streams and their relation to the research theme Financial Development Theory (Levine, 2005): efficient financial systems through optimal capital allocation lead to growth. Institutional Theory (North, 1990): reduce uncertainty, increase investor protection and sustainable long-term investments by strong legal/regulatory/institutional frameworks. The rationale is even stronger under various interrelating theories; including the Efficient Market Hypothesis (EMH), which shows that a transparent, information efficient market depends on legal security and enforcement of property rights (Fama, 1970); Agency Theory (Jensen & Meckling, 1976), which ensures corporate governance practice through accountability and court protection to reduce agency conflicts; and Stakeholder Theory (Freeman, 1984) that makes corporations responsible not only for maximising financial performance but also consider their environmental and social impact making ESG investment more viable. Under this view, the United Nations Sustainable Development Goals (SDGs) considers capital markets to play an important role in financing sustainable development through green finance, responsible investment and sustainability reporting (United Nations, 2023). Thus, in the context of developing economies such as Nepal, future sustainable capital market development will depend on economic breadth but not only upon this macroeconomic stability, efficient or effective institutions and regulation/reform of these institutions adoption so /for technology/adoption digital transformation especially during and post COVID-19 corporate governance/ESG disclosures/integration.

Perceptions on Sustainable Capital Market Development

Sustainable capital markets rely on macroeconomic stability, robust regulatory and legal systems, strong institutions with transparent governance structures, technological innovation adoption, a well-designed digital infrastructure ecosystem, and ESG-friendly investment behaviour (World Bank 2023). More inclusive financial systems, more market depth and diversification of local capital markets, as well as stronger participation by institutional investors reduce the long-term cost for financing in emerging economies (Asian Development Bank, 2022). Additionally, the increasing importance of ESG has driven regulators to require more extensive sustainability and climate-related disclosures since companies that perform well on ESG tend to achieve better long-term outcomes. This can be achieved by making the legal and regulation system more efficient, incorporating better investor protection framework, providing digital infrastructure at a greater extent, improving corporate governance structure and integrating ESG in order to attain long term national development goals so that sustainable capital market development may take place for Nepal.

Determinants of the sustainable growth of capital markets

Economic conditions are essential and sustainable capital market growth is always based on better economic fundamentals that lead to stronger investors trust, less uncertainty and higher efficiency in allocating the capital. Financial Development Theory claims a mutual reinforcement between economic growth and financial market development, with expanding economies fueling savings, investment and demand for financial services, while markets for capital helps channel funds efficiently into productive sectors (Levine 2005).

GDP Growth: Invest in the stock market, as growth of GDP leads to higher corporate earnings, disposable income among households and accumulated capital available for investment. The other major benefit of efficient financial systems is they stimulate innovation and productive investment (Demirgüç-Kunt & Levine, 2008; Levine, 2005). In Nepal, recovery as the effects of post-COVID are expected to ease but external shocks and long-standing structural problems impact investor confidence.

Inflation: Purchasing power, interest rates, profitability in all these ways inflation affects the capital markets. The Fisher Hypothesis states that stock returns are adjusted by inflation in the long run, but too high an inflation may hurt the market (Fama 1981). The relatively more stable inflation in Nepal has been conducive for a sustainable investment climate.

Interest Rates: The model portfolio selection between deposits and securities, in which interest rates are the design variables. Interest rates rising usually drive more investment into fixed-income assets, while falling interest rates boost equity participation. There is different ghoighryual monetary policy affect stock prices (Bernanke & Kuttner, 2005). Balanced interest rate policy is necessary for Nepal's capital market in a bank-dominated system like that of Nepal, balanced interest rate policy is essential to develop the capital market.

Remittances: In Nepal remittances serve as a critical source of household income, liquidity and foreign exchange, thereby enhancing the capacity for savings and investment. Improvements in financial literacy and a broader variety of investment options may result to larger remittances being invested on capital market instruments.

Foreign Direct and Portfolio Investment: International sector allocations arrive primarily via the FDI route, which help enhance liquidity, governance, transparency and technology transfer. Nepal, on the other hand attracts very little foreign portfolio investment due to regulatory uncertainty, legal limitations and shallow market depth. Foreign participation could improve with reforms in regulation and market structure.

Foreign Exchange Stability: A stable exchange rate promotes an environment of confidence for investors as they know there is no currency risk. While Nepal's peg with the Indian Rupee has helped to support macroeconomic stability, continued confidence in the policy requires maintaining adequate foreign exchange reserves.

Investor Confidence And Economic Stability: Macroeconomic stability characterised by stable GDP, low and controlled inflation, moderate interest rates, adequate liquidity coupled with fiscal and monetary discipline gives an edge in attracting investor confidence. Confidence and commitment to investing for the long term is reinforced by both transparent as well as consistent regulation.

Previous research tends to analyse macroeconomic variables independently of other dimensions that may influence their effectiveness, such as legal, institutions, technological, and the environmental - social - governance (ESG) dimensions. Not living on a piece of land, but it is cultural change that brings forth the institutional weaknesses of economic growth for sustainable capital market development. This study fills this gap by incorporating economic determinants along with legal, institutional, technological and ESG aspects i.e., triple bottom line in one framework of analysis for capital market development in Nepal.

