

FACT SHEET

Extreme Climate Facility (XCF)

Africa's climate challenge

Africa is widely recognized to be the region most vulnerable to weather risks. Weather-related disasters are already undermining record growth across the continent, threatening hard-won development gains and vulnerable populations. Increasing climate volatility will counteract investments being made by countries to mitigate, prepare for and manage current weather risks. The World Bank estimates an adaptation investment cost need of \$14-17 billion per year over the period 2010-50 for sub-Saharan countries to adapt to an approximately 2°C warmer climate forecast for 2050. Climate change is particularly threatening to the future of African agriculture, which impacts global food security and the economic livelihoods of hundreds of millions of Africans.

To date, funds have not been forthcoming in the magnitude required. As a result, African leaders have been exploring innovative and diverse ways to address the challenge of providing funding for climate adaptation across the continent. The Extreme Climate Facility (XCF) will be a new financial mechanism that will secure direct access for African governments to climate finance to respond to the impacts of increased climate volatility.

What is the Extreme Climate Facility?

The XCF will be a data-driven, multi-year vehicle that will provide financial support to eligible African countries to help them build their climate resilience and be financially prepared to undertake greater adaptation measures should extreme weather event frequency and intensity increase in their region. It is an African-led initiative that will be designed to access private capital, diversifying the sources and increasing the amount of international funding available for climate adaptation in Africa.

Who is behind the XCF?

The XCF will be designed and established by the African Risk Capacity (ARC), a Specialized Agency of the African Union established in

2012 to help AU Member States improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters by providing targeted responses to disasters in a more timely, cost-effective, objective and transparent manner. ARC's mission is to use modern finance mechanisms such as risk pooling and risk transfer to create pan-African climate response systems that enable African countries to meet the needs of people harmed by natural disasters. In 2014, ARC Agency established its first financial affiliate, the ARC Insurance Company Limited (ARC Ltd), a specialist hybrid mutual insurance company and Africa's first ever disaster insurance pool.

How will XCF operate?

The ARC provides an ideal platform from which to develop and operationalize such a new facility, with scope for the XCF to become the second financial affiliate of the ARC Agency. The XCF will use both public and private funds and facilitate direct access to climate adaptation finance for eligible African governments based on the demonstrated need for enhanced adaptation measures. Its financial obligations to African countries will be securitized and issued as a series of climate change catastrophe bonds. The bonds will provide additional climate change adaptation financing to participating AU countries, in the event that

weather shocks such as extreme heat, droughts, floods or cyclones increase in occurrence and intensity. The bonds will be financed by capital provided through private investors, with donors supporting the annual bond coupon payments. XCF will be structured so as to issue more than \$1 billion in African climate change bonds over the next 30 years.

How will payouts be managed?

The XCF will be entirely driven by objective climate data. It will utilize the last 30 years of Africa's meteorological climatology as a baseline. It will establish a multi-hazard Extreme Climate Index (ECI) for each African climatic region. The index will track increases in the frequency and magnitude of extreme climate events over and above the baseline. When the index exceeds pre-determined thresholds, countries will automatically receive payments from the XCF to support their pre-approved climate adaptation plans. Should they occur, payments would start small and would increase with subsequent cat bond issuances, growing alongside increasing evidence of observed deviations from the baseline climatology.

What will be the features of the ECI?

The ECI will be multi-hazard, targeting extreme wet, dry and heat events as well as other extreme weather events important to particular regions, such as cyclones. It will need to both capture individual weather events as well as monitor changes in extreme climate frequency and/or intensity over a 30-year timeframe. Its data will be standardized so as to be used objectively to compare climate trends across regions, and to provide a long-term, and consistent historical record, from which baselines and XCF payment thresholds could be set.

Which African countries will participate?

Participating countries will be ARC Agency Member States (signatories to its Establishment Treaty) and chosen based on a set of criteria that includes having in place robust, investment-ready climate adaptation plans, as well as their current involvement in managing weather risks through ARC Ltd.

Why is ARC designing the XCF?

Already within its mandate, the ARC Agency was specifically requested by the African Union Conference of Ministers of Finance in March 2014 at the Seventh AU-ECA Joint Annual Meetings in Abuja, Nigeria (decision no. 927(XLVII)) to develop a proposal for a mechanism through which African states can access financing to respond to the impacts of increased climate volatility.

The way forward

The XCF was announced by ARC Governing Board Chair Dr. Ngozi Okonjo-Iweala, Coordinating Minister of the Economy and Honourable Minister of Finance of Nigeria, at the UN Climate Summit in New York on September 23rd. Over the next 18 months, the ARC Agency will lead the XCF R&D program, working with African States and their partners. This work will determine country eligibility and the standards for climate change adaptation plans, create the data-driven extreme climate indexes and thresholds that will be used to trigger payments to countries, and define the financial and legal structures necessary to use both public and private funds to finance XCF obligations. ARC is working towards the goal of having an effective and fair XCF design in place when nations convene in Paris next year for the UN Climate Change Conference with the aim of issuing the first catastrophe bonds in 2016.