



Global Environment Facility

GEF/ME/C.32/2
October 16, 2007

GEF Council
November 14-16, 2007

Agenda Item 9

JOINT EVALUATION OF THE SMALL GRANTS PROGRAMME EXECUTIVE VERSION

(Prepared by the GEF Evaluation Office)

Recommended Council Decision

The Council, having reviewed Document GEF/ME/C.32/2, *Joint Evaluation of the Small Grants Programme – Executive Version*, as well as Document GEF/ME/C.32/3, *Management Response to the Joint Evaluation of the Small Grants Programme*, takes note of the conclusions and recommendations and requests the SGP Steering Committee to implement the recommendations by:

- (1) Proposing a level of management costs on the basis of services rendered and cost-efficiency rather than on the basis of an arbitrary percentage.
- (2) Starting a process to change SGP's central management system suitable for the new phase of growth and to address the risks of growing complexity.
- (3) Strengthening country programme oversight.
- (4) Further strengthening Monitoring and Evaluation.
- (5) Proposing a revision of the current criteria for access to SGP resources to maintain cost efficiency.
- (6) Further developing a graduation policy for the SGP country programmes which takes into account the identified risks to GEF achievements and cost-effectiveness, especially in SIDS and LDCs.

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EXECUTIVE SUMMARY

1. At its meeting in June 2006 Council requested the GEF Evaluation Office to undertake an independent evaluation of the Small Grants Programme. The GEF Evaluation Office invited the UNDP Evaluation Office to participate in the Evaluation. This report presents the main conclusions and recommendations. The full report is available as an information document (GEF/ME/C.32/Inf.1).

2. The primary objectives of the Evaluation were to assess the relevance of the results of SGP to the GEF, to country and environmental priorities. Furthermore, the effectiveness of the SGP in generating global environmental benefits were to be assessed, as well as the efficiency of SGP in engaging community based groups and NGOs, key factors affecting results of the SGP and the M&E systems.

3. The Evaluation contains ex post evaluation findings, as well as an ex ante analysis of the graduation policy of the SGP. This analysis was done on the request of the GEF Council at its meeting of June 2007. The evaluation collected both qualitative and quantitative data through literature and desk reviews, country programme case studies, a survey of project samples, interviews with a wide variety of stakeholders and an online survey. This led to the following 12 conclusions:

- (1) The SGP has a slightly higher success rate in achieving global environmental benefits and significantly higher rate in sustaining them than Medium and Full Size Projects.
- (2) SGP has contributed to numerous institutional reforms and policy changes in the recipient countries to address global environmental issues.
- (3) The SGP has contributed to direct global environmental benefits while also addressing the livelihood needs of local populations.
- (4) The SGP has made significant progress in targeting its efforts to help the poor.
- (5) The SGP country programmes, especially the older ones, are effective in promoting the GEF agenda.
- (6) All country programmes reviewed had interaction with other GEF projects.
- (7) The SGP's overall knowledge sharing practices have been satisfactory.
- (8) Although M&E has improved significantly, there is scope for further improvements.
- (9) The SGP is a cost-effective instrument for the GEF to generate global environmental benefits through NGOs and community based organizations.
- (10) Automatic graduation of country programmes older than 8 years from SGP risks reducing the cost effectiveness of the overall GEF portfolio.
- (11) SGP Country Programmes operate at maximum cost efficiency at an annual expenditure level of \$ 1 to 1.1 million.

(12) The higher level of GEF investments in SGP during OP 3 facilitated SGP in operating at greater cost efficiency levels than OP 1 and OP 2

4. These conclusions, which are provided with evidence and analysis in the full version of the evaluation report, lead to the following six recommendations:

- (1) The level of management costs should be established on the basis of services rendered and cost-efficiency rather than on the basis of an arbitrary percentage.
- (2) A process needs to start to change SGP's central management system so that it becomes suitable for the new phase of growth and to address the risks of growing complexity.
- (3) Country programme oversight needs to be strengthened.
- (4) Monitoring and Evaluation needs to be strengthened further.
- (5) The current criteria for access to SGP resources should be revised to maintain cost efficiency.
- (6) The intended SGP country programme graduation policy needs to be revised for GEF 5 to address the risks to GEF achievements and cost-effectiveness, especially in SIDS and LDCs.

I. BACKGROUND

5. This report presents the main conclusions and recommendations of the Joint Evaluation of the Small Grants Programme (SGP) of the Global Environment Facility (GEF). The full report of this Evaluation is available as an information document (GEF/ME/C.32/Inf1).

6. The GEF created SGP in 1992 to develop community-level strategies and implement technologies to reduce threats to the global environment, to gather and communicate lessons from community-level experience, to build partnerships and networks with Community Based Organizations (CBOs) and Non-Governmental Organizations (NGOs), and to ensure that conservation and sustainable development strategies and projects that protect the global environment are understood and practiced by communities and other key stakeholders.

7. The SGP has gone through four replenishments in three periods. The **Pilot Phase** (1992-1996) demonstrated the viability of the approach. The **Period of Consolidation** (1997-2002) showed relatively little expansion but confirmed the role of SGP as a corporate programme of the GEF. The **Period of Expansion** (2003-2007) has seen an increase in funding and in the number of participating countries. Presently the SGP is going through a transition to a fourth period. This new period is driven mainly by the implementation of the GEF Resource Allocation Framework (RAF), a rapid expansion of the programme to new countries – especially SIDS and LDCs – and the ongoing discussions regarding graduation of older country programmes. A multi-agency Steering Committee has been formed and through this committee the GEF Secretariat and other agencies are increasingly involved in decision making regarding the SGP.

