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The Indonesian Biodiversity Foundation Project

Project No. 497-0384

Project Paper

Volume I

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A

INDONESIAN BIODIVERSITY FOUNDATION
PROJECT PAPER

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b

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: _____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Indonesia

3. PROJECT NUMBER: 497-0384

4. BUREAU/OFFICE: ANE — 04

5. PROJECT TITLE (maximum 40 characters): Indonesian Biodiversity Foundation Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 29 YY 05

7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4)
A. Initial FY 95 B. Quarter 2 C. Final FY 95

8. COSTS ($000 OR EQUIVALENT $1 = Rp2,221.)

A. FUNDING SOURCE	FIRST FY 95 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	16,500	2,500	19,000	16,500	2,500	19,000
(Grant)	(16,500)	(2,500)	(19,000)	(16,500)	(2,500)	(19,000
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country / Counterpart		6,500	6,500		6,500	6,500
Other Donor(s)						
TOTALS	16,500	9,000	25,500		9,000	25,500

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)						19,000		19,000	
(2)									
(3)									
(4)									
TOTALS						19,000		19,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CO

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

1) To create and strengthen the capability of institutions engaged in the sustainable use of biodiversity, and

2) To promote the wider adoption of proven policies and practices in biodiversity conservation.

14. SCHEDULED EVALUATIONS
Interim MM 01 YY 98 MM 01 YY 00 Final MM 01 YY 05

15. SOURCE/ORIGIN OF GOODS AND SERVICES (935) Special Free Worl
☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) GEF Funds

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY
Signature: Vivikka M.. Molldrem
Title: Acting Director/USAID/Indonesia
Date Signed: MM 03 DD 22 YY 95

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTIO
MM DD YY

AID 1330-1 (8-79)

PROJECT AUTHORIZATION

Cooperating Country: Indonesia

Project Title: Indonesian Biodiversity Foundation Project

Project Number: 497-0384

1. Pursuant to the Foreign Assistance Act of 1961, as amended, the Foreign Operations, Export Financing and Related Programs Appropriations Acts, 1994 and 1995, A/PRE Bureau Delegation of Authority (DOA) dated August 9, 1991, as amended, and the authority delegated under 93 State 316766, I hereby authorize the Indonesian Biodiversity Foundation Project (Project) to be implemented in the Republic of Indonesia, involving planned obligations of not to exceed Nineteen Million United States Dollars ($19,000,000) in grant funds over a one-year period from the date of authorization, subject to the availability of funds in accordance with the USAID OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. Except as USAID may otherwise agree in writing, the planned life of the Project is 10 years from the date of initial obligation.

2. The goal of the Project is to strengthen Indonesia's ability to protect and sustain its extraordinary biodiversity for the benefit of both its own citizens and the international community now as well as for future generations. The purpose of the Project is to (a) create and strengthen the capability of institutions engaged in the sustainable use of biodiversity, and (b) promote the wider adoption of proven policies and practices in biodiversity conservation. The Project will finance technical assistance, training, commodities, audits and evaluations, and other goods, services and activities in support of Project objectives, and capitalize an endowment for the Indonesian Biodiversity Foundation (IBF) to generate income to be used in support of Project objectives.

3. The Cooperative Agreement with IBF, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with USAID regulations and delegations of authority, shall be subject to the following essential terms, conditions and covenants, together with such other terms, conditions and covenants as USAID may deem appropriate.

a. <u>Source and Origin of Commodities, Nationality of Suppliers</u>

Countries within USAID Geographic Code 935 shall be the source and origin of commodities and the nationality of suppliers of commodities and services financed under the Project, except as USAID may otherwise agree in writing.

b. Conditions Precedent to Disbursement of Endowment Funds

The Cooperative Agreement with IBF shall contain, in substance, the following conditions precedent to disbursement of the endowment funds:

(i) the United States Internal Revenue Service has approved IBF's application for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code; and

(ii) IBF has executed an endowment investment management agreement in form and substance satisfactory to USAID, with such professional asset management firm as may be selected by IBF and approved by USAID.

c. Covenants

The Cooperative Agreement with IBF shall contain, in substance, the following special covenants:

(i) Endowment funds shall be invested in financial instruments offered in the U.S. through a U.S.-based financial intermediary;

(ii) None of the funds made available through the endowment, including investment income, may be used (a) to coerce any person to practice abortion; or (b) to pay for the performance of involuntary sterilizations or to coerce or provide any financial incentive to any person to undergo sterilization;

(iii) The endowment investment management agreement shall not be changed during the period of USAID oversight without the approval of USAID;

(iv) If either IBF or the endowment are dissolved at any time (even after the period of USAID oversight), any funds remaining in the endowment must be returned to the U.S. Treasury as miscellaneous receipts, unless USAID agrees otherwise;

(v) Failure to provide a scheduled audit report to USAID or serious adverse audit findings will constitute default under the Cooperative Agreement and can be considered grounds for termination; and

(vi) If the Cooperative Agreement is terminated, any funds remaining in the endowment must be returned to USAID.

Vivikka M. Molldrem
Acting Director

Mar 23, '95
Date

PROJECT SUMMARY

The United States and Japan, under the Tokyo Declaration of January 1992, mutually agreed to strengthen their cooperation in preserving the global environment by assisting developing countries in managing and conserving their natural resources. Indonesia is the first site of a proposed program of coordinated financial and technical assistance for the conservation of biological diversity. The Indonesian Biodiversity Conservation Program -- a joint effort between Indonesia, Japan and the U.S. -- is designed to conserve Indonesia's tremendous biotic wealth by supporting the implementation of Indonesia's *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia.* The U.S. contribution to this program is through the **Indonesian Biodiversity Foundation Project.**

Indonesia is one of the world's foremost centers of biological diversity. Biological diversity, or biodiversity constitutes the totality of all extant species, ecosystems and genes. It represents the variety and uniqueness of all genes, flora, fauna and habitats found in the world. Indonesia's extraordinary biological resources, essential for human survival and national economic development, are currently being threatened by over-exploitation and degradation of forest and marine areas. Conserving biodiversity involves maintaining levels of species and habitats to ensure their survival and continuing evolution. A critical constraint to conserving biological diversity is the lack of sustainable, flexible sources of funding.

The program is an important step in fulfilling commitments made under the International Convention on Biological Diversity and at the Earth Summit in Rio in June 1992. The GOI, U.S. and Japan will fund joint and complementary components of the program. Under the program, the U.S-funded IBF project supports the development of the Indonesian Biodiversity Foundation (IBF or *Yayasan KEHATI*), an independent, self-sustaining grantmaking institution dedicated to funding biodiversity conservation activities by NGOs, scientists, local communities and others. The Foundation provides Indonesia with a flexible, catalytic funding mechanism to more aggressively pursue efforts to conserve the country's biotic wealth. As an international standard foundation it is designed to stimulate and lead national, regional and local biodiversity conservation programs through networking and advocacy. Japan plans to provide facilities for a biological life sciences center for *ex-situ* research and support the management of the Gunung Halimun National Park (*in-situ* conservation programs). Japan's contribution is about $20 million. The Government of Indonesia will finance operating costs.

A Program Coordinating Committee (PCC) with membership from the GOI, U.S. and Japan oversees the implementation of the program. The PCC will meet at least twice a year with the Foundation invited to participate as an observer and share information on Foundation-funded programs.

Legally established in January, 1994, the Foundation opened its Jakarta office in July, 1994. The Board of Directors is composed entirely of distinguished private citizens and includes representatives from two well established international foundations. The Foundation has met USAID's "grant worthiness" assessment and demonstrated the technical and administrative ability to handle USAID funds. USAID's planned contribution is $19 million through the IBF project and about $1.3 million in additional support. The Foundation is expected to contribute at least $6.5 million in matching contributions. USAID will fund the initial endowment of $16.5 million, a pilot grantmaking program, and institutional development (e.g., technical assistance, training and operating costs).

Foundation staff carried out extensive consultations in Jakarta, Central Java and East Kalimantan to present the Foundation's objectives and solicit suggestions on Foundation development, operation and focus. Through national leadership and innovative grantmaking, the Foundation will support three program areas during the initial years: a) building constituencies for sustaining biodiversity, b) identifying and analyzing public policy priorities, and c) strengthening community-based nature conservation activities. The Foundation intends to place priority attention on in-situ conservation, especially in threatened ecosystems such as the *Dipterocarpaceae* forests of Kalimantan, testing innovative approaches for promoting community participation, marine conservation, and ex-situ conservation to document important genetic resources in areas with high population pressure and development. Accordingly, the Foundation identified five priority geographic areas:

a) Development of in-situ conservation in East Kalimantan;
b) Sustainable use of biodiversity to benefit communities in North Sumatra;
c) Development of eco-tourism in Bali and Nusa Tenggara Timor;
d) Marine biological diversity conservation in Jakarta Bay; and
e) Development of ex-situ conservation on Java.

The Foundation also plans to promote a broader discussion of critical policy issues, hold national and regional consultations to exchange information, and assess and strengthen the capability of prospective grantees to undertake Foundation-funded activities.

By the end of the project, a professional foundation of international standards of good governance will be making catalytic grants to a variety of institutions, individuals and NGOs across the archipelago. An endowment will be established and operating that is producing income and which will be increased to $40 million. Scientists, NGOs, community groups and others will have conducted and will be continuing to carry out a range of activities aimed at conserving Indonesia's unique and valuable biological diversity.

Abbreviations and Acronyms

ADB	:	Asian Development Bank
BAPPENAS	:	National Development Planning Agency
BCN	:	Biodiversity Conservation Network/U.S.-Asia Environmental Partnership
BScC	:	Biological Science Club
BSP	:	Biodiversity Support Program
CA	:	Cooperative Agreement
CITES	:	Convention on International Trade in Endangered Species
DML	:	*Dana Mitra Lingkungan* (Fund for Environmental Partnership)
FSN	:	Foreign Service National
GEF	:	Global Environmental Facility
GEF-SGP	:	Global Environmental Facility-Small Grant Program
GOI	:	Government of Indonesia
GOJ	:	Government of Japan
IBCP	:	Indonesian Biodiversity Conservation Program
IBF	:	The Indonesian Biodiversity Foundation
JICA	:	Japan International Cooperation Agency
KEHATI	:	*Keanekaragaman Hayati* (biological diversity)
LATIN	:	*Lembaga Alam Tropika Indonesia* (Indonesian Tropical Institute)
LIPI	:	Indonesian Institute of Science
LH	:	State Ministry of Environment
MOFr	:	Ministry of Forestry
MOU	:	Memorandum of Understanding
NGO	:	Non-Governmental Organization
NRMP	:	Natural Resources Management Project
PHPA	:	Directorate General for Forest Protection and Nature Conservation, MOFr
PID	:	Project Identification Document
PP	:	Project Paper
REPELITA	:	Five Year Development Plan
TA	:	Technical Assistance
UNCED	:	United Nations Conference on Environment and Development
UNDP	:	United National Development Programme
U.S.	:	The Government of the United States of America
USAID	:	United States Agency for International Development
USDH	:	U.S. Direct Hire
YABSHI	:	*Yayasan Bina Sains Hayati Indonesia* (Foundation for the Advancement of Biological Sciences in Indonesia)

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L. Environmental Determination
M. Articles of Association, By Laws, Conflict of Interest Policy and GOI Tax Exemption
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1. PROBLEM OR OPPORTUNITY, PROJECT PURPOSE, AND ASSISTANCE INTERVENTIONS

1.1 GLOBAL AND INDONESIAN ENVIRONMENTAL CONTEXT AND RATIONALE

The late twentieth century is a time of extraordinary change in the relationship between people and the natural resources upon which they depend. The scale of human activities have begun to disrupt the earth's global life support systems -- including its atmosphere and the wealth of plant and animal life -- in unprecedented ways. Localized environmental degradation poses real threats to the health and economic well-being of communities and regions throughout the world.

1.1.1 Global Environmental Context

The state of the environment is now a major worldwide concern. There is growing awareness that the stakes in environmental protection are enormous -- for developed and the developing countries alike. Environmental degradation is now seen as a serious impediment to economic development and the alleviation of poverty in the developing world. Industrialized nations also recognize that much of the world's most valuable environmental resources reside in developing countries. Stewardship of the global environment calls for bold leadership in both industrial and developing countries. The problems are unprecedented and they involve great uncertainty.

1.1.1.1 *Biodiversity as a Global Environmental Concern*

Chief among these environmental concerns is the worldwide loss of biological diversity. The international interest in biological diversity stems from the growing dangers of species extinction, depletion of genetic diversity, and disruptions to water supplies, forests, and fisheries. The increasing awareness of the importance of biodiversity on the part of both governments and the general public has created the desire to ensure that no part of the world's natural heritage is lost through inattention or ignorance.

1.1.1.2 *The Nature of Biodiversity*

Biological diversity, or biodiversity, constitutes the totality of all extant species, ecosystems and genes. It represents more than a simple taxonomic sum, however, encompassing the variety, variability and uniqueness of all genes, flora, fauna, and habitats found on the planet. The term is used to refer to ecosystem diversity, species diversity (or "species richness") and genetic diversity. Ecosystem diversity relates to the enormous diversity of habitats and biotic communities as well as the variety of ecological processes within ecosystems.

Damage to global resources and ecological processes like biodiversity threaten the economic, social and environmental well-being of all countries. Biological resources provide enormous direct economic benefits in the form of food, medicines, and industrial raw materials, and have the potential for generating many more. Biodiversity supplies the working ingredients for natural ecosystems that provide an array of essential services to humanity: keeping the air clean, modifying climatic extremes, degrading wastes, recycling nutrients, creating soils, controlling diseases, regulating hydrological cycles, and so on. These services are basic to economic growth and development. Scientists and conservationists fear that destruction of natural ecosystems and their associated species may in the long run undermine the earth's ability to support diverse forms of life, including human life. Many species of wild plants and animals, and the ecosystems of which they are integral parts provide a source of beauty and inspiration to people all over the world. Although the precise impacts of biodiversity loss on the global environment remain uncertain, evidence increasingly suggests they could be large and irreversible.

1.1.1.3 *The International Framework for Biodiversity Conservation*

Several recent international initiatives have begun to provide a guiding framework for the prevention of biodiversity loss. The successful negotiation of the *Convention on Biological Diversity* (Rio de Janeiro 1992) and its signing by 157 countries at the United Nations Conference on Environment and Development (UNCED) demonstrates the commitment by the international community to address global environmental problems. The principal objectives of the Convention are the conservation of biological diversity, the sustainable use of its components, and the sharing of the benefits that come from the use of genetic resources. The *Global Biodiversity Strategy* (1992), an international effort by scientists, community leaders, governments and industry outlines goals and principles to guide biodiversity conservation planning at the local, national and international levels. Existing international agreements such as the *World Heritage Convention*, the *Ramsar Convention*, Unesco's Man and the Biosphere Program, and the *Convention on International Trade in Endangered Species* (CITES) provide useful frameworks for international cooperation as well as mechanisms for protecting sites of global biodiversity significance.

1.1.1.4 *United States and Japan Commitment to Biodiversity Conservation*

At the Earth Summit in Rio de Janeiro (1992), the governments of Indonesia, Japan and the United States made a commitment to promote the conservation of biological diversity, reflected in their signing of Agenda 21. In June 1993, the United States joined Japan and Indonesia as a signatory to the International Convention on Biological Diversity. The Convention obligates the three governments to undertake the conservation measures as outlined in Agenda 21. The U.S. and Japan, as signatories to the Convention, also made a commitment to provide financial and technical assistance to developing countries to help them fulfill their conservation obligations.

The United States is committed to reducing long-term threats to the global environment, particularly the loss of biodiversity. USAID's approach to biodiversity focuses on conserving the planet's biologically richest ecosystems. Geographically, USAID will concentrate on two types of areas: those richest in biodiversity and facing the greatest threat; and those that are least disturbed and present the greatest opportunity for long-term conservation.

1.1.2 The Indonesian Environmental Context

Indonesia is recognized as one of the world's foremost centers of biological diversity. It possesses what is probably the richest diversity of plant and animal species, ecosystems and genetic resources in the world. Although it covers only 1.3 percent of the earth's land surface, Indonesia holds 25 percent of the world's fish species, 17 percent of bird species, 16 percent of reptile and amphibian species, 12 percent of mammal species and 10 percent of flowering plant species. The country's tropical forests contain the most biologically rich ecosystems in the world. Approximately 104 million hectares of closed tropical forests remain in Indonesia today, comprising more than half of Asia's remaining tropical rain forests. Indonesia has more marine coastline than any tropical country. It also contains the most extensive system of coral reefs in the Indo-Pacific Ocean, providing shelter to a rich variety of corals, fish and other reef organisms. This combination of tropical rainforests and rich marine resources makes Indonesia one of ten "mega-diversity" countries in the world.

1.1.2.1 *The Status of Indonesia's Biodiversity*

In Indonesia, high levels of ecosystem diversity, species richness and endemism coexist with a rapidly industrializing economy and a large, growing and internally mobile human population, much of which is rural and engaged in agriculture and fishing. The country has the world's longest list of species threatened with extinction, including 126 birds, 63 mammals and 21 reptiles.

One of the gravest threats to Indonesia's terrestrial biodiversity is posed by logging and agricultural encroachment of forest areas. As early as a decade ago, most provinces had already lost 80 percent or more of their lowland forests. Currently, timber concessions cover 53.4 million hectares of the Outer Islands and it is anticipated that all of these concession forests will be logged within the next 30 years. Excessive poaching, hunting and environmental pollution also seriously threaten specific species and habitats.

Marine habitats, mangrove forests and wetlands are deteriorating as a result of over-exploitation, conversion to agriculture, pollution and degradation. More than half of the coral reefs in Indonesia are in advanced states of destruction. Over-fishing, siltation/pollution, and the use of harmful fishing techniques such as dynamiting, poisoning and coral reef mining are gradually reducing the variety of marine species. Continued rapid economic growth in Indonesia, while essential in meeting its development strategy of "growth

with stability" in the years ahead, will greatly increase the pressure on the country's natural resources and critical ecosystems.

Issues of "sustainable development" -- including the loss of biodiversity-- have become increasingly important for Indonesia over the past decade. While the Government's past development efforts have been remarkably successful in stimulating economic growth and reducing widespread poverty, the pace and pattern of development have led to growing concern about the sustainable use of natural resources. The growing attention to issues of "environmental sustainability" in the GOI development strategy demonstrates an increasing awareness of the costs and risks of environmental degradation, including the loss of biodiversity.

Indonesia has a strong vested interest in conserving its natural resources and protecting critical ecosystems upon which so much of its economic activity depends. The direct and measurable benefits from agriculture, forest resources, fish and other marine products and related revenues from tourism are enormous. Terrestrial and marine ecosystems protect watersheds and coastal areas from erosion, provide essential habitat for the growth of plants and animals, and assimilate human and industrial waste. Preserving these critical ecosystems also protects valuable biological resources thus avoiding the foreclosure of future options. Biodiversity must be protected for its potential -- if unknown -- value for future development.

1.1.2.2 *Indonesia's Biodiversity is a Global Resource*

Protecting Indonesia's biodiversity is a global concern because its benefits accrue not only to the citizens of Indonesia but to people all over the world. For example, Indonesia's rainforests and coral reefs play an important role in maintaining global ecosystems and serve as a repository of the world's remaining "gene pool." This biodiversity represents a storehouse of considerable potential value to future generations worldwide. The world as a whole thus stands to lose a great deal if this biodiversity is lost.

Besides the tangible economic and health benefits available worldwide, many people attach value to the existence of species and habitats in Indonesia that they may never see or use. The market, however, does not reflect many of the intangible benefits that people gain from biodiversity, since they do not have to pay for these benefits. Consequently, Indonesia acting in its own national interest, will tend to protect its biodiversity less than if it took its global value into account. If the international community wants to ensure a higher level of protection than would be chosen by Indonesia acting on its own, financial investments promoting the sustainable use of Indonesia's biological resources must be made.

