ANNEX IX

A proposal for improving WFP's ability to obtain access to resources from vertical funds

This annex presents a proposal from WFP management aimed at improving WFP's ability to obtain access to vertical funds, in particular for action in fragile and conflict-affected settings. The proposed way forward involves classifying vertical funds as non-traditional donors under General Rule XIII.4 (c), such that the full operational and support costs of their use may be covered through contributions by another donor and/or by resorting to the WFP Fund.

Introduction

1. Extreme weather events such as floods, droughts and heatwaves drove 96 million people in the most fragile and conflict-affected settings to emergency levels of hunger in 2024 alone,[1] with significant impacts in Southern Africa, South Asia and the Horn of Africa. Among the 20 countries most vulnerable to the effects of extreme weather, 13 are fragile and affected by conflict, and nine of those 13 are also food-insecure.[2] Unfortunately, the communities most affected are also the ones least equipped with the financial resources and technical capacity to cope with more frequent and intense weather events and to safeguard their lives and livelihoods.

2. Tackling the effects of severe weather events in settings of high humanitarian needs is essential to saving lives. For more than a decade, WFP has been mobilizing resources from major vertical funds to enable governments and communities to contribute to and make use of early warning systems, implement anticipatory actions and scale up disaster preparedness and response. As an accredited entity of two vertical funds established under the United Nations Framework Convention on Climate Change – the Adaptation Fund (AF) and the Green Climate Fund (GCF) – WFP has successfully implemented projects designed to strengthen people's resilience and adaptive capacity in some of the world's most vulnerable regions. To date, WFP has helped 30 governments to mobilize USD 270 million in multilateral climate finance.

3. Despite facing the greatest disaster risks, many of the world's most fragile regions receive few or no financial means to manage such shocks. Vertical funds are committed to increasing the financial flows to these unserved regions,[3] and WFP is viewed as a key partner in achieving that goal, not least because of the organization's presence and expertise in those settings. Being able to access these funds effectively is also a key component of WFP's plan for diversifying funding to mobilize resources for critical life-saving actions. In light of the new financial reality, and taking into consideration its comparative advantages, WFP is striving to enhance its capacity to obtain access to vertical funds for countries where there are fragile and conflict-affected settings. However, as discussed with the Board, including at its second regular session in 2024, WFP faces internal challenges that limit its ability to mobilize and channel these dedicated resources effectively and at scale. The main challenge relates to WFP's requirement for full cost recovery, because the organization's financial framework oftentimes cannot

[1] FSIN and GNAFC. 2025. *Global Report on Food Crises 2025*.

[2] IMF. 2023. *Climate Challenges in Fragile and Conflict-Affected States* in *Staff Climate Notes*, vol. 2023: issue 001.

[3] As outlined in its "50 by 30" vision, the GCF aims to manage a total of USD 50 billion in investments by 2030, and commits to enhancing support for climate-vulnerable communities globally.

accommodate the approach used by the vertical funds, leading to WFP being unable to receive such contributions.

4. To improve WFP's access to resources from vertical funds, management proposes to classify as non-traditional donors under General Rule XIII.4 (c) the following vertical funds, which are designated as part of the Financial Mechanism of the United Nations Framework Convention on Climate Change: the Global Environment Facility, the GCF, the Special Climate Change Fund, the Least Developed Countries Fund, the AF and the Fund for Responding to Loss and Damage.

The importance of vertical funds for accelerating climate action

5. As underlined in WFP's climate change policy update of 2024,[4] the rapidly changing nature of weather events multiplies the threats faced by food-insecure people and communities. The increased frequency and intensity of disasters continue to stretch the humanitarian system, which is already struggling to keep pace with current needs. Extreme weather events affect three times as many people in fragile settings than in more stable environments, but those fragile communities receive only a fraction of the resources that they require to address the devastating impacts of such events.[5]

6. Vertical funds, such as the GCF and the AF, provide much-needed resources that empower governments to manage growing risks and take effective action. They serve as an entry point for increasing national capacities to respond to a wide range of interrelated shocks, financing integrated projects that reduce humanitarian needs by strengthening the resilience of vulnerable communities, and providing critical investment used by governments to implement sustainable, long-term solutions to mitigate the risks from weather-related events. By designing and implementing strategic projects, WFP supports governments in enhancing natural, physical, financial, human and social capital so that vulnerable communities are better equipped to manage shocks and protect their assets and are less dependent on humanitarian food assistance.