Legal and Regulatory Influencers of Sustainable Capital Market Development

An effective legal and regulatory framework is critical for the long-term development of capital markets. Though macroeconomic stability attracts capital, the pledge of sustainability is dependent on legal certainty, satisfactory regulation and investor protection and governance technologies. Risk is lowered, market integrity improved and investor confidence increased where laws can be clearly understood and enforced. This is true because countries in which a greater degree of securities regulation are enforced, their capital markets also tend to be more stable (La Porta et al., 2006). A reliable legal framework is important for domestic and foreign investors in emerging economies like Nepal.

Demand for Certainty in the Legal Environment and Investor Confidence: According to the financial laws, Legal certainty relates to predictable and consistently enforcing legal certainty. Contractual protections, enforcement of securities laws and criminal punishing of fraudulent activities provide a better environment for long-term capital allocation (North, 1990). Investor protection is associated with less dilution of shareholder rights via agency problems, thus increasing participation in the market (La Porta et al., 1998) resulting in deeper and better liquid markets. Reliably enforcing rules, systems and institutions remains a challenge for Nepal even after legal modernization to boost investor trust.

The Nepali Securities Laws and Related Regulatory Landscape: The capital market in Nepal is regulated under Securities Act and other related regulation, being overseen by the Securities Board of Nepal (SEBON), with the support of trading and settlement activities facilitated through the Nepal Stock Exchange (NEPSE) and CDS and Clearing Limited (CDSC), respectively. These bureaucratic entities encourage transparency and orderly functioning of markets. Yet, coordination between regulators, the strength of enforcement action and independent institutions where relevant will remain important for sustainable development.

Role of Regulatory Institutions: Regulatory institutions monitor and uphold market integrity through supervision, enforcement of disclosure requirements, surveillance of capital flows, and the protection of investors. As IOSCO (2023) points out, competent regulators must be independent, have legal powers, sufficient resources and be accountable. For instance, SEBON has introduced several reforms in Nepal including electronic disclosure systems, better licensing and investor awareness programs. That said, the technical capacity, enforcement systems and cybersecurity readiness can still be further enhanced.

A global study of investor claim rights research provides strong evidence that effective legal institutions are necessary for capital market development. But laws by themselves do not matter without enforcement, institutional capacity and independence. Improving these areas are critical for rebuilding investor confidence and the long-term vitality of Nepal's markets.

Investor Protection Mechanisms: It helps to promote fairness and confidence in the market by protecting against fraud, manipulation, insider trading, and misinformation. Disclosure requirements, minority shareholder rights, corporate governance standards, surveillance systems and legal sanctions are among the key mechanisms. Institutional settings where investors are better protected lower agency costs and foster greater participation (La Porta et al., 2006) Improving disclosure quality, investor education and enforcement becomes important because of the increasing participation of retail investors in Nepal.

Corporate Disclosure & Market Transparency: For capital markets to function properly, investment decisions must be made based on accurate and timely information; therefore, transparency is key. Corporate disclosure comprises financial submissions, visitation reports, governance information, and ESG-related disclosures. The benefits of high-quality disclosure reduce information asymmetry and lower the cost of capital (Bushman & Smith, 2003). While Oman has implemented e-disclosure in various platforms, there is still room for improvement especially with respect to ESG and sustainability disclosure.

Enforcement of Securities Laws: Good regulation requires strong enforcement. Which involves surveillance, investigation, punish and prosecute misconduct. Coffee (2007) provides a different explanation as to why the existence of laws is not sufficient for investor confidence and that credible enforcement matters more than anything. Deepening enforcement will also call for deploying upper edge surveillance means, well trained people, enhanced cooperation across government agencies and improved judicial systems in Nepal.

International Regulatory Best Practices: Internationally, risk-based supervision, regulatory independence, transparency, instead governance, ESG integration and fintech regulation are the aspects of global regulatory frameworks (IOSCO OECD, FSB). Big data and artificial intelligence (AI) for market surveillance in advanced markets have taken wide-ranging uses. These practices can, however, make Nepal more resilient if applied gradually and particularly with matching strategies to fit the context.

Legal Issues Received in Capital Market of Nepal: Kenneth Fong, the managing director of Sustainable Infrastructure Advisory at BlackRock states that despite progress in making ESG investment a focus in Nepal, inconsistent enforcement on ESG is crippled by the fragmented legal system, limited institutional capacity, limited surveillance mechanisms for investors and lack of consistent governance. This could involve legal and institutional reforms, next generation of technology upgrade, better coordination of efforts.

The literature on these issues emphasizes the significance of legal and regulatory quality for capital market development but generally separates it from other economic, institutional, technological and ESG factors. In case of Nepal, sustainable growth in capital market is possible only with a reform strategy that includes integration along with the improvement of legal instruments. But for that strong laws must be backed with sound institutions, digital infrastructure, governance norms and investor education. So, this study incorporates legal and regulatory factors into a more holistic framework of sustainable capital market development, which includes economic, institutional, technology and ESG dimensions.