1.1.2.3 *Current Efforts to Protect Indonesia's Biodiversity*

The Government of Indonesia fully recognizes that its biological treasures are a national and global asset and is committed to protecting them for the benefit of future generations. Its policy on biodiversity protection is embodied in the *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* both of which are consistent with an environmentally responsible development strategy (Annex F includes a summary of the *Biodiverisity Action Plan for Indonesia*). While pursuing the development goals of poverty reduction and economic growth, it will obviously not be possible to preserve all of Indonesia's remaining ecological assets. The goal is to ensure the sustainable use of most of these assets.

To protect its most valuable natural ecosystems and biological diversity, Indonesia has designated nearly 50 million hectares of terrestrial and marine resources as conservation areas. Despite the substantial size of this conservation system, it may still be inadequate to conserve all of Indonesia's rich biodiversity. Some habitats, such as lowland forests are poorly represented in the system. Many of the designated conservation areas have small or nonexistent budgets and little effective management. Effective management of parks and protected areas is constrained by several factors including: a lack of participation by local people; limited environmental awareness on the part of the public; and insufficient funding. Successful protection of biodiversity requires the cooperation and support of local communities and a degree of inter-agency coordination by central and local government authorities. The involvement of international and local NGOs can also benefit the design and implementation of conservation projects.

In addition to terrestrial and marine conservation areas, *ex-situ* (off-site) protection plays an important role in conserving a small but often critical part of total diversity. *Ex-situ* efforts in Indonesia include the maintenance of a number of botanical gardens and arboreta focused on conserving plant diversity. Several zoological parks are also involved in captive breeding programs aimed at preserving threatened species.

Primary responsibility for *in-situ* conservation of biological resources rests with the Ministry of Forestry's Directorate General of Forest Protection and Nature Conservation (PHPA). This agency has been responsible for establishing a system of national parks, nature reserves, wildlife sanctuaries and protection forests. The Indonesian Institute of Sciences (LIPI) maintains *ex-situ* biological collections and the ethnobotanical and zoological museums. The Ministry of Agriculture and the Ministry of State for Research and Technology are involved in germplasm conservation activities. Responsibility for coordinating policies and programs related to biodiversity is shared between the National Development Planning Agency (BAPPENAS) and the State Ministry for Environment (LH). A Biodiversity Working Group, which includes members from Government, universities and NGOs meets regularly to discuss biodiversity conservation issues.

Much of the impetus and energy behind biodiversity conservation in Indonesia emanates from non-governmental groups. NGOs have been active in many areas relevant to

biodiversity protection, including social forestry projects, management of national parks, establishment of community seed banks, development of local databases, promotion of sustainable uses of biological resources and expanding public awareness and understanding the needs and cultures of indigenous peoples. NGOs play a crucial role in raising public awareness of the ecological, economic and social importance of biodiversity, and are increasingly providing an objective analysis of government policies and programs.

1.1.3 The Rationale for the Indonesian Biodiversity Foundation Project

1.1.3.1 *The Problem*

Ensuring the sustainable use of biological diversity encompasses a broad range of activities which are at the same time multi-sectoral, public and private, commercial and non-commercial, as well as international and domestic. Responding to such complexity cannot be accomplished by either the public or private sectors acting alone. The situation requires public/private partnership efforts. For example, governmental entities are often unable to initiate the kinds of activities and research critical for generating new ideas and creative approaches that are badly needed in order to conserve biodiversity throughout the Indonesian archipelago. Government agencies, by virtue of their centralized structures and weak staffing, simply do not have the flexibility nor the reach required to address the threats to Indonesia's biotic wealth.

The increasing number of natural resource-related NGOs in Indonesia indicates growing non-governmental efforts to conserve biodiversity. Indonesia's national commitment to biodiversity conservation can be better served by greater involvement of NGOs capable of implementing such activities. To date, private organizations have, however, been limited in their contribution to monitoring and protecting biologically diverse habitats. Institutional strengthening, additional funding and human resource development are needed to overcome the limitations of these NGOs. Local communities in rural areas are also increasingly involved in natural resource related issues.

Indonesia's natural science institutions and scientific community also have the potential to play an increasingly significant role in biodiversity conservation, if their organizational capacity and human resource development are strengthened. Support for applied research needs to be emphasized. Linkages between concerned institutions also need to be established and strengthened to maximize coordination and collaboration among various groups working on biodiversity-related issues.

Public access to information on biodiversity and its importance to Indonesia remains very limited at present. Broader public understanding and support for biodiversity conservation is needed for national programs to gain momentum and achieve success. Awareness of the importance of sustaining the nation's biological resources must be promoted among both private citizens and public leaders.

Increased investments are needed to support the implementation of the *Biodiversity Action Plan*. Existing levels of government expenditure are inadequate to assure the long-term management of protected areas and critical ecosystems. Direct government expenditures for protected area management and conservation are estimated at approximately $6 million annually, or 0.01 per cent of the annual national budget. Budget allocations for research are also limited. Potential sources of additional conservation financing include allocations from the national budget, user fees at national parks, special taxes and increased development assistance. The GOI is understandably reluctant to add to its already sizable external debt to fund the management of parks and preserves and other activities to protect biodiversity, preferring to rely on domestic resources. Domestic sources of private and corporate wealth have yet to be tapped for their potential contribution to conservation funding.

Given the global benefits of protecting Indonesia's biodiversity, additional resources are needed from the international community to support its conservation efforts. Additional donor funding, to be effective, must be consistent with the absorptive capacity of implementing agencies, indigenous NGOs and local communities. Additional intermediary institutions are needed to channel development assistance towards effective conservation activities.

To summarize, there is a need for flexible and innovative funding mechanisms--which complements government activities--capable of responding to emerging conservation priorities in research, policy analysis, monitoring and management of protected areas, institutional and human resource development, public education and the creation of networks among institutions and conservation groups.

1.1.3.2 *The Response*

The Indonesian Biodiversity Foundation Project has its origins in a Presidential initiative in early 1992 (Tokyo Declaration). The initial project design concept focused on the creation of a center, jointly supported by the United States and Japan, dedicated to the conservation of biodiversity. Consultations between the Governments of Indonesia, Japan and the U.S., and individuals representing scientists, private sector, academics and conservation NGOs from July 1992 to January 1993 made it clear that the Indonesian partners did not want a new center which would duplicate the roles and functions of existing institutions (of which there are many concerned with biodiversity). The priority that emerged from these consultations focused on the need to (a) make existing institutions function more effectively, and (b) reinforce the linkages among these institutions. The desirability of establishing a nongovernmental foundation-type institution, to be supported by the U.S., emerged from these consultations. At the same time, Japanese assistance will be directed to strengthening government institutions and conservation programs.

A foundation-type institution represents an appropriate response to the complex problem of biodiversity conservation in Indonesia. Through creative grantmaking, a

foundation can stimulate collaboration and linkages that would be hard to develop in the absence of the funding lever. An independent foundation has a flexibility and reach enabling it to work across private and public sector interests adroitly if it is mandated to do so. A foundation is also likely to do far more for strengthening and catalyzing the NGO community than other Indonesian institutional alternatives. Finally, a foundation represents a unique institution capable of channeling funds from donors interested in the sustainable use of Indonesia's natural resource base through its grantmaking.

Throughout Africa, Latin America and Asia, new forms of publicly endowed grantmaking foundations are now emerging. These foundation-like organizations differ from traditional bilaterally-funded "projects" managed by NGOs in several respects. These institutions, which are at the interface of the public and private domains, are governed by autonomous boards or trustees composed largely of private citizens who have the authority and responsibility to oversee funds and the distribution of grants. They are funded from the income earned on endowments intended to provide a secure and steady stream of income to support public interest activities. These endowments are typically created from a mix of public and private funds.

1.2 PROGRAM FRAMEWORK: THE INDONESIAN BIODIVERSITY CONSERVATION PROGRAM

In the Tokyo Declaration, signed by President Bush and Prime Minister Miyazawa (January 1992), the United States and Japan mutually agreed to strengthen cooperation in preserving the environment by helping developing countries create national centers for the management and conservation of natural resources. In Indonesia, the first country selected, the two countries have proposed a coordinated program of assistance for the conservation of biological diversity. The collaborative bi-lateral effort -- the Indonesian Biodiversity Conservation Program -- is designed to support the implementation of Indonesia's *National Strategy for Biodiversity Management* and *Biodiversity Action Plan for Indonesia*. The joint program is based on the premise that bi-lateral support for biodiversity conservation in Indonesia will have a greater impact through U.S. and Japanese cooperation in specific program activities and through mutual discussions of policy and implementation issues. Consequently, both governments are planning to fund complementary and parallel components of the joint program.

Japan's proposed contribution to the joint program includes improving *ex-situ* (off-site) conservation facilities, supporting scientific research programs, assisting the management of Gunung Halimun National Park, and supporting the development of a national biodiversity information network system. Assistance will be provided to the National Institute of Sciences (LIPI) and the Directorate General of Forest Protection and Nature Conservation of the Ministry of Forestry.

The United States' component of the joint program will be provided through the Indonesian Biodiversity Foundation Project--an institutional building project that complements the GOJ's programmatic approach. The U.S. will support the establishment of

an independent, grantmaking institution whose grants would fund a wide variety of activities designed to catalyze and lead national, regional and local biodiversity programs. Since the sustainability of this institution is central to accomplishing the purposes of the project, USAID is proposing to establish and capitalize an endowment fund for the purpose of providing a sustained flow of financial resources to cover recurrent operating costs and conservation activities.

The Government of Indonesia will support *in-situ* and *ex-situ* components of the program, in particular, the operating costs of the Japan-funded component.

A *Program Coordinating Committee,* representing the GOI, GOJ and the U.S., will oversee the implementation of the program. The *Committee* is chaired by BAPPENAS with the Ministry of Environment as Vice Chairman, other GOI agencies are the Ministry of Forestry and the Indonesian Institute of Sciences. The *Program Coordinating Committee* will monitor overall implementation progress to ensure that the Program is operated effectively and efficiently, and will propose appropriate measures to the countries concerned to guide the Program.

1.3 GOAL AND PURPOSE OF THE INDONESIAN BIODIVERSITY FOUNDATION PROJECT

The goal of the Indonesia Biodiversity Foundation Project is to strengthen Indonesia's ability to protect and sustain its extraordinary biodiversity for the benefit of both its own citizens and the international community now as well as for future generations.

The purpose of the project is a) to create and strengthen the capability of institutions engaged in the sustainable use of biodiversity, and b) to promote the wider adoption of proven policies and practices in biodiversity conservation.

To achieve this goal and purposes, USAID is providing support to the new Indonesian Biodiversity Foundation, an independent, non-profit grantmaking foundation which intends to act as a flexible, catalytic funding mechanism for identifying innovative ways to manage and conserve Indonesia's biotic wealth.

1.4 RELATIONSHIP WITH GOI'S DEVELOPMENT STRATEGY

Indonesia's second 25-year development strategy (1994-2019) is aimed at achieving a per capita income of $1,000 by year 2000 (from $700 in 1993) through sustainable economic development. A potential constraint is the decline of natural resources, especially forests and marine/coastal resources. Thus, the GOI strives to achieve a balance between the use of natural resources for economic development and conservation for environmental needs. Other key GOI development strategies, such as the *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* endorse greater community and NGO participation in the management of natural resources and development of new

environmentally-based technologies and industries, such as eco-tourism and biotechnology. The planned assistance for the development of the Indonesian Biodiversity Foundation is consistent with the GOI's overall development strategy and designed to support the implementation of the *Strategy* and *Action Plan*.

1.5 RELATIONSHIP WITH MISSION'S STRATEGIC FRAMEWORK

USAID Indonesia' program goal is to support broad-based and sustainable economic growth--achieving a per capita income of $1,000 by the year 2000. To achieve this goal, USAID has defined five strategic objectives. These are:

* Develop a more competitive, participatory economy;
* Improve health and reduce fertility;
* Decentralize and strengthen natural resources management,
* Strengthen urban environmental management; and
* Increase the effectiveness of key institutions in supporting citizens' rights and civic participation.

The Indonesian Biodiversity Foundation Project will directly support the environmental objective to decentralize and strengthen natural resources management. In order to achieve this environmental objective, USAID will support greater participation by stakeholders, reduced pollution by natural resource-based industries, improved policy development and implementation, and strengthened institutional capacity for biodiversity conservation. One indicator for measuring progress is the "amount of research, public awareness, policy studies and other activities carried out by NGOs, community groups, scientists and others to support the conservation of biological diversity". The IBF project intends to increase the amount of funding available to support biodiversity conservation in Indonesia. The project will also support the Foundation's leadership role in promoting broad discussion of critical issues and policy options.

The project will also promote the participation of concerned parties--community groups, NGOs, scientists, GOI officials and others, in discussing constraints and opportunities for using Indonesia's biological wealth in sustainable ways. This would include approaches for balancing the need to generate economic benefits with national conservation interests. Grantmaking activities would strengthen local institutions (e.g., village structures, NGOs and scientific organizations). Hence, the project will contribute to increased civic participation and sustainable economic growth.

1.6 PROJECT DESCRIPTION

The Indonesian Biodiversity Foundation Project has three primary components.

A. The development of an independent, professional, non-profit foundation-type institution of international standing, and generation of additional contributions for program and operating costs.

B. The creation and management of an endowment fund designed to sustain this institution financially, provide a stream of income for a grantmaking program and to encourage contributions of additional funds for the endowment.

C. Strengthened national leadership and establishment of a high quality grants program providing funds to organizations and communities engaged in activities which promote the sustained use of biological resources.

1.6.1 Project Component One: The Development of a Professional, Independent Foundation

The first component of the Project is support for the development of the Indonesian Biodiversity Foundation as a strong, independent, professional, grantmaking foundation. This institution-building component of the project has several key requirements. The Foundation must have a sound legal basis, strong governance and leadership, and its staff must be of exceptional caliber. International standards of financial management must be practiced. Personnel policies, general operating procedures, fund raising plan, grantmaking and investment policies, conflict of interest policy, public information strategy, staff development plan and effective national and international linkages are considered fundamental components of the institution-building process.

The Indonesian Biodiversity Foundation (*Yayasan Keanekaragaman Hayati or Yayasan KEHATI*) was formally established on January 12, 1994 after more than a year of design and planning. It was legally established as a nongovernmental, non-profit, independent Indonesian foundation (yayasan). The Articles of Association for the IBF define its objective as supporting the conservation of biological resources. The IBF is governed by a board of trustees composed of twenty three distinguished private citizens representing a broad range of scientists, nongovernmental leaders and individuals from the business community. Members of two internationally known foundations are on the Board of Trustees. Trustees serve in their personal capacities, not as representatives of organizations in which they hold formal positions. There are no senior government officials on the board. The selection of trustees was the result of extensive consultations with government officials, scientists and NGOs. The creation of the Foundation and its independence has received support from the highest levels of the Indonesian government.

The IBF has a two-tiered governance structure, with the Board of Trustees holding all legal responsibility for the Foundation. A seven member Executive Board has been appointed to supervise the management of the Foundation consistent with policies determined by the trustees. The Board of Trustees meets annually, while the Executive Board meets at least quarterly. Annex M, Volume II contains the Foundation's Articles of Association, By-Laws, Conflict of Interest Policy, and GOI tax exemption approval.

The Foundation has a small professional staff consisting of an Executive Director, Finance Manager and Program Coordinator. Other program officers may be added as the Foundation's grantmaking program develops. A small administrative support staff is in

place. The concept of a "lean and efficient" staff size is employed in order to conserve resources for grants.

The trustees have also established two committees (investment and grantmaking) composed of board members and outside individuals with specific technical competence. In order to extend the Foundation's reach in both program substance and geographic coverage, three or four advisory panels may be established, composed of respected scientists, NGO leaders, members of the business community and regional representatives. These panels would give the Foundation scientific and policy competence, while enhancing the perceived legitimacy of the Foundation's grantmaking operations. In the future, the Board of Trustees may also elect to establish an international advisory panel composed of well-known U.S. and Japanese foundations in order to bolster the Foundation's domestic and international credibility.

A critical aspect of institutional development is strengthening the Foundation's ability to raise funds for its endowment, program and operating costs. The willingness of donors to contribute and support the Foundation will be a key indicator of the Foundation's organizational strength. Annex A.8, Volume II includes the Foundation's Fund Raising Strategy.

The target output of this component is a foundation which has established a record of excellence in governance and innovation in its approach to biodiversity conservation. Excellence in governance will involve a high standard of transparency and openness in all financial matters. A major international accounting firm has designed the Foundation's financial system. The Foundation will issue annual reports of accomplishments and financial status. These will be widely distributed to ensure accountability to the Indonesian public. An active and knowledgeable board of trustees will be providing policy guidance and oversight to the Foundation's programs and operations. A small professional staff with the requisite qualifications managing a cost effective operation is also an important output. In order to meets its 25% matching contribution requirement, the Foundation will carry out a carefully structured fund raising program to raise at least $6.5 million ($1.8 million for program and operating costs and $4.7 million for the endowment). Over the life of the project (ten years), the Foundation plans to raise at least $29 million for the endowment, program and operating costs. Thus, with USAID's planned contribution for the endowment plus planned matching contributions, over the life of the project, the Foundation plans to increase the endowment to at least $22 million. The project design identified a realistic target of a $40 million endowment over the life of the project. During the initial five years, one independent and two internal evaluations will be conducted to identify improvements in Foundation management, and action plans prepared to carry out appropriate recommendations.

1.6.2 Project Component Two: The Creation of an Endowment Fund

The second component of the project is the creation of an endowment fund. Approximately $16.5 million (of appropriated dollars) is proposed for the creation of the

Indonesian Biodiversity Foundation endowment. An endowment of this size will provide the Foundation with a sustained source of income to meet operational expenses and support a small grantmaking program focused on biodiversity initiatives. This initial endowment fund is intended to serve as seed capital, with additional contributions expected during the life of the project.

An endowment represents the capitalization of a fund, independent of the donor (in this case USAID), the objective of which is to generate income in order to maintain the activities of a private, non-profit institution. USAID permits endowments to be established when program goals and objectives cannot be attained through traditional forms of grant assistance.

The creation of an endowment through a single grant represents a significant transfer of public resources and the delegation of authority to an independent host-country institution. Consequently, the design of the endowment component required careful deliberations. The IBF, through its Board of Trustees, will be legally obligated to and accountable for managing the endowment in accordance with the terms to be specified in the Cooperative Agreement between USAID and the IBF.

USAID Authority to establish an endowment. Endowments have emerged in recent years as a new mechanism for USAID to achieve its development objectives. Prior to 1990, USAID's authority to grant funds for the establishment of endowments was severely restricted. Federal appropriations law generally prohibited the recipient of a grant made with appropriated dollars from retaining any interest income while holding these funds. In 1990, Congress enacted legislation (Section 584, FY1990 Foreign Assistance Appropriations Act) permitting NGOs to retain interest on local currency acquired through the exchange of appropriated dollars. Congress significantly expanded the authority in 1993 to permit NGOs which were grantees of USAID to retain interest on appropriated dollars and to establish endowments with these funds. USAID issued guidelines covering endowments created with appropriated dollars in July 1994.

The financial assets of the endowment will be managed in accordance with the Foundation's Investment Policy Statement approved by the Executive Board and USAID Indonesia. The Investment Policy Statement and Guidelines are the principle documents governing the management of the endowment (Annex A.9 contains the Investment Policy Statement and Guidelines). This policy provides guidance in establishing the long-term investment objective for the endowment, determining a spending rule and rate of return goals, and allocating assets. An Investment Committee, composed of trustees and outside experts with financial expertise, developed the policy with technical assistance provided by USAID/Indonesia.

The long term investment objective of the endowment fund will be to preserve its value in real terms (i.e., adjusted for inflation) over time while at the same time generating income to support the Foundation's grantmaking program and operating expenses. To achieve these objectives, a portion of the annual investment income and/or capital gains must be retained as endowment capital. How much income the endowment is able to generate depends on the size of the endowment and the rate of return on investments (called total

return). Total return from the endowment will include interest earnings, dividends and capital gains from the sale of marketable securities.