WFP's comparative advantage

7. WFP's commitment to accelerating access to critical and dedicated resources at the national and local levels is embedded in outcome 2 of its climate change policy, which underscores the organization's pledge to increase the ability of governments to mobilize financing for strategic projects that strengthen food and nutrition security, particularly in areas prone to shocks and stressors. This work includes improving governments' access to vertical funds and multilateral finance, and reducing disaster-related risks in government-led investments supported by international financial institutions.

8. *WFP has a track record of mobilizing climate finance, especially in fragile and conflict-affected* settings. For more than a decade, WFP has mobilized resources from various sources, both bilateral and multilateral, and has significant potential to increase its ability to facilitate access to resources for countries seeking to manage weather-related shocks and strengthen their resilience. Between 2018 and 2023, WFP was the leading United Nations entity in terms of channelling climate-related financing from bilateral and multilateral sources, mobilizing USD 2.27 billion in 68 settings identified as facing high or extreme fragility.[6] With its extensive reach and technical expertise, WFP delivers evidence-based, high-impact solutions in a wide range of settings, from anticipatory action designed to prevent food crises, to disaster risk financing – including insurance – that protects vulnerable farmers and households,

[4] "Climate change policy update" (WFP/EB.2/2024/4-C).

[5] ODI Global. 2024. Climate change, conflict and fragility: a recipe for disasters.

[6] Organisation for Economic Co-operation and Development. Climate-related development finance datasets, available at Development finance for climate and environment (last updated in July 2025).

nature-based solutions that restore degraded land and ecosystems, and shock- responsive social protection systems that take disaster-related risks into account.

9. WFP is already implementing an "investment pipeline" for fragile and conflict-affected settings, focusing on strengthening countries' adaptive capacities and resilience. Building on its pledge under the United Arab Emirates Climate, Relief, Recovery and Peace Declaration,[7] WFP established this pipeline as its primary vehicle for scaling up financial, technical and partnership-based support for the most food-insecure people in fragile and conflict-affected situations.

10. *WFP is a partner of choice for ensuring the effective mobilization and application of finance from vertical funds.* The organization partners with other United Nations entities and with government and private entities on dedicated finance initiatives. For example, WFP is implementing the inclusive insurance component of a GCF-funded programme led by the International Fund for Agricultural Development in seven Sahelian countries; it supports the United Nations Development Programme with insurance, early warning and climate services in GCF-funded projects in Cambodia, Chad, Zambia and Zimbabwe; and it contributes to a GCF-funded anticipatory action project led by a public-private partnership in the Philippines.

11. WFP's deep understanding of the risks faced by vulnerable people in challenging settings further strengthens its capacity to partner with governments in obtaining access to and effectively deploying targeted resources. The next five years will present fresh opportunities for WFP to scale up its support as new funding mechanisms become fully operational. To harness these opportunities, WFP needs to optimize its internal processes so that it can mobilize this vital funding, ensuring that financial support reaches and directly benefits food-insecure communities affected by disasters.

Issues that prevent WFP from obtaining access to vertical funds

12. WFP faces specific challenges that hamper its ability to leverage AF and GCF contributions and limit the size of contributions that it can mobilize from the two funds. The main challenge relates to WFP's full cost recovery model.

13. WFP has an established system for recovering the full costs of the contributions it receives; however, the vertical funds use a different cost recovery model, and the two approaches are incompatible.