Institutional and Corporate Governance

The existence of sound institutional and corporate governance is thus a prerequisite for sustainable economic development through the capital market. While macroeconomic stability and legal structures provide the environment around it, it is ultimately strong institutions and well-governed firms that can ensure transparency, efficiency, and investor confidence. OECD (2023) suggests that institutional quality increases regulatory credibility and decreases inefficiencies, while corporate governance reduces agency conflicts and improves accountability. Subject: Abstract In developing nations, the success of reforms in economic and legal systems have often been hampered by weak institutions (North, 1990) which has made the quality of governance a critical issue in such economies.

Governance and the Sustainability of Capital Markets: Institutional governance the mechanisms of the entity Regulatory bodies and financial institution; Policy design, enforcement of rules as well as ensuring accountability Such as regulators, stock exchanges, clearing agencies courts and intermediaries. Without exception, strong institutions lessen uncertainty, minimize transaction costs and enhance contract enforcement (North 1990). Some institutions primarily the Securities Board of Nepal (SEBON), Nepal Stock Exchange (NEPSE) and CDS and Clearing Limited (CDSC) are also engaged actively towards enhancing transparency and efficiency but there is still a need to strengthen human resource capacity.

Corporate Governance and Resource Dependence Theory: Corporate governance is all about how companies are being governed and controlled. Jensen & Meckling (1976) provide an agency theory of the conflict between managers and shareholders, suggesting that independent boards, audits, and accountability systems may act as mechanisms. Thus, strong corporate governance has been identified as the principal driver of capital market sustainability (Shleifer & Vishny, 1997), guiding firm performance and reducing capital costs while encouraging investor confidence at the top.

Transparency, Accountability, and Disclosure: Investors rely on accurate and timely information, thus governance involves transparency and accountability. Quality of disclosure when economic agents decide to disclose a higher-quality disclosure, improved market efficiency through reduced information asymmetry. According to Bushman and Smith (2003), better disclosure practices promote monitoring, lower information costs, and facilitate the efficient allocation of capital. Nepal needs better reporting in terms of digitalisation, ESG news sharing, within the stipulated deadlines for such disclosures and transparency around governance.

Effectiveness of the Board and Independent Directors: Committees of directors are charged with overseeing management and working in the interest of shareholders. Good boards ensure compliance, strategic oversight, and adherence to ethical behaviour. OECD (2023) defined strong boards as independent, competent, diverse and accountableto all of their shareholders. They play a significant role in limiting managerial control and ensuring the quality of choices. Good governance quality and a high level of investor faith can be achieved by strengthening board independence in Nepal.

Shareholder Protection: Shareholder protection avoids the abuse of power by controlling shareholders or management over minority investors. These mechanisms include voting rights, access to information, dividend and legal rights (also referred to as minority protection), as well as protections against related-party transactions and insider trading. Higher market capitalization and investor participation is associated with stronger shareholder protection (La Porta et al., 2006). Strengthening minority shareholder rights in Nepal would help build broader participation and confidence of investors.

Market Development through Institutional Investors: Pension funds, insurance companies, mutual funds and investment firms they all provide stability to the market by doing professional risk management work and usually involve investing long-term. They add liquidity, facilitate price discovery and improve governance quality all while dampening volatility. As Kathmandu's market is primarily retail-driven, development of institutional participation through pension schemes, mutual funds, and collective investment vehicles will help build greater depth into the market and increase stability.

Financial Literacy & Investor Education: Financial literacy leads to better governance of institutions as it allows investors to and helps them avoid behavioral biases. It facilitates market efficiency and long-term investment behavior, as noted by OECD (2020). This consists of limited investor awareness about risk and diversification, as well as lack of knowledge on financial statements, global macroeconomics and ESG investing making Nepalis trade very speculatively. Market quality would certainly improve by expanding SEBON, NEPSE, universities along with financial institutions.

The AI Environment for Institutional Governance: Big data analytics, machine learning, and AI are revolutionizing the ways that governance operates by enabling better surveillance, fraud detection and risk assessment, regulatory monitoring etc. While the technology is one of the significant factors in achieving sustainable development of capital markets, AI-based tools in Nepal can help increase the efficiency of regulations, encourage transparency and enhance market integrity.

Previous research frequently considers institutional and corporate governance in isolation from macroeconomic, legal, technological and ESG determinants. In the Nepalese context, most studies scrutinize either banking or firm-level governance yet not keep focused on capital market sustainability. This study fills of the anvils by convergence in combined puzzle of institutional governance with economic, legal, and technological impact as well as ESG angle to basis that stronger institutions yield better corporate governance; financial literacy and participating institutional investors assure confidence for continued sustainable capital market growth along with support from AI-enabled regulation.