The IBF has established a spending policy stipulating that between 3 and 5 percent of the market value of the endowment will be spent on grants and operating expenses each year. To achieve this spending level, the IBF will invest the endowment capital in a portfolio consisting of both fixed-income and equity investments.

The IBF does not have the in-house asset management skills necessary to professionally manage the endowment fund assets. Thus, the IBF will select (through a competitive bidding process) the purchase of unit shares in one or more pooled instruments (i.e. mutual funds or co-mingled funds) which are registered in the U.S. and denominated in U.S. dollars. The USAID grant to establish the endowment will be disbursed directly to the IBF's account(s) located in the United States. The Investment Committee is responsible for supervising and reporting on investment performance to the Executive Board.

The $16.5 million provided by USAID represents endowment seed money. For the project to achieve the goal of developing a substantial grantmaking program, project design identified a target of around $40 million (in real terms) over the life of the project. A major fund raising effort will be required to obtain additional endowment and program contributions. An additional target output of this component is an average annual net investment income of $700,000 generated from the USAID-funded endowment during years two to five for program and operating costs.

1.6.3 Project Component Three: Developing a high quality Grantmaking and Networking Program

The third component of the Project is development of the Foundation's grantmaking and networking program to promote biodiversity conservation. The *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* identify a wide range of concerns and provides a framework within which the Foundation will develop its program to support biodiversity conservation across the archipelago.

Program choices are the responsibility of the Foundation's Board of Trustees. The trustees have consulted with all of the principal biodiversity constituencies during the process of making initial program decisions. Such a transparent process has extended the Foundation's legitimacy beyond the initial founders group and has broadened prospective grant seekers' understanding of its role. During the first year of operation, trustees and staff will expand the process of dialog on program priorities and conservation needs in different parts of the country.

During the initial years of its operations, the Foundation's networking, advocacy and grantmaking focus on three program priorities.

A. Building Constituencies for Sustaining Biodiversity

Without broad public understanding and support for biodiversity conservation, it is unlikely that the sustainable use of biodiversity can be achieved. The Foundation will support, through grants, NGOs and community organizations throughout the archipelago, and public education/media programs which demonstrate to the general public and Indonesian leaders the importance of sustaining biodiversity.

B. Identifying and Analyzing Policy Priorities

The Foundation wishes to encourage the identification and analysis of public policies of national and regional relevance. Grants will be provided to NGOs, policy research institutes and institutions of higher education, for research and studies associated with economic choices, institutional arrangements, legislation and utilization and conservation practices. The Foundation will promote a broad discussion of biodiversity conservation issues and policy options through networking and advocacy.

C. Strengthening Community-Based Nature Conservation Activities

The Foundation will provide grants for innovative, community-based conservation activities undertaken in various parts of the country. Activities which prevent biodiversity loss and provide income for vulnerable groups will be given priority.

The Foundation's Grantmaking Committee and staff recommend grantmaking policies and procedures for review and approval by the Executive Board. Accordingly, the Foundation has formulated program guidelines to inform the public of the types of projects it intends to fund and institutions eligible to receive grants, the funding limits for each grant, and when decisions about awarding of grants will be made (Annex A.10, Volume II includes the Foundation's Grantmaking Policies and Procedures). Clear guidelines will be communicated to prospective grant seekers as well as the broader public. Due to staff constraints and the need to focus efforts, the initial grantmaking procedure will use a competitive award system. In the future, the Foundation may decide to modify the grantmaking procedures to allow for proactive initiation and development of grants. Internal procedures for screening and evaluating grant applications have been formulated. Grants will be screened by staff members and Review Panels selected by the Grantmaking Committee. The staff and Review Panels will make recommendations for action by the Executive Board. Criteria for evaluation will be published and adhered to in decision-making. Systems for making grant payments to recipients, monitoring and reporting systems for grants, evaluation of grants, and public reporting of grants are designed and ready for implementation. Additional grantmaking policy decisions will be made during implementation of the project.

The Foundation will establish and strengthen networks of community groups, NGOs and scientific/education institutions concerned with biodiversity conservation, and promote the adoption of improved policies and practices through its advocacy work.

During the initial five years, the target outputs are: eight requests for proposals issued, grant proposals evaluated and grantees informed of status/required revisions, and over $1 million in grants awarded. Three networks established and strengthened through workshops and training. At least two consultations (national and regional) held each year to discuss conservation priorities and possible innovative programs.

1.7 PARTICIPATION IN THE PROJECT DESIGN AND IMPLEMENTATION

A wide range of scientists, government officials, academics, NGO leaders (both domestic and international), members of the legal community, representatives of multilateral and bilateral aid programs, and representatives of international foundations have been involved in the project design process. Numerous meetings and workshops have been held to discuss the objectives and activities of the Foundation. Selection of the 23 member Board of Trustees was open to broad consultations, especially among NGO leaders and scientists. Through this participatory process, a wide range of citizens have made important contributions to the concept and implementation of the Foundation. The impact of this participation has been the creation of an independent institution, outside of government, with a distinguished Board of Trustees representing many elements of Indonesian society. The Foundation plans to continue this broad participation during the design and implementation of its operating procedures and grantmaking programs.

2. PLAN OF ACTION

This section describes the duration of the project, how it will be managed, planned technical assistance, implementation schedule and procurement plan. This section also outlines the requirements for the planned Cooperative Agreement.

2.1 LENGTH OF PROJECT

The length of the project and the Cooperative Agreement is 10 years. The first evaluation, scheduled for year 3, will examine implementation progress under the Cooperative Agreement and assess if any modification to the Cooperative Agreement is recommended. The second evaluation, scheduled for year five, will review overall implementation progress, USAID management requirements and proposed ten year length of project to determine if it would be appropriate to reduce the length of the project. As currently designed, several restrictions will continue to apply to the endowment as the endowment itself continues, even after the Cooperative Agreement and project have otherwise ended. As appropriate, the need to continue restrictions after the project is over may be re-examined in later years, in consultation with USAID/Washington.

2.2 PROJECT MANAGEMENT

The management of the project is the responsibility of both the IBF and USAID/Indonesia mission. The complexity of the management functions calls for a clear delineation of the roles and responsibilities of these two entities. Figure 1 illustrates the relationship among the key organizations involved in the project.

The Indonesian Biodiversity Foundation, as represented by its Executive Board , is responsible for overall project implementation. The USAID/Indonesia mission is the other implementing entity.

2.2.1 USAID Role and Responsibilities

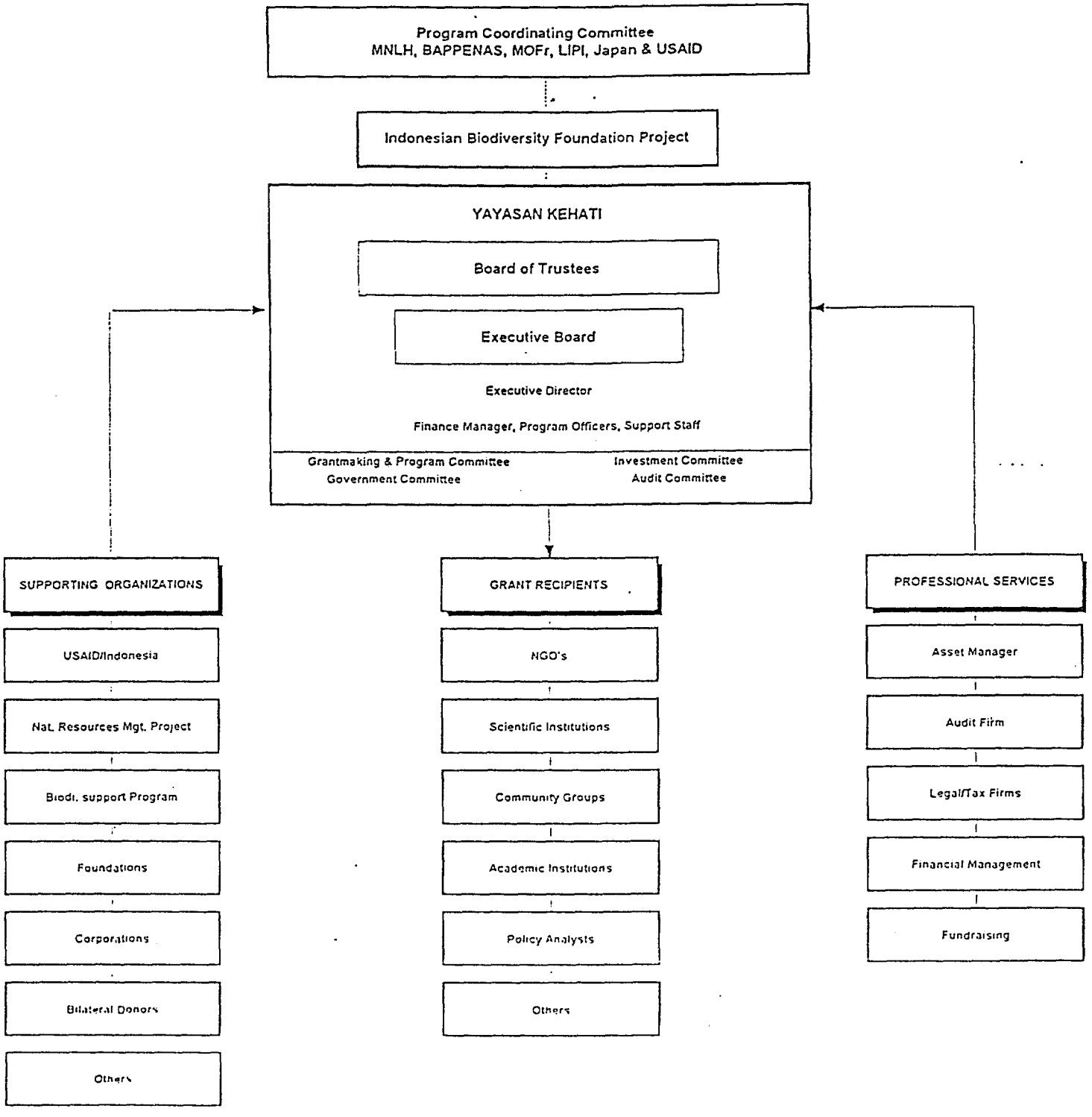
A Cooperative Agreement (CA) will provide the framework for the management responsibilities of both USAID/Indonesia and the IBF. The Cooperative Agreement authorizes a form of assistance that includes substantial USAID involvement in the project. USAID/Indonesia will be exercising a high level of involvement in project implementation for several reasons. First, the IBF as a new organization will require extensive technical and financial assistance to develop into a strong, professional institution. Second, the authority to create an endowment using appropriated dollars is a recent development and will be closely monitored by USAID/Washington and Congress. Third, the IBF project is being attributed to the United States' contribution to the Global Environmental Facility and thus will require special monitoring.

During the first five years, USAID will provide three types of assistance to the IBF. First, to support its effort to develop into an independent institution with international standards. Second, USAID will provide the Foundation with initial endowment capital. Finally, USAID will assist the Foundation in developing a high quality grantmaking, networking and advocacy program. From years five to ten, USAID will monitor implementation progress as set forth in the Cooperative Agreement. After year 10, USAID's only formal relationship with the Foundation will be to review any matter or decision for which USAID approval is required under the specific requirements in the Cooperative Agreement that continue as long as the endowment continues.

FIGURE 1

ORGANIZATIONAL STRUCTURE

INDONESIAN BIODIVERSITY FOUNDATION PROJECT



Under the Cooperative Agreement, USAID/Indonesia will stipulate a "substantial involvement" clause which will be used to describe USAID's relationship with the IBF. The CA description of "substantial USAID involvement", as well as routine monitoring, will include the following requirements applicable to the program. USAID will:

A. Review and approve (i) annual work plans and (ii) quarterly progress reports and financial statements for USAID funds provided under the CA (e.g., liquidation of cash advance for previous month and request for additional cash advance for next quarter; section 5.2 describes the cash advance system);

B. Review and approve the substantive provisions of contracts with firms providing professional services (e.g. asset managers, audit firms, financial management firms, evaluation, etc.) if financed by USAID funds, prior to awarding contracts;

C. Concur on all IBF staff appointments funded under the Cooperative Agreement;

D. Monitor the implementation of policies and activities regarding Foundation development/governance, endowment management and grantmaking;

E. Review IBF annual report of operations;

F. Concur on any change in the Foundation's Investment Policy Statement and Guidelines for the USAID-funded endowment, Grantmaking Policies and Procedures, By-Laws, Conflict of Interest policy, Fund Raising Strategy, Articles of Association, and endowment asset management contract(s);

G. Participate in Board of Trustee meetings as an observer; and

H. Together with Foundation staff, monitor implementation progress of selected grants.

It is important to note that USAID staff will be expected to visit field sites of Foundation grantees to monitor the performance of Foundation grantees in order to assess their progress in meeting objectives, including progress in achieving specified outputs as measured by interim benchmarks or indicators of progress. This information will be used in evaluating the effectiveness of the Foundation's grantmaking program. USAID is not however responsible for the technical performance of the grantees. USAID will also use this information in reporting on progress under the Mission's strategic objective to support decentralization and strengthen natural resources management.

The Office of Agro-Enterprises and Environment of USAID/Indonesia will manage the IBF project. An AEE Project Officer (US Direct Hire) will be responsible for communication with the IBF on all program and technical matters related to the CA. The USDH Project Officer will have other responsibilities and will allocate about one fourth of his/her time directly to managing this project. A full-time Foreign Service National (FSN) Project Manager is required to carry out USAID management and monitoring functions. The nature of the relationship between USAID and the IBF will be governed by the program

description in the Cooperative Agreement. The Project Officer and Project Manager will be responsible for preparing and submitting quarterly and semi-annual reports on implementation progress of the IBF project to senior Mission management and IBF.

As a basis for the Indonesian Biodiversity Foundation Project and Cooperative Agreement, a Record of Discussions was signed regarding the overall Indonesian Biodiversity Conservation Program. Parties to this agreement are the governments of Indonesia, Japan and the United States. In addition, a Memorandum of Understanding (MOU) will be signed between USAID/Indonesia, *Yayasan KEHATI*, and the Ministry of Environment. This agreement provides more detail on the relationship between the Foundation and the GOI, and documents the intentions of the three parties to support the development of the Foundation as part of the overall Indonesian Biodiversity Conservation Program. Annex K contains copies of the Record of Discussions and draft MOU.

2.2.2 IBF Role and Responsibilities

The main responsibility for implementing the project rests with the Board of Trustees and Executive Board of the Foundation. The Trustees have empowered the Executive Board, and as appropriate, the professional staff, with the authority to represent the Foundation in legal matters and the management of financial assets. Management tasks for the Executive Board include: establishing personnel (including compensation) and operating policies, approving operating budgets, recruiting and orienting senior professional staff, establishing committees, establishing public reporting schedules, ensuring accounting and audit requirements are met, assuring compliance with USAID regulations, identifying and soliciting other financial resources, establishing major program priorities, and developing grantmaking and investment polices.

The Executive Director and other professional staff of the Foundation are responsible for the daily operations of the Foundation and implementing its program of activities. The Executive Director is responsible for hiring, orienting and training program officers to cover the major program domains determined by the trustees. The Finance Manager is responsible for implementing the financial management systems in accordance with international standards, overseeing budgets, preparation of financial reports and audit requirements. Support staff will implement the internal operating systems consistent with the highest standards of professionalism and transparency.

The Foundation's Investment Committee is responsible for monitoring the performance of the endowment fund and reporting regularly to the Executive Board. The Executive Board will ensure that investment procedures comply with the Foundation's Investment Policy (approved by the Executive Board and USAID).

The Foundation's Grantmaking Committee is responsible for recommending appropriate grantmaking policies to the Board. Program officers have primary responsibility for implementing the operational aspects of the grantmaking program. They will solicit proposals within program areas designated by the trustees, review and recommend projects,

monitor compliance with contract provisions and report results of evaluations to concerned parties. To assist in the implementation of the grantmaking program, the Foundation may establish advisory panels composed of respected scientists, NGO leaders, business persons and regional leaders. These advisory panels will provide the IBF with scientific and policy competence and enhance the credibility of the Foundation's grantmaking program. The panels, composed of non-Trustees, will evaluate grant proposals and assist Foundation staff in preparing recommendations for grant approvals by the Executive Board.

2.2.3 Role and Responsibilities of other Implementing Entities

USAID provides initial technical assistance to the IBF through an existing contract with Associates in Rural Development, Inc. (ARD), funded under the Natural Resources Management (NRM) Project (also referred to as the NRMP). This includes the provision of one long-term technical advisor and short-term technical assistance (through July, 1996). The long-term advisor assists the Foundation in designing and implementing the work plans under the Cooperative Agreement as well as to help the Foundation coordinate technical assistance and support provided to the Foundation from other USAID-funded sources (such as the Biodiversity Support Program). USAID also financed office space for the first year (April, 1994-May, 1995) and provided equipment and furniture to meet initial needs through the ARD contract. This is consistent with the NRM Project's purpose to support the development of improved natural resource management policies and practices. This additional USAID support consists of non-financial assistance; funds are not provided directly to the Foundation.

The USAID-funded Biodiversity Support Program (BSP) provided initial financial support for the start up phase of the Foundation, through BSP organized design teams and a grant to a local NGO. Funds were used to support analysis, drafting of the charter, consultations with various constituencies during design, trustee selection, and staff support to the Foundation preparation committee. BSP also provided funding for initial operational needs, such as the design of financial management system, workshops, staff salaries and operating costs. Finally, BSP provided funding ($204,000) directly to the Foundation to cover operating costs and development of critical management and operational policies.

Several international foundations have indicated a willingness to provide assistance to the IBF. The Ford Foundation and Asia Foundation offices in Jakarta have already provided non-financial assistance to the IBF.

2.2.4 Role of IBCP Program Coordinating Committee

As stated earlier, the goal of the joint Indonesian Biodiversity Conservation Program is to support the implementation of the *National Strategy for the Management of Biodiversity* and the *Biodiversity Action Plan for Indonesia*. The *Strategy* and *Action Plan* calls for the creation of a National Biodiversity Commission, a permanent consultative structure

representing key government agencies, institutions and donors concerned with the management of biodiversity. Since the Commission has not been formed, IBCP's management structure includes a *Program Coordinating Committee* representing the governments of Indonesia, Japan and the United States. The *Program Coordinating Committee* is responsible for ensuring that the various program components -- of which the IBF is one -- are operated effectively and efficiently, and will propose appropriate measures to the countries concerned to guide the program. If the activities of the IBF are inconsistent with the implementation of the *Action Plan*, the *Program Coordinating Committee* may recommend that USAID terminate the endowment and undisbursed support to the IBF. If the Foundation does not adhere to the conditions in the Cooperative Agreement, USAID in consultation with the *Program Coordinating Committee,* could withdraw its support.

2.3 TECHNICAL ASSISTANCE REQUIREMENTS

The Foundation requires considerable technical assistance in strengthening its institutional capability. One long-term advisor, experienced in foundation development and operations, and management of endowments, is assigned to the Foundation through July, 1996 (under the ARD contract, NRM Project). Approximately 18 person months of expatriate or 36 person months of Indonesian short-term technical assistance is also allocated under the ARD contract (through July, 1996), depending upon demand for short-term assistance and available funding. Priority needs for short-term technical assistance include: financial management systems implementation, grants administration processes, public information programs, board and staff development and training, investment management, legal advice, and grantmaking strategies and policies.

Given the complicated and challenging tasks in carrying out the project, additional long-term and short-term technical assistance may be needed from August, 1996 through July, 1999. Thus, in early 1996, the Foundation and USAID will review and revise the terms of reference of the long-term advisor, assess long- and short-term technical assistance needs and determine appropriate contracting procedures to provide this assistance after July 1996. The Cooperative Agreement will include funds for a long-term advisor. In addition, the Mission may also explore the possibility of funding technical assistance for the Foundation through the planned Natural Resources Management II Project.