8. The maximum grant size for regular projects is 50,000 US dollars, but most of the SGP grants are generally in the range of 20,000 to 35,000 US dollars. Since the inception a substantial proportion of project grants have been in the Biodiversity focal area. However, this share has been consistently declining – it was 65 percent during the Pilot Phase and it declined to 47 percent during OP 3. The share of Climate Change projects has been stable at around 16 percent, whereas that of the Land Degradation focal area, which was included as a new focal area during OP 3 increased significantly to 17 percent.

9. There have been three programme evaluations of the SGP, respectively in 1995, 1998 and 2002. These evaluations were primarily oriented towards improving SGP's operations and design and towards distilling lessons. They have also been the basis for GEF Council decisions regarding programme expansion and requirements for replenishments. However, they were not completely independent and were not able to assess which global environmental benefits had been achieved, or whether the programme was cost-effective, or whether there were trade-offs between the global environmental benefits and local benefits.

10. At its meeting in June 2006 Council requested the GEF Evaluation Office to undertake an independent evaluation of the Small Grants Programme, for which Council agreed to make available \$ 290,000. In addition, \$ 110,000 was transferred from the SGP

funds to the evaluation, in lieu of which SGP would not be required to undertake a final evaluation at the end of its current replenishment phase. The GEF Evaluation Office invited the UNDP Evaluation Office to participate in the Evaluation. The approach paper for the study, which was published at the GEF Evaluation Office website in February 2007, was jointly developed. The field studies for the Evaluation were conducted during March to June 2007. The first draft of the evaluation report was shared with SGP on 18th September 2007 for the due process of checking for factual errors and errors of analysis.

11. The primary objectives of the Evaluation were to assess the relevance of the results of SGP to the GEF, to country and environmental priorities. Furthermore, the effectiveness of the SGP in generating global environmental benefits were to be assessed, as well as the efficiency of SGP in engaging community based groups and NGOs, key factors affecting results of the SGP and the M&E systems.

12. This evaluation was conducted jointly by the Evaluation Offices of the GEF and UNDP and 25 evaluators were involved at different levels. The evaluation collected both qualitative and quantitative data to make inferences about the SGP. The evaluation was based on following components:

- **Literature review** of GEF Council documents and a wide range of SGP documents as well as relevant existing literature;
- **Country Programme case studies:** 12 country cases were intensive field studies; another 10 country cases were analyzed primarily through desk reviews;
- **Project sample survey.** In all, 180 project grants were assessed on project results including project outcomes, risks, learning and interaction with the stakeholders; 191 project grants were assessed for M&E related issues; and, 187 were assessed to determine the population groups targeted by the project grant. Performance of 107 project grants was field verified by evaluators. The gathered data provides a fair reflection of the overall project portfolio.
- **Interviews** with a wide variety of stakeholders;
- **Online survey** targeted to the national coordinators of the SGP country programmes. Seventy two national coordinators participated in the survey.

II. MAIN CONCLUSIONS

Conclusion 1: The SGP has a slightly higher success rate in achieving global environmental benefits and significantly higher rate in sustaining them than Medium and Full Size Projects.

13. The Evaluation findings suggest an impressive track record for the SGP. Ninety three percent of the project grants from OP 3 have been rated in the satisfactory range (moderately satisfactory and higher) in terms of overall outcome. In comparison, 82 percent of the project grants from the Pilot Phase and OP1, and 91 percent from OP2 were rated in the satisfactory range. If projects from all the phases are considered together, 90 percent of all SGP project grants reviewed were rated by the evaluation in the satisfactory range.

14. Sustainability of outcome rating provides an indication of the likelihood that benefits from the project grant will continue long after the project grant is closed. The evaluation found that outcome sustainability of about 80 percent of the grants were in the low risk range, whereas outcomes of the remaining 20 percent faced “significant” or “high” levels of risks. The risk profile of grants across the OPs has remained stable. Thus, benefits from most of the completed projects are likely to continue in future.

Table 1: Overall Outcome Rating for the Reviewed Project Grants

Rating	Percentage of Projects
Highly Satisfactory	24%
Satisfactory	43%
Moderately Satisfactory	23%
<i>Satisfactory Range</i>	90%
Moderately Unsatisfactory	6%
Unsatisfactory	3%
Highly Unsatisfactory	0%
<i>Unsatisfactory Range</i>	10%

(Projects reviewed =180; projects rated =167, unable to assess = 13)

15. When compared to completed GEF full size (FSPs) and medium size projects (MSPs), which are rated using similar criteria by the GEF Evaluation Office, a slightly higher proportion of SGP projects are rated in the satisfactory range for project outcomes and significantly higher proportion for sustainability.

Table 2: Risks to Sustainability of Outcomes

Risk Category	Percentage of Projects
No or Little Risk	41%
Moderate Risk	39%
<i>Low Risk</i>	80%
Significant Risk	18%
High Risk	2%
<i>High Risk</i>	20%

(Projects reviewed =180; projects rated =159, unable to assess = 21)

Conclusion 2:SGP has contributed to numerous institutional reforms and policy changes in the recipient countries to address global environmental issues.