Environmental, Social & Governance (ESG) integration and sustainable finance

ESG stands for "Environmental, Social and Governance. Extract Environmental, Social and Governance (ESG), where investments are measured by its returns alongside sustainability performance, in conjunction with environmental, social and governance factors (Friede et al., 2015). ESG is key to building sustainable finance through long-term value creation and aggregates UNPRI (2023) disclosing that ESG integration has been proven to enhance risk-adjusted returns in the long term; and contribute to better business practices, thriving environments, etc.

ESG has Sufficiently Developed as a Factor in Sustainable Capital Management: In not only moving from data informed decision making to information-led decisions but improved ESG performance lowers capital costs reduces risk improves transparency operational efficiency investor confidence weak ESG performance limits access to capital.

Environmental Dimension: Environmental unit deals with emissions, resource efficiency, renewable energy, and also waste management, biodiversity and climate risk. Green bond and climate finance enable sustainable investment, especially in climate vulnerable countries like Nepal (GSIA, 2023).

Social Dimension: The social aspect focuses on labour practices, human rights, diversity and inclusion, consumer protection, community engagement, financial customers and investor education; all enhancing productivity, stakeholder trust and inclusive growth.

Governance Dimension: The governance dimension focuses on areas such as board independence, accountability, risk management & anti-corruption, shareholder rights and transparency. Good governance increases the chances for long-term performance and is key to sustainable capital market development with ESg integrated in Nepal.

ESG Challenges in the Capital Market of Nepal: The capital markets of Nepal are not immune in this era of ESG evolution, it still has a long way to go for mainstreaming the implementation of ESG, where we witness both global strides as well as challenges such as weak disclosure restrictions, lack of compliance with standardized reporting frameworks due to limited awareness amongst corporate houses and investors related to ESG issues; absence of an institutional setup such as agencies offering EGS ratings which assess the sustainability performance; low supply & demand for green financial products along with non-comprehensive environmental and climate-related reporting amidst weak institutional capacity. To garner and strengthen ESG functionality, a collective approach to regulators, listed companies, investors and institutions needs to be taken.

Empirical Literature Review and Research Gap

Capital Market Growth in the Empirical Definitive: On the one hand, empirical studies have progressed from examining primarily the finance growth nexus to a wider exploration of economic, legal, institutional, technological and ESG drivers of capital market development.

A mutually reinforcing nexus between finance and growth has been demonstrated by Levine (2005) who find that developed financial markets increase the efficiency in which resources are allocated, enable risk diversification, foster capital accumulation and long-run economic growth at the same time. Likewise, Demirgüç- Kunt and Levine (2008) argue that high-quality financial institutions and effectively regulated capital markets promote economic growth by increasing the efficiency of resource allocation through reducing information asymmetry as well as mobilizing long-term savings.

Investor protection and regulatory quality are also underscored by legal studies. La Porta et al. (1998; 2006) has shown that stronger legal protection and enforcement increases both the size and liquidity of capital markets by reducing agency conflicts (important to investors) and building investor confidence.

Empirical research on corporate governance, similarly, find positive relationships between board independence, transparency, shareholder protection and performance (Shleifer & Vishny 1997). ESG has also risen as one of the foremost, or possibly the leading, factors in sustainability. Friede et al. (2015) observed that most empirical studies show a positive or neutral relationship between ESG performance and financial performance, whereas Eccles et al. (2014) argued that firms with a thorough sustainability policy outperform their counterparts in the long run.

The ascendance of technological innovation has grown in importance as well. Arner et al. (2020), Grewal et al., (2019) suggest that financial technology is the catalyzing means underpinning financial inclusion by inducing efficiency, reducing transaction cost and expanding market access especially for developing economies.

Review of Related Studies on Nepal Capital Market: Related Literature Review The studies conducted in Nepal have emphasized mainly on stock market efficiencies, price volatility or macroeconomic factors influencing stock prices along with some behavioral analysis approaches and influence of monetary policy and banking sector.

Long studies, on the whole, conclude that macroeconomic stability which favors capital market development, (Cohen et al., 2014) but evidence about the influences of individual variables is mixed. Similarly, studies also define Nepal's market as a developing market of speculative behavior, noise trading, information instabilities caused by asymmetry in the market with lesser institutional involvements and nbehavioral biases among retail investors.

Legal scholarship also has focused heavily on securities regulation, investor protection, corporate governance and regulatory reform but with little effort to connect the economic and institutional literature. Similarly, technology innovation and ESG integration are actually still under-explored areas, despite multiple deployed tech-based trading platforms for market making and increasing global attention on green and sustainable finance.

A critical review of the existing literature: The literature contains a number of substantive limitations. The first is that most studies investigate capital market development only through a limited lens either by isolating the macroeconomic or legal theory perspective, corporate governance or technology. Very few studies combine these dimensions into one framework.

Second, still very little work on ESG research is done outside of developed economies and frontier markets like Nepal. Thirdly, the rapid growth of artificial intelligence, FinTech, blockchain and digital trading poses fundamental questions about market stability and the effectiveness of regulation more broadly but Nepalese research pays very little attention to how technological innovations underpinning these innovations influence their sustainability as well as progressive measures like investor confidence.

