

Press Release  
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## **AFRICA TO ISSUE OVER \$1 BILLION DOLLARS IN CLIMATE CHANGE BONDS**

### ***Bonds will access private capital to fund climate change adaptation in Africa***

**NEW YORK AND JOHANNESBURG** – In a strategic move to leverage available capital for climate change adaptation, African states will announce the African Risk Capacity (ARC) Extreme Climate Facility (XCF), a multi-year funding mechanism that will issue climate change catastrophe bonds.

The bonds – planned to be issued in 2016 – will provide additional financing to participating countries to enhance their climate adaptation investments, in the event that weather shocks such as extreme heat, droughts, floods or cyclones increase in occurrence and intensity across the continent.

Experts estimate Africa needs to invest between \$10-20 billion annually through 2050 to prepare for a 2°C-warmer world.

“Africa needs solutions. The XCF will offer African nations a new financing mechanism to manage climate risks by providing direct access to new private capital and by leveraging development partner contributions. We are leading the way in innovative climate finance,” said Dr. Ngozi Okonjo-Iweala, Nigeria’s Minister of Finance and Chair of ARC’s Governing Board, ahead of the UN Climate Summit tomorrow in New York.

Following the announcement, ARC will work with African States and their partners towards having an effective and fair XCF design in place when nations convene in Paris next year for the UN Climate Change Conference.

Once established, the XCF will be entirely objective and data-driven, using Africa’s 30-year climatology as a baseline. Consistent meteorological information covering the entire continent is available since the start of the satellite era in the early 1980s and will be used to calculate a multi-hazard extreme climate index for each region in Africa.

The index will track increases in the frequency and magnitude of extreme weather events over and above an established baseline in each climate region of the continent. Should the index exceed a pre-defined threshold, bond maturity payments will be automatically made to countries in the affected regions and used to boost adaptation efforts or scale up existing disaster risk management mechanisms.

“Climate change knows no borders. We need operational solutions that will channel climate change funds and increase direct access to climate finance. It is vital to minimize the risk to the most vulnerable. I wish ARC every success,” said the United Nations Executive Secretary of the UN Framework Convention on Climate Change Christiana Figueres.

Designed to access private capital and diversify the available funding sources, the XCF will be structured as a catastrophe bond program, whereby its financial obligations to countries over a three- to five-year financing window will be securitized, issued as cat bonds and financed by capital provided from private investors. Initial cat bonds will total several hundreds of million dollars in value therefore setting the foundation for the issuance of more than US \$1 billion of African climate change bonds over a period of 30 years. At bond maturity, if the XCF index does not trigger payments during a financing window then the capital provided would be returned to investors in addition to the yield collected through the annual coupon payments.

“XCF will ensure that African countries and the international community appropriately monitor climate shocks and will be financially prepared to implement specific adaptation measures in an effective and accountable manner, leveraging ARC’s existing public-private infrastructure,” says Dr. Richard Wilcox, founding Director General of ARC. “The XCF allows us to leverage private capital against the risk of increased frequency of severe climate events, while using public money to fund immediate and certain adaptation requirements,” said Dr. Wilcox.

Participating countries will be chosen based on criteria that include their current involvement with ARC in managing weather risks through its disaster insurance company, ARC Ltd., and having robust and investment-ready climate change adaptation plans in place.

"As pioneers in promoting innovative finance solutions for climate change, The Rockefeller Foundation is proud to have been an early supporter of the African Risk Capacity. With a smart deployment of the power of the capital markets, the XCF will be an important addition to efforts to build climate resilience across Africa," said Dr. Judith Rodin, President of The Rockefeller Foundation.

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**ABOUT THE AFRICAN RISK CAPACITY:** The African Risk Capacity (ARC) was established as a Specialized Agency of the African Union to help AU Member States improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters. The objective of the ARC is to assist AU Member States to reduce the risk of loss and damage caused by extreme weather events and natural disasters affecting Africa's populations by providing targeted responses to disasters in a more timely, cost-effective, objective and transparent manner. For more information, please contact: [www.africanriskcapacity.org](http://www.africanriskcapacity.org)

The creation of XCF was mandated by African finance ministers in March, 2014 at the Seventh AU-ECA Joint Annual Meetings in Abuja, Nigeria.

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