

## **Background Note on the First Technical Review Forum (TRF) of the eXtreme Climate Facility (XCF)**

**Bonn, Germany, 22-23 October 2019**

Droughts are causing damage at an unprecedented scale and pace all over the world. In Africa this year, more than 45 million people have struggled to find enough food due to prolonged droughts. Such impacts are compounded by the increasing competition for access to water and productive land, conflicts and civil unrest, forced migration and food insecurity.

The United Nations Convention to Combat Desertification (UNCCD) and Africa Risk Capacity (ARC) are establishing a new partnership to support African countries to become more resilient and take pro-active measures in effectively managing droughts in the face of climate change. The collaborating agencies will use their respective platforms to help African countries to increase knowledge, build advocacy, and increase awareness on climate risk initiatives and programmes.

The Africa Risk Capacity, a Specialized Agency of the African Union (AU), is a development insurance institution that provides financial tools and infrastructure to help AU member countries to manage natural disaster risk and adapt to climate change.

The UNCCD is a global agreement that is assisting vulnerable drought-affected countries to set up robust mechanisms that would enable countries to withstand potentially disastrous droughts. Through its Drought Initiative, UNCCD is currently supporting 35 African countries to establish national drought plans and frameworks.

The ARC and UNCCD partnership seeks to enhance national capacities in two ways. First, it aims to increase efficiency to respond to drought at country level, which will make African countries more resilient. Second, it promotes pro-active measures and effective management of droughts.

### **The eXtreme Climate Facility**

The eXtreme Climate Facility (XCF) is an African-led initiative for accessing private capital, diversifying resources and increasing the amount of international funding available for climate adaptation in Africa.

Its establishment began following the Seventh AU-UN Economic Commission for Africa Joint Annual Meetings held in March 2014 in Abuja, Nigeria. The African Union Conference of Ministers of Finance requested ARC, by decision no. 927(XLVII), to develop a financing mechanism to enhance Member States' responses to the impacts of increasing climate volatility.

The adaptation financing solution proposed by ARC has a three-point agenda: connecting to private sector financing, encouraging best practice public policy and integrating climate science. The XCF will be a data-driven, multi-year special purpose vehicle that provides financial support to eligible AU Member States. In line with the enabling AU decision, it will seek to help countries build climate resilience and financial capability for better adaptation measures against extreme weather events.

The XCF solution is designed to utilise both public and private funds to facilitate direct access to climate adaptation finance for eligible African governments. Eligibility will be based on the demonstrated need for enhanced adaptation measures included in national climate adaptation strategies. The underlying solution for African countries will be securitised and issued as a series of climate change catastrophe bonds.

ARC anticipates its collaboration with partners and donors will lead to a robust development programme to address gaps identified at the country-level, including technical assistance and capacity building. Improvements in these areas are expected to yield co-benefits for other financial instruments such as the green bond and resilience bond markets.

### **Technical Review Forum of the ARC eXtreme Climate Facility**

The Technical Review Forum (TRF) is an independent advisory body set up by the ARC. The TRF has attracted independent industry experts in specialist disciplines falling within the three-point ARC agenda.

The TRF is meeting for the first time in Bonn, Germany. The two-day workshop will consider and examine the fundamental components of the XCF, the climate adaptation financing mechanism the ARC is developing. The Forum marks the first collaborative event and launch of the ARC and UNCCD partnership.

The primary purpose of the TRF is to provide on-demand recommendations to the ARC Agency Board. Recommendations can take different forms. They may be legal, on financial structuring, the policy or operational frameworks, market insights and stakeholder engagements, among others. However, the recommendations are accepted or implemented at the discretion of the ARC Agency.

A key objective of the TRF is to identify and appraise alternative private capital market-based solutions that deliver Africa's climate adaptation financing needs. TRF will also evaluate investor and market appetites for the XCF's proposed financial instruments.

The expected outcomes from the Forum include a set of partnerships to execute necessary pre-establishment activities that will lead to the launch of suitable financial products.

### **Memorandum of Understanding**

Building on the momentum established at the Forum, ARC and UNCCD are signing a Memorandum of Understanding (MoU). The MoU marks the formalization of a mutual partnership between the two organizations to address climate-related challenges affecting the African continent.

Under the Agreement, ARC and UNCCD will, among other actions, collaborate on the implementation of the UNCCD and ARC drought mandates through leveraging ARC's experience in implementing a drought risk pool. Such efforts will include capacity building of AU and UNCCD country Parties to better manage drought risks; collaboration on activities leading to the development of a financing mechanism and in-country programmes that will address the increased impact of climate change in Africa; gender mainstreaming of relevant ARC and UNCCD strategies and policies; and promoting synergies between the relevant programs of the two organizations.

### **Mandates**

The partnership between the UNCCD and ARC is built on mandates from their respective member countries and Parties.

ARC launched its drought insurance product for African country member states in 2014, through its financial affiliate the ARC Insurance Company Limited (ARC Ltd). The initial capital commitment of USD 200 million came from the governments of Germany (through the [KfW Development Bank](#), on behalf of [German Ministry of Economic Cooperation and Development - BMZ](#)) and the United Kingdom's ([Department for International Development](#)).

The UNCCD, which was established in 1994 primarily addresses the arid, semi-arid and dry sub-humid areas, known as the drylands. It is the only legally binding international agreement linking environment and development to sustainable land management. The UNCCD has implemented the Drought Initiative since its thirteenth session of the Conference of the Parties (COP13). The Initiative has three guiding principles: drought preparedness systems; regional efforts to reduce drought vulnerability and risk; and boosting the resilience of people and ecosystems to drought. During its fourteenth session of the Conference Of the Parties (COP14) held in India last month, UNCCD was mandated to expand collaboration and partnerships with relevant agencies, organizations and platforms to design and test innovative, gender-responsive and transformative approaches to supporting countries in mitigating the impacts of drought (UNCCD Decision 23/COP 14).