# Low Value Grants – UNDP Operational Guide

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## Overview: Definition and purpose of low value grants

1. The purpose of this operational guidance is to familiarize staff members with all types of low-value grants (LVGs)[[1]](#footnote-1) (also known as micro-capital grants) and how they can be used as part of development projects in line with the Programme & Project Management (PPM) section of the Programme & Operations Policies & Procedures (POPP).
2. This section explains the characteristics of LVGs, when managed by UNDP or a development partner, as a programmatic instrument and how they differ from other engagement modalities such as engaging responsible parties and procurement.

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#### Definition of LVGs

1. UNDP defines low-value grants as cash awards – selected via programmatic decisions – to civil society and non-governmental partners to generate and solicit development solutions for which no repayment is typically required[[2]](#footnote-2).

**UNDP’s Definition of Low-Value Grants:**

LVG are cash awards – selected via programmatic decisions – to civil society and non-governmental partners to generate and solicit development solutions for which no repayment is typically required.

1. UNDP’s Financial Regulations and Rules (FRRs) in Reg. 19.01 authorizes the Administrator to use “micro-capital grants”. Until the FRRs are updated to reflect the new terminology in the PPM, all provisions related to “micro-capital grants” equally apply to LVGs.
2. LVGs are typically provided through a development project but may also be provided when UNDP is implementing a grants component that is part of a partner’s project (such as for an IFI, another UN agency or a government) under Development Services. LVGs cannot be incorporated into [engagement facility projects](https://popp.undp.org/node/10706), development effectiveness projects, or institutional effectiveness projects (i.e., management projects).
3. If UNDP provides funds to a grant-making institution serving as either an implementing partner (under national implementation) or responsible party (under direct implementation or direct country office support services to NIM), this is called “on-granting.” The institution then awards grants to recipient(s) following their own guidelines and appropriate due diligence as long as it is determined they are qualified to perform that role after an assessment of their capacity for on-granting by UNDP. If any financial regulations, rules and other directives of the institution contravene the principles of UNDP’s grant policies, and Financial Regulations and Rules then UNDP’s prescriptive requirements must be followed.
4. The use of LVGs should be specified in the project document, to the extent possible, and included in the multi-year work plan. LVGs may be one component of a broader project, or the sole purpose of the project may be to deliver LVGs. If the use of LVGs is identified after the start of the project, the project board (or equivalent project governance mechanism) may approve the use of LVGs as part of a project revision pursuant to agreement with the funding source.
5. The following must be either included in the project document and/or agreed by the project board/steering committee (applicable both to DIM and NIM):
   1. The total amount of the project budget that will be allocated to LVGs;
   2. The entity that will award the grants and sign the grant agreement(s), known as the “grantmaking institution” if different from UNDP (see section related to on-granting below);
   3. The intended purpose of the LVGs that will be awarded through the project;
   4. The types of entities that will be eligible to be awarded a LVG through the project[[3]](#footnote-3);
   5. The process for soliciting and reviewing grant proposals, as well as authority for deciding which entities will receive LVGs from the project funds;
   6. The criteria that the LVG proposals will be assessed against.

#### Purpose of LVGs

1. LVGs are typically used to engage with stakeholders who have a unique or distinct perspective on a development challenge, either because they represent populations excluded from the development process, are able to provide innovative/experimental development solutions or have particular legitimacy or exposure to a development challenge. While grantees often lack “traditional capacity” in some areas, their inclusion in the development and implementation of UNDP projects leverages their technical capacity, relationships, and networks so that UNDP can maximize its development impact.
2. The purpose for the use of LGVs include:
   1. Strengthening the institutional capacity of entities critical for achieving development objectives;
   2. Supporting community-based self-help initiatives, which may include income-generating activities designed to alleviate poverty;
   3. Promoting advocacy activities and networking between civil society organizations, a government and donors;
   4. Supporting NGOs and community-based organizations involved with nature-based solutions, climate change actions, gender equality and poverty eradication activities; and/or
   5. Development challenges that still require some level of experimentation to identify possible solutions.[[4]](#footnote-4)
3. Grants are not primarily intended as cash subsidies for the purchase of standardized equipment or goods (e.g. a single laptop) by the beneficiary. In cases where beneficiaries need access to highly technical equipment (e.g. multiple solar panels), it is more economical and effective to procure centrally and to distribute the equipment or goods, instead of each grantee purchasing on the open market, and thereby losing out on economies of scale and/or the benefits of quality standardization.
4. Awarding grants as part of a project can be particularly effective when a development challenge presents no clear solution that could otherwise be adopted as part of the project design. This is emblematic for development challenges that are:
   1. new or have received little attention thus far through more traditional development assistance interventions and hence only limited experience in the implementation of solutions for these challenges has been gained so far;
   2. highly context-driven, often requiring customized approaches or interventions that directly include beneficiaries in the design and implementation of solutions (i.e. participatory design);
   3. still require some level of experimentation to identify possible solutions.
5. The award of grants is not exclusive. Several entities can be awarded separate grants for the same development challenge, or a consortium can be awarded a single grant to foster collaboration. Moreover, LVGs can be used in parallel to other engagement types; for instance, the same NGO can concurrently be a grant recipient to develop a new local income-generation scheme and hold a procurement contract to provide logistical services for a workshop (provided there is no conflict of interest; see section below on difference between grants and procurement). All resources provided to the entity by UNDP during the programme period are considered when assessing what, if any, capacity assessments should be done. For example, if the value of a LVG plus procurement contract or responsible party agreement exceeds $300,000 total, the relevant capacity assessment must be done for that partner.
6. Grants are often used as a risk-mitigation strategy when faced with complex development challenges, since they allow rapid experimentation and learning while disbursing comparatively small amounts.