14. *WFP's approach to ensuring full cost recovery:* In accordance with Article XIII.2 of the General Regulations,[8] WFP operates under a principle of full cost recovery, which requires each donor, unless eligible for an exception, to provide cash contributions sufficient to cover the full operational and support costs associated with the use of its contributions. Pursuant to General Rule XIII.4, these costs are categorized and calculated as follows:

    i. transfer and implementation costs, which shall be calculated based on estimated cost;

    ii. DSC, which shall be calculated based on country- or countries-specific percentages of the transfer and implementation costs; and

    iii. ISC, which shall be calculated based on percentages – determined by the Board – of transfer and implementation costs and direct support costs.

[7] United Nations. 2023. "COP28 Declaration on Climate, Relief, Recovery and Peace".

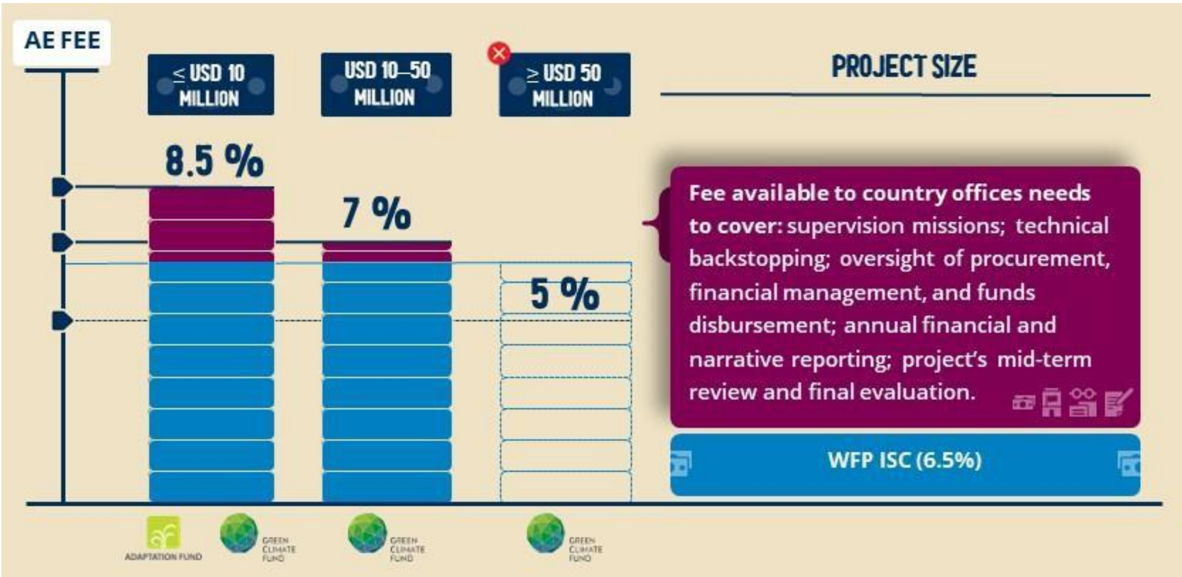
[8] WFP. 2022. *General Regulations, General Rules, Financial Regulations and Rules of Procedure of the Executive Board*.

15. The current ISC rate is 6.5 percent, while DSC rates vary by country, ranging from as low as 1 percent in countries with large operations to a high of more than 30 percent for very small operations.[9]

16. *The AF and GCF approach:* With each project grant, the AF and the GCF provide an "accredited entity fee" to cover project oversight, reporting and evaluation.[10] The fee is intended to provide sufficient resources to cover the full support costs associated with each contribution; however, because of WFP's organizational and cost structure and its governance and oversight requirements, the fee usually falls short of covering support costs in full.

17. As shown in figure A.IX.1, the accredited entity fee ranges from 5 to 8.5 percent of the value of each project grant, depending on the size of the grant. In the majority of cases, WFP uses the fee to cover its ISC, which drastically reduces – or fully absorbs – the amount available to country offices and global headquarters for ensuring project oversight in accordance with contractual requirements. In cases where the vertical fund donor does not cover all support costs (both ISC and DSC), the contribution fails to achieve full cost recovery, thereby preventing WFP from receiving it.