2.4 IMPLEMENTATION PLAN AND SCHEDULE

The Indonesian Biodiversity Foundation has submitted a proposed program description, budget and annual work plan to USAID Indonesia and requested a Cooperative Agreement to support Foundation development, endowment establishment and management, and a grantmaking and networking program. This program description is contained in Annex D.

2.4.1 Program Description in Cooperative Agreement

The ten year Cooperative Agreement between USAID and the Foundation will include an overall project description with a five year work plan and detailed work plan for the first year. The program description will identify key activities and outputs, illustrating overall performance of the Foundation in institutional development, endowment management and the grantmaking and networking program. During the initial five years of the Cooperative Agreement, the Foundation will submit annual work plans and budgets regarding USAID funds under CA to USAID Indonesia for review and approval. The work plans and budgets will serve as the basis for USAID Indonesia cash advances to the Foundation.

2.4.2 Implementation Plan

Key implementation activities are listed below. Activities such as USAID review and approval of annual work plans/budgets; quarterly progress reports; quarterly financial statements/cash advance requests; quarterly cash disbursements; semi-annual assessments of financial status/risks of endowment assets; grant solicitation, review and approval; regional consultations/field trips; and annual reports are only listed initially but will be regular activities.

January 1994
Yayasan KEHATI legally established

February 1994
First meeting of the *Yayasan KEHATI* Board of Trustees held

March 1994
Recruitment of *Yayasan KEHATI* staff begun

April 1994
Preparation of *Yayasan KEHATI* office space

May 1994
Submission of IBF project for GEF approval

June 1994
Contracting for design of financial management system
Submission of first quarterly progress report to USAID Indonesia

July 1994
Yayasan KEHATI office opened
Project proposal approved by GEF
Finance manager and secretary hired

August 1994

Government of Indonesia tax exemption issued (see Annex M)
Signing of Record of Discussion between GOI, GOJ, U.S.
Financial management systems designed

September 1994

Board of Trustees meeting
Executive Director appointed
Appointment of Investment and Grantmaking Committees
Request grant from BSP to provide interim operational funding to *Yayasan KEHATI*
Conduct regional consultations on Grantmaking Program, Policies and Procedures

November 1994

BSP grant received for initial operating costs

January 1995

Financial management systems installed
Fund Raising Strategy prepared
GOI approves tax exempt status for *Yayasan KEHATI*
Finalize Grantmaking Policies and Procedures

February 1995

Finalize Investment Policies and Procedures
Conduct Grant Worthiness Assessment

March 1995

Send Cooperative Agreement request to USAID
Register as a PVO with USAID
Sign MOU between LH, *Yayasan KEHATI*, USAID
Project Paper Authorized
Signing of the Cooperative Agreement
Issue first annual report
Apply for U.S. Tax Exemption

April 1995

First cash advance disbursed to *Yayasan KEHATI*
Yayasan KEHATI staff conduct regional meetings to determine program priorities, assess capability of prospective grantees and arrange training
Investment management services selected, draft contract negotiated

May 1995

Monthly progress report (for April), liquidation of cash advance for April, estimate of expenses and request for cash needs for the next three months (May-July), process repeated each month.
Study tour conducted for selected staff and board members

June 1995

Monthly progress report (for May), liquidation of cash advance for May, estimate of expenses and request for cash needs for the next three months (June-August), process repeated each month

Solicit first request for proposals

Establishment of endowment following USAID approval of fund management contracts and Foundation obtaining U.S. tax exempt status

August 1995

Staff and advisory committee(s) evaluate proposals and inform grantees of issues/status

September 1995

National and regional consultations held on Foundation program

Training held for prospective grantees

Proposals revised

November 1995

First grants awarded

December 1995

Second request for proposals issued

January 1996

Internal evaluation of CA performance by *Yayasan KEHATI*

Yayasan KEHATI and USAID evaluation to assess technical assistance needs, determine appropriate actions

February 1996

Staff and advisory committee(s) evaluate proposals and inform grantees of issues/status

National and regional consultation held on program

March 1996

Second round of grants awarded

USAID review and approval of annual work plan/budget (second year)

Issue audited financial statement for 1995

May 1996

Third request for proposals issued, etc.

January 1997

First internal evaluation

January 1998
Mid-term evaluation

June 1999
Second internal evaluation

January 2000
Second mid-term project evaluation

January 2003
Third internal evaluation

January 2005
Final evaluation

2.5 PROCUREMENT PLAN

The project's procurement plan consists of one major transaction, the negotiation and award of the Cooperative Agreement. Under the Cooperative Agreement, however, the Foundation will procure a variety of professional services, such as technical assistance, training, evaluations and audits. Annual work plans and budgets will contain the details for these and other procurement actions.

2.6 ELIGIBILITY REQUIREMENTS FOR THE COOPERATIVE AGREEMENT

The Foundation has completed the grantworthiness assessment and submitted a request for a Cooperative Agreement with a proposed program description and budget. The Foundation has also received tax-exempt status from the Government of Indonesia (see Annex M). Prior to the signing of the Cooperative Agreement between the Foundation and USAID Indonesia, however, the Foundation must register with USAID Indonesia as a Private Voluntary Organization (PVO). The Foundation is presently preparing this application.

3. DEFINITION OF SUCCESS

3.1 STATUS AT THE END OF THE PROJECT

By the end of the project, a professional foundation of international standards of good governance will be making catalytic grants to a variety of institutions and organizations across the archipelago, and promoting the exchange of information on biodiversity conservation. An endowment will be established and operating that is producing substantial income and has reached at least $40 million in size due to contributions from other donors. The Foundation will have generated about $2 million in contributions for its grantmaking

program and operating costs. The Foundation will have awarded over $5 million in grants from endowment income to scientific and academic institutions, NGOs, community groups and others to carry out a range of activities aimed at conserving Indonesia's unique and valuable biological diversity. Foundation is considered a leader in articulating biodiversity conservation needs and recommending improved policies and practices.

3.2 PERFORMANCE INDICATORS

The following section describes the performance indicators to measure progress under the three components of governance, endowment and grantmaking.

3.2.1 Benchmarks for Foundation Governance

The following activities will help measure progress in strengthening the institutional ability of the Foundation to meet international standards of good governance.

a. Maintain an active Board of Trustees, Executive Board, and Committees with clear responsibilities and outputs.

b. The IBF will have an annual financial audit of the endowment principal and use of the investment income and of the Foundation's overall financial management. The Executive Board will select an independent auditor in accordance with the "Guidelines for Financial Audits, Contracted by Foreign Recipients" issued by the USAID Inspector General. The Foundation will widely distribute the audited financial statement and annual report of accomplishments, with a copy provided to USAID Indonesia.

c. The IBF will ensure that individual grants over $100,000 per year (funded by USAID under the CA) to Indonesian NGOs, universities, scientific institutes, etc. (sub-grantees in USAID terminology) will be included under the scope of the independent financial audit to the extent required by USAID.

d. During the initial five years, quarterly progress reports prepared for USAID Indonesia documenting implementation progress based upon the CA workplan, liquidating previous USAID cash advances and requesting additional USAID cash advances, based on the approved annual work plans and budgets.

e. "Best efforts" to implement the Fund Raising Strategy which will provide additional funding for the endowment, annual administrative costs, and grantmaking program documented.

f. During the initial five years, annual work plans and budgets for USAID funding under the CA provided to USAID Indonesia for review and approval.

g. Independent evaluations conducted in years 3, 5 and 10 (see section 6.3).

h. The IBF shall invite one representative of USAID, designated by USAID, to participate in all proceedings of the Board of Trustees as an observer.

i. The Foundation will maintain registration with USAID as a PVO and tax exempt status with the Internal Revenue Service in the U.S., and maintain and enforce Foundation policies concerning grantmaking, conflicts of interest, fundraising, and By-Laws and Articles of Association.

3.2.2 Benchmarks for Endowment Management

The following benchmarks will be used to monitor the establishment and management of the endowment:

a. The investment objective of maintaining the real value of the endowment is achieved.

b. Maintain an active Investment Committee composed of members of the Board of Trustees and others with financial expertise to monitor the performance of the endowment, set spending policies and determine macro asset allocation policy.

c. Maintain books, records, documents, and other evidence relating to the endowment assets and use of CA funds and endowment income, in accordance with generally accepted accounting principles formally prescribed by the U.S., Indonesia or the International Accounting Standards Committee.

d. Endowment assets managed in accordance with the Investment Policy Statement and Guidelines and other conditions as agreed upon by USAID and the Foundation (e.g. limit on administrative costs of up to 25 percent of total annual spending).

3.2.3 Benchmarks for the Grantmaking Program

The following benchmarks will be used to monitor implementation in developing the grantmaking program:

a. During the initial five years, document steps taken by the Foundation to promote participation in the development of grantmaking policies, and implementation and evaluation of grants programs included in the annual reports. These steps would involve regional meetings, assessment of grantee capability and providing needed training, publication of grant solicitation procedures and awards, development of Women in Development (WID) reporting/benchmarks and evaluation of grantee performance and distribution of evaluation results.

b. Development of baseline information on the extent of research, public awareness, policy analysis, conservation extension and other activities carried out by scientists, NGOs, community groups and others to conserve the diversity of Indonesia's biological resources. This information will assist the Foundation both in developing the grantmaking program as well as in monitoring the ability of the Foundation to increase support for biodiversity conservation.

c. Monitor spending of the endowment income, to ensure that a minimum of three to five percent of the market value of the endowment assets are used for program grants, program-related activities and administrative costs each year.

d. Periodic monitoring of the performance of Foundation grantees to assess their progress in meeting objectives, including progress in achieving specified outputs as measured by interim benchmarks or indicators of progress contained in approved grant proposals.

e. Conduct independent evaluations in years 3, 5 and 10 of the project that includes an analysis of selected IBF grantees. Results will be widely distributed.

3.3 INTERIM TARGET OUTPUTS OVER THE LIFE OF THE PROJECT

Table A illustrates target outputs over the life of the project. IBF and USAID will regularly evaluate progress in meeting interim targets and performance indicators. The Cooperative Agreement will specify target outputs over the life of the project and performance indicators. IBF and USAID are expected to revise these target outputs and performance indicators based on regular monitoring and/or evaluations.

Table A

TARGET OUTPUTS OVER LIFE OF PROJECT

(numbers are total over life of project)

Project Component	Project Outputs 1997 Year 3	1999 Year 5	2001 Year 7	2004 Year 10
Foundation Governance	2 annual reports 1 internal evaluation 1 independent evaluation	4 annual reports 2 internal evaluations 2 independent evaluations	6 annual reports 3 internal evaluations	9 annual reports 5 internal evaluations
	2 independent audits	4 independent audits	6 independent audits	9 independent audits
	4 Board of Trustee mtgs 12 Executive Board mtgs	5 Board of Trustee mtgs 20 Executive Board mtgs	6 Board of Trustee mtgs 28 Executive Board mtgs	9 Board of Trustee mtgs 40 Executive Board mtgs
	US$150,000 raised for operating costs as matching funds	US$325,000 raised for operating costs as matching funds	US$500,000 raised for operating costs as matching funds	US$650,000 raised for operating costs as matching funds
	$100,000 raised for program grants and costs as matching funds	$400,000 raised for program grants and costs as matching funds	$750,000 raised for program grants and costs as matching funds	$1.2 million raised for program grants and costs as matching funds
Endowment Management	5 investment committee meetings	10 investment committee meetings	14 investment committee meetings	20 investment committee meetings
	Portfolio performance evaluation to determine if total return is consistent with market benchmarks	Portfolio performance evaluation to determine if total return is consistent with market benchmarks	Portfolio performance evaluation to determine if total return is consistent with market benchmarks	Portfolio performance evaluation to determine if total return is consistent with market benchmarks
	$3.5 million gross investment income generated by USAID endowment fund	$6.6 million gross investment income generated by USAID endowment fund	$9.6 million gross investment income generated by USAID endowment fund	$14.0 million gross investment income generated by USAID endowment fund
		$4.7 million raised in matching contributions for the endowment	$4.7 million raised in matching contributions for the endowment (1)	$4.7 million raised in matching contributions for the endowment (1)
Grantmaking Program	$850,000 in grants awarded from endowment	$2.05 million in grants awarded from endowment	$3.25 million in grants awarded from endowment	$5.0 million in grants awarded from endowment
	Total of at least 30 grants	Total of at least 80 grants	Total of at least 130 grants	Total of at least 200 grants
	5 regional consultations	10 regional consultations	15 regional consultations	20 regional consultations
	2 request for proposals issued	4 request for proposals issued	6 request for proposals issued	9 request for proposals issued
Networking	12 meetings/workshops	20 meetings/workshops	28 meetings/workshops	40 meetings/workshops

(1) In order to meet its 25 percent matching contribution for the project, the Foundation intends to raise $6.5 million ($1.8 million for program and operating costs, and $4.7 million for the endowment); however, over the life of the project (ten years), the Foundation intends to raise (a) an additional $18.8 million for the endowment, for a total of $23.5 million in matching contributions for the endowment, and (b) an additional $1.8 million raised for program and operating costs, for a total of $3.7 million in matching contributions for program and operating costs. Please see Table B "Pro Forma Financial Profile", for more information on the planned amount and timing of matching contributions.

4. ANALYSIS OF FEASIBILITY, KEY ASSUMPTIONS AND RELATED RISKS

This section analyzes the feasibility of the project, identifies critical assumptions, reviews key design issues and evaluates related risks.

4.1 ANALYSIS OF FEASIBILITY

The following section provides an overview of the analyses conducted in designing the project, including: administrative, financial, economic, technical, social, gender and environmental. Volume II, Annex A contains full reports of these analyses as well as related Foundation policies.

4.1.1 Administrative Analysis

The administrative analysis examines the capabilities of the Indonesian Biodiversity Foundation to program funds, manage financial resources and operate according to international standards of foundation governance. This analysis reviews issues of governance, financial management, endowment asset management, and administrative aspects of the grantmaking and networking program. This section also reviews the completed USAID grant worthiness assessment of the Foundation.

4.1.1.1 *Governance*

The Indonesian Biodiversity Foundation (IBF) was legally established in January, 1994 as a not-for-profit foundation (yayasan). The term "foundation" is used in this context to describe an organization whose primary purpose is to make grants to other charitable entities and the organization's main source of income is its endowment. The IBF is analogous to a "Community Foundation" because it is not a private foundation and will regularly seek funds from public and private (individuals, corporations, foundations, governments, etc.) sources to build a pool of capital for the purpose of supporting biodiversity conservation. Its other main purpose is to allocate and distribute these funds for public needs.

The legal structure includes a supervisory Board of Trustees, a management Executive Board, standing committees, and a small professional staff - all of which are private citizens. This structure manages both the investment function of the endowment and the program function of grantmaking and networking. The Foundation has enlisted the participation of highly capable individuals to serve as trustees and committee members. The trustees in turn have selected highly qualified professional staff to manage day-to-day operations.

The Foundation has adopted key international standards of governance such as independent trustees with term limits, conflicts of interest policy, international expertise on boards and committees, staff performance reviews, cost-consciousness, and transparent reporting of finances and activities.

The grant worthiness assessment consisted of two parts, a) pre-award evaluation of technical and managerial capability, financial management, personnel and travel policies, internal controls, property management and procurement system; and b) examination of the Foundation's policies and practices relating to governance, endowment management and grantmaking. Thus, USAID has determined the Foundation has the ability to properly account for and handle USAID funds, carry out the Foundation's fundraising strategy, manage the endowment in accordance with approved investment policies and procedures, and manage the planned Cooperative Agreement program effectively.

4.1.1.2 *Financial Management*

The design of the Foundation's financial management system has been conducted by the international accounting firm of Price Waterhouse. The Foundation has demonstrated its administrative capacity to manage funds in a professional manner (e.g., accounting and record keeping, internal controls, program management, property management and procurement, personnel and travel policies, etc.). In fact, it presently manages a $200,000 grant from the USAID-funded Biodiversity Support Program.

4.1.1.3 *Endowment Asset Management*

The Foundation will use the USAID dollar endowment as initial capital in building an endowment for funding biodiversity conservation activities in Indonesia. Professional fund managers will be employed to invest the endowment assets in a diversified investment portfolio capable of achieving the objectives of providing annual income for programs and adequate capital growth to maintain the real value of the fund.

4.1.1.4 *Grantmaking and Networking*

The Foundation has demonstrated its ability to manage a grantmaking and networking program. The Grantmaking Committee has developed detailed policies and procedures to ensure grant seekers receive thorough and fair consideration of their proposals. The staff have considerable expertise and experience in promoting biodiversity conservation. Adequate systems for monitoring, evaluating and reporting are in place.

4.1.1.5 *Fund Raising*

The trustees and staff have the reputation and capability necessary to create and carry out a fund raising strategy for attracting additional capital for the endowment, program and operating costs.

4.1.2 Financial Analysis

The project financial analysis examines several project design issues. First, it estimates the anticipated revenue from the endowment capital provided to the project. Second, the costs associated with generating endowment income, general management of the Foundation, operating the proposed grantmaking program, and raising additional endowment capital and operating funds are calculated. Examining these two issues provides information as to the level of financial resources expected to be available for direct grants. Finally, the analysis considers the factors which will determine if financial resources will be available when needed during the life of the project.

4.1.2.1 *Project Revenue: USAID-funded endowment*

The investment income from the endowment capital is treated as revenue to the project. The two significant financial objectives of the endowment fund are to preserve the purchasing power of the assets over the life of the project (and throughout time) and to provide a substantial, stable flow of cash income for the Foundation's general management expenses and grantmaking activities. The purchasing power of the endowment is preserved by maintaining the real value of the assets over time. To accomplish this objective, a sufficient portion of the total investment return must be retained in the endowment to offset inflation, and the annual rate of spending must match the real rate of return, net of all investment management fees. To achieve the objective of providing a substantial and stable flow of cash income, the endowment assets must produce a real rate of total return which matches the rate of annual spending.

The Foundation has established a spending rule calling for the expenditure of 5 percent of a three year moving average of the fund's market value. This spending policy will yield an annual revenue stream of approximately $825,000 from the $16.5 million of endowment capital. This spending rule will allow the Foundation to maintain the real value of the endowment and provide for a stream of cash income subject to only moderate volatility.

The income stream from the endowment will be subject to a level of volatility (the frequency and amount an investment fluctuates from its average return) largely determined by the types of assets chosen for investments by the Foundation's Investment Committee. While the annual real return from the endowment investment portfolio (net of all fees) is estimated to be 5 percent over time, in any given year the total return can be higher or lower. Because the Foundation will rely on the income from the endowment to produce a very high percentage of the Foundation's annual budget, the amount and stability of the

income stream it produces is central to the Foundation's overall financial position. A sensitivity analysis (Table E) was conducted to show annual income levels at real rates of return below 5 percent. The 3 percent return constitutes the worse case scenario used in the economic analysis.

4.1.2.2 *Project Costs*

The following section examines the costs of: endowment management, governance and operations, grantmaking, fund raising, grants and USAID funds. It also reviews the pro-forma cash flow analysis.

A. Endowment Management Costs

The management of an endowment investment portfolio is a specialized area of investment management. The Foundation will use professional investment management for its entire investment portfolio (equity and fixed-income investments). The most cost effective way to obtain professional management for an endowment of approximately $20 million is to utilize institutional commingled funds offered by investment management firms. Management fees are based on the market value of the portfolio under management. Investment management fees on the $16.5 million are estimated to be between .75 and 1 percent or approximately $125,000 per year.

B. Governance and Basic Operational Costs

The Foundation is designed to operate in accordance with international standards. Core operating costs (i.e. general management) include salaries for professional staff, office space, utilities, equipment, audits, etc. Other significant costs include consultations with various constituencies, Board of Trustee and Executive Board meetings, ample public reporting, donor reporting, professional financial management, etc. These costs are estimated to be $175,000 per year during the initial 5 year start-up phase. As the Foundation enlarges the scope of its grantmaking activities, these costs are likely to increase.