#### Definition of grant recipients

1. LVGs provide an opportunity to work directly with beneficiaries in which UNDP has a long-term interest. They are not strictly required to a priori prove existing capacity to implement discrete activities, since the grant itself can be intended to strengthen their capacity.
2. Grant recipients are often organizations in a position to experiment with innovative solutions to development challenges. They often represent populations excluded from the development process and play an important advocacy role for the groups they represent. They are uniquely positioned to ensure a quick response to a development challenge, to reach communities at grassroots level, and to engage with excluded or marginalized population groups. In some instances, they hold special legitimacy as the exclusive representation of a certain group (i.e. recognized unions), so engagements with these institutions is essential for certain projects.
3. Examples of frequently excluded population groups that deserve attention in light of the 2030 agenda’s focus on “leave no one behind” (LNOB) and “reach those furthest behind first” include:
   1. Women and girls
   2. Ethnic and regional/rural populations
   3. Indigenous groups
   4. Disadvantaged casts and social groups
   5. Religious minorities
   6. Sexual minorities
   7. People affected by disabilities, including HIV/AIDS
   8. Workers’ associations and trade unions
   9. Youth not in education, employment or training
   10. Other groups relevant in the local context
4. Strictly speaking, the entity signing the grant agreement is always the beneficiary from a legal perspective; however, practically speaking three types of grant recipients are possible:
5. The grant recipient is the single beneficiary. This is typically the case when the project supports the capacity of a single institution that is expected to fulfil a development-relevant function. Examples of such institutions are local development or environment funds and training centers.
6. The grant recipient is a collective that represents a specific group of individuals who directly benefit from the grant. The grant recipient signing the grant agreement could be a women’s cooperative or a support group of people affected by HIV/AIDS, and the benefits extend to all its members.
7. The grant recipient represents a much broader constituency who only indirectly benefit from the grant. Such grants are typically used to give voice to groups traditionally excluded from the development process, for instance through better advocacy of their interests. Typical examples include professional associations and trade unions that not only represent their members, but workers at large.
8. Under exceptional circumstances an individual can be a grantee when legislation prevents excluded and marginalized groups (e.g. LGBTQ people, sex workers, people affected by certain illnesses, etc.) from organizing and attaining legal status. If the country office’s senior management has determined that the engagement is critical to delivery of results and is in the best interests of UNDP, the head of the Business Unit may authorize the use of the IC modality with one or more of the principals. The value of each individual contract shall be capped at the established threshold for micro purchasing (USD 10,000).

#### Difference between LVGs and procurement

1. Procurement assumes a marketplace[[5]](#footnote-5) where several competitors offer similar products and services that are largely interchangeable. UNDP’s primary interest is in obtaining the most-appropriate project input for the optimal price (i.e. value for money). The choice of supplier is influenced by its capacity to deliver the product or service, including its ability to maintain, repair or replace the product or service. However, once the product or service has been delivered[[6]](#footnote-6), UNDP has no further strategic interest in the supplier.
2. UNDP typically has a long-term strategic interest in the development of the stakeholder benefitting from the LVG, which is intrinsic since capacity building is an explicit aspect. UNDP’s interest in the well-being of the grant recipient goes well beyond the duration of the LVG or even the duration of the project.
3. As mentioned, a grant cannot be used in lieu of an appropriate modality to provide goods or services to the project which could be done through procurement actions, since grants are intended to generate or solicit development solutions proposed by the grant recipient.

#### Difference between LVGs and responsible parties

1. A project’s implementing partner can engage a responsible party (RP) to deliver all or part of a project’s work plan. Implementing partners use responsible parties to take advantage of their specialized skills, to mitigate risk and to relieve administrative burden. Responsible parties are accountable to the implementing partner in accordance with the terms of their agreement with the implementing partner and must have adequate capacity to perform their role. As per UNDP regulations and rules, RPs can receive cash greater than $300,000 as long as they have the capacity to deliver and pass the required capacity assessments.
2. Grantees, on the other hand, implement activities that they propose. They do not implement all or part of the activities a project is accountable to deliver like a responsible party. Grantees do not need to possess existing capacity to implement discrete activities, but the LVG itself can be designated to strengthen their capacity. Grantees cannot receive more than $150,000 per grant, nor more than $300,000 in grants in a programme (i.e., CPD) period.
3. A grant cannot be used in lieu of a responsible party agreement to implement standardized project activities and/or produce outputs, since grants are intended to generate or solicit development solutions proposed by the grant recipient. Partners that contribute to implementing a project must be engaged using the relevant method (see POPP: [Select Responsible Parties and Grantees](https://popp.undp.org/node/11531)).
4. Non-legally constituted or non-registered civil society/non-governmental organizations may not be engaged as a responsible party. Such non-legal entities may only receive funding through an LVG subject to paragraph 19.