16. Replicating, scaling up, and mainstreaming local community activities have been emphasized since the beginning of OP 1. The evaluation found that in all 22 countries programmes SGP has contributed to the formulation and or implementation of policies. They do so by cultivating relationships with civil society organizations, local, provincial and national governments, academic institutions, other global organizations, and the private sector. Country programmes seek to influence policies and institutions through awareness raising, sharing of knowledge; and developing or strengthening institutional capacities. In the 22 country programmes reviewed the SGP was contributing towards institutional and policy change in following ways:

- All examined country programmes contributed to **local policy instruments**, such as municipal environmental ordinances;

- Thirteen country programmes contributed to **National policy formulation**;
- Five country programmes contributed to **access to broader markets**;
- One programme contributed **as an incubator** of several initiatives that were subsequently widely adopted in the country.

Conclusion 3: The SGP has contributed to direct global environmental benefits while also addressing the livelihood needs of local populations.

17. Evidence from the country cases and from the field verified grant sample indicates that SGP's environmental benefits, and/or contribution to processes that are likely to result in global environmental benefits, are considerable. However, the evaluation also found that of the 22 country programmes reviewed three might have generated more global environmental benefits if the country programme had focused on areas with relatively higher globally significant biodiversity. With the exception of Ozone Depleting Substances, SGP was active in all focal areas.

18. **Biodiversity Conservation.** All 22 country programmes examined by the evaluation have activities in biodiversity. In this focal area country programmes are contributing to the conservation of endangered species and to the reduction of threats to endangered ecosystems and protected areas. SGP conservation activities normally involve community groups and result in direct benefit to local populations.

19. **Climate Change Mitigation:** Seventeen out of the 22 SGP country programmes reviewed are contributing to the reduction of greenhouse gas emissions by introducing renewable energy sources and energy efficient alternatives such as solar panels, solar heaters, small hydroelectric plants, and biomass-based generators.

20. **Protection of International Waters:** Eight of the 22 country programmes are contributing to the reduction of environmental stresses of international waters often in collaboration with larger International Waters GEF projects.

21. **Prevention of Land Degradation:** In five of the 22 country programmes reviewed the SGP are introducing environmentally sound agricultural, pasture and forest management practices that help conserve soil and that improve productivity. In some desert environments the SGP is testing ways to protect oasis ecosystems in collaboration with local communities.

22. **Elimination of Persistent Organic Pollutants (POPs):** In six countries SGP projects are contributing to a reduction in the use of POPs by introducing substitutes and promoting adoption of more environmentally friendly practices in the management of pesticides.

23. The project survey data also confirms that country programmes are generating substantial global environmental benefits. A very high percentage of the reviewed grants were rated in the satisfactory range for outcome relevance (96 percent) and for outcome effectiveness (94 percent). Thus, a vast majority of grants of the SGP portfolio are contributing directly to global environmental benefits. In some grants a trade-off between

local and global benefits was found, where the grant at first focuses on the local benefits in order to create the circumstances in which global benefits can be achieved, for example through eco-tourism.

Table 3: Relevance and Effectiveness of Outcomes (percentage of projects)

Rating	Outcome Relevance	Outcome Effectiveness
Highly Satisfactory	50%	37%
Satisfactory	34%	42%
Moderately Satisfactory	11%	15%
<i>Satisfactory Range</i>	96%	94%
Moderately Unsatisfactory	3%	4%
Unsatisfactory	1%	2%
Highly Unsatisfactory	0%	0%
<i>Unsatisfactory Range</i>	4 %	6 %

(Relevance: Projects reviewed=180; projects rated=180, unable to assess=0; Effectiveness: Projects reviewed =180; projects rated =167, unable to assess = 13)

Conclusion 4: The SGP has made significant progress in targeting its efforts to help the poor.

24. The evaluation found that since inception, 60 percent of projects directly or indirectly targeted the poor or the poorest. Compared to the earlier phases (57 percent in Pilot Phase and OP 1, and 55 percent in OP 2), a greater proportion of OP 3 projects (72 percent) either directly or indirectly target the poor or the poorest.

25. At least 15 percent of SGP grants of OP 3 explicitly target indigenous people. However, the Evaluation found that, more than specific targeting, in most instances indigenous people were benefiting from the SGP project grants because they are generally settled in remote biodiversity rich areas that are geographic focus of the SGP country programmes. Twenty-six percent of the SGP grants target women. Though many other project grants do not specifically target women, women participate in implementation of such projects as members of the local community. The Evaluation found that although women are a priority group for SGP in almost all the countries, in some countries local socio-cultural context may constrain their participation while in others their participation may be in roles that contribute little to their empowerment. Overall, SGP’s current levels of efforts to reach out to the poorest and most marginal populations seem appropriate.

Conclusions 5: The SGP country programmes, especially the older ones, are effective in promoting the GEF agenda.

26. The evaluation found that all the 22 reviewed country programmes were effective at reaching civil society organizations and influencing environmental policies at the local level. However, major gains were observed when national policies were influenced. Of the reviewed country programmes, 13 (eleven of 15 old¹ programmes and two of the

¹ Country programme started before 1999.

seven younger² ones) were reported to have influenced policies at the national level in a substantial manner. The SGP has been able to build strategic alliances with academic institutions, governments, global agencies, and the private sector. In addition, it has been effective at reaching out to all stakeholders, raising awareness, and sharing knowledge.

27. The decentralized structure of the SGP, checks and balances that facilitate transparency in decision making, and its continued presence in the participating countries have contributed to the SGP's effectiveness in promoting the GEF agenda.