Last but not least, most studies quantify market development through metrics such as market capitalization or trading volume and sidestep wider drivers such as governance quality, legal certainty, institutional quality/health/resilience, technical capacity and level of ESG integration.

Statement of the Problem: The capital market of Nepal has grown rapidly in quantitative terms over the past few years, though it continues to face several structural and institutional obstacles to long-term sustainability. Forceful strengths of obligation, hypothetical exchanging practices, influence concentration, poor administrative implementation and weaknesses in corporate governance and market structure have hindered the adequacy of the market framework. Likewise the participation of institutional investors continues at a relative low level, while retail investor share always dominates trading activity there are increasing herd behavior leading to more amplified swings in stocks performance.

Existing policy and regulatory interventions governing Nepal have mainly addressed these challenges in a piecemeal manner; just focusing on isolated issues like market regulation or liquidity enhancement, investor awareness etc. But, at the same time, new global realities confirm the relevance of ESG-integration and fast-paced transformations powered by FinTechs and this digital financial development. Despite their relevance, these dimensions have not been sufficiently integrated into a coherent policy or analytical framework in the Nepal context.

This, therefore, continues to necessitate a relevant and inclusive business model that depicts how the state of the economy (overall), legal and regulatory environment; institutional governance structure; technological innovation; and corporate social responsibility aspects are to be combined together as theory to understand the sustainable growth of capital market in Nepal.

Research Gap: Most of the existing studies on capital market in Nepal has concentrated mainly stock market performance, market efficiency and macroeconomic determinants as well as impact of regulatory reforms. Most of them are of sole factors, without these interrelationships and associated long-term sustainability effects on the market systems.

In addition, prior research on institutional governance, legal certainty, technological innovation and ESG integration has rarely been incorporated in one analytical framework. These dimensions are increasingly acknowledged in the international literature as essential determinants of sustainable capital market development, but there is insufficient empirical evidence, and very little cohesive research from Nepal.

Research on emerging areas such as AI, FinTech adoption, digital governance systems, the cyber-security risk and ESG-oriented investment practices are still in their infancy to study in Nepalese context. That generates a serious lag in grasping the connections between the way capital market sustainability thrives on modern financial system transformations within; predominantly developing economies like Nepal.

Thus, this study contributes to the existing body of knowledge in three directions by proposing a multidimensional framework that encompasses economic stability, legal and regulatory base, institutional governance systems, technological infrastructure, and ESG principles. Therefore, by synthesizing theoretical insights across disciplines including finance, economics, law, corporate governance, sustainable finance and public policy the study provides a broader explanation of sustainable capital market development in Nepal with implications for practice to policymakers, regulators,civil society institutions; financial institutions; and investors.

Conceptual Framework

Drawing upon the literature review, this paper theorises Sustainable Capital Market

Table 2.1
Summary of Previous Literature and Research Gap

Author(s)	Focus Area	Key Findings	Identified Limitation
Levine (2005)	Finance and economic growth	Financial development promotes economic growth	Limited legal and governance perspective
La Porta et al. (2006)	Securities regulation	Strong investor protection enhances markets	Limited technological analysis
Shleifer & Vishny (1997)	Corporate governance	Governance improves firm performance	Firm-level focus only
Arner et al. (2020)	FinTech	Technology improves financial inclusion	Limited emerging market evidence
Friede et al. (2015)	ESG	ESG generally improves financial performance	Mostly developed-country evidence
Nepal-based studies	Market efficiency and macroeconomics	Focus on volatility and economic variables	Lack of integrated sustainability framework
Present Study	Multidimensional sustainability framework	Integrates economic, legal, institutional, technological, and ESG dimensions	Addresses identified research gaps

Note. Developed by the author

Growth is ultimately an outcome of five interlinked dimensions.

Independent Variables

- Economic Stability
- Legal and Regulatory Framework
- Institutional Governance
- Technological Innovation
- Environmental, Social and Governance (ESG)

Dependent Variable

- Sustainable Capital Market Growth

These dimensions are interrelated and they do not exist in isolation. Ensures that economic growth is accompanied by stability to generate long term confidence for business investment; assured rule of law improves the protection of investments; good governance of institutions promotes transparency by reducing information asymmetries within markets; technology solutions increase efficiency and expand financial access, matching buyers and sellers in real estate markets more efficiently; ESG practices encourage long-term sustainability while promoting responsible investment.

Research Objectives

Aim of the Study is to study how economic stability, legal and regulatory framework, institutional & corporate governance, technological advancement and integration of ESG contribute to sustainability development of capital market in Nepal.

Aim of the Integrated Policy Framework and Recommendations for Sustainable and Resilient Capital Market Development in Nepal.