C. Grantmaking Related Costs

The small grants program of IBF will provide a unique opportunity for organizations and individuals with innovative proposals to contribute in a substantive way to sustainable conservation practices throughout the country. This will require a significant investment on the part of the Foundation in order to assure the quality of the grantmaking process. A number of stipulations that have already been advanced will have a direct bearing on the costs of the disbursement program. These include the following: (a) the scope of the grants will be to a wide variety of organizational types; (b) the geographic focus will encompass the entire Indonesian archipelago, requiring high travel and communication costs; (c) grant amounts will be small, so administrative expenses will be greater; (d) grants will be

strategically targeted on the most productive and promising activities, so intensive professional staff involvement is required in screening and selecting grantees; and (e) evaluations will be conducted because of the highly public nature of the Foundation's activities. Estimated grantmaking related costs are $100,000 annually.

D. Fund Raising Costs

Private foundations typically do not attempt to raise additional endowment capital or operating funds. They generally rely on the initial (usually a substantial amount) funds provided by the benefactor. Community foundations, on the other hand, typically spend a great deal of time and expense attempting to raise capital for operations and endowments. The IBF, as a hybrid private/public foundation, will undertake a significant fund raising effort to enlarge the endowment, raise annual operating funds and seek "pass through" funds for its grantmaking program. The costs associated with raising endowment capital, operational financing and pass through funds, which include the cost of preparing proposals, informational materials, direct solicitation, and perhaps special events, are estimated to be $50,000 annually. Income from the endowment will be used to cover fund raising costs.

E. Cost of Grants

The amount of funds available for grant awards from the USAID-funded portion of the endowment is estimated to be $500,000 annually. An additional $100,000 is anticipated as "pass through" funds from international donors. If the Foundation is successful in raising matching endowment capital of $4.7 million, this will provide approximately $235,000 per year in additional income.

F. Cost of Funds

The endowment funds are a grant from USAID and thus, from the recipient's perspective, the cost of funds is zero. From USAID's perspective the cost of funds to capitalize the endowment are "opportunity costs"--the returns from other possible uses. Because the use of these funds is restricted to the U.S. - Japan - GOI program of biodiversity conservation projects in Indonesia, from the Mission's point of view, the opportunity costs, in financial terms, approaches zero.

G. Pro-Forma Cash Flow Analysis

The Cooperative Agreement anticipates a transfer of approximately $16.5 million directly to the Foundation for the purpose of establishing an endowment fund. These funds will be placed in equity and fixed-income investments using a layered approach over several months. The asset allocation will be approximately 60 percent to equities and 40 percent to fixed-income investments. The Foundation will use income from the bond portfolio to cover monthly operating expenses. Cash transfers from a U.S. dollar account to a rupiah account

will be arranged on a monthly basis. Funds will be withdrawn from the equity portfolio periodically to match the grantmaking award cycles. These are currently planned for twice a year. The pro forma financial profile demonstrates that this arrangement will ensure that adequate funds are available to the project when needed.

4.1.2.3 *Conclusions from the Analysis*

The Foundation's distribution of small grants to a variety of organizations throughout the country is aimed at stimulating the development of innovative approaches to conserving biodiversity and reaching groups directly involved with the use of biodiversity resources. The expected benefits will be significant, and it is unlikely that they could be replicated by comparable expenditures of investment funds through a large grant program focused on organizations located in and around Jakarta.

The cost of a high quality, small grant program focusing on priority geographic areas, however, is quite high. This reflects the following project design principles: (a) the scope of grantmaking is across the entire archipelago; (b) the large number of small grants awarded to a wide range of organizations; (c) use of paid professional project staff to administer grantmaking program; (d) high degree of board involvement, participation, and consultations with constituencies; (e) the use of professional endowment management; and (f) financial management, legal and auditing to meet reporting requirements, accountability and transparency. General management expenses (overhead) is calculated using three methods; as a percentage of assets, of grants, and of income.

The financial analysis examines foreign exchange risks associated with maintaining endowment capital in U.S. dollar denominated assets. By holding U.S. dollar denominated assets, the Foundation bears the bulk of the foreign exchange risk.

4.1.2.4 *Notes to Detailed Project Financial Profile*

The Financial profile (Table B) identifies all of the revenues and expenditures anticipated during the 10 year life of the project. Financial projections show the inflow of funds from endowment investment earnings (revenues) and the outflow of funds (costs) to meet anticipated operating expenditures on an annual basis. The Foundation will prepare detailed monthly cash flow statements.

4.1.3 Economic Analysis

The purpose of the economic analysis was to determine whether the benefits that are expected to be generated by the project justify the costs of establishing and maintaining the Indonesian Biodiversity Foundation. The analytical approach includes elements from the financial analysis, but incorporates social costs and benefits that are expected to accrue to the economy as a whole into the evaluation.

Pro Forma Financial Profile

Table B

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999	Year 6 2000	Year 7 2001	Year 8 2002	Year 9 2003	Year 10 2004
Endowment Fund Size (estimated)	16,500,000	16,500,000	16,500,000	19,500,000	21,200,000	25,200,000	29,200,000	33,200,000	37,200,000	40,000,000
Estimated Annual Revenue										
Gross Investment Income from USAID Endowment	804,375	1,608,750	1,608,750	1,608,750	1,608,750	1,608,750	1,608,750	1,608,750	1,608,750	1,608,750
Gross Investment Income from other donor endowments	0	0	0	292,500	458,250	848,250	1,238,250	1,628,250	2,018,250	2,291,250
Contributions for Operations										
USAID/Indonesia	150,000	150,000	350,000	270,000	330,000	0	0	0	0	0
Biodiversity Support Program	125,000	0	0	0	0	0	0	0	0	0
Natural Resources Mgmnt Project	150,000	150,000	0	0	0	0	0	0	0	0
Other Contributions	25,000	50,000	50,000	50,000	75,000	100,000	100,000	100,000	100,000	100,000
Contributions for Grantmaking Program										
USAID/Indonesia	150,000	200,000	300,000	325,000	275,000	0	0	0	0	0
International Foundations	0	0	100,000	100,000	200,000	200,000	200,000	200,000	200,000	200,000
Other Contributions	0	50,000	50,000	50,000	75,000	100,000	100,000	100,000	100,000	100,000
Amount Retained in Endowment to maintain real value of principle	(330,000)	(660,000)	(660,000)	(780,000)	(848,000)	(1,008,000)	(1,168,000)	(1,328,000)	(1,488,000)	(1,600,000)
Total Revenue	1,074,375	1,548,750	1,798,750	1,916,250	2,174,000	1,849,000	2,079,000	2,309,000	2,539,000	2,700,000
Estimated Annual Expenses										
Endowment Asset Management Fees	60,000	123,750	123,750	146,250	159,000	189,000	219,000	249,000	279,000	300,000
Core Operating Expenses of Foundation	150,000	175,000	175,000	200,000	210,000	225,000	230,000	235,000	240,000	250,000
Initial Start-up Operational Expenses	300,000	225,000	265,000	180,000	205,000	0	0	0	0	0
Grantmaking Program-related Expenses	250,000	425,000	450,000	440,000	450,000	285,000	280,000	300,000	355,000	400,000
Grants Awarded From Endowment/ CA /Matching funds	250,000	500,000	660,000	800,000	1,000,000	1,000,000	1,200,000	1,375,000	1,515,600	1,600,000
Consultations and Networking Program	64,375	100,000	125,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Total Annual Expense	1,074,375	1,548,750	1,798,750	1,916,250	2,174,000	1,849,000	2,079,000	2,309,000	2,539,600	2,700,000

All figures in constant dollars

Gross Investment Income assumes 9.75 percent total return on assets

Amount retained in endowment assumes 4 percent inflation

Endowment asset management fees assumed to be .75 percent of maket value

4.1.3.1 *The Economic Benefits of the Project*

The economic benefits of the project are inextricably linked to the Foundation's ability to develop pragmatic approaches to conserving Indonesia's biologically diverse resources. The Foundation will achieve this goal through its leadership roles in advocacy, networking, and innovative grantmaking.

The establishment of almost 19 million hectares of terrestrial and marine conservation areas, incorporating reserves in every major biogeographical zone of the country, as well as 18 million hectares of protection forests, attests to the importance that the Indonesian government has, by its actions, attached to the conservation of these resources.

The intent of the government's efforts in establishing conservation areas has been commendable, but the design and implementation of effective measures to maintain the ecological integrity of these areas have yet to be developed in a meaningful manner. The Ministry of Forestry, recognizing the limitations of its own resources, is increasingly encouraging the formation of new management alliances in which local resident communities, NGOs, and the private sector assume more significant roles in managing these areas.

The Foundation will not be alone in fostering the development of practical approaches to conserving the country's biodiversity, but it will have one of its most distinctive programs. The flexible funding lever of the Foundation's grants program is designed to stimulate innovative approaches to conservation at the local level that would be difficult to replicate in programs with comparable investments. The advocacy and networking roles that the Foundation is expected to assume will also stimulate the development of improved policies and programs for managing biodiversity resources throughout the country. The assumption of these latter roles is exemplified by actions that have previously been initiated. The Foundation's leadership role has already been used to articulate the values of biological diversity and convince authorities in East Kalimantan that a road that was to be constructed through an established conservation area of biologically important lowland *Dipterocarpaceae* forests should be relocated. This resulted in the continued protection of an extensive forest area. In addition, on the Foundation's initiative, a national network of organizations and individuals concerned with the conservation of biologically diverse resources has been organized. The Foundation plans to use this network as a vehicle for exchanging information on threats to biodiversity resources, innovative approaches to conservation, and policy options. The Foundation will use its existing linkages with key policy makers to promote the adoption of improved policies and practices.

There are several interrelated types of economic values that are associated with the conservation of biological resources. These include:

- use values derived from consumptive and nonconsumptive uses of the goods and services that these resources provide;

- option values that are associated with future uses of plant and animal species that are currently endangered and may be irreversibly lost, even though those future uses have yet to be identified;

- bequest values that are associated with the desire of one generation to pass on its inheritance of natural resource wealth to succeeding generations; and

- existence values that are associated with the inherent right of an organism to life.

While the value to society of this complex mix of benefits is indisputable, many of its component parts are difficult, to quantify with a high degree of accuracy. In the analysis of the Foundation's activities, a proxy measure, representing the *minimum value* of the mix of benefits is provided to identify the threshold level of value that can be expected as a result of the Foundation's activities. The basis of the assessment is the implicit value that society bestows on the preservation of a conservation area. That is, the opportunity cost associated with the societal decision to reserve a biologically diverse area implies that the value of conserving the resources in the area is at least as great as the value of allocating the resources to their next best use. In the benefit-cost analyses, provided in Section A.3, Volume II, the next best use is represented by timber extraction activities, which provide a convenient measure of the value of alternative allocations.

4.1.3.2 *The Economic Costs of the Project*

The opportunity cost associated with the $19.0 million in capital that will be allocated to the project, which includes $16.5 million to establish the Foundation's trust fund, and $500,000 that will be provided annually in the first 5 years of the project to cover start-up costs, is, in a very real sense, already predetermined. Indeed, since the expenditures of the funds are restricted to uses that implement the U.S.-Japanese-Indonesian Biodiversity Conservation Program, the opportunity cost reflects returns on alternative uses of the investment to support biodiversity conservation programs in Indonesia.

4.1.3.3 *Benefit-Cost Analyses*

Three benefit-cost analyses were conducted and in all three cases indicated the project's economic soundness. The fact that the benefit streams used in the analyses understate the true value of the Foundation's conservation activities makes the economic justification for the project even more compelling.

Annex A.3, Volume II details the economic analysis.

4.1.4 Technical Analysis

The technical analysis examines the Foundation's ability to plan and carry out a grantmaking and networking program, including priority areas of focus, types of activities to be supported, and grantmaking procedures (e.g., consultations, solicitations, review and award of grants, and monitoring performance of grantees). The analysis also looked at the capability of prospective grantees and Foundation staff, and planned actions to strengthen capabilities.

4.1.4.1 *Operating a High Quality Grantmaking and Networking Program*

The Indonesia Biodiversity Foundation is a grantmaking organization. The task of the grantmaking program is not simply to provide capital in the form of grants to organizations engaged in biodiversity related projects. The Foundation will develop an array of grantmaking program policies designed to use the foundation's resources strategically to promote the wider adoption of proven policies and practices. This will involve supporting well-established organizations and scientists as well as earmarking funds for small grants to remote communities, pro-actively seeking out organizations involved in innovative projects and/or assisting recipients with the task of building up their institutional capabilities. A key task will be to link field activities with policy analysis and to build upon other biodiversity conservation activities. The Foundation will also create and strengthen networks to promote the exchange of information on biodiversity conservation issues and innovative approaches. A portion of the investment income from the endowment will be used to cover the administrative costs of the grantmaking program. These costs include widespread grant solicitation, processing of applications, review panels, program staff, workshops and training for prospective and approved grantees, travel funds, reporting and evaluations.

The grantmaking program of the Foundation will begin shortly after the disbursement of USAID funds to the Foundation. Demonstrating the capability to fund innovative projects early in its organizational life is intended to support the Foundation's fund raising efforts. It is anticipated that when the grant program is fully operational, 10 to 25 grants will be made each year. Most of these grants will be under US$ 25,000. The Foundation will develop its grantmaking in stages, initially focusing on a few program themes and geographic areas and funding a limited number of grants.

Foundation staff carried out extensive consultations in Jakarta, Central Java and East Kalimantan to present the Foundation's objectives and solicit suggestions on Foundation development, operation and focus. Based on consultations, extensive expertise and experience, and the detailed technical analysis in *The Biodiversity Action Plan for Indonesia*, The Foundation's grantmaking policy calls for focusing support on three program areas during the initial years: a) building constituencies for sustaining biodiversity, b) identifying and analyzing public policy priorities, and c) strengthening community-based nature conservation activities. The Foundation intends to place priority attention on in-situ conservation, especially in threatened ecosystems such as the *Dipterocarpaceae* forests of

Kalimantan, testing innovative approaches for promoting community participation, marine conservation, and ex-situ conservation to document important genetic resources in areas with high population pressure and development. Accordingly, the Foundation identified five priority geographic areas:

a) Development of in-situ conservation in East Kalimantan;
b) Sustainable use of biodiversity to benefit communities in North Sumatra;
c) Development of eco-tourism in Bali and Nusa Tenggara Timor;
d) Marine biological diversity conservation in Jakarta Bay; and
e) Development of ex-situ conservation on Java;

The Foundation will establish and strengthen networks to promote the exchange of information. The Foundation also plans to: a) strengthen the administrative and technical expertise of Foundation staff, b) hold national and regional consultations to update grantmaking programs, and c) assess and strengthen the capability of prospective grantees to undertake Foundation-funded activities. There is a strong demand for conservation related funding, however, prospective grantees are likely to need training and technical assistance (e.g., in grant management) to carry out effectively Foundation-funded activities.

The USAID grant worthiness assessment determined the IBF has an adequate grantmaking policy, procedures and staff to undertake a grantmaking program designed to support biodiversity conservation in Indonesia. Annex A. 4, Volume II contains the detailed analysis of the Foundation's grantmaking program, including an assessment of the technical and administrative capability of prospective grantee. Annex A.10 and Annex M contain the Foundation's grantmaking policies and procedures, and conflict of interest policy, respectively.

4.1.5 *Social Soundness Analysis*

The project has a high degree of social soundness. The design provides a flexible institution to respond to the desires of Indonesians and the global community for sustaining Indonesia's tremendous biological resources; it provides for long-term support for this effort; and it encourages broad based participation in its implementation. The project implementation plan is based on a careful and realistic design, and monitoring and evaluation capacity is fully adequate. Volume II, Annex A.5 contains the social soundness analysis which examines the socio-cultural context, direct and indirect beneficiaries, participatory aspects and developmental impact.

4.1.6 *Gender Considerations*

Increasing the numbers and quality of participation for women in development activities is a constant and cross-cutting concern for the USAID Indonesia. The targeted beneficiaries of the project are future generations whose livelihoods and quality of life

depend upon the sustainable use of Indonesia's biological resources, specifically its flora and fauna. It is difficult, however, to identify specific individuals that would benefit (i.e. women, mothers, youths). Further, biodiversity conservation is a public service, not a private benefit, with society and individuals the long run beneficiaries of biodiversity conservation.

The major impact of the project on women is expected to be through the grantmaking program. Women living in and around forests or coastal areas tend to be responsible for gathering firewood, harvesting food and marketing products. Accordingly, some of the expected Foundation grants, such as those promoting community participation in conserving biodiversity resources will directly benefit women. For example, a typical grant may support an NGO to carry out a community development activity involving the sustainable use of forest or marine resources from a bufferzone area adjacent a national park in order to generate information for improved policies for other national parks and protected areas. Thus, the participants and immediate beneficiaries could be women but the ultimate beneficiaries will be communities living in and around other national parks and protected areas that benefit from the adoption of improved policies and practices. Hence, as appropriate, the evaluation of proposed grants would include: a) assessing the role of women in the use of forest or marine resources and potential opportunities to involve women in promoting more sustainable use biological resources, and b) analyzing the present role of women in the proposed activity and what steps are planned to ensure women's participation.

Grant recipients will be chosen based on their ability to reach and help the target beneficiaries as well as in carrying out an effective development approach. Hence, the IBF grantmaking policy includes, as appropriate, the ability of prospective grant proposals to involve and benefit women as one of the evaluation criteria.

Handbook 3 guidance calls for discussion in this section of the Project Paper of the "extent to which sex-aggregated data is available" and "constraints to women's participation and opportunities for enhancing women's participation." Because of the nature of the project, specific baseline information data cannot be reported in advance of knowing the grants which will be funded by the Foundation. However, discussion of women's participation (constraints and opportunities) within these grant activities will be included in regular implementation reports, and in the mid-term and final evaluations. The Foundation's grantmaking policy will require grantees to provide data on participants and beneficiaries disaggregated by gender, and the Foundation's regular reports will document progress on women's participation under Foundation-funded programs.

4.1.7 *Environmental Analysis*

The project will support the development of improved environmental and natural resources management policies and practices. The project will help fulfill the following U.S. congressional mandates for USAID to support productive work in environment and natural resources management: Foreign Assistance Act., Section 119.

The Foundation will fund activities which may include: policy analysis, efforts to improve public awareness, scientific and applied research, and conservation activities. The policy studies will analyze the impact of public policies and potential reforms on the conservation of biological resources. Public awareness activities will inform the general public of the importance of biodiversity conservation. Research and conservation activities will support scientists, community groups, local NGOs, universities, and others in testing innovative approaches to conservation.

Considering the above project approach, a categorical exclusion from USAID's Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary requirements was approved for the proposed endowment contribution, technical assistance; commodity procurement; training, and possible grants for program activities. This determination is in accordance with USAID Regulation 16, Section 216.2 (c)(2)(vi), which provides for a categorical exclusion in situations where contributions are made to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects. The Initial Environmental Examination is included in Annex 4 of Volume I and in Annex L, Volume II.

4.2 PRINCIPAL ASSUMPTIONS

Successful implementation of the project is contingent upon a number of assumptions for achieving the project's goal and purpose. These include: 1) continued political and economic stability, and continued GOI support for environmental conservation; 2) the GOI allows the development of an independent grantmaking foundation dedicated to biodiversity conservation; 3) GOI allows policy process to respond to improved information regarding natural resource management and respective roles of public and private sectors, NGOs, local communities and others; and 4) public debate regarding environmental issues is allowed in national and local fora. Assumptions for achieving project outputs are: 1) Foundation carries out its institutional development strategy as planned, able to retain and train professional staff; 2) the endowment's investment strategy is able to achieve desired rates of return given future financial market conditions; 3) Foundation able to carry out effective fund raising program by demonstrating the need for additional funding for biodiversity conservation to appropriate sources of funding, and prospective sources of funding capable of doubling the endowment in ten years; and 4) qualified institutions and groups can be identified and are available to receive Foundation grants. The project's logical framework is contained in Annex 1, Volume I and in Annex B, Volume II, and provides a more detailed presentation of principle assumptions.