Conclusion 6: All country programmes reviewed had interaction with other GEF projects.

28. The review of the 22 country programmes shows that in all countries there are instances of mutually supportive interactions between SGP and larger GEF operations. This performance is an improvement over the 53 percent (of 34 countries) reported for year 1998 by a study that surveyed operational and/or advisory links between SGP and GEF projects³. Interactions between SGP and GEF projects vary in terms of their operational formality, but most of them could be classified as follows:

- **SGP supports small projects that are aligned with the objectives of MSPs and FSPs.** Eighteen out of 22 country case studies reported that SGP had provided grants that directly supported the objectives of larger GEF projects.
- **SGP supports or contributes to the design of FSP or MSPs.** Twenty-one of the 22 country programmes identified SGP as a significant player in informing the project design of FSPs and MSPs.
- **SGP implements a component of a GEF project.** Five out of the 22 country programmes were found to implement grants with funds originating from larger GEF projects.
- **SGP generates outcomes that are subsequently up scaled by or mainstreamed into MSPs or FSPs.** In five out of 22 country programmes that were examined large GEF projects have benefited from the organizational capacities of SGP grantees, and some small grants have graduated as MSPs.

29. Effective communication, networking capacity, and knowledge sharing seem to enable productive links between SGP and other GEF projects. The pro-activeness and experience of the National Coordinators with larger GEF projects, and the cooperation and support available from the GEF Focal Point in UNDP seem to be critical. In addition, two other factors seem to help: first, membership of the GEF focal point and implementing agencies representatives in the NSC; and second, the national coordination mechanism established by GEF focal points to respond to the RAF. Conversely, lack of knowledge and awareness of GEF programmes, divergence between focal area and

² Country programme started in or after 1999.

³ The study was commissioned by the GEF/SGP Coordination Unit of the UNDP in 1998.

geographic location, and MSP and FSP preparation delays seem to decrease the likelihood of strong linkages between SGP and other GEF programmes.

Conclusion 7: The SGP's overall knowledge sharing practices have been satisfactory

30. Knowledge generated within the SGP both through centralized and decentralized processes is shared across the country programmes through internet-based forums, publications, field visits, the SGP website, as well as through national, regional, and global workshops. A communication strategy developed by the SGP in 2001 guides its knowledge sharing efforts.

31. In general country programmes find the knowledge products developed by the CPMT useful. Three out of four national coordinators reported that knowledge products prepared by the CPMT, which include publications, presentations, and movies, are “frequently” or “always” useful for addressing their country programme needs. Three out of four national coordinators reported they have adopted a tool, technology, practice or lesson that was first developed, tested or reported from another SGP country programme. A very high percentage (97 percent) of the reviewed projects was rated in the “satisfactory range” on project learning. While this level of performance is encouraging, the knowledge sharing processes are yet to incorporate feedback system that will allow the programme to gain from the perspectives of the intended users.

Conclusion 8: Although M&E has improved significantly, there is scope for further improvements

32. The evidence gathered during this evaluation shows that 81 percent of the project grants incorporated M&E activities in the project design. Compared to 14 percent for Pilot Phase & OP 1 and 39 percent for OP 2, during OP 3 54 percent of the completed project grants had both specified sufficient relevant indicators and had reported on all or almost all of these indicators in the project completion reports. Despite the gains made, there is scope for further improvement in these areas.

33. The project survey data shows that the country programme team visited 96 percent of the project grants at least once during a project's life cycle – more than half of the project grants were visited three times or more. These field visits provide country programme teams with an opportunity to verify the physical and financial progress of the project and to monitor progress towards achievement of expected outcomes. However, barring exceptions such as Ecuador, most country programmes do not document the findings of field visits in a systematic manner.

34. The CPMT tracks progress of the country programmes primarily through Performance & Results Assessment (PRA) of national coordinators and quarterly financial reports. The PRA tool tracks performance of the national coordinators in the key performance areas and is also used as a proxy by the CPMT to assess the progress of the country programme. Although PRA is an effective instrument to track performance of the national coordinators, performance of national coordinators is far from an ideal proxy for

tracking the overall performance of the country programme. There could be situations where despite good performance of the national coordinator, the overall performance of the country programme is poor, and vice versa. It was found that the financial reports were being compiled and used effectively for planning and control.

35. The CPMT is responsible for designing and maintaining the SGP database, providing guidance to the country programmes on data entry and maintaining data quality. The database is publicly accessible and has some features that are more advanced than that of the GEF database. However, there are many areas such as database structure, data quality, and promptness in uploading of information, where improvements are required.

Conclusion 9: The SGP is a cost-effective instrument for the GEF to generate global environmental benefits through NGOs and community based organizations.

36. The Evaluation found that overall SGP was efficiently converting inputs into outputs both at the project and country programme level. Since SGP's project grants and country programmes have also been effective in generating global environmental benefits, it is a cost effective instrument for the GEF to generate global environmental benefits by engaging NGOs and community based organizations.

37. **Management Costs.** The management costs incurred by the SGP seem to match well with the services that it provides. During OP 3 the management costs of SGP, including the project fees paid by the GEF to UNDP for hosting the SGP and project grants made by the SGP to address programme management issues (i.e. management grants) in the recipient countries, were 31 percent of the total expenditure – an improvement over the 37 percent estimated for OP 2. During OP 3, there was also an abatement in the non-transparent practice of making project grants that addressed programme management issues – the funding to such grants declined from four percent of the total GEF funding in OP 2 to three percent in OP 3. A detailed discussion on management costs of SGP is provided in the paper “Technical Paper on Management Costs of the Small Grants Programme” available at <http://thegef.org>.