Research Questions

What is the impact of economic stability, legal and regulatory frameworks, institutional and corporate governance processes, technological

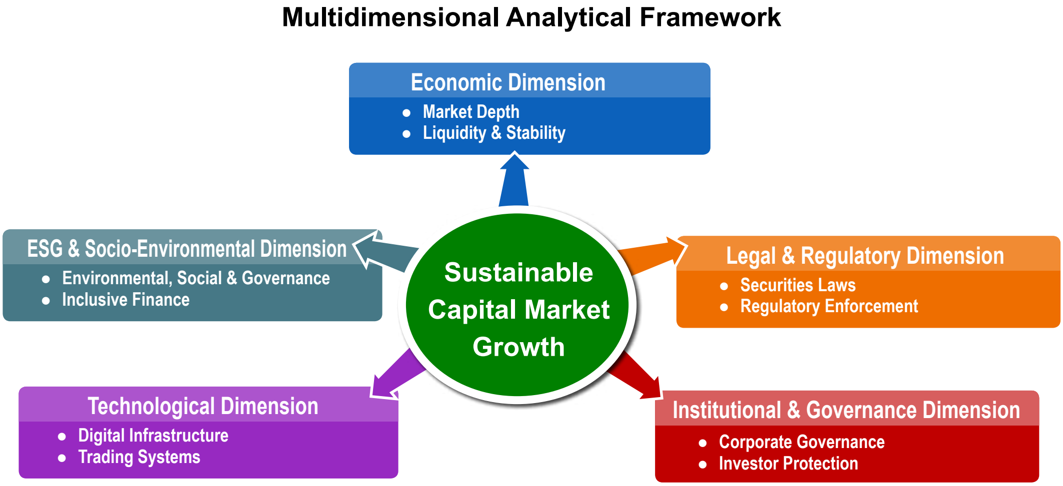

Figure. Integrated Framework for Sustainable Capital Market Growth
Note. Developed by the author

innovation, and whether Corporate Social Responsibility (CSR) or Environmental Social Governance (ESG) assets enjoy high popularity regarding sustainable capital market development in Nepal?

How can Nepal shape integrated policy measures to reinforce the sustainability, efficiency and resiliency of its capital market?

RESEARCH METHODOLOGY

Research Design and Methodology

This is a qualitative, descriptive and analytical study of determinants of sustainable capital market development in Nepal. It builds a multi-dimensional framework that blends the economic, legal and regulatory, institutional governance, technological, and ESG dimensions. The study adopts a synthesising approach instead of econometric analysis by pulling together theoretical, empirical and official statistical evidence for a broader perspective on capital market development.

It is based on a pragmatic philosophy (Creswell & Creswell, 2018), integrating various sources of evidence to tackle policy-relevant questions while being mindful that capital market sustainability is formed by possibly interacting macroeconomic, legal, governance, technological and ESG drivers. An approach of deductive nature picks from ideations from Financial Development, Institutional, Agency, Stakeholder and Sustainable Finance and Law and Finance theories.

The sources from which the secondary data is collected are NEPSE, SEBON, Nepal Rastra Bank, Ministry of Finance, World bank, IMF, ADB, OECD,IOSCO and GSIA along with other peer-reviewed journals. Data Collection using literature review, official statistics, policy documents and sythesis through the five analytical dimensions. Thematic content analysis with coding, categorization of themes and integration into one single framework facilitated the analysis.

Ethical Considerations

The study is based solely on publicly available secondary data and did not involve human participants. APA (7th edition) citation, attribution, and objective reporting of what occurred was important to meet ethical standards.

Limitations of the Study

The study is based only on secondary data and therefore does not have primary evidence. It does not test causality or statistical significance as it is a qualitative study. In addition, limited data on ESG from Nepal and fast-changing technology further constrain analysis. Despite those limitations, the study provides a rich policy-relevant framework for promoting capital market sustainability in Nepal.

Contributions of the Study

The study adds to the literature by building a consolidated framework connecting economic, legal, institutional, technological and ESG dimensions/areas. Methodologically, it demonstrates the utility of synthesizing qualitative data across diverse sources of evidence. In practical terms, it offers policy advice on enhancing resilience of markets, governance and sustainable financial development.

FINDINGS AND DISCUSSION

Overview of Findings

The five dimensions of this study on sustainable capital market growth in Nepal are economic stability, legal and regulatory framework, institutional governance, technological innovation, and ESG integration. The findings of the official reports and literature signal that capital market sustainability cannot be guaranteed within a silo, but more dependently are an interplay of these factors.

The capital market of Nepal has been bettered by the regulatory restructuring, digitalization, and participation but faces challenges such as market concentration; weak institutional investment; limited compliance with ESG codes and standards; patchy financial literacy among the populace and enforcement gaps.

Growth of Capital Markets and Economic Stability

A stable macroeconomic environment is a critical factor for the development of capital markets. Investor confidence and trade activity are also bolstered by stable inflation, GDP growth, liquidity and foreign reserves. These results are consistent with Levine (2005) and Demirgüç-Kunt and Levine (2008), which highlight the need for a stable financial system.

Legal and Regulatory Framework

Many years of the Securities Act, SEBON regulations, and stock exchange rules have paved way for a good deal of legal infrastructure in Nepal that had helped significantly in making company operations more transparent and investor-friendly. But lax enforcement, the advent of structural problems in regulatory bodies, emerging digital finance-related issues, artificial intelligence and cyber security risks will call for strengthenings of regulation over time. This validates La Porta et al. (2006).