#### Difference between LVGs and innovation challenge

1. Innovation Challenges are defined as prized challenges that Business Units (Country Offices) organize to solicit innovative ideas and solutions to address development challenges which cannot be achieved through traditional solicitation processes.
2. The principal differences between innovation challenges and low value grants are that innovation challenges: (i) often include stakeholders who are not necessarily affected by the development challenge but are well placed to develop solutions; (ii) typically limit themselves to the generation or testing of ideas, but not their implementation; and (iii) can be provided to for-profit entities in the private sector.
3. The cash thresholds for innovation challenge prizes are lower than for LVGs. In the case of innovation challenge prizes the Head of UNDP Business Units has the delegated authority to award a monetary prize up to a maximum of US $40,000 per awardee. Any innovation challenge envisioned to award a prize that is higher than $40,000 shall require the BU to seek the approval of the Chief Procurement Officer (CPO). For further guidance please consult the POPP [here](https://popp.undp.org/node/1021).

#### Difference between LVGs and low value Performance-based Payments[[7]](#footnote-7)

1. Performance-based payments are a type of Responsible Party agreement and are used to deliver project activities and/or outputs that are defined in advance and are pre-funded by the Responsible Party. As such the differences between LVGs and Responsible Parties as described in the paragraphs above also apply to Performance-Based Payment agreements. Further, in the case of performance-based payments, funds are not transferred in advance, as is typically the case with LVGs, but only after specific performance conditions have been achieved and validated. See policy on [Performance Based Payments](https://popp.undp.org/node/11246).

## Planning for the use of grants

1. The following section presents necessary steps the project designer or manager needs to consider before a grant can be awarded. Since the selection of a grantee is a programmatic decision, these considerations typically tie back to the [project design and the theory of change](https://popp.undp.org/node/11531) underlying the development project.
2. [Social and environmental standards](https://popp.undp.org/node/1876) play a particularly important role when planning for the use of grants to ensure meaningful stakeholder engagement and that social and environmental risks are identified, avoided (where possible) and managed. This includes [UNDP’s Accountability Mechanism](http://www.undp.org/secu-srm) which provides an important tool to receive and respond to concerns of potential or actual harm from project-affected people. The overall [Social and Environmental Screening Procedure (SESP](https://popp.undp.org/policy-page/social-and-environmental-standards)) of the relevant project should be reviewed to determine potential social and environmental risks and required mitigation measures related to activities that will be implemented by the grantee.

#### Grant eligibility

1. LVGs can be awarded to civil society and (national or international) non-governmental organizations, including non-governmental academic or educational institutions. Grant recipients either represent beneficiaries of the project or can be beneficiaries themselves. An example for the establishment of eligibility can be found [here](https://sgp.undp.org/about-us-157/grant-eligibility.html).
2. Private sector and commercial entities, and governmental organizations (e.g. regional governments, municipalities, etc.) are currently not eligible to receive LVGs.

#### Grant threshold

1. Funding provided to each grant recipient cannot exceed $150,000 per grant and $300,000 on a cumulative basis within the same programme period.[[8]](#footnote-8) To receive multiple grants, the grant recipient must have produced the results agreed to in the prior grant agreement, and a new grant agreement must be approved by the project board or selection committee. The same entity could receive separate grants under different projects with a cumulative ceiling of $300,000 in the programme period. The UNDP business unit is responsible for reviewing proposed grant awards under UNDP projects and confirming that the amount falls under the grant threshold amounts allowable per programme period.
2. If a responsible party oversees implementation of the grant project on behalf of the implementing partner originally selected by UNDP under on-granting (see below), funding provided by it to any individual grant recipient shall not exceed $60,000 per individual grant and $120,000 on a cumulative basis within the same programme period.

#### Governance issues specific to LVGs

1. For the use of individual grants, existing project governance mechanisms (i.e., project boards/steering committees) are usually sufficient to define grant selection criteria, award grants, and monitor the achievement of results, although donor or other requirements may necessitate that a separate selection committee be constituted to conduct the grant selection (see paragraph 38). Depending on the number of grants to be awarded, the governance and oversight of grant-making processes can be more time-consuming and provisions should be made for such cases as part of the project design. If the project document makes no other provisions, a grant is awarded based on a review by the project board.
2. Since LVGs are often used to engage with groups typically excluded from the development process, attention must be paid that the composition of a project governance structure does not run counter to the intentions of using grants. For instance, the presence of law enforcement or absence of women and minorities in the project board is likely to impact what groups will come forward with grant proposals (e.g. in the case of an HIV/AIDS project, high-risk groups like sex workers and sexual minorities might be discouraged from submitting grant proposals). Hence, legitimacy and neutrality of the project governance structure in the eyes of potential beneficiaries is a crucial aspect in the work with traditionally excluded groups.
3. In some instances, a separate project body, such as a grant selection committee, is created. Aside from the issues of legitimacy mentioned above, a dedicated grant selection committee can be useful when the review and selection of grants requires specific technical expertise or knowledge (e.g. indigenous language) or would be too cumbersome for the project board to handle due to the volume or timing of grant proposals.
4. Conflicts of interest during the grant selection can arise with individual members of the project board or grant selection committee in some instances. Members of the selection committee or project board and their affiliated institutions are not eligible to receive grants. The possibility of sustained conflicts of interest can also be a trigger to create a separate grant selection committee with membership different from the project board.
5. Transparency of the governance process is important throughout, but it is particularly important for the grant selection process for three reasons:
   1. LVGs typically involve a wide spectrum of beneficiaries as outlined in paragraph 16, and hence information on which entity was awarded a grant and the activities proposed allows the communities or groups to hold the grant recipient accountable for results and risks that are expected to benefit or affect them.
   2. The success of LVGs often depends on broad collaboration of stakeholders, and in some cases unsuccessful grant applicants can play an important function in supporting a selected grantee. In this regard grants differ significantly from other engagement methods such as procurement.
   3. Fraud detection and corruption prevention are a concern with LVG. Grants by their nature render many of the typical safeguards against fraud and corruption inapplicable (e.g. easier legal registration of NGOs, less government oversight, and limited or no public reporting requirements). A transparent governance process can be the best safeguard against fraud and corruption since it allows the members of the group receiving a grant to hold their organization responsible for its use. The inclusion of target beneficiaries in the grant selection process can help reveal illegitimate entities only created for the purpose of receiving funding without any long-term strategic backing by the community they claim to represent.