38. **Cofinancing.** SGP was expected to mobilize an additional dollar in cofinancing for a dollar of GEF financing. Until March 2007 the SGP reported to have mobilized about 0.90 dollars from non-GEF sources per dollar of GEF financing. It is unlikely that the target for mobilization of cofinancing would have been fully met by end of June 2007, when OP 3 closed. However, it should be recognized that OP 3 closed earlier than originally planned.

39. **Comparison with small grants components of MSPs and FSPs.** A review of the GEF's FSP – excluding the Small Grants Programme – and MSP portfolios shows that compared to 282 million dollars invested in SGP up to OP 3, GEF has invested at least 440 million dollars in the small grants component of FSPs and MSPs. It seems that compared to SGP the small grant components of the MSPs and FSPs face operational difficulties because (i) projects underestimate the time it takes to make a well functioning small grant disbursement mechanism operational, (ii) often small grants components

comprise a small portion of the overall project and, therefore, receive little management attention, (iii) institutional learning is not retained, and, (iv) after project ends there is often no permanent structure to disburse, supervise and report on grants.

40. **Project Life Cycle.** The Evaluation found that SGP grants on average take about six months from submission to start of project implementation. Although two thirds of the projects are completed without any delay, delay in project completion on average adds about five more months to the project cycle. The average duration of the project cycle – from project proposal submission to project completion – is estimated to be about two and a half years.

41. **Project Grant Efficiency.** Ninety four percent of the project grants were rated moderately satisfactory or better in terms of efficiency of outcomes. The ‘efficiency of outcome’ ratings of the SGP grants seem to be better than those for the FSPs and MSPs reviewed by the GEF Evaluation Office for the FY 2006 Annual Performance Report: compared to 94 percent of the SGP project grants only 77 percent of the FSPs/MSPs were rated in the satisfactory range. The performance of the projects in terms of efficiency of outcomes (94 percent in satisfactory range), when assessed together with the effectiveness of the outcomes (94 percent in satisfactory range) indicates that project grants are cost effective in generating global environmental benefits.

Conclusion 10: Automatic graduation of country programmes older than 8 years from SGP risks reducing the cost effectiveness of the overall GEF portfolio.

42. During its June 2007 meeting, the Council, while taking decision on the Work Program (Agenda Item 14), requested the GEF Evaluation Office, “*to include in its on-going evaluation of the Small Grants Programme (SGP), to be considered by the Council at its next meeting, an analysis of the graduation policy of the SGP, and in particular, the impact of the policy on LDCs and SIDS.*” This section presents an ex-ante analysis of the graduation policy for the SGP country programs.

43. The ‘Guidelines for access to the GEF Small Grants Programme,’ which was circulated as a communiqué dated December 15th 2006 by the Chief Executive Officer of the GEF to the national Focal Points, articulates the GEF’s policy on graduation of SGP country programmes. It states that “*beginning 2007, any country which has benefited from the GEF SGP for more than 8 years will be required to present a plan to graduate from GEF funding (core and RAF resources) on completion of the GEF-4 cycle.*” This graduation policy has been made necessary by the funding limits on SGP in GEF-4 in the replenishment agreement.

44. The present SGP graduation policy will lead to graduation of more than 40 countries from GEF SGP funding by July 2010. The key advantage of the graduation policy is that it allows CPMT to concentrate on newer country programmes and on establishing programmes in countries that have not been covered by SGP so far. However, the SGP programme structures established in the graduating participating countries are likely to be disbanded or else country programmes are likely to pursue other

sources of funding that may or may not be aligned with global environmental objectives. Since most of the country programmes that would automatically graduate are among the better ones, the GEF risks losing the SGP country programmes that, generally speaking, are more cost effective than its FSP and MSP portfolio. Thus, automatic graduation of the old SGP country programmes from GEF funding is likely to lead to a marginal decline in the cost effectiveness of the overall GEF portfolio.

45. In SIDS, where recipient countries have limited absorptive capacity, in most situations small size grants are an appropriate scale at which GEF may undertake interventions to generate global environmental benefits. In LDCs, despite generally having a high need for assistance, the capacities of the national and local institutions are often a major constraint. The SGP Evaluation found that SGP is contributing to developing and complementing institutional capacities in LDCs and thereby enabling them in undertaking FSPs and MSPs more effectively. Thus, graduating older SGP country programmes from GEF funding, particularly country programmes in SIDS and LDCs, does not seem to be in the institutional interests of the GEF.

Conclusion 11: SGP Country Programmes operate at maximum cost efficiency at an annual expenditure level of \$ 1 to 1.1 million.

46. Analysis of the SGP country programme expenditure data (FY 2006 and 2007) for participating countries, controlling for countries for whom absorptive capacity is a constraint, shows that the average management costs are the lowest when country programmes operate at an annual expenditure level of 1,000,000 to 1,100,000 dollars. Inspired by the cap on the overall core SGP budget in the replenishment agreement, the SGP Steering Committee decided in December 2006 that from July 2007 financial allocations to the participating countries from indicative RAF allocations of the country and core SGP funds will be regulated. The GEF contribution to the SGP country programmes was capped at 600,000 dollars per annum. Due to this cap 34 country programmes will lose an opportunity to operate at a level where grant making is more efficient with respect to management costs.