Market Confidence and Institutional Governance

More transparency, trading systems and disclosure improvements by institutions like SEBON, NEPSE or CDSC. These improvements covered some areas, but coordination, surveillance, enforcement capacity and shareholder protection gaps remained. Stronger institutions reduce uncertainty and enable long-term investment, which follows North (1990).

Technological Innovation and Digital Disruption

The efficiency, transparency and accessibility of securities markets has been further enhanced with the advent of digital trading systems, dematerialization, and electronic settlement. It should also look for other emerging technologies such as artificial intelligence (AI) and FinTech to add further layers of supervision and greater assurance around market integrity. Nonetheless, the top three challenges that remain are, cybersecurity threats, data protection dilemma and technological disparity (Arner et al., 2020).

ESG integration and sustainable finance

ESG Integration is becoming a critical factor of sustainable capital markets. Despite proven global success of ESG at improving performance and risk management (Friede et al., 2015), Nepal ranks low in its implementation through limited disclosure, lack of standards, low awareness levels and green finance instruments. However, ESG adoption holds great promise for sustainable market growth.

Integrated Discussion

These results validate the position that sustainable capitalization market progression is contingent on interplayed economic, legal, institutional, technological, and ESG factors. These dimensions are complementary and work in conjunction to achieve long-term sustainability.

Comparison with Previous Studies

The outcomes corroborate the existing body of literature including improvement in Levine (2005) and La Porta et al. (2006), but do it by making a qualitative, technology & ESG factors-based extension. In contrast to more earlier Nepal-focused studies that emphasise either macroeconomic or market efficiency problems, this study follows a more broader interdisciplinary framework.

Policy Implications

The last area for improvement is how Nepal remains macro-economically stable whilst bolstering regulatory quality, the capacity of institutions and protection of investors at the same time. Prioritisation of reforms should consider enhancing AI-based security and surveillance for investors, cybersecurity regulation, better standards for ESG disclosures with respect to investment; development of green financial products; education and outreach initiatives enhancing the capacity of issuers and evaluators to contribute towards sustainable capital market growth.

CONCLUSION AND IMPLICATIONS

The latter is used for the mobilization of long-term finance and constitutes an integral point in terms of productive investment, corporate financing, and sustainable economic development. While Nepal's capital market has experienced considerable growth over the past few years, further long term development depends on more comprehensive reforms that must go beyond merely expanding the market. For sustainable Capital Market Growth, five primary factors were investigated to analyze Sustainable Capital Market development (i.e., economic stability, legal and regulatory framework, institutional governance, technological innovation; which can also be categorized as sustainable growth drivers along with Environmental Social Governance (ESG). In contrast to the narrower, largely disciplinary focus of much earlier research on one or a small number of determinants, this was an interdisciplinary and multidimensional study.

The results indicate that the interaction of these dimensions is vital for sustainable capital market development. For example, macroeconomic stability enhances investor confidence while an effective legal and regulatory system promotes investor protection as well as market integrity. Robust institutional governance fosters transparency, accountability and regulatory effectiveness. It also needs improved cybersecurity and adaptation of regulation, while technological innovation (online trading, electronic settlement of transactions, digital financial services and artificial intelligence) favours market efficiency and access. The ESG integration is increasingly contributing towards responsible investment and long term sustainable returns, the research also found.Despite the immaturity of ESG adoption in Nepal, there is immense potential to mobilize sustainable investment and enhance market resilience.

In sum, the sustainable development of capital-market should not be measured simply by market cap or trading volume but improvements in regulatory quality, institutional capacity, technological readiness, investor protection corporate governance and ESG practices. With an integrated policy, Nepal's capital market can contribute to sustainable economic development more efficiently.

Concluding Statement

Sustainable capital market growth is not only about increase in the size of capitalization and trading activity. The default in 2023 can be avoided if a resilient financial system under-pinned by macroeconomic stability exists, along with well-functioning legal and regulatory institutions; sound corporate governance practices, followed by technological innovation and responsible investing while all stakeholders play their part to instil confidence. In the course of Nepal modernising its financial system, it will be important for these dimensions to live together within a coherent policy framework in ordert o support inclusive economic growth, financial stability and sustainable national development. The multi-dimensional framework we develop serves as a useful guide for future research and policy directions to enhance Nepal's capital market.

The analysis shows that the somewhat matured state of Nepal's capital market clearly suggests that mere quantitative growth is not enough for its long-term sustainability. Going forward, it demands a concurrent strengthening of institutional quality and legal certainty, technological capability, corporate governance, and ESG integration. The proposed framework highlights the fact that these five dimensions are interrelated and need to be reinforced by having coherent reforms rather than separate initiatives. Such a combination is critical for Nepal, where rapid transformation and increased participation of investors coupled with greater global expectations around sustainability offer new opportunities but also pose regulatory challenges. Policymakers should thus embrace a holistic and flexible approach that prioritizes innovation, investor protection, financial stability, and sustainable development.