#### Grant selection criteria

1. The first step in issuing grants is the definition of selection criteria. These are programmatic considerations that are closely linked to the project document, and in some cases can even be mandated by the funding source.
2. The selection of grants differs significantly from other selection processes. For instance, procurement processes are intended to foster objectivity and the optimization of resources. Selecting grants, on the other hand, requires subjective judgment since programmatic considerations are the primary drivers. Grant selection often considers aspects, e.g. ethnicity, religion, or gender, that would be explicitly prohibited in other selection processes. Meanwhile, issues of feasibility, reputation of the entity, or cost-effectiveness are typically of less importance since grants tend to have an experimental nature.
3. Given the capacity limitations of many typical beneficiaries, the IP or RP responsible for managing a grant programme is often called upon to support potential grantees in the formulation and finalization of the grant proposal. For this reason, formal selection criteria often play a minor role because they tend to measure the quality of the support received, not the quality of the grant submission itself. The definition of minimum criteria is often counter-productive since they represent “barriers-to-entry” for the very groups grant programmes are intended to support.
4. Having said that, selection criteria play a central role in any successful grant programme and require careful consideration. Particularly in cases where the number of grant applications is expected to exceed the resources for grants, the selection criteria must be suitable to rank grant proposals and/or to restrict the space for approving grant proposals that do not meet the minimum quality standards. Selection criteria may include issues such as feasibility of the proposal, credibility of the partner, and consideration of risks. While subjective considerations are important, selection criteria cannot be arbitrary and must be defensible vis-a-vis stakeholders.
5. A good practice is the design of a grant evaluation matrix that awards points in up to five categories (i.e. up to 20 points each for a total of up to 100 points per proposal), depending on their relative importance in line with the programmatic considerations contained in the project proposal.
6. Selection criteria can be grouped into the following types:
   1. Purpose: In most cases grants are expected to be provided for a defined purpose (e.g. promoting energy access or climate change adaptation solutions). Depending on the size of the development project and the availability of grant funding, one or multiple purposes can be targeted that are defined in a wider or narrower sense. Some projects aspire to achieve greater impact by combining a portfolio of grants under one purpose. The idea is that the different grants become mutually supportive in a programmatic way, so that even comparatively small interventions focused on a common topic can have a disproportional impact.
   2. Method: In some cases, grants are expected to use certain methods or approaches to be considered eligible. For instance, a certain type of community engagement in its design and management or the use of specific tools. Prescribing a specific method can be useful when the objective of the project is to test out the feasibility of an approach using small investments (e.g. like randomized trials). When prescribing a specific method, careful consideration should be given to the incentives and capacities of potential beneficiaries to actually use the method as part of their grant proposals.
   3. Identity: In line with LNOB and the considerations mentioned in paragraph 16, it can be important to define eligibility in terms of the identity or composition of the entity submitting a grant proposal (e.g. women’s groups). Issues of identity can relate to formal aspects, such as being legally registered, having a specific status if that is necessary in the country context, or not having received a grant before. However, careful attention should be given that selection criteria focusing on identity do not undermine the inclusiveness of the process.
   4. Capacity:[[9]](#footnote-9) Unlike other engagement methods, grants do not assume or require that eligible entities can prove capacity to implement their grant ideas *a priori* since the grant itself is often intended to strengthen or build up capacity. So, capacity considerations of grantees tend to follow two paths: (i) a certain minimum threshold of capacity, which is often tied to the entities ability to credibly reach and interact with beneficiaries or stakeholders; (ii) a maximum ceiling on the age or budget the entity already has, which can be important if the objective is to support new or emerging entities that help diversify a sector.
   5. Submission Requirements: Ideas for grants are presented in the form of a grant proposal (see suggested template as annexed to the grant agreement template). The grant proposal defines how the idea needs to be presented including any requirements with regards to budget, disbursement schedule, reporting, duration, and other formal criteria. While formal submission requirements are necessary, it is in UNDP’s interest to ensure that good grant ideas are not excluded simply due to formalistic shortcoming, as explained below.
7. The final set of selection criteria must be signed off by the project board or selection committee. Grant selection criteria are either stated in the project document or established by the project board and included in grant solicitation documents and/or outreach to encourage CSOs to apply for a grant. For large grant projects, several distinct rounds of grant solicitation can be conducted, with each round using a specific set of selection criteria. Using this approach can help the project governance in reaching agreement on selection criteria.
8. Grants should deliver their benefit during the lifetime of the project funding them. However, the anticipated duration of grants can be tricky for many reasons, not least the fact that UNDP typically has a long-term interest in grantees. What is important, however, is that grantees report their results or achievements, receive their full grant amount, and provide financial reporting before the development project is operationally closed. Within these parameters, Business Units can manage grant duration flexibly.

