UN Loss and Damage Fund's Payout to Nepal

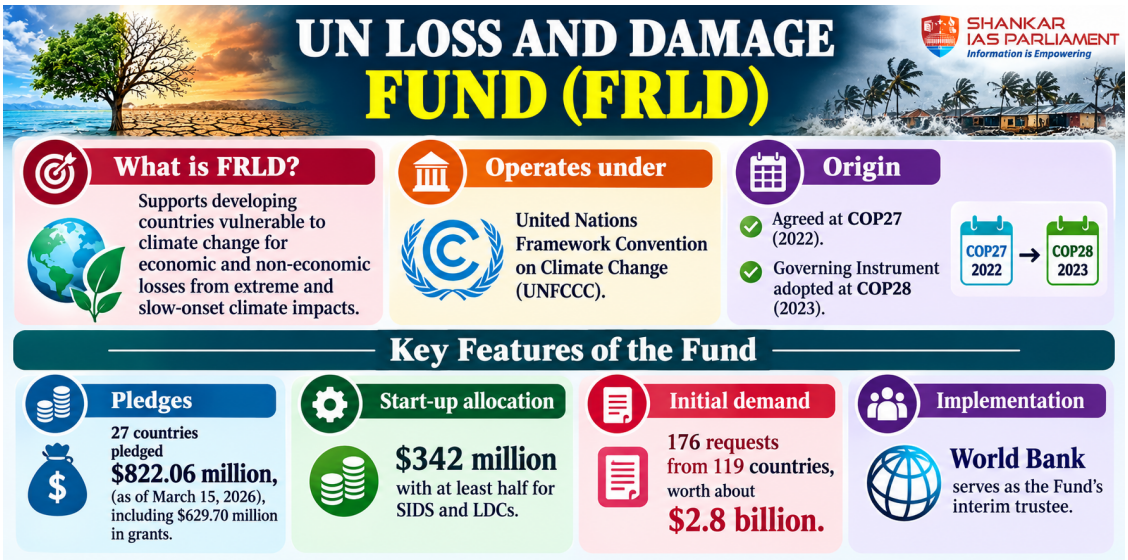
Mains – *GSIII – Environment*

Why in News?

Recently the United Nations' climate convention's Loss and Damage Fund has approved a $21.6 million pay out to the Nepal.

What is the UN Loss and Damage Fund (FRLD)?

- **FRLD** – It supports developing countries vulnerable to climate change in addressing economic and non-economic losses caused by extreme weather events and slow-onset climate impacts.
- **Operates under** – United Nations Framework Convention on Climate Change (UNFCCC).
- It was agreed upon at COP27 (2022), and its Governing Instrument was adopted at COP28 (2023).
- **Key Features of the Fund** –
  - **Pledges** – As of March 15, 2026, 27 countries had pledged $822.06 million, including $629.70 million in grants.
  - **Start-up allocation** – $342 million, with at least half reserved for Small Island Developing States (SIDS) and Least Developed Countries (LDCs).
  - **Initial demand** – The first funding call received 176 requests from 119 countries, worth approximately $2.8 billion.
  - **Implementation** – The **World Bank** s*erves as the Fund's interim trustee.*



What are the Major Climate-Related Losses Faced by Nepal?

- On August 26, 2026, an ice-and-rock avalanche triggered flooding along the **Bhotekoshi–Trishuli–Narayani river system.**
- The disaster was linked by experts to climate change and human-driven global warming.
- Nepal estimated economic losses of at least $2.69 billion and recovery requirements of at least $4.71 billion.

What is the Significance of the Payout to Nepal?

- **Climate justice** – Recognises the disproportionate burden of climate change on vulnerable developing countries that have contributed relatively little to historical emissions.
- **Disaster recovery** – Supports rebuilding infrastructure, restoring livelihoods and addressing climate-related losses.
- **Institutional precedent** – Demonstrates the Fund's ability to respond to a specific country's urgent needs outside its regular funding window.
- **International cooperation** – Shows the potential for consensus-based climate finance mechanisms to support disaster-affected countries.
- **Climate diplomacy** – Strengthens discussions on climate finance ahead of COP31 in Turkey.

What are the Major Concerns Regarding the Fund?

- **Inadequate funding** – The $21.6 million allocation is less than 0.5% of Nepal's estimated reconstruction costs of around $5 billion.
- **Funding delays** – Nepal must submit a formal request for Board consideration before the money can be released.
- **Unfulfilled pledges** – The Fund's effectiveness depends on donors converting financial pledges into actual contributions.
- **Slow procedures** – Experts argue that the lengthy funding process is unsuitable for emergency situations requiring immediate assistance.
- **Uncertain future model** – The Board has not established this exceptional procedure as a permanent mechanism for rapid responses.

What Measures are Needed to Improve the Fund?

- **Rapid-response mechanism** – Establish permanent procedures for releasing emergency assistance within days rather than months.
- **Adequate climate finance** – Encourage developed countries to provide predictable, additional and grant-based contributions.
- **Simplified procedures** – Reduce bureaucratic hurdles while maintaining transparency and accountability.
- **Needs-based allocation** – Prioritise the most vulnerable countries and communities.
- **Transparent disbursement** – Publish information on actual contributions, available funds, approvals and payments.

What lies ahead?

- The Nepal allocation is a landmark step towards operationalising climate justice, but its impact will depend on timely disbursement and adequate funding.
- The international community must transform the Loss& Damage Fund from a slow-moving financial mechanism into responsive system that delivers support when climate disasters strike.

Quick facts

Major International Climate Funds
1. **Green Climate Fund (GCF)** – Established in 2010, it supports developing countries in climate change mitigation and adaptation. - It is an operating entity of the UNFCCC financial mechanism. 2. **Global Environment Facility (GEF)** – Established in 1991, it provides grants for climate action, biodiversity conservation and other global environmental issues. - It is an operating entity of the UNFCCC financial mechanism and manages the LDCF and SCCF. 3. **Adaptation Fund (AF)** – Established in 2001 under the Kyoto Protocol framework, it finances concrete climate adaptation projects in vulnerable developing countries. - Its focus includes climate-resilient agriculture, water management and disaster resilience. 4. **Least Developed Countries Fund (LDCF)** – Established in 2001 under the UNFCCC, it supports climate adaptation in Least Developed Countries (LDCs). - It is managed by the GEF and supports projects addressing the specific vulnerabilities of LDCs. 5. **Just Energy Transition Partnerships (JETPs)** – These partnerships mobilise international finance to help selected emerging economies transition towards low-carbon energy systems. - They aim to reduce dependence on coal while supporting a just transition for affected workers and communities.

Reference

The Hindu| Importance of the UN Loss and Damage Fund's payout to Nepal?

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