4.3 KEY DESIGN ISSUES AND CONCLUSIONS

USAID/Washington, Mission Design Committee and others provided valuable guidance during the design of the project, review and approval of the Project Identification Document (PID), and review and approval of the proposed endowment approach. Highlights of design issues and responses include:

a. Issue: Ensure that the Foundation is independent and self-governing, but with strong support from and linkages to the GOI.

Response: The Record of Discussion and Memorandum of Understanding (contained in Annex K) provide a legal basis for the Foundation's independence but link with GOI led Indonesian Biodiversity Conservation Program.

b. Issue: Justify the proposed endowment mechanism instead of alternatives such as technical assistance or an operational support grant.

Response: AID/W approved the proposed endowment approach (Annex I).

c. Issue: Develop a 10 year business and financial plan for the Foundation that provides cost and earnings projections as well as sources of additional funding.

Response: The detailed project budget is contained in Annex E.

d. Issue: Identify procedures and technical criteria for evaluating and awarding grants in order to ensure that the Foundation demonstrates their credibility by awarding a few, high quality grants during the first year.

Response: The Implementation Plan (Section 3.4) describes the Foundation's grantmaking strategy. Annex A.4.1 contains a more detailed analysis of grantmaking issues and Annex A.10 includes the Foundation's Grantmaking Policies and Procedures statement.

e. Issue: Clarify U.S. and Japan participation on the Board of Trustees.

Response: The Chairman of the Board of Trustees will invite a U.S. representative to attend Board of Trustee meetings as an observer. A representative from Japan may also be invited, depending upon the issues to be discussed and interest by Japan and the Foundation.

f. Issue: Mission should periodically review the endowment management policy requiring the maintenance of the endowment's real value in order to ensure that adequate income is available to fund biodiversity conservation grants and activities while meeting investment fund objectives of safety, income generation and capital protection.

Response: Mission concurs with recommendation.

g. Issue: USAID/W noted the draft endowment guideline provision "it is expected that the bulk of funds of an endowed organization looking for long-term stability be invested in the United States".

Response: Foundation's investment policy specifies that USAID funds will be invested in instruments offered in the U.S. and denominated in U.S. dollars. Fixed-income and equity investments will be predominantly in the U.S. The Foundation will have a global exposure to equities through the use of a U.S.-based managed commingled fund denominated in U.S. dollars.

h. Issue: USAID/W noted that the Foundation may wish to consider the pros and cons of a risk management strategy that includes sound green investments as it develops its investment strategy.

Response: This guidance provided to the Investment Committee for their consideration in developing the Foundation's investment policy and strategy. Pros and cons were considered during the drafting of the policy.

4.4 EVALUATION OF RISKS AND CONDITIONS FOR TERMINATION

4.4.1 *Restrictions on the Use of Funds*

USAID/Washington has determined that establishing an endowment is in many ways analogous to a cash transfer, thus normal statutory restrictions on the use of funds do not apply as a matter of law to the use of endowment income. The following restrictions on the use of investment income will be included as a matter of policy: (a) the IBF must maintain a formal written spending policy (currently established at 3-5 percent of the endowment assets), (b) the IBF must spend at least 75 percent of these annual expenditures on program grants and program-related expenses (may include investment management fees); and (c) annual investment management costs should not exceed two percent of the market value of endowment assets. Because the USAID grant is being attributed to the Global Environmental Facility, the Cooperative Agreement will not contain any formal eligibility rules (other than code 935) with respect to the source/origin/nationality of goods and services procured.

4.4.2 *Termination of the Endowment*

The Cooperative Agreement will contain the right of USAID to terminate the endowment if the funds (either the endowment corpus or investment income) are not used in accordance with the CA and the Foundation policies referred to therein, or the requirements in section 4.4.1 above are terminated for any reason. Additionally, the Cooperative Agreement will specify that failure to use best efforts in carrying out the activities contained in the CA program description and work plan, including material failure to achieve the actions indicated in section 3.2, "Performance Indicators", will constitute default under the

CA and will be considered grounds for termination and refund of the assets remaining in the endowment. For example, IBF's failure to correct the following would be considered grounds for termination: (a) spending less than three percent of the market value of endowment assets on grantmaking programs and operating expenses annually; (b) revise or otherwise fail to adhere to the Investment Policy Statement and Guidelines approved by USAID or its Articles of Association, without USAID approval; (c) an unrepresentative or inactive Board of Trustees; and/or (d) failure to provide scheduled annual audit and performance reports to USAID, or serious adverse audit findings. As an alternative to the termination of the Cooperative Agreement and the refunding of the endowment assets to the U.S. Government, USAID may consider other appropriate actions. These could include the transfer of the endowment to another NGO. If such an approach was determined appropriate, USAID Indonesia could deobligate and then reobligate the funds to another project.

5. PROJECT FINANCIAL PLAN

5.1 PROJECT COST ESTIMATES

The total cost of the IBF project is $25.5 million. This consists of up to $19.0 million in grant assistance to the Foundation, and about $6.5 million in matching contributions from various sources. USAID's grant funds are divided into $16.5 million (87 percent) in foreign exchange (FX) and $2.5 (13 percent) million in local currency (LC). The foreign exchange will be used to finance the endowment while the local currency will fund the initial grantmaking program and foundation development costs. In addition to this $25.5 million, about $1.3 million in additional USAID support is being provided through the Natural Resources Management (NRM) project ($1 million for technical assistance, equipment and office space) and the Biodiversity Support Program (BSP) ($350,000 for initial operating costs and foundation development). Table C illustrates project cost estimates by project component and funding mechanisms/sources. Table D shows project cost estimates by fiscal year. Figures include the expected revenue from the endowment and matching contributions. Table E provides a detailed analysis of five potential endowment sizes (from $16.5 million to $40 million) and the expected investment income from each.

5.2 PROPOSED FINANCING PLAN

The financing plan for the project is aimed at achieving three objectives:

* The development of a professional, independent grantmaking institution operating at international standards and expansion of financial resource base (i.e., additional contributions for the endowment and program activities).

* The establishment and management of the initial USAID-funded endowment and demonstrated ability to handle additional funding.

TABLE C

COST ESTIMATES FOR INDONESIAN BIODIVERSITY FOUNDATION (IBF) PROJECT

PROJECT COMPONENT	ESTIMATED COST		FUNDING MECHANISM
USAID Contribution			
Foundation Governance Start-Up and Technical Support	US$	1,250,000 1)	Cooperative Agreement
Endowment	US$	16,500,000 1)	Cooperative Agreement
Grantmaking Program	US$	1,250,000 1)	Cooperative Agreement
SUB TOTAL	US$	19,000,000	
Expected Contributions by Private Sector, GOI, Foundations, Donors and Other Sources			
Operating Expenses	US$	600,000	Various sources
Endowment	US$	4,700,000	Various sources
Grant Making Program	US$	1,200,000	Various sources
SUB TOTAL	US$	6,500,000	
IBF PROJECT TOTAL	US$	25,500,000	

1) Amount in Cooperative Agreement will depend upon funds available and negotiation process.

ADDITIONAL USAID RESOURCES TO SUPPORT DESIGN AND IMPLEMENTATION
OF THE INDONESIAN BIODIVERSITY CONSERVATION PROGRAM, INCLUDING, IBF PROJECT

COMPONENT	ESTIMATED SUPPORT		FUNDING MECHANISM
Foundation Start-up and Technical Support for Program Design and Implementation	US$	1,000,000	ARD, NRM Project 2)
Foundation Operation and Technical Support	US$	350,000	Biodiversity Support Program
TOTAL	US$	1,350,000	

2) Includes about $700,000 for long term advisor (January, 1994 - July, 1996); $120,000 for office space (May, 1994 - April, 1995), renovations, furniture and equipment; and $180,000 for short-term technical assistance (about 18 person months of expatriate assistance or about 36 person months of Indonesian expertise).

a (c)

Year	0	1	2	3	4	5	6	7	8	9	10	TOTAL
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
IBF PROJECT FUNDING												
Cooperative Agreement Funding												
Operations and Start-up												
Operations Support		150,000	75,000	50,000	50,000	50,000						
Evaluations and Audits			75,000	100,000	20,000	100,000						
Technical Assistance				200,000	200,000	180,000						
Sub-total		150,000	150,000	350,000	270,000	330,000						1,250,000
Endowment Establishment												
Initial Capital		16,500,000										16,500,000
Grantmaking Program Support												
Grants program support		50,000	100,000	100,000	125,000	75,000						
Grantmaking funds		100,000	100,000	150,000	200,000	200,000						
Sub-total		150,000	200,000	300,000	325,000	275,000						1,250,000
Annual Endowment Income (1)		412,500	825,000	825,000	975,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	9,397,500
Matching Contributions (2)												
Endowment Capital					3,000,000	1,700,000						4,700,000
Grantmaking Program Funds				100,000	100,000	200,000	200,000	150,000	150,000	150,000	150,000	1,200,000
Annual Operating Funds		25,000	50,000	75,000	75,000	100,000	75,000	50,000	50,000	50,000	50,000	600,000
Sub-total		25,000	50,000	175,000	3,175,000	2,000,000	275,000	200,000	200,000	200,000	200,000	6,500,000
TOTAL IBF PROJECT FUNDING		17,237,500	1,225,000	1,650,000	4,745,000	3,665,000	1,335,000	1,260,000	1,260,000	1,260,000	1,260,000	34,897,500
ADDITIONAL USAID SUPPORT												
Biodiversity Support Program Grants												
Preparation grant to Yayasan Pelangi	100,000											
Preparation/operations grant to IBF	50,000	150,000										
Technical Assistance		50,000										
Sub-total	150,000	200,000										350,000
NRM Project Support												
Long and short-term TA (3)		400,000	400,000	100,000								
First Year Office Lease & Renovation	60,000											
Office Equipment & Furniture	40,000											
Sub-total	100,000	400,000	400,000	100,000								1,000,000
TOTAL ADDITIONAL USAID SUPPORT	250,000	600,000	400,000	100,000								1,350,000
TOTAL PROJECT SUPPORT	250000	17,837,500	1,625,000	1,750,000	4,745,000	3,665,000	1,335,000	1,260,000	1,260,000	1,260,000	1,260,000	36,247,500

Notes

(1) based on a spending policy of 5 percent of endowment assets per year.

(2) This represents the minimum 25% matching contributions in the amount of $6.5 million amount. The target amount is much higher

(3) Foreign Exchange Costs

Sensitivity Analysis Table E

Total Return Scenarios from Various Endowment Sizes

	Annual net total return*			
Endowment Size	7 percent	5 percent	3 percent	1 percent
$16,500,000	$1,155,000	$825,000	$495,000	$165,000
$21,200,000	$1,484,000	$1,060,000	$636,000	$212,000
$25,000,000	$1,750,000	$1,250,000	$750,000	$250,000
$35,000,000	$2,450,000	$1,750,000	$1,050,000	$350,000
$40,000,000	$2,800,000	$2,000,000	$1,200,000	$400,000

* Annual net total return is less investment fees and retention of income and capital gains

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table E, Vol. I 03/18/95

* The development of an innovative grantmaking program addressing the problems of sustaining Indonesia's biological wealth.

5.2.1 *Financing the Development of the Foundation*

($1,250,000 in USAID funds directly with the Foundation through the Cooperative Agreement, $1,350,000 in additional USAID support through the NRM project and BSP, and $600,000 in matching contributions)

Five years of program and operational support is essential to develop a high quality institution. During this period, the Foundation is expected to raise at least $600,000 in matching contributions for development and operating costs. USAID intends to provide US $1.25 million over the first five years of the Cooperative Agreement for operating costs, technical assistance, training of selected Foundation staff and board members, evaluations and audits for the Foundation. These funds may also be used as a contingency fund in the event that investment returns from the endowment fall below the real return target of 5 percent during any of the first five years.

USAID is providing an additional US $1.0 million of support through the NRM project, utilizing the services of ARD contract to provide technical assistance through July, 1996, initial equipment needs and office space (May, 1994-April, 1995). Furthermore, about $150,000 has been provided for the initial start-up costs through the USAID-funded Biodiversity Support Program (BSP). BSP funded initial foundation development activities through a grant with Pelangi, a leading Indonesian environmental NGO. The IBF also received approximately $200,000 directly from BSP to cover operating costs through May 1995 and development of operational, grantmaking and financial management policies. USAID's direct and indirect contributions for operating expenses will be phased out as income from the endowment and other sources becomes available.

The challenge of building a highly professional, independent foundation requires this strong financial support during the formative stages. A high quality institution will be able to attract other international and domestic funding for endowments, grantmaking programs and operating expenses. A mediocre under-funded operation will be unable to attract and retain the kind of financial support needed.

5.2.2 *Establishing the Endowment*

($16.5 million USAID and $4.7 million in matching contributions)

Essential to the success of the Foundation is an endowment of a size that will permit it to fund its core operating expenses and support a significant grantmaking program. USAID will provide $16.5 million to capitalize an initial endowment fund. The Foundation, however, must first obtain approval of 501(c)(3) status by the Internal Revenue Service and USAID must review and approve executed fund management contract(s) (Annex O includes

the terms of reference for selecting fund manager(s). USAID funds will also be used to assist in the selection of appropriate asset manager, and to support the work of the Foundation's investment committee in overseeing the implementation of the Foundation's Investment Policy.

Financial projections indicate that annual income from a $16.5 million endowment will provide support for a minimum level of operations and grantmaking program of the Foundation. The USAID-funded endowment is viewed as initial "seed" capital. The Foundation is expected to generate at least an additional $4.7 million in endowment contributions over the ten years of the project. The Foundation's initial fund raising strategy is to generate over $6 million in additional funds to achieve a $22 million endowment (funds from USAID and other sources). Project design identified a fund raising target of at least a $40 million endowment by the end of the project.

USAID anticipates making a total contribution of $16.5 million for an endowment on or about June, 1995. Support for an endowment will demonstrate USAID's commitment to the long-term viability of the Foundation. The existence of the USAID-funded endowment will give a financial boost to the Foundation's leadership in seeking endowment and program funds from other sources. This results from the "signal of sustainability" sent by the initial endowment contribution. Few donors can be expected to contribute endowment funds to a foundation whose long-term life is not secure.

5.2.3 *Financing the Initial Grantmaking and Networking Program* ($1,250,000 USAID and $1,200,000 in matching contributions)

USAID will contribute $1,250,000 to establish the Foundation's initial grantmaking program. A portion of this amount may be used to fund actual grants during the first several years of operation if a significant amount of endowment income is used for start-up costs. Over the initial five years this type of financial support will be phased out. Technical assistance will be provided to the staff and Grantmaking Committee in implementing approved grantmaking policies and procedures that meets the Foundation's priority program objectives. This will include regional dialogs with important constituencies as well as workshops to develop specific strategies and inform prospective grant seekers on the procedures for applying for Foundation grants. Funds will also be utilized to support the salaries of program officers for several years until endowment earnings or other funds become available. As appropriate, prospective grantees will receive training in proposal writing, grants management and other skills. The Foundation will also support the establishment and strengthening of networks to promote the exchange of information on biodiversity conservation. Over the life of the project, the Foundation is expected to generate at least $1.2 million in contributions from other sources to fund program activities.

5.2.4 *Obligation and Disbursement Schedule*

USAID plans to obligate $10 million in FY 94 funds (carried over into FY 95) and $10 million in FY 95 funds to support the implementation of the Indonesian Biodiversity Conservation Program and Indonesian Biodiversity Foundation Project ($19 million through the planned Cooperative Agreement with the Foundation and $1 million through the ARD contract, NRM project). The $19 million obligated and committed through a Cooperative Agreement (CA) is based on the Foundation registering with USAID as a PVO, submitting the required documentation for obtaining tax exempt status in the U.S., and agreement on a technically and financially sound program description and budget.

5.3 MATCHING CONTRIBUTIONS

The Foundation will be expected to generate matching contributions of at least 25 percent of the total project costs based on the planned USAID contribution of up to $19 million during the ten year period of the Cooperative Agreement. Twenty five percent of the total project cost is approximately $6.5 million. These contributions may be in the form of capital grants to the endowment fund, "pass-through grants" for the grantmaking program or contributions for annual operating expenses. The Foundation will undertake a fund raising program in order to meet these matching fund requirements. An example of actions may include: a) public awareness programs aimed at motivating the participation of the Government, private sector and other donors in supporting biodiversity conservation, and b) preparation of funding proposals targeted for potential funding sources (e.g., private sector firms, international foundations and bi-lateral donors). The matching contribution is expected to be allocated among endowment capital ($4.7 million), grantmaking ($1.2 million) and operating funds ($0.6 million). The project design anticipates that contributions to the endowment fund during years 6 - 10 of the project will be nearly $20.0, bringing the total endowment to approximately $40 million (in 1994 dollars) by the end of the life of the project. Figure 2 outlines indicators of progress in fund raising.

Figure 2

Indicators of Progress in Fund Raising

1. Stewardship is the chief responsibility of the IBF Trustees. This includes developing revenue for the IBF as well as proper investment and management of the funds it receives. The board of trustees will prepare a comprehensive manual of written policies and procedures for fund-raising.

2. There are two main revenue sources for the IBF. An annual giving campaign to raise funds for annual operating and short-term program costs and a Capital/endowment campaign to raise large contributions for the endowment and multi-year programs. The IBF should have a well developed fund-raising plan for each of these two campaigns.

3. The IBF has several fund-raising markets. These include foundations, wealthy individuals, corporations, governments and multi-lateral institutions. The IBF should have identified the various markets, determined the techniques for obtaining contributions from each, determined how much might be raised from each over a five year period, how much it will cost to solicit them, and have set priorities of which markets will be focused on.

4. The IBF should be expected to have established a realistic rupiah/dollar goal for fund-raising based on careful analysis. Goals for annual operating support and goals for capital/endowment should be set.

5. The IBF should be expected to have developed a calendar for fund-raising and trustees and staff should have responsibility for the various projects.

6. Effective fund-raising is rooted in the IBF's mission and its program priorities. These make the case for giving to the IBF. The IBF should prepare a "case statement" (perhaps in the form of a brochure) containing the rationale on which requests for support will be based. This case statement would be used for solicitation from individuals and corporations. The IBF should also show evidence that it has prepared well thought out proposals to a number of international foundations.

7. Within the IBF organizational structure it should be clear where the responsibilities for fund-raising are located. The role of trustees, committees, staff and possibly consultants should be described.

8. The quarterly reports to USAID should include a description of efforts and results of fund-raising activities during the period.

5.3.1 *Potential Non-USAID Endowment Contributors*

During the project design process, it was realized that for the IBF to reach its full potential as a grantmaking institution, its endowment would need to be expanded beyond the initial $16.5 million provided by USAID. The Trustees of the IBF have set a fund raising goal of increasing the real value of the endowment to at least $40 million over the 10 year life of the project.

Endowment funds contributed by other donors will be kept separate from those provided by USAID. This will enable credit to be given to new donors to the Foundation. The investment objectives and policies which apply to other donors may be different than those which apply to the funds provided by USAID, and will be determined by the Foundation and prospective donors.

Program and operating funds will almost certainly be easier to obtain than endowment funding. Once the Foundation establishes an innovative and high quality grantmaking program, demonstrates excellent management practices of good governance, and develops strong international linkages, it will be in an excellent position to persuade donors to accomplish their biodiversity funding objectives through partnership with the Foundation. The fund-raising plan has identified international foundations, corporations, multi-lateral and bilateral donors, and concerned individuals as potential contributors of program and operating funds

5.3.1.1 *Governments*

One potential source of additional funding is the *Government of Indonesia*. If the Government truly believes that NGO and scientific partnership is essential for the success of the *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* as these documents state, it should consider providing substantial support through the Foundation's endowment. It could do so through the provision of non-budgetary funds such as *Dana Reboisasi* or through a new policy of levying rents (a form of taxes) on the extraction of natural resource commodities such as timber and marine products, both of which are potentially renewable resources. In both cases, the terms of the contributions would have to be negotiated by the Foundation and the GOI.