47. The countries which have indicative RAF country allocations up to 15 million dollars in either climate change or biodiversity focal area can draw up to 300,000 dollars from SGP's core budget each year with a matching amount expected from their RAF allocations. The cap on the amount that could be provided from SGP's core funding prevents flow of resources from the LDC/SIDS and other group allocation countries to the countries that have individual indicative RAF allocations. However, due to the overall cap of 600,000 dollars and the criteria of exact matching The countries that have indicative RAF country allocations up to 15 million dollars in either climate change or biodiversity focal area do not have an option to allocate a greater proportion of their indicative RAF allocations to SGP.

Conclusion 12: The higher level of GEF investments in SGP during OP 3 facilitated SGP in operating at greater cost efficiency levels than OP 1 and OP 2

48. Compared to earlier phases, during OP 3 there was a substantial increase in GEF investments in SGP. For OP 2 GEF invested about 26 million dollars per annum and about 430,000 dollars per participating country (all figures are inflation adjusted and include project fees paid to UNDP). During OP 3 the GEF investments increased substantially to about 49 million dollars per annum and to about 500,000 dollars per participating country. For OP 4 although the total allocated investment per annum has increased to about 57 million dollars, the investment per participating country will decline from about 500,000 dollars to about 430,000 per annum.

49. Reduction in management costs from 37 percent in OP2 to 31 percent in OP3 was accomplished by SGP simultaneously with meeting the Council's expectations on increasing programme services such as M&E and knowledge sharing. A major factor that allowed SGP to accomplish these improvements was that from OP 2 to OP 3 the GEF investments in SGP, both in absolute and in per participating country terms, increased substantially. Increase in the total annual investment allowed CPMT to operate at a greater cost efficiency level. Similarly, increase in investments per participating country allowed the country programmes to operate at a more cost efficient level. The gains, thus made, reflect in terms of reduced proportion of management costs during OP3.

50. The Council expects SGP to reduce management costs to 27 percent during OP 4. Since during OP 4 the GEF investment per participating country will decline, SGP country programmes will be at less cost efficient levels of operation. Therefore, reducing management costs will involve making trade-offs. 'The Small Grants Programme Project Document: Fourth Operational Phase (GEF 4)' lists the measures that the SGP will adopt to reduce its management cost (page 42, paragraph 175). Based on the feedback from the country programme teams of SGP it seems that only a few of the planned measures – eliminating global workshops and renegotiating rent of country office premises – will reduce management costs without affecting overall performance. The efficacy of other measures such as reduction in allocations for knowledge sharing, M&E, capacity building of the country teams, technical assistance, and country programme auditing is likely to lead to a reduced level of programme performance.

Conclusion 13: The current management model of SGP has reached its limits and is not suitable for a new phase of growth

51. Except for some relatively minor modifications, the overall management structure of the SGP has remained more or less the same since the Pilot Phase. However during this period the demands on SGP have increased; the needs of the country programmes have become more differentiated; and, expansion of the programme has made consultation with the SGP country programmes more difficult.

52. Programme services requested by the GEF Council from SGP such as establishing links with larger GEF projects, expanding the programme to include new focal areas, increasing the level of resources mobilized through co-financing, and improving M&E and knowledge sharing, have increased. At the same time the council has also requested reduction in management costs. The number of countries where the SGP is operational has increased from 50 in 1995 to 101 in 2006. The mix of countries where SGP now

operates includes a greater proportion of operationally challenging countries. However, there are also a substantial number of countries in the portfolio where the programme has matured and that require little support and guidance from the CPMT. The present management model is not suited to address the differentiated needs of these country programmes. The request from the GEF Secretariat to quickly expand the programme to 23 additional countries, which has increased the workload of UNOPS staff, will increase the number of country programmes to 124. In the past, when the number of country programmes was lower, it was possible to discuss potential approaches with the country programmes and develop measures to appropriately address council requests. However, the number of countries where SGP now operates has made communication and consultation in the development of guidelines and systems more difficult. This has resulted in a trend towards centralization of decision making and lesser two-way communication.

53. Latent and manifested tensions in relationship between SGP and other agencies also affect functioning of the SGP. SGP's relationship with UNDP country programmes has in general improved as the mandate of SGP to generate global environmental benefits is better understood by Resident Representatives. At the country programme level, SGP's relationship with other agencies such as World Bank and UNEP has been improving. This has resulted in increasing instances of collaboration between SGP and other agencies at the country programme and/or local level. At the global level relationships between SGP and other GEF agencies have been distant and at times competitive.

III. RECOMMENDATIONS

Recommendation 1: The level of management costs should be established on the basis of services rendered and cost-efficiency rather than on the basis of an arbitrary percentage.

54. The assessment of the management costs of SGP shows that a major factor that helped SGP in reducing management costs during OP 3 was that GEF investments in the programme had increased substantially both in absolute terms and in terms of numbers of participating countries. This allowed SGP to operate at a more cost efficient level and, consequently, SGP was able to reduce its management costs without reducing its programmatic services such as M&E, knowledge sharing, supervision, and technical assistance. The Council expects that during OP 4 SGP will be able to reduce its management costs even further. However, even though the allocated GEF resources per annum for OP 4 are higher, the annual allocation per participating country has declined. This implies that the SGP will have to further reduce its management costs although it will be operating at a less cost efficient level of GEF investment. Some of the programmatic services provided by the SGP will need to be curtailed, with entailing risks for the achievement of global environmental benefits. An analysis of the proposed plan for reducing management costs shows that many of the activities being curtailed are critical for effective functioning of the SGP. In order to ensure that the overall effectiveness of SGP does not suffer for OP 4 due to a reduced level of resources per

participating country, the management cost expectations by the GEF Council from SGP need to be adjusted.

