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The 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) in Sharm el-Sheikh, Egypt, ended last Sunday, November 20, 1.5 days behind schedule. The main outcome of the conference is the establishment of a dedicated loss and damage fund. As one of the party delegates who closely followed the negotiations, I write to share some thoughts on this result, including why is it a breakthrough decision and the origins of this long-standing debate.

First, some important background. Climate change related harms that are not avoided by adaptation are referred to as loss and damage. The question of climate loss and damage finance was first raised in 1991 by Vanuatu on behalf of the Alliance of Small Island States (AOSIS). During the initial negotiations of the United Nations Framework Convention on Climate Change (Convention), AOSIS proposed to set up an “International Climate Fund” to finance adaptation, and an “International Insurance Pool” as a separate entity to provide financial insurance specifically against sea level rise. According to the proposal, developed countries would have had the obligation to pay financial contributions based on the global mean sea level rise. That early proposal was not adopted, and the term “loss and damage” was first mentioned in 2007, in the outcome of COP13 in the Bali Action Plan as part of enhanced action on adaptation.

Since then, loss and damage has been part of back-and-forth discussions at the international level. Article 8 of the Paris Agreement explicitly recognizes the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change. In 2019, at COP25, the Santiago Network was established to advance technical support on loss and damage in developing countries. However, the Santiago Network did not specifically address the financial need of developing countries to address loss and damage.

This year’s negotiations brought a new push for progress. At the 56th Session of the Subsidiary Bodies in Bonn, June 2022, Pakistan, on behalf of G77 and China, requested an agenda sub-item on “Matters relating to funding arrangements for addressing loss and damage.” The proposal of Pakistan was accepted, and the topic of loss and damage made it onto the agenda of COP27. This was itself an advance, because this was the first time when the financial aspects of loss and damage were officially part of the international climate change negotiations.

Throughout the two weeks of COP27, Parties intensely discussed the issue at the technical expert level and at the ministerial level as well. The aim of developing country Parties was to establish a new, dedicated loss and damage fund to respond to the needs related to addressing loss and damage. It became clear that for developing country Parties the success or failure of COP27 would be determined by whether Parties agreed on a decision to establish the fund.

During the negotiations, the overall sense was that every Party understood the importance of having loss and damage discussed and of supporting vulnerable countries. However, Parties had strongly opposing views on the means of financial support. Developed country Parties argued that instead of a new fund, adequate and immediate support could be provided by scaling up existing instruments and initiatives, and exploring financial opportunities of existing funds. Such initiatives include, among others, the Global Shield against Climate Risks initiative announced by the G7 and the V20 (Vulnerable Twenty) during the second week of COP27. With 210 million EUR initial contribution, that initiative aims to accelerate pre-arranged financial support that can be quickly deployed in the event of climate disasters.

As the negotiations intensified, it became evident that if there is no advancement in the loss and damage room, there will be no progress in other negotiation rooms either. Until the last days of the negotiations, opposing views of the Parties did not move toward each other and the heated debate became more and more emotional. As a result of long hours of deliberations, in the last minute, Parties agreed on the establishment of a new, dedicated loss and damage fund in the [Decision on the Funding arrangements for responding to loss and damage associated with the adverse effects of climate change](#), including a focus on addressing loss and damage.

The [Decision](#) notes that keeping the average global temperature rise below 1.5 °C is essential to limit future loss and damage. Furthermore, it acknowledges the immediate need for new, additional and predictable finance. The Decision establishes “new funding arrangements for assisting countries that are particularly vulnerable to the adverse effects of climate change, in responding to loss and damage” and, as part of these arrangements, a new fund for responding to loss and damage. Parties also agreed to set up a new Transitional Committee with 10 members from developed country Parties and 14 members from developing country Parties to make recommendations on the operationalization of the fund. The new arrangements ought to complement the sources, funds, processes and initiatives under and outside of the Convention and the Paris Agreement.

The institutional arrangements, modalities, structure, governance, and terms of reference of

the fund are scheduled to be adopted in 2023 at COP28. However, the full operationalization of the fund could take years, as we have seen from the example of the Green Climate Fund, which was established in 2010 but which only started to operate in 2015. This delay could pose difficulties: The most vulnerable countries are in need of urgent support that can respond to their diverse needs, but it is arguable whether this fund can provide the immediate solution.

Another crucial point concerns contributions to the fund. Key questions include: Will it be based on mandatory or voluntary contributions? And should the donor base consider only developed country Parties under the strict distinction of the Convention, or is it time to reflect the economic changes—including the contribution to the global CO₂ emissions—of the past 30 years?

After decades of sideline conversations, having loss and damage finance on the official agenda of a COP is a breakthrough step forward. Nevertheless, the establishment of the new fund might be controversial. As for now, the fund is just an empty shell, without concrete goals, commitments or contributors, but with a long way of negotiations ahead. Whether this outcome is a real success remains to be seen.