Figure A.IX.1: Accredited entity fees and their use at WFP



Abbreviation: AE = accredited entity.

Unlocking solutions for mobilizing resources from vertical funds

18. An analysis of the approach followed by other United Nations entities showed that the Food and Agriculture Organization of the United Nations, the International Fund for Agricultural Development and the United Nations Development Programme have all introduced exceptions to their respective regulations for vertical funds. Recognizing that vertical funds have their own specific policies on fees, other United Nations entities treat these funds differently, using measures such as decreasing their standard cost recovery rates and/or earmarking the fees for the various functions supporting project implementation at the country, regional and headquarters levels. However, these options are not available to WFP

[9] For more information on DSC, see pages 22–23, paragraphs 83–85.

[10] Each accredited entity fee covers one project and includes supervision missions, technical backstopping, oversight of procurement, financial management and funds disbursement, annual financial and narrative reporting, a mid-term review and a final evaluation.

within its current normative framework, which leaves the organization unable to leverage the full potential of vertical funds.

19. If WFP were to embark on a review of its financial framework and full cost recovery principle, the solutions used by other United Nations entities to facilitate access to vertical funds could be considered. In the meantime, the following set of measures is being proposed for the Board's approval as a short-term solution that can be readily implemented within WFP's current normative framework.

The classification of vertical funds as non-traditional donors under General Rule XIII.4 (c)

20. Article XIII.2 of the WFP General Regulations establishes the principle of full cost recovery and states:

> "[e]xcept as otherwise provided in such general rules in respect of developing countries, countries with economies in transition and other non-traditional donors, or in respect of other exceptional situations, each donor shall provide cash contributions sufficient to cover the full operational and support costs of its contributions".

21. Further to this General Regulation, General Rule XIII.4 sets forth certain exceptions to the full cost recovery principle. General Rule XIII.4(c) reads as follows:

> "Governments of developing countries, countries with economies in transition, and other non-traditional donors as determined by the Board, may make contributions that do not achieve full cost recovery, provided that:
>
> i) the full operational and support costs are covered through contributions by another donor or donors, through the monetization of part of the contribution and/or through resort to the WFP Fund
>
> ii) such contributions are in the interests of the Programme and do not result in any disproportionate administrative or reporting burden to the Programme; and
>
> iii) the Executive Director considers that accepting the contribution is in the interests of the beneficiaries of the Programme."

22. The criteria for determining donor eligibility under General Rule XIII.4(c) were established by the Board through its endorsement of the 2004 policy set out in the document "New Partnerships to Meet Rising Needs – Expanding the WFP Donor Base";[11] this decision was reaffirmed by the Board in 2018.[12] In 2022, the Board decided to classify private sector donors as "non-traditional donors" for the purposes of the application of General Rule XIII.4(c), except that no resort to the WFP Fund nor to monetization should be made, thereby ensuring that the principle of full cost recovery is ultimately still achieved by all private sector contributions.[13] Vertical funds are not currently eligible under General Rule XIII.4(c).

23. To allow for vertical fund contributions to be received pursuant to General Rule XIII.4(c) and avail of the exceptions thereunder, it is proposed to classify vertical funds as non-traditional donors.

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[11] "New Partnerships to Meet Rising Needs – Expanding the WFP Donor Base" (WFP/EB.3/2004/4-C).

[12] "Update on the Integrated Road Map" (WFP/EB.2/2018/5-A/1).

[13] Executive Board decision 2022/EB.A/12.

Conclusion

24. Amid the current highly fluid geopolitical landscape and donors' changing priorities, WFP's internal systems are further limiting its ability to mobilize crucial resources, particularly from vertical funds. To ensure that the organization can mobilize climate financing to support the efforts of governments and communities to address weather-related shocks and risks to food security, especially in the most fragile regions, it is recommended that vertical funds be classified as non-traditional donors for the purposes of General Rule XIII.4(c).