#### Grant solicitation process

1. Once the selection criteria have been approved by the LPAC or project board, the grant solicitation process can commence. Through a grant solicitation mechanism such as an open advertisement or outreach to all eligible organizations, many possible development solutions can be quickly generated with direct ownership of the grant proposals by the grantees.
2. How potential grantees are made aware of a possible funding opportunity depends on several factors, but key above all is transparency. In the interest of transparency and accountability, the grant scope and requirements, proposal format, selection criteria and the award of all grants must be made public by UNDP, the IP, or the selection committee in an appropriate fashion. The two most immediate issues for consideration are language and medium used for solicitation. To reach populations left behind in the development process, a very tailored approach is often required, particularly since the process of grant solicitation might not be familiar to many stakeholders.
3. In many instances it might not be sufficient to simply make potential grantees aware of a funding opportunity, and much more direct support is needed for them to be able to conceptualize and write a grant proposal. Active encouragement is often needed to persuade potential grantees that they can be successful in implementing a grant.
4. One way to help potential grantees familiarize themselves with the proposal requirements and selection criteria, particularly also the formal aspects of grant proposals, can be writing workshops to which interested groups are invited. In fact, finding and training individuals of specific target groups in writing grant proposals can be a valuable grant purpose in its own right. It can be helpful for a grant programme to design its own grant submission template[[10]](#footnote-10) tailored to the specific project document to ensure that critical programmatic information is presented by the grant applicants.
5. In most cases grant solicitation processes are time bound and grant proposals are expected by a specific deadline; however, some project might accept grant proposals on a continuous basis, particularly in cases that require closer support for potential grantees. An example of a solicitation process can be found [here](https://sgp.undp.org/about-us-157/how-to-apply.html).

#### Grant selection process

1. Entities eligible as low-value grant recipients are selected under programming modalities described in the POPP and identified in a signed project document or project board decisions.
2. Depending on decisions of the project board or selection committee, once the deadline has passed, each individual grant proposal is assessed with regards to its eligibility in line with the published selection criteria.
3. The assessment of grant proposals can be done in two ways:

a) Pre-screening: In cases where the selection criteria are very technical and complex or when the volume of received grant proposals is very high, it can be advisable to pre-screen grant proposals. The pre-screening is done by one or more individuals designated by the project board or selection committee; typically including the project manager or a project coordinator. In some instances, it might be necessary for the individual(s) conducting the pre-screening to summarize/translate/format proposals so that all members of the project board or selection committee can meaningfully review the grant proposals. Following the pre-screening, the project board or selection committee receives the screened proposals in full and a list of other received proposals that did not pass the pre-screening for the final appraisal/decision.

b) Full review: Depending on the level of engagement of the members of the project board or selection committee, they might decide to review all received proposals directly.

1. The actual grant selection process ranks proposals in line with the selection criteria. In case a point system for each criterion was adopted, each grant proposal is awarded the requisite points and then ranked in descending order until available resources for grants are utilized.
2. The frequency of grant selection depends on the availability of grant funding, the complexity of the solicitation process, and the availability of the project board or selection committee members.
3. In exceptional cases, a grantee can be selected without a preceding solicitation process on an ad-hoc basis. This is the case either, when only one entity enjoys a specific status or legitimacy to represent stakeholders (e.g. recognized trade union) or when the grant in question itself serves the preparation or conduct of the grant-making process in line with the project document (e.g. grant writing workshop). Ad-hoc award of a grant must be documented in the project document or project board.
4. The result of the grant selection process, i.e. which entity is receiving a grant and which proposals were rejected, must be published, usually in the same way the solicitation process was handled. The publication of the selection process serves a larger transparency and accountability purpose but can also trigger collaboration among entities who were successful and those who were not. Hence, at least for the winning grant proposals it is important to make available the title of the grant, the name of the entity, and the contact information of the person signing the grant in an appropriate fashion.

## Formulating grant components

1. Low value grants often call for much more direct and sustained engagement of civil society, non-governmental organizations or specific population groups to achieve the intended development result. LVGs can be included as part of broader development projects, or the use of LVGs can be the primary, even though rarely the exclusive, course of action.

#### Formulating a grant component within a project:

1. Grant components can be included in projects under any implementation modality, i.e., NIM, DIM, UN agency implementation and NGO implementation. Grant components fall into two categories:
   1. Direct granting: In these projects UNDP is responsible for grant solicitation and signs grant agreements with the recipient under a direct implementation (DIM) project, or while providing country office support services (COS) under a nationally implemented (NIM) project. UNDP is responsible for all aspects of grant-making.
   2. Indirect granting or “on-granting”: An arrangement where UNDP provides funds to a grant-making institution serving as either an implementing partner (under national implementation) or responsible party (under direct implementation or direct country office support services to NIM). The institution then awards grants to recipient(s) following certain specified guidelines and appropriate due diligence, including being qualified to perform that role after an assessment of their capacity for on-granting by UNDP. This is an indirect grant-making process since UNDP and the grantees have no direct relationship; the grant agreement in this case is signed by the grantee and the grant-making institution. UNDP’s role can include providing technical assistance to the grant recipient as required.
2. The decision of using on-granting typically reflects the following considerations: a) an existing entity already has established contacts with the intended beneficiaries as well as sufficient expertise and infrastructure to manage grant-making, b) use of an existing entity may be more efficient, c) use of the entity is important for national ownership, d) indirect granting potentially leads to higher impact through the pooling of grant funding and strengthening national capacities.