Another source of endowment and program funding is the *Government of Japan*. While the vast majority of Japanese official development assistance is limited to governmental programs, there is a growing interest on the part of senior Japanese aid officials to involve NGOs in their aid programs. The Japanese Government has appropriately been concerned about continued funding for the operating costs of its projects. The Indonesian Biodiversity Foundation, through its endowment, provides a strong assurance of the Foundation's sustainability. Senior officials of the Government of Japan have also indicated their willingness to help the Foundation approach the Japanese private sector in Indonesia in soliciting funds for the Foundation.

Other countries to be considered are: Sweden, Canada, Norway, United Kingdom and France.

5.3.1.2 *Multilateral Institutions*

Multilateral institutions, such as the *Global Environmental Facility*, are a potential source of support. USAID funds are being attributed to the United States' contribution to the GEF. In the future, the GEF could possibly provide funds directly to the Foundation's endowment as it has done for other environmental trust funds (e.g. in Peru and Bhutan). Another category of potential GEF funding is through its NGO small grants program which could provide a block grant to the Foundation and use the Foundation's grantmaking mechanism. Once the Foundation demonstrates its capacity to use funding effectively for the sustainable use of Indonesia's biological resources, a strong case for GEF funding can be made.

5.3.1.3 *Corporations*

Private sector firms operating in Indonesia (both Indonesian and international corporations) are becoming more concerned with the need for and benefits from a pro-environmental reputation. Companies directly involved in natural resource use, such as oil and gas, mining, fisheries, tourism and forestry, are prospective sources of funding. One approach would be for a company to establish a separate endowment with the Foundation earmarked for biodiversity conservation in a particular geographic or program area (e.g., focusing on community participation and benefits in conserving the forests of Irian Jaya or coastal/marine resources in Sulawesi).

5.3.1.4 *International Foundations*

There is an excellent potential to involve U.S. and Japanese foundations in the supporting the Foundation. From the beginning, the design of the project has worked closely with a number of foundations who have expressed in interest in the development of the Indonesian Biodiversity Foundation. These include: the John D. and Catherine T. MacArthur Foundation, Rockefeller Brothers Fund (RBF), Ford Foundation and Asia Foundation. In addition to funding programs, a foundation such as the Rockefeller Brothers Fund could support an individual to work with the Foundation in carrying out their fund raising strategy. Sasakawa Foundation and Toyota Foundation are both interested in supporting environmental activities in Indonesia.

5.3.1.5 *Concerned Individuals*

Another potential source of endowment funds from the private sector, though perhaps at a lower level, is that of private contributions from Indonesians who have accumulated

wealth in the last two decades. While private wealth is still a recent phenomenon in Indonesia, it is possible that some individuals may believe that funding programs which sustain Indonesia's biological wealth represent an important opportunity to contribute to the long-term well-being of Indonesian society. They may also understand that such funding will make an important contribution to the future of the entire planet because Indonesia's biotic wealth is among the highest in the whole world.

5.4 METHODS OF PROJECT FINANCING

USAID will disburse its contribution to the Foundation through the planned Cooperative Agreement using two methods. The endowment contribution will entail the transferring of U.S. dollars to the Foundation's investment account in the U.S. The Foundation, however, must first receive Internal Revenue Service approval of 501(c)(3) status, and USAID must review and approve the executed fund management contract(s). The contributions for operational and grantmaking activities will use a cash advance system, based upon the approved annual work and financial plans. Under the first cash advance, USAID will disburse Indonesian rupiah funds in the Foundation's local account to finance agreed upon operating and program costs of the Foundation for the first quarter. The Foundation will submit progress and financial status reports (liquidation of outstanding cash advance) at the completion of every month and request an additional cash advance for the requirements of the next three months, taking into account cash on hand. The advance process works as follows. The first advance is for three months (e.g., April, May and June). In early May, the Foundation can request an advance for cash needs over the next three months (May, June and July), taking into account cash on hand from the previous advance. Thus, if the original request was accurate, the Foundation would be requesting an advance only for July. In essence, the advance requests are on a monthly basis with a two month cushion for processing. USAID is limited to giving cash advances for 30 days plus 60 days processing time. Annex F contains illustrative formats for work plans, financial statements, liquidation reports and requests for cash advance.

6. MANAGEMENT PROCEDURES

Management procedures, in particular, monitoring and evaluating implementation progress of the Indonesian Biodiversity Project, will take place on several levels: (i) the performance of the Foundation's trustees and staff in project oversight and management; (ii) the performance of Foundation grantees (e.g., NGOs, scientists, community groups and other recipients) and; (iii) USAID/Indonesia's performance in project oversight and management.

6.1 PROJECT MONITORING

During the initial five years, USAID Indonesia will monitor the implementation of the project through quarterly, semi-annual and annual reviews prepared by the USAID Project

Officer. These implementation reviews will focus on progress in carrying out the work plans as set out in the Cooperative Agreement and subsequent documents. The information requirements of this monitoring will be established in the Cooperative Agreement and will be provided by the Board and staff of the Foundation. This information will include both financial and operational matters and will be included in a quarterly report prepared specifically for USAID Indonesia. The Foundation's quarterly progress report will also document progress in promoting broad participation in the design and implementation of Foundation activities. USAID will be granted observer status at all regular meetings of the Board of Trustees. The project's technical advisor will also prepare quarterly activity reports on the advisor's activities for both the Foundation, USAID Indonesia and ARD Chief of Party.

During years six to ten, USAID Indonesia will monitor implementation progress through the review of the Foundation's annual audited financial statement and performance report.

6.2 SUBPROJECT MONITORING AND EVALUATION

The Foundation will be responsible for monitoring its grants and evaluating their effectiveness. Both formal and informal monitoring mechanisms will be employed. The formal mechanism may require each grantee to file an interim progress report half way into the grant period. This reporting may include: progress achieved under the grant; problems encountered in carrying out the grant funded activity; actions taken to solve problems; and requests for modification of the grant (if any). The Foundation may divide grant payments, making the second payment contingent upon receipt of a satisfactory interim report. The informal mechanism involves the personal contact with the grantee by the Foundation's program officer. This may entail visits and telephone/fax communications by the program officer to the site of the grantee.

The Foundation will evaluate grants from two perspectives. First, to make certain that the grantee fulfills the terms of the grant agreement with the Foundation. Second, to generate feedback for future Foundation program direction and policies. The evaluation of grants will include analysis of important issues such as; to what extent has the grantee contributed to the conservation of biological diversity; has the grantee opened up a new program area which merits additional funding or successfully tested a new approach that should be replicated; should the same type of project be funded in other regions; if the grant failed to achieve its purposes, should the Foundation cease to make grants for those types of activities?; and was the grantee so unreliable that no future grants should be made to him/her, or has the grantee's work been so good that the Foundation should consider additional grants to this organization/individual? Members of the Board of Trustees, Executive Board, review panels, and the Grantmaking Committee will be included in the evaluation process under the direction of the Foundation staff.

The principal formal mechanism for evaluating grants made by the Foundation is the reporting by the grantee. The Foundation will require written reports on the projects undertaken and a complete accounting of funds expended under the grant. Some grants may be evaluated by an independent person or organization. The purpose of this evaluation would be to compare the grantmaking program of the IBF with the programs of other grantmaking organizations in Indonesia to assess the Foundation's relative strengths and weaknesses. This could serve as an important indicator as to whether the IBF project is achieving its goal of international standards in its activities.

The IBF will include information on the monitoring and evaluation of its grant portfolio in its quarterly and annual reports to USAID. USAID monitoring of Foundation performance in carrying out the grant program will focus on those grants made by the Foundation with USAID funds. The mid-term and final project evaluations will also include general information (based on readily available reports and interviews) regarding the performance of grants supported by income from the USAID-funded endowment and other donors as a means of assessing the institutional ability of the Foundation and developmental impact of its grantmaking program.

6.3 PROJECT EVALUATION

The Indonesian Biodiversity Foundation Project will be evaluated during implementation to assess effectiveness in accomplishing the intended objectives. The Foundation and USAID will evaluate whether project contributions have built a professional institution with international standards of good governance, provided sustained financial support of adequate size through the endowment, and established an innovative program of grantmaking, networks and advocacy which is promoting the sustained use and conservation of biodiversity in Indonesia. In addition, the project will be evaluated in terms of its contribution to the joint Indonesian-Japan-United States Indonesian Biodiversity Conservation Program.

The Foundation will arrange for three independent evaluations of the project (the first two will be financed by USAID funds under the Cooperative Agreement and the third will be financed by endowment income). The first evaluation will be held in the third year of the project and is tentatively scheduled for January 1998. A second evaluation will be conducted in January 2000. The third and final evaluation is scheduled for year ten, January 2005. Over the life of the project, USAID intends to steadily reduce its involvement in monitoring and supporting project implementation. The first evaluation will assess implementation progress under the Cooperative Agreement to determine if an extension of the 5 year Cooperative Agreement is recommended. Thus, this evaluation is scheduled to allow sufficient time for the Foundation and USAID to ensure evaluation recommendations are carried out. The second evaluation will also review USAID involvement under the project and duration of the Cooperative Agreement and project to determine if changes are appropriate. These evaluations will focus on (a) Foundation development and governance, (b) the management of the USAID funded endowment and the use of endowment income,

and (c) the strategic impact of the grantmaking program. The IBF will be responsible for providing the evaluation teams with the necessary information for these evaluations and sharing results among project participants. USAID Indonesia will be responsible for ensuring that the results of these evaluations are shared internationally so that experiences gained are incorporated into foundation development activities in other countries.

The IBF will conduct at least three internal evaluations of project implementation. These are tentatively scheduled for January 1997, June 1999 and January 2003. The scope of these internal evaluations will include, the performance of the governing boards and committees, the efficiency of internal operations, staff performance and the effectiveness of the grantmaking program. In addition, the evaluators will be given an opportunity to comment on the performance of USAID Indonesia's project oversight and management. Independent evaluators from the NGO, scientific, academic communities will participate. The IBF will provide a copy of these evaluations to the USAID Project Officer and Program Coordinating Committee.

The Program Coordinating Committee, representing the governments of Indonesia, Japan and the United States, will meet with the mid-term and final evaluation teams to discuss the contributions of the IBF project with respect to the overall implementation of the Indonesian Biodiversity Conservation Program. The specific focus of this evaluation will be to examine how effectively Foundation activities are contributing to the implementation of the *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* and to what extent the Foundation's programs are collaborating with and reinforcing program components funded by the governments of Indonesia and Japan. The Program Coordinating Committee will review recommendations and ensure that the results of the evaluations are shared among participants in the overall program so that experiences gained can be incorporated into future biodiversity conservation activities as well as for other U.S.-Japan collaboration in development assistance.

6.4 AUDIT

The Foundation will arrange, through competitive procedures, for a well established financial management firm to conduct an independent audit of its financial records. This audit will be carried out each year during the ten years of the project.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

roject Title & Number: Indonesian Biodiversity Foundation Project (497-0384)
'otal U.S. Funding: $ 19 million

LOP From: April, 1995 to March 2005
Date Prepared: March, 1995

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Goal:	Measures of Goal Achievement:	Method/Sources of Verification:	Assumptions for Achieving Goal Targets:
To strengthen Indonesia's ability to protect and sustain its extraordinary biodiversity for the benefit of both its own citizens and the international community now as well as for future generations to come	Rate of habitat loss/degradation reduced	National and international reports on environmental conditions in Indonesia.	Continued political and economic stability, both national and international, and GOI support for environmental conservation.
Project Purpose:	End of Project Status:	Method/Sources of Verification:	Assumptions for Achieving Purpose:
1) To create and strengthen the capability of institutions engaged in the sustainable use of biodiversity, and	1.1) A self-sustaining independent Indonesian foundation taking a catalytic role in the conservation of Indonesia's biodiversity, and networks established/ strengthened among community groups, NGOs and scientific/ educational institutions concerned with biodiversity conservation.	1.1) Project evaluations.	1.1) Government allows the developmentment of an independent grantmaking foundation dedicated to biodiversity conservation.
	1.2) At least $6.5 milllion in matching contributions (e.g. from Indonesian private sector, GOI, international firms and other donors) mobilized by the Foundation to conserve biodiversity.	1.2) Foundation reports.	1.2) Government continues to become more open and transparent and allows policy process to respond to improved information about natural resource management and the respective roles of the public and private sectors, NGOs and local communities.
2) To promote the wider adoption of proven policies and practices in biodiversity conservartion.	2) Improved policies and practices tested and adopted to conserve biodiversity.	2) GOI decrees from the MOFr, LH on biodiversity conservation.	2) Public debate regarding environmental issues is allowed in national and local fora.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs:	Magnitude of Outputs:	Method/Sources of Verification:	Assumptions for achieving purpose:
1) One independent foundation with international standards of governance and operations strengthened and dedicated to funding biodiversity conservation.	1.1) Annual reports of operations issued. Regular meetings of the Board of Trustees and Executive Board held. One independent and two internal evaluations conducted.	Project evaluation and monitoring reports, e.g. grantee reports and Foundation quarterly and annual reports.	1) Foundation carries out its institutional development strategy as planned, able to retain and train professional staff.
	1.2) In the first five years, the Foundation generates at least $700,000 in matching contributions for program and operating costs, and over the life of the project at least $6.5 million in matching contributions generated for the endowment; program and operating costs.	Project evaluation and monitoring reports, e.g. grantee reports and Foundation quarterly and annual reports.	
2) An endowment fund established and sustainably managed to preserve its value in real terms, and generates an annual income of at least four percent of its market value, and Foundation generates additional contributions for endowment and programs.	2.1) USAID funded endowment generates an average annual net income of $700,000 for program and operating costs during years 2-5, and $1 million for program and operating costs during years 6-10.		2.1) Approved investment firms(s) and investment policy able to achieve desired rates of return given future financial market conditions.
			2.2) Foundation able to carry out effective fund raising program, demonstrate the need for additional financial support for biodiversity conservation to the appropriate sources of funding, and prospective sources of funding capable of doubling endowment in ten years exist.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3) High quality grantmaking program developed and carried out.	3.1) During the first five years, Grant making Committee meets at least ten times, at least five requests for grant proposals issued and $2,000,000 in grants awarded; during years 6-10, Grantmaking Committee meets at least ten times, at least five requests for proposals issued and over $5 million in grants awarded.	Project evaluation and monitoring reports, e.g. grantee reports and foundation quarterly and annual reports and national and local media.	Qualified organizations and individuals can be identified and are available.
	3.2) During the first five years, at least ten national and regional consultations held to discuss priority biodiversity conservation issues and the role of the Foundation; during years 6-10, at least twenty workshops held.		
3.a) Conservation programs initiated.	3.a) Ten programs carried out involving NGOs, communities and others in conserving biological diversity during the first five years; and fifteen additional programs undertaken during years 6-10.		
3.b) Capacity of scientific institutions strengthened.	3.b) Four biodiversity research projects undertaken by key Indonesian natural science institutions and/or scientists in the first five years; and an additional six projects carried out during years 6-10.		
3.c) Increased public awareness of biodiversity conservation issues.	3.c) Ten seminars and media presentations on biodiversity conservation in the first five years; and ten additional seminars/media presentations held during years 6-10.		

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3.d) Productive uses of biological resources developed.	3.d) Four research projects undertaken by key Indonesian natural science institution scientists that demonstrate economic feasibility and ecological sustainability of biodiversity in first 5 years; and six additional research studies undertaken in years 6-10.		
3.e) Networks to support biodiversity conservation established and strengthened.	3.e) Three networks established/ strengthened among scientists, NGOs and others concerned with biodiversity conservation.		
3.f) Recommendations formulated for improving policies.	3.f) During the first five years, four policy studies completed of national significance and recognition; and six additional policy studies completed in years 6-10.		

Project Inputs:	Implementation Target: ($) USAID	IBF/OTHERS	TOTAL	Method/Sources of Verification:	Assumptions for providing inputs:
1. Endowment	16,500	4,700	20,000	a) Project documents.	Financial resources provided as planned.
2. Pilot Grant-making Program	1,250	1,200	1,450		
3. Technical Assistance, Short-term Training, Commodities, Operating costs, Evaluation and Audit	1,000	600	1,600	b) FIN Quarterly Financial Reviews, SAPIRs and PIRs.	
4. Contingency (10%)	250		250		
	--------	--------	--------		
TOTAL	19,000	6,500	25,500		

STRATEGIC OBJECTIVE 3:

DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT

3.1. Local communities actively participating in natural resources planning and management.
3.2. Natural resource-based industries using "best practices" for land-use management and production processes.
3.3 Policy implementation devolving to the local level.
3.4. NGO's strengthened to promote improved natural resoruces management.

PROGRAM OUTCOME 3.1.: Greater stakeholder participation in decisions about the planning, management, use, and monitoring of natural resources.

3.1.1. Tested "traditional forest areas" and "integrated conservation and development" concepts for community management of forest and of coastal and marine resources.

3.1.2. Established models for enhancing community participation in management planning and implementation for selected national parks.

3.1.3. Determined the biological and technical feasibility of enterprise-oriented approaches to community-based sustainable managment of forest and marine resources.

3.1.4. Expanded implementation of agricultural practices based on agroecosystems approaches fostered by IPM to address new problems and new areas.

PROGRAM OUTCOME 3.2.: Increased conservation and pollution reduction by natural resource-based industries.

3.2.1. Increased incentives for natural resource-based industries to adopt better land husbandry practices and to produce higher value, less polluting products.

3.2.2. Demonstrated technologies for efficient resources use under stainable management.

3.2.3. Accelerated adoption of pollution prevention technologies among natural resource-based industries.

PROGRAM OUTCOME 3.3.: Improved policy development and implementation.

3.3.1. Strengthened networks for natural resources policy and law reform.

3.3.2. Strengthened partnerships among the GOI, the private sector, and communities for local and regional environmental impact planning and monitoring.