Policy Recommendations

The following policy recommendations have been suggested based on the findings:

1. Strengthening Macroeconomic Stability

2. Updating the Legal and Regulatory Framework
3. Enhancing Institutional Capacity
4. Promoting Technological Innovation
5. Adapting Capital Market Regulation - Integrating ESG
6. Improving Financial Literacy

Future Research Directions

Future research can enrich this study by using panel or time-series data, and implementing SEM or PLS-SEM techniques to test the proposed framework, conducting surveys to explore investor perception about ESG practices and find out the contribution of AI, digital finance and blockchain in market efficiency and also comparing Nepal with other South Asian capital markets. This would serve as a more robust basis for policy implementation on sustainable capital market development in Nepal.

Funding

The author declare that they have received no financial support for this study.

Conflict of interest

The author declare that they have no conflict of interest.

REFERENCES

Arner, D. W., Buckley, R. P., Zetzsche, D. A., & Veidt, R. (2020). Sustainability, FinTech and financial inclusion. *European Business Organization Law Review, 21*(1), 7–35. https://doi.org/10.1007/s40804-020-00183-y

Asian Development Bank. (2022). *Asian economic integration report 2022: Advancing digital services trade in Asia and the Pacific*. Asian Development Bank. https://doi.org/10.22617/FLS220535-3

Bernanke, B. S., & Kuttner, K. N. (2005). What explains the stock market's reaction to Federal Reserve policy? *The Journal of Finance, 60*(3), 1221–1257. https://doi.org/10.1111/j.1540-6261.2005.00760.x

Bushman, R. M., & Smith, A. J. (2003). Transparency, financial accounting information, and corporate governance. *Economic Policy Review, 9*(1), 65–87.

Coffee, J. C., Jr. (2007). Law and the market: The impact of enforcement. *University of Pennsylvania Law Review, 156*(2), 229–311.

Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). Sage.

Cohen, S.A., Prayag, G., & Moital, M. (2014) Consumer behavior in tourism: Concepts, influences and opportunities. *Current Issues in Tourism, 17*, 872-909. https://doi.org/10.1080/13683500.2013.850064

Demirgüç-Kunt, A., & Levine, R. (2008). *Finance, financial sector policies, and long-run growth* (World Bank Policy Research Working Paper No. 4469). World Bank.

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science, 60*(11), 2835–2857. https://doi.org/10.1287/mnsc.2014.1984

Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *The Journal of Finance, 25*(2), 383–417. https://doi.org/10.2307/2325486

Fama, E. F. (1981). Stock returns, real activity, inflation, and money. *The American Economic Review, 71*(4), 545–565.
Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.
Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2,000 empirical studies. *Journal of Sustainable Finance & Investment, 5*(4), 210–233. https://doi.org/10.1080/20430795.2015.1118917
Global Sustainable Investment Alliance. (2023). *Global sustainable investment review 2023.* GSIA.
Grewal, J., Riedl, E.J., & Serafeim, G. (2019). Market reaction to mandatory nonfinancial disclosure. *Management Science, 65*(7), 3061–3084.
International Organization of Securities Commissions. (2023). *Objectives and principles of securities regulation.* IOSCO.
Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X
Krippendorff, K. (2019). Content analysis: *An introduction to its methodology* (4th ed.). Sage.
La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy, 106*(6), 1113–1155. https://doi.org/10.1086/250042
La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *The Journal of Finance, 61*(1), 1–32. https://doi.org/10.1111/j.1540-6261.2006.00828.x
Levine, R. (2005). Finance and growth: Theory and evidence. In P. Aghion & S. N. Durlauf (Eds.), *Handbook of economic growth* (Vol. 1A, pp. 865–934). Elsevier. https://doi.org/10.1016/S1574-0684(05)01012-9
Ministry of Finance. (2025). *Economic survey 2024/25.* Government of Nepal.
Nepal Rastra Bank. (2025). Current macroeconomic and financial situation of Nepal. Nepal Rastra Bank.
Nepal Stock Exchange. (2025). *Annual report 2024/25*. Nepal Stock Exchange.
North, D. C. (1990). *Institutions, institutional change and economic performance.* Cambridge University Press. https://doi.org/10.1017/CBO9780511808678
OECD. (2020). *OECD/INFE 2020 international survey of adult financial literacy*. OECD Publishing.
OECD. (2023). *OECD business and finance outlook 2023.* OECD Publishing. https://doi.org/10.1787/56b89f4e-en
OECD. (2023). *OECD principles of corporate governance.* OECD Publishing.
Securities Board of Nepal. (2025). *Annual report 2024/25.* Securities Board of Nepal.
Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The Journal of Finance, 52*(2), 737–783. https://doi.org/10.1111/j.1540-6261.1997.tb04820.x
United Nations. (2023). *Global sustainable development report 2023.* United Nations.
United Nations Principles for Responsible Investment. (2023). *PRI annual report 2023.* UNPRI.
World Bank. (2023). *Global financial development report 2023.* World Bank.