55. So far the council expectations from SGP on management costs have been anchored by arbitrary figures – earlier 25 percent and now 24 percent. Although the reported management costs also tended to be around the prescribed proportion, the method by which management costs were calculated has not been uniform and transparent, thus making it more difficult for Council to provide guidance. For example, during OP 2 co-financing was included when calculating the percentage of management costs – a practice that was abandoned during OP 3. In both OPs project grants addressed some country programme management cost related issues. This practice needs to be stopped because it does not allow various stakeholders to know the proportion of GEF investments that are being provided to the SGP grantees for addressing the global environmental issues. However, to facilitate SGP in doing so the real management costs of implementing SGP programme need to be recognized and the management cost expectations need to be adjusted accordingly. Furthermore, activities on the country level generating global benefits, for example through knowledge sharing products, should also be recognized as such and should be fundable without being classified as administrative costs.

Recommendation 2: A process needs to start to change SGP’s central management system so that it becomes suitable for the new phase of growth and to address the risks of growing complexity.

56. As SGP moves into its next phase of growth and increasing complexity, there is a need to rethink its overall management system. SGP has made some important changes such as the creation of regional teams in CPMT and UNOPS, the identification of ‘regional hubs’ to assist in programme development and the appointment of sub-regional coordinators in the case of SIDS. But the system is already overburdened. The projected pace of growth and the challenges of bringing LDCs and SIDS into the programme are certain to overwhelm the current management structure and it will be difficult to maintain the present level of programme effectiveness unless the programme staff at headquarters is significantly expanded. This could lead to a significant increase in management costs.

57. Another option that could be explored is to devolve some of the functions that are presently performed at the CPMT level to regional levels and encourage closer links with UNDP’s focal area regional technical teams involved in GEF funded projects. Although this option too may lead to higher management costs it will address the technical assistance needs of the country programmes better. Efforts need to be made to ensure that country programme perspectives have a voice in the SGP decision making process.

58. The new division of roles should be clearly defined as to prevent overlaps and seek effective decisions and support to country programmes. During the exploration of options for a new management system the following specific issues should be addressed:

- Short term needs due to establishment of a large number of new country programmes and the need for continued support to those still under development.

- Devolving some of the functions to the regional level to meet specific needs of SIDS and LDCs and to more effectively draw on UNDP's regional technical teams after assessing the cost effectiveness implications of the measure.
- Incorporating opinion leaders among National Coordinators (or recently retired NCs) into the global SGP Steering Committee as a way to ensure that country programme perspectives inform decisions.
- Rethinking and redefining the relations between the core management team and the GEF Secretariat, UNDP, UNOPS as well as the other GEF Agencies
- Ensuring that CPMT is adequately staffed – the current practice of not filling positions to meet targets in reducing management costs should be discontinued and the new system should incorporate a realistic assessment of services and functions that need to be provided by CPMT.
- Developing guidance for MSPs and FSPs on linking with SGP country programmes.

Recommendation 3: Country programme oversight needs to be strengthened.

59. More attention should be given to the definition of 'conflict of interests' procedures by country programmes and the oversight of the enforcement of 'conflict of interests' procedures. The system should be strengthened to ensure proper follow-up of conflict of interests or other governance related observations made by audits. An audit schedule that ensures that all country programmes can be audited at least once during every Operational Phase should be established and funds for audits should be allocated in each OP. Following GEF disclosure policies audits should be publicly available. Furthermore, independent grievance procedures should be established and be made known. Both the ombudsman in the UNDP country offices (if present) and the GEF ombudsman should be open to receive complaints, so that they can either address such complaints or re-direct them to the appropriate channels.

Recommendation 4: Monitoring and Evaluation needs to be strengthened further.

60. While projects on the whole are well supervised and monitoring of expected results is taking place, there are areas where there is scope for further improvements. So far record keeping on project visits tends to be insufficient. Often sufficient relevant indicators are not specified and even when specified they are not adequately reported upon. The evaluation found numerous instances of good M&E practices being implemented by the various SGP country programmes, which demonstrates that good M&E is possible for small projects. Another area for improvement is to ensure quality control of information in the SGP database. Presently, the information in the database has a lot of errors and is uploaded with a considerable time lag. SGP also need to assess performance of the country programme performance separately from that of the national coordinators because, although correlated, they are not appropriate proxies.

Recommendation 5: The current criteria for access to SGP resources should be revised to maintain cost efficiency.

61. The decision of the SGP Steering Committee to limit the average annual amount accessed by a participating country to 600,000 dollars during GEF-4 will most likely spread GEF funds more equitably. However, it is also likely to negatively affect the cost efficiency of the SGP country programme portfolio because the maximum limit of 600,000 dollars will constrain SGP from operating efficiently. If the present limit is increased then cost efficiency gains are likely. However, substantial cost efficiency gains that allow the SGP to meet the present management costs expectations of the Council may not be possible if there is no increase in the overall budget available to the SGP. This is so because opportunities to make cost efficiency gains by curtailing management activities, without affecting programme effectiveness, are limited. The overall budget could be increased by mobilizing additional resources from non-GEF sources, given the fact that core-funding of SGP has already reached the limit set by the 4th replenishment agreement.