#### Selection of a Partner for on-granting:

1. In case an entity other than UNDP is considered to serve an on-granting role, then a specific capacity assessment[[11]](#footnote-11) for on-granting must be conducted. UNDP is responsible for assessing the grant-making institution to ensure it has the programmatic, financial and management capacities and systems compatible with UNDP regulations and rules to effectively undertake its roles. The standard programmatic and financial assessments applied to UNDP’s implementing partners and Responsible Parties, including HACT, also apply. The assessment for on-granting includes the following areas:
2. Institutional capacity for grant award management, comprising a framework/system for undertaking grant proposal evaluation, due diligence and appropriate governance, and risk management (including composition and terms of reference of the grant award evaluation committee);
3. Financial resources management and systems, including analysis of granting portfolio;
4. Relevant history in managing resources through grant awards;
5. Relevant history in working with small organizations—including past experience in technical assistance and developing other organizations' capacity for social service delivery, competing for grants, managing grants, etc.;
6. Programmatic capacity, including monitoring and evaluation;
7. Capacity to assess and manage risk, including safeguarding people and the environment from harm;
8. Procurement and supply management procedures with clearly defined responsibilities and applicable templates for assessing the eligibility and capabilities of potential grant recipients; and
9. Transparency, including systems and processes to make information on grant recipients public;
10. The relevant assessment process and due diligence checklists for an implementing partner to perform on-granting are [here](https://popp.undp.org/node/956).[[12]](#footnote-12)
11. The standard on-granting clauses must be added to the project document or Responsible Party Agreement for implementing partners and responsible parties respectively who will undertake grant making activities in a UNDP project. On-granting [clauses applicable to a non-UNDP Implementing Partner can be found here](https://popp.undp.org/node/1011) and [clauses applicable to a Responsible Party under DIM can be found here](https://popp.undp.org/node/1666).
12. In case an implementing partner decides to assign a responsible party to perform the on-granting on its behalf, the implementing partner is expected to base selection on a similar capacity assessment process and due diligence standards that UNDP used to assess the implementing partner’s on-granting capacities and systems. While the project board (which includes UNDP) will review and recommend a choice for the responsible party, the implementing partner bears full accountability for the final decision on selection.

## Implementation of grants

1. The implementation of grants is part of the [standard development project process](https://popp.undp.org/taxonomy/term/51). The key steps are the signing of grant agreements, the disbursement of grants, the monitoring of grantees, and the reporting on results.

#### Grant agreement

1. Once the grantees are selected by the project board or selection committee, it is the responsibility of UNDP or the institution approved for on-granting to enter into agreements with the grant recipients. For UNDP, the grant agreement consists of the [standard template](https://popp.undp.org/node/4616) to which the grant proposal is attached.
2. It is the responsibility of the partner managing the grant component and signing the grant agreements to ensure that any financial limits applicable to individual grants and any general eligibility criteria of the grantee are respected for each individual grant.
3. Since the solution to a development challenge is generated by the grantee, and not UNDP, the intellectual property for solutions rests with the grant recipient, but through the grant application process, the grantee agrees to give UNDP an irrevocable, unlimited, cost-free license to use the solution in its programmes, and to replicate and disseminate it. The grant recipient retains the right to use the solution for its own commercial benefits.
4. Grantees use their own personnel, systems, designs, networks, procedures, and in some instances even their own funds to implement the grant. If provided for in the project document or otherwise agreed between UNDP and the Government, assets and equipment purchased by the Recipient Institution using grant funds shall be the property of the Recipient Institution.

#### Contingent Repayment Clauses in Grant Agreements

1. In certain instances, financing provided by UNDP under a grant agreement may result in the grant recipient generating additional revenue and/or reducing its costs. In such cases, UNDP uses clauses that enable it to receive payments from a grantee when the grantee generates a revenue stream and/or reduction in costs following receipt of a UNDP grant. The relevant clauses can be found [here](https://popp.undp.org/node/611).
2. The purpose of issuing grants with contingent repayments is to help support the development of products or services that may have revenue-earning potential, the commercialization of a product or service, or the provision of assets or other inputs to a commercialized service that may reduce costs and improve net revenue. Examples include grants issued to prepare media content, which may then earn royalties.
3. If commercialization is unsuccessful and no revenue is generated, or costs avoided by the grantee, whether due to technological or market failure, no repayment will occur. Thus, UNDP participates with the grant recipient in the risk of the development.

#### Disbursement

1. In line with the nature of LVGs, the disbursement of the grant amount takes place before the results or achievements set out in the grant agreement are obtained. The grant agreement includes the amounts to be paid to the grantee and any disbursement schedule. LVGs tend to be small (often well below $150,000) and hence can be paid in one or more tranches. Where grants have performance conditions it is preferable that they are broken into phases. The CO must have evidence on file to substantiate that performance conditions have been achieved before issuing subsequent phases of the grant.[[13]](#footnote-13) A final installment should be paid only after the completion of all activities, submission of final narrative and financial reports and the certification of those reports.
2. As mentioned above, the duration of a grant is very individual. In cases where a grant spans more than one year it is recommended to stagger disbursements in line with the anticipated cash flow needs of the recipient. Other considerations, such as the recipient’s management capacity, can also trigger the need for staggered disbursements. Subsequent disbursements are then conditional on satisfactory reporting on prior disbursements in line with the grant agreement.
3. The disbursement of funds, including the tracking of outstanding grant amounts, is the responsibility of the Implementing Partner or UNDP under DIM or COS to NIM. The Implementing Partner is also responsible for suspending disbursements in case a grant recipient is found to be in breach of its obligations. While this is the responsibility of the Implementing Partner or UNDP under DIM or COS to NIM, by virtue of its function and as signatory of the grant agreement, it is advisable that the project board or selection committee is advised of any impending suspension or cancellation of a grant agreement.
4. Recording grants differs from recording a Cash Transfer advance (e.g. NIM advance).  Grants are expensed upon cash issuance. Payment of grants does not require creation of an e-requisition or a purchase order (PO) as they do not represent procurement activities. However, to help project managers manage budgets and commitments associated with grants they have been included in the Procurement Catalogues and a requisition or PO may be used. Grants resources are paid to the grantee using an AP voucher which must be supported by appropriate documents that should be kept on file at the CO.
5. The following account codes should be used by offices when recording grants:

* 72605 - ‘Grants to Instit and other Beneficiaries’ - where grant is for non-credit purposes
* 72610 - ‘Micro Capital Grants Credit’ - where grant relates to credit activities and can be used to capitalize credit funds for “on lending” within financial limits
* 72615 – ‘Micro Capital Grants Other’ - where grant relates to credit activities and can be used by the recipient to cover the costs of its operations, purchase equipment, hire new staff etc.

For specific instructions on the budgeting, expensing, and accounting for grants please see the [Financial Resources Management Section](https://popp.undp.org/taxonomy/term/76).

1. Typically, UNDP Grants are small in nature and there is no anticipation that resources will be returned.  However, should resources issued as grants be subsequently returned by the grantee to UNDP, accounting for such return of funds should be discussed with your Finance Business Partner as treatment will vary depending on the status of the project and the reasons for the return of funds.
2. Typically, grantees will use goods and services locally available to ensure sustainability of the results. In exceptional cases a grantee might require the support of UNDP or the Implementing Partner to obtain certain goods or services as set out in the grant proposal. UNDP or the Implementing Partner can then retain the funding needed and procure the goods or services directly on behalf of the grantee.

#### Monitoring

1. The monitoring of the development project must be distinguished from the monitoring of individual grantees. [UNDP’s monitoring policy](https://popp.undp.org/node/1861) makes it clear that the monitoring function is the responsibility of project managers, and at the same time assumes a certain objectivity and detachment for monitoring to be credible.
2. Risks related to grant should be tracked in project Risk Register and monitored to ensure management measures are being implemented and are effective.
3. For the monitoring of a development project using grants, a key consideration is the rational why grants were used in the first place. For instance, did the use of grants result in new solutions, direct engagement with certain stakeholders, and better uptake of development solutions in line with paragraph 10. Some development projects even aspire to achieve larger objectives and even global benefits through the achievements across a whole portfolio of projects.[[14]](#footnote-14)
4. The monitoring of grants themselves is characterized by several formal and practical challenges that lie in their very nature:
   1. Since, grants often target populations hard to reach, monitoring of grantees may be challenging. In some instances, real privacy or confidentiality concerns stand in the way of gathering monitoring data. Unlike responsible parties, grantees often do not have distinguishable office premises. In extreme cases, they might be in remote or inaccessible locations – a fact that frequently contributed to the use of a grant to engage with the populations in question in the first place.
   2. The Implementing Partner or UNDP often plays a much more engaged role in bringing grant proposals to fruition. As the experience of existing grant projects shows, monitoring includes a significant amount of troubleshooting on behalf of the grantees, including bringing them together with other development stakeholders to solve problems. In cases where grantees have to be encouraged and persuaded to take the risk of submitting and implementing a grant, monitoring tends to be more collaborative and supportive compared to other engagement types with responsible parties.
   3. Since the entity receiving the grant is legally the beneficiary, it is largely up to them to determine if the expected benefit was received. So, obtaining an independent assessment of progress can be hard for UNDP or the Implementing Partner, as the grantee itself is often the best-placed information source.
5. These challenges notwithstanding, the central aspect of monitoring grants is to get grantees used to documenting their experiences and working methods. Since capacity development is a significant purpose of grants, monitoring should help familiarize grantees with basic tenants of project management that will better equip them to manage their own affairs.
6. The grant agreement can be amended in line with the project document, which typically specifies what type of amendments are possible. The project board or selection committee retains control over grant amendments, particularly any additional fund allocations. However, simple no-cost extensions of the timeline can be delegated to the Implementing Partner.
7. The Implementing Partner is also responsible for referring to the project board or selection committee any issues that would warrant the cancellation of a grant or suspension of further disbursements.

#### Reporting

1. The grantee is responsible for substantive and financial reporting on the utilization of the grant as defined in the grant agreement. As mentioned above, in practice reporting is often a much more collaborative undertaking, particularly in cases where the project requires specific data to be reported in a harmonized or uniform way so it can be aggregated. Appropriate evidence that the activities reported were completed should be attached to the report, such as photographs, boarding pass copies, meeting minutes, sign in sheets, etc.
2. Grantees must provide performance reporting to UNDP, or the Implementing Partner in the case of on-granting, at least 30 days before the expected release of the next tranche. In cases where a grant spans more than one year, the grant recipient must provide annual reports until activities have been completed. At the end of the grant period, the grant recipient is required to submit a final substantive and financial report, which shall include certification by the Recipient Institution’s representative with institutional responsibility for financial reporting, including the certification date. Projects with grant components are subject to UNDP’s audit requirements, such as DIM audits or audits of the Implementing partner in the case of on-granting.