62. Historically, SGP mobilizes almost an additional dollar per dollar of GEF investment. This is mobilized at the global or/and country programme level, and at the project grant level. Of this the co-financing mobilized at the global or/and country programme level is more relevant for SGP in terms of the cost efficiency implications as it allows the global office and the country programmes to operate at more cost efficient levels – the resources mobilized at the project grant levels have implications primarily for the management costs of the grantee organizations. However, presently only 10 percent (about 6 to 7 million dollars per year) of the total co-financing is mobilized at the global programme or at the country programme level. To make major cost efficiency gains the co-financing mobilized at the global or country programme level may need to increase to about 15 to 20 million dollars. However, the SGP will need support to achieve these levels.

63. One way to increase the limit per country is to allow a higher amount of funding from RAF allocations. Currently, the countries that have indicative RAF country allocations of more than \$ 15 million in the climate change or biodiversity focal area are allowed to access SGP resources only through RAF to a maximum limit \$ 600,000 per year. Further, for the participating countries that have indicative RAF country allocations up to \$ 15 million, the contributions from the core SGP need to be matched by RAF resources with an upper limit of \$ 300,000 from RAF. If these limits are increased and the criterion of exact matching is abolished, then countries will have an option to allocate a greater proportion of their indicative RAF allocations to SGP.

Recommendation 6: The intended SGP country programme graduation policy needs to be revised for GEF 5 to address the risks to GEF achievements and cost-effectiveness, especially in SIDS and LDCs.

64. The graduation policy for the SGP country programmes is still evolving. It should be noted that this recommendation and the analysis on which it is based, are reflections on the December 2006 guidelines for graduation. This is the only formal statement on graduation of the SGP country programmes. These guidelines state that the SGP country programmes that have benefited from the GEF-SGP funding for more than eight years (at

2007) are to graduate from all GEF funding (core and RAF resources) by July 2010. When they graduate, it is likely that the programme structures established will be disbanded or else would shift work to issues that are of priority to their new financiers. This presents a risk to the continuation of the same level of global environmental benefits, for the same price, in these countries, given the fact that the SGP country programmes score consistently higher in outcomes and sustainability than other modalities of the GEF and are cost-effective in how they achieve these outcomes.

65. The argument for graduation from SGP core funding is persuasive. Given the overall budget of the programme and the optimum spending levels per country programme, graduation is a sensible way to ensure that the programme reaches out to new countries and ensures that its success is replicated elsewhere. However, this argument does not hold for RAF resources. By stating that an older SGP country programme will also need to graduate at the same time from RAF resources, the policy is denying recipient countries a modality that has been proven to be one of the most effective and efficient of the GEF.

66. This recommendation proposes to explore how countries could be allowed to continue to fund small grants from GEF in their countries after graduation from SGP. One possible approach is to turn the modality of an SGP country programme into an independent “franchise” that will continue the national success factors of the SGP but not under the management of the CPMT in New York and not receive any core funding from SGP. Funding for such a franchise programme should then be allowed from RAF allocations after graduation from the SGP core programme. A mechanism would need to be developed to calculate ceilings for such allocations, and how to approach funding from group allocations. This should be based on optimum levels of spending taking into account the comparative advantage of SGP to achieve focal area goals. Special care would need to be taken that these independent country programmes would continue to share knowledge and experiences with the SGP and the broader GEF community. A system should also be put in place to replenish country programme funding in a ways that are performance based and are not disruptive to the operations.

67. The details of a franchise small grants programme need to be developed in order for this to be a valid alternative to the present proposal for a graduation policy. The main questions to be answered are:

- How will these programs fit into focal area strategies in the countries concerned?
- What mechanisms will be set in place to ensure the new “franchises” programmatic and grant making independence?
- Would UNDP also be the Implementing Agency for these “franchise” programmes?
- Who would appoint the National Coordinator and the National Steering Committee?
- Who would provide oversight on legal and financial issues?
- Will these programmes go through the same procedures as MSPs and FSPs or will a facilitated procedure be initiated?

68. The current best practices in the SGP on the country level could be turned into a franchise framework that could be adapted to local circumstances, but should contain minimum characteristics that need to be applied in order to qualify as an “SGP modality”. By adopting this as a national modality, such a franchise operation could also be charged to implement SGP components of Medium and Full Sized Projects. Currently, these components are often under performing.

69. The franchise programs would need to develop results frameworks that link them with focal area strategies and would need to report on their contributions to the goals of focal area strategies. The evidence gathered during this evaluation indicates that the results frameworks of several older country programmes such as Vietnam and Mexico are already congruent with the focal area strategies.

70. For SIDS and LDCs a longer term investment of GEF through SGP is imperative. In SIDS, participating countries have limited absorptive capacity and in most situations small size grants are an appropriate scale at which GEF may undertake interventions to generate global environmental benefits. Although LDCs generally have a high need for assistance, the capacities of the national and local institutions is often a major constraint. SGP contributes to developing and complementing institutional capacities in LDCs and thereby enables them in undertaking FSPs and MSPs more effectively.

71. It is hoped that this analysis and the recommendation will feed into the continued development of the graduation policy.