## Annex:

#### Glossary

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| --- | --- |
| Direct granting | Grant projects in which UNDP is responsible for the grant solicitation process and signs grant agreements irrespective of the implementation modality of the project |
| Disbursement | The payment of the grant amount to the grant recipient in line with the grant agreement |
| Grant | Cash awards – selected via programmatic decisions – to civil society partners to generate and solicit development solutions for which no repayment is typically required. |
| Grant agreement | The legal document typically signed between the Implementing Partner/Responsible Party and the grant recipient to which the grant proposal is attached |
| Grant allocation or funding | The total amount of money available under a development project for grants provided, typically provided by a donor |
| Grant amount | The amount requested for a specific grant that is subject to certain limitations |
| Grantee or grant recipient | The entity the Implementing Partner or Responsible Party signs the grant agreement with that legally is considered the final beneficiary of the grant |
| Grant proposal | The document prepared by an interested entity in response to a grant solicitation process |
| Grant project | A development project that as part of its design contains specific provisions on grant-making in the project document |
| Indirect granting (or on-granting) | Grant projects in which an entity other than UNDP is responsible for the grant solicitation process and signs grant agreements irrespective of the implementation modality of the project |

#### Options Used by UNDP to Provide Low-Value Grants

The following tables summarizes the legal instruments used by UNDP to provide low-value grants. For grants provided by partners other than UNDP, the relevant legal instrument of the partner institution will be used, which must be in a form that has been deemed acceptable to UNDP as part of the partner’s grant-making capacity assessment process.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Low-value grant** | **Grantee** | **Agreement** | **Selection process** | **Grant threshold** |
| **For grant recipient** (civil society or non-governmental organization, academia) | Low value grant agreement\* | Following Grant solicitation process based on selection criteria and  Assessment of proposal submitted by Grantee | $150,000 per grant and $300,000 on a cumulative basis within the same programme period |

**\* Full HACT Assessment required if the value of LVG plus other funds received from UNDP exceed $300,000 per programme cycle**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **On-granting** | **IP/RP** | **Agreement** | **Grantee** | **Selection process** | **On-Grant threshold** |
| Government ministry/institution or intergovernmental organization as the **grant-making institution** | Full HACT and assessment for on-granting; on-granting clauses added to project document for IP, or standard letter of agreement for RP | CSO/NGO | UNDP assesses the capacity of IP for on-granting  Due diligence by the IP for any on-granting institutions | $150,000 per grant and $300,000 on a cumulative basis within the same programme period  If an Implementing Partner selects another institution to be a Responsible Party to administer the grants, the value shall not exceed $60,000 per individual grant and $120,000 on a cumulative basis within the same programme period. |
| UN agencyor IGOs as the **grant-making institution** | Assessment for on-granting; on-granting clauses added to UN agency to UN Agency agreement | CSO/NGO |
| Civil society organizations (including NGOs, academia, public-private entity) as the **grant-making institution** | Full HACT and assessment for on-granting; on-granting clauses added to:   * PCA for Implementing Partners * Responsible party agreement for collaborative advantage * For competitive selection: model contract for professional services   For country-based pooled fund: standard responsible party agreement for CBPFs | CSO/NGO |

1. The guidance covers both, direct granting by UNDP and “on-granting” by another entity. [↑](#footnote-ref-1)
2. However, a repayment can be allowed. In such a case, contingent repayment clauses must be added to the agreement as explained below in Section D. [↑](#footnote-ref-2)
3. See ‘Definition of grant recipients’ in para 14. [↑](#footnote-ref-3)
4. Please note that catalyzing experimentation for private sector activities is not covered under the LVG policy but rather ‘Innovation Challenges’ – see para. 25. [↑](#footnote-ref-4)
5. In some instances, i.e. monopolies, there is no marketplace, but the point remains valid. [↑](#footnote-ref-5)
6. The product lifecycle includes guarantee and service periods. [↑](#footnote-ref-6)
7. See Performance Based Payment Operational Guidance [↑](#footnote-ref-7)
8. These limits apply to funding originating from UNDP and are not inclusive of any co-financing the grantee might have raised independently. [↑](#footnote-ref-8)
9. See the [Partner Capacity Assessment Tool](PPM_Design_Consolidated%20Risk-Based%20Partner%20Capacity%20Assess%20Tool.xlsm) [↑](#footnote-ref-9)
10. Example of an SGP project proposal template [here](https://sgp.undp.org/resources-155/key-documents-191/273-sgp-project-template/file.html) [↑](#footnote-ref-10)
11. See the [Partner Capacity Assessment Tool](https://popp.undp.org/UNDP_POPP_DOCUMENT_LIBRARY/Public/Consolidated%20Risk-Based%20Partner%20Capacity%20Assess%20Tool.xlsm) [↑](#footnote-ref-11)
12. See the [Partner Capacity Assessment Tool](https://popp.undp.org/UNDP_POPP_DOCUMENT_LIBRARY/Public/Consolidated%20Risk-Based%20Partner%20Capacity%20Assess%20Tool.xlsm) [↑](#footnote-ref-12)
13. Under the GEF Small Grants Programme, for example, in no case should the first disbursement be more than 50% of the total project grant amount (except when justified and prior approval from UNOPS has been received). [↑](#footnote-ref-13)
14. The [Small Grant Programme project document](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0ahUKEwj-qMb_iJLcAhWGfFAKHQLyCy8QFgg0MAI&url=https%3A%2F%2Fwww.thegef.org%2Fsites%2Fdefault%2Ffiles%2Fproject_documents%2F073007-GEF%252520SGP%252520PRODOC%252520Phase%2525204%252) explicitly references global benefits achieved through the grant portfolio. [↑](#footnote-ref-14)