3.3.3. Increased participation of women in all aspects of natural resources management.

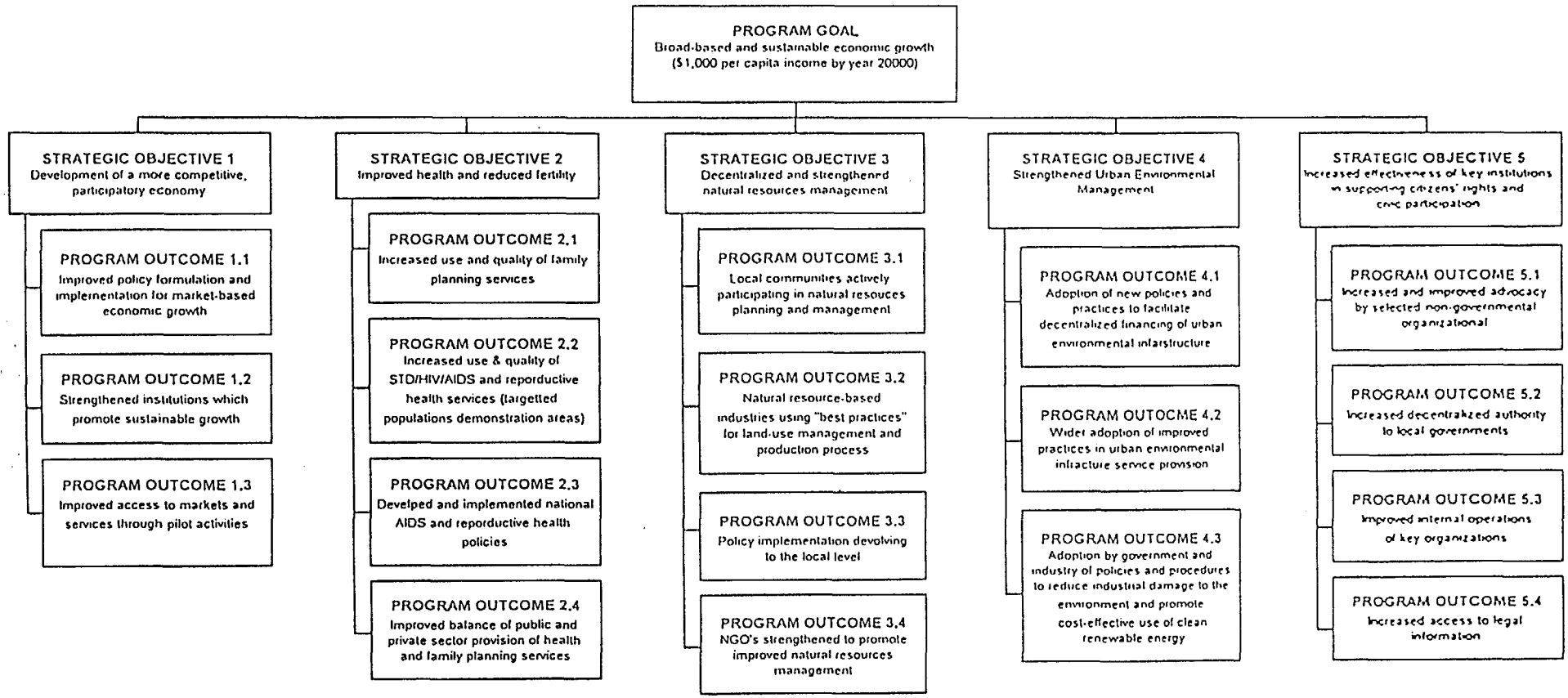
3.3.4. Improved information sharing on environmental issues.

PROGRAM OUTCOME 3.4.: Strengthened institutional capacity for biodiversity conservation.

3.4.1. Established sustainable support for private biodiversity institutions.

3.4.2. Strengthened environmental NGOs carrying out research, public awareness, policy studies and other activities to support biological diversity.

USAID/Indonesia Strategic Objectives and Program Outcomes



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DETAILED PROJECT BUDGET

ANNEX :3

Project Expenses	Year 1 1995	Funding Source	Year 2 1996	Funding Source	Year 3 1997	Funding Source	Year 4 1998	Funding Source	Year 5 1999	Funding Source
Core Operating Expenses										
Staff Expenses	75,000	CA/BSP	75,000	CA/Endow	75,000	CA/Endow	75,000	CA/Endow	75,000	Endow
Office Expenses	60,000	CA/BSP	60,000	CA/Endow	75,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow
Travel and Honoraria	25,000	BSP/Endow	25,000	CA/Endow	25,000	CA/Endow	15,000	CA/Endow	15,000	CA/Endow
Professional Fees	225,000	CA/Endow	200,000	CA/Endow	225,000	CA/Endow	200,000	CA/Endow	245,000	CA/Endow
Public Information	50,000	BSP/CA	25,000	CA/Endow	25,000	CA/Endow	25,000	CA/Endow	20,000	CA/Endow
Meetings	15,000	BSP/Endow	15,000	Endow	15,000	Endow	15,000	Endow	10,000	Endow
Sub-total	450,000		400,000		440,000		380,000		415,000	
Program-related Expenses										
Program Staff	30,000	CA/Endow	55,000	CA/Endow	55,000	CA/Endow	85,000	CA/Endow	90,000	Endow
Travel	15,000	CA/Endow	35,000	CA/Endow	25,000	CA/Endow	35,000	CA/Endow	35,000	Endow
Meetings & Workshops	50,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow
Public Information	20,000	CA/Endow	30,000	CA/Endow	20,000	CA/Endow	25,000	CA/Endow	25,000	Endow
Consultants/TA/Training	125,000	CA	200,000	CA	200,000	CA	170,000	CA	150,000	CA
Evaluations & Monitoring	10,000	CA/Endow	55,000	CA/Endow	100,000	CA/Endow	75,000	CA/Endow	100,000	CA/Endow
Sub-total	250,000		425,000		450,000		440,000		450,000	
Grantmaking Program										
Grants awarded	250,000	CA/Endow	500,000	CA/Endow	660,000	CA/Endow	800,000	CA/Endow	1,000,000	CA/Endow
Networking Program	64,375	CA/Endow	100,000	CA/Endow	125,000	CA/endow	150,000	CA/endow	150,000	CA/endow
Sub-total	314,375		600,000		785,000		950,000		1,150,000	
Investment Management	60,000	Endow	123,750	Endow	123,750	Endow	146,250	Endow	159,000	Endow
TOTAL	1,074,375		1,548,750		1,798,750		1,916,250		2,174,000	

	Year 6 2000	Funding Source	Year 7 2001	Funding Source	Year 8 2002	Funding Source	Year 9 2003	Funding Source	Year 10 2004	Funding Source
Core Operating Expenses										
Staff Expenses	85,000	Endow/MF	85,000	Endow/MF	85,000	Endow/MF	85,000	Endow/MF	90,000	Endow/MF
Office Expenses	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF
Travel and Honoraria	10,000	Endow/MF	10,000	Endow/MF	10,000	Endow/MF	15,000	Endow/MF	15,000	Endow/MF
Professional Fees	70,000	Endow/MF	75,000	Endow/MF	75,000	Endow/MF	75,000	Endow/MF	75,000	Endow/MF
Public Information	8,000	Endow/MF	8,000	Endow/MF	13,000	Endow/MF	13,000	Endow/MF	15,000	Endow/MF
Meetings	2,000	Endow/MF	2,000	Endow/MF	2,000	Endow/MF	2,000	Endow/MF	5,000	Endow/MF
Sub-total	225,000		230,000		235,000		240,000		250,000	
Program-related Expenses										
Program Staff	90,000	Endow/MF	90,000	Endow/MF	95,000	Endow/MF	100,000	Endow/MF	100,000	Endow/MF
Travel	40,000	Endow/MF	45,000	Endow/MF	50,000	Endow/MF	60,000	Endow/MF	75,000	Endow/MF
Meetings & Workshops	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF	70,000	Endow/MF	75,000	Endow/MF
Public Information	30,000	Endow/MF	30,000	Endow/MF	35,000	Endow/MF	40,000	Endow/MF	50,000	Endow/MF
Consultants/TA/training	45,000	Endow/MF	35,000	Endow/MF	40,000	Endow/MF	45,000	Endow/MF	50,000	Endow/MF
Evaluations & Monitoring	30,000	Endow/MF	30,000	Endow/MF	30,000	Endow/MF	40,000	Endow/MF	50,000	Endow/MF
Sub-total	285,000		280,000		300,000		355,000		400,000	
Grantmaking Program										
Grants awarded	1,000,000	Endow/MF	1,200,000	Endow/MF	1,375,000	Endow/MF	1,515,000	Endow/MF	1,600,000	Endow/MF
Networking Program	150,000	Endow/MF	150,000	Endow/MF	150,000	Endow/MF	150,000	Endow/MF	150,000	Endow/MF
Sub-total	1,150,000		1,350,000		1,525,000		1,665,000		1,750,000	
Investment Management	189,000	Endow	219,000	Endow	249,000	Endow	279,000	Endow	300,000	Endow
TOTAL	1,849,000		2,079,000		2,309,000		2,539,000		2,700,000	

Notes: MF = Matching Funds Endow = Endowment earnings CA = Cooperative Agreement funds

BEST AVAILABLE COPY

B. Initial Environmental Examination

(A) PROGRAM COUNTRY: Indonesia
(B) ACTIVITY: Indonesian Biodiversity Conservation Program
(C) FUNDING: $20 million
(D) PERIOD OF FUNDING: FY 1994 - FY 1998
(E) STATEMENT PREPARED BY: _____
James Taylor, AEE, USAID Indonesia

(F) ENVIRONMENTAL ACTIONS RECOMMENDED:

(1) Categorical Exclusion USAID Regulation 16, Sections 216.2 (c)(2)(vi) (contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects).

(G) ENVIRONMENTAL OFFICER CLEARANCE: _____
Jerry Bisson, USAID Indonesia

(H) DECISION OF USAID INDONESIA DIRECTOR

APPROVED: _____

DISAPPROVED: _____

DATE: 8/2/93

(I) DECISION OF ASIA BUREAU ENVIRONMENTAL COORDINATOR

APPROVED: M. Lux, ASIA/DR

DISAPPROVED: _____

DATE: 8-10-93

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT

A. DESCRIPTION OF THE PROJECT

The proposed project will be a contribution to a new Indonesian organization which will pursue the conservation of biodiversity in a innovative and aggressive manner. The independent, endowed organization will support investments in policy analysis, action programs at local levels, scientific research, expanding public awareness and strengthening human resources. Most importantly, it will provide institutional and individual leadership to the critical task of sustaining Indonesia's biotic wealth. The endowment provided by USAID is specifically designed to provide a sustainable source of funding for conservation programs, thus ensuring long-term positive impacts on environmental quality and sustainability.

B. RECOMMENDED ENVIRONMENTAL ACTION

Considering the above project approach, a categorical exclusion from USAID's Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary requirements is proposed for the proposed endowment contribution to the new Foundation and proposed technical assistance; commodity procurement; training; and possible grants to the Foundation for program activities. This determination would be in accordance with USAID Regulation 16, Section 216.2 (c)(2)(vi), which provides for a categorical exclusion in situations where contributions are made to national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects.

ANNEX 5

CERTIFICATION PURSUANT TO
GRAY AMENDMENT

As the Director and Principal Officer of the Agency for International Development in Indonesia, I certify that during the design of the Indonesian Biodiversity Foundation (IBF) project (497-0384) full consideration has been given to the potential involvement of small and/or economically and socially disadvantaged enterprises, and historically black colleges, universities and minority controlled private and voluntary organization covered by the Gray Amendment.

The project procurement plan is based on the negotiation and award of one Cooperative Agreement with the Indonesian Biodiversity Foundation, an independent Indonesian non-profit organization. No other procurement actions are planned. Hence, the procurement plan does not include an opportunity to utilize the skills and expertise of organizations covered by the Gray Amendment.

Vivikka M. Molldrem
Acting Director

Mar 23 '95
Date

VOLUME II

IBF PROJECT PAPER ANNEXES

A. Detailed Project Analyses
   1. Administrative Analysis
   2. Financial Analysis
   3. Economic Analysis
   4. Technical Analyses
   5. Social Soundness Analysis
   6. Gender Analysis
   7. Environmental Analysis
   8. Fund Raising Strategy
   9. Investment Policy Guidelines and Statements
   10. Grantmaking Policies and Procedures
B. Logical Framework Matrix
C. Prism Objectives Tree
D. Proposed Program Description for the Cooperative Agreement
E. Detailed Project Budget
F. Suggested Format for Annual Work and Financial Plans
G. Summary of Biodiversity Action Plan for Indonesia
H. Statutory Checklist
I. USAID/W Approval and Guidance
J. Donor Assistance in Biodiversity Conservation
K. Record of Discussions and (draft) Memorandum of Understanding (MOU)
L. Environmental Determination
M. Articles of Association, By Laws, Conflict of Interest Policy and GOI Tax Exemption
N. Gray Amendment Certification
O. Terms of Reference for Selecting Fund Management Firm(s)
P. Bibliography
Q. Waiver

Indonesian Biodiversity Foundation - Project Paper

A. DETAILED PROJECT ANALYSES

VOLUME II
(ANNEXES)

A. DETAILED PROJECT ANALYSIS

The administrative analysis looks at the institutional aspects of foundation governance and endowment management. The technical analysis examines the grant making aspects of the Foundation. This section also reviews the "grant worthiness" assessment of the Foundation completed by USAID Indonesia.

A.1 ADMINISTRATIVE ANALYSIS

A.1.1. Developing a Strong, Professional Foundation

A.1.1.1 *Legal and Tax Exempt Status* The Indonesian Biodiversity Foundation (IBF) was legally established in January, 1994 under the leadership of Dr. Emil Salim, former State Minister for Population and the Environment. Although there is neither a statutory definition of Indonesian foundations (yayasans), nor any statutes governing their incorporation, organization, management or legal status, foundations nevertheless have a long history in Indonesia and have proliferated over the past several years. An Indonesian foundation contains a simple legal structure, consisting of a Board of Trustees and assets, which provides the administrative structure for creating a strong, professional institution.

The IBF has been established as an independent and self-governing organization. This independent stature has been endorsed at the highest levels of the government. To ensure stable management and governance of the Foundation, the Trustees are private citizens, selected after broad consultations with the scientific, NGO and business communities. The Board of Trustees also includes two representatives from international organizations, the Ford Foundation and MacArthur Foundation. There are no senior government officials on the Board of Trustees and no positions have been allocated for government officials.

The Foundation has received tax exempt status from the Government of Indonesia and filed the documents for tax exempt status in the U.S. under section 501(c)3 of the Internal Revenue Code.

A.1.1.2 *Organizational Structure and Staffing* The organizational structure consists of a Board of Trustees and Executive Board to oversee the development of the Foundation's overall strategy and program. A panel of advisors, Investment Committee and Grant-Making Committee provide valuable guidance to the Board and staff on the design and operation of Foundation activities (e.g., design of grant-making and investment policies). Key staff have been hired, including the Executive Director, Finance Manager and support staff (e.g., Office Manager, Executive Secretary). Other staff, such as Biological Science Program Coordinator, NGO Program Coordinator, Policy Analysis Program Officer and Public Information & Training Officer will be recruited

in later years. Staff will receive training in foundation operation and grant making.

Critical to the success of the Foundation in managing its operations efficiently and exercising leadership in the field of biodiversity will be the caliber of its professional staff. The Foundation's current professional staff positions are filled by individuals with appropriate academic and professional qualifications. The IBF will attract and retain suitable staff by offering competitive compensation packages. An endowed foundation offers financial stability which should be an asset in attracting and retaining qualified staff.

A.1.1.3 *Financial Management Systems* An international accounting firm designed the financial management system and annual audits of the foundation will be undertaken by a major international accounting firm, selected through a competitive bidding process.

A.1.1.4 *Promoting Participation* The Foundation has demonstrated its ability to be an open, participatory organization. A broad range of scientists, government officials, academics, NGO leaders (domestic and international), members of the business and legal communities, representatives of multi-lateral and bilateral aid programs, and representatives from international foundations have been involved in the project design process. Numerous meetings and workshops have been held to discuss the mission and activities of the Foundation. Broad participation will continue as the foundation designs its operating procedures and grant making programs.

A.1.2 Creating an Endowment Using Appropriated Dollars

A.1.2.1 *Legal Basis for Endowment* The USAID/Indonesia Mission has the authority to establish an endowment with a nongovernmental organization using appropriated dollars based on section 534 of the FY 1994 Foreign Assistance Appropriations Act. The endowment has been designed to be consistent with the Agency guidelines for endowments using Appropriated Dollars (PD-21, see Annex I). USAID/Washington has concurred with the planned endowment design.

The Government of Indonesia has endorsed the concept of USAID providing the IBF, an independent nongovernmental organization, with an endowment fund using US dollars.

A.1.2.2 *Financial Management of the Endowment* The endowment assets will be managed by a professional asset management firm, specializing in endowment investment management for tax exempt organizations. The Foundation has established an Investment Committee and has modeled its investment management policies after the best practices of U.S. foundations (Foundation's Investment Policy is found at the end of this section).

Functions of the Investment Committee include:

a) Develop a statement of investment policies and guidelines to be reviewed and approved by the Board of Trustees;
b) Arrange contractual agreements with one or more professional investment firms that will manage foundation assets in a manner consistent with the statement of policies and guidelines;
c) Monitor the performance of asset managers relative to appropriate market indices at least on a quarterly basis;
d) Recommend that the Executive Board terminate relationships with managers who do not perform in line with expectations over a representative measuring period;
e) Monitor Foundation spending relative to total investment income; and
f) Recommend the Board of Trustees amend the statement of investment policies and guidelines as the circumstances of the Foundation evolve.

Endowment assets will be divided into at least two sections: the USAID grant will be held in a separate account and a second section for other endowment contributions, especially domestic capital (contributions from Indonesian sources). The USAID-funded endowment will be invested in financial instruments offered in the U.S. through a U.S.-based fund manager(s). A portion of the gross income earned from the endowment (determined by the current rate of inflation in the U.S.) will be re-invested into the endowment to account for inflation and maintain the real value of the endowment over time. Written contracts will be negotiated specifying management fees, general parameters of the types of investments permitted, the allocation of risk, and the amount and timing of income to be disbursed to the IBF.

The Foundation will select an investment management firm(s) through a competitive bidding process and USAID must approve the Foundation's investment policy and executed contract(s) for managing the USAID-funded endowment.

Income from the endowment assets will come in the form of interest, dividends and sale of marketable securities. This dollar denominated income will be exchanged for Indonesian Rupiah to meet the financial obligations of the Foundation. Suitable international banking institutions exist in Indonesia to facilitate these foreign currency transactions.

A.1.3 Grant Worthiness Assessment of Administrative Capability

The Foundation has demonstrated the administrative capacity to manage funds in a professional manner. USAID evaluated the administrative capability of the Foundation as part of the "grant worthiness" assessment and determined the Foundation has the administrative capability to handle and program USAID funds. The Foundation has registered with USAID as a Private Voluntary Organization (PVO). In addition, the Foundation has demonstrated adequate systems and capability in: financial management (e.g.,

accounting and record keeping, internal controls, program management, property management and procurement, personnel and travel policies, investment and grant making policies, operational procedures and fund raising).

The "grant worthiness" assessment looked at the following concerns regarding the Foundation's financial management capability. Because there was limited activity to review, the survey focused on expected implementation and knowledge of the Financial Manager. The survey looked at the following items, and to the extent possible, the testing of procedures:

1) General ledger established and running.
2) Complete chart of accounts.
3) A system in place to establish a budget and to compare budget to actual expenditures.
4) Actual budget for the current year.
5) Proforma or actual reports for:
   - Balance Sheet
   - Income Statement
   - Cashflow
   - Fixed Asset Ledger
   - Monitoring sub-grantee activity
   - Proforma reports to be filled by grantees on financial activity
6) Documented organizational structure/job descriptions
7) Qualified staff

The survey reviewed written procedures for the following items as well as the Financial Manager's knowledge of these procedures. Again, procedures will be tested to the extent possible.

1) Procedures and internal controls over the following revenue streams:

   - Contributions/donations
   - Grants
   - Investment income
     Interest, dividends, and capital gains
   - Other receipts
     (e.g.: refunds, fixed asset sales, etc.)

2) Procedures and internal controls over the following disbursements/payables:

   - Transfer of funds from endowment
   - Grant advances/disbursements
   - Regular operational accounts payable
   - Payroll
   - Petty cash
   - Disbursements to Foundation personnel

3) Procurement authorization process - controls and procedures for:

- Operating expenses
- Large asset purchases
- Long-term commitments - leases, contracts, etc.

4) Sub-grantee financial management process:

- Established grant authorization process which would include an assessment of sub-grantee financial management capabilities and financial statement review
- Established reporting requirements for sub-grantees
- Sub-grantee advance liquidation procedures

5) Investment records and reporting:

- System to properly record investment activity in G/L
- System to monitor investment activity
- System to generate useful investment analysis information

6) Procedures and internal controls over fixed assets

- System to ensure proper recording of assets
- System to ensure proper management/usage/disposal of assets
- Procedures to ensure adequate insurance coverage

7) Procedures in place to ensure the Foundation can meet the reporting requirements of USAID and other Grantors - particularly, the ability to allocate direct and indirect costs.

8) Written standard travel policy

- Consistently applied to all travel regardless of funding

9) Written equitable personnel policy

The Foundation's office is functional with adequate equipment and facilities. The office is located in Jakarta.

A.2 FINANCIAL ANALYSIS

The project financial analysis examines several project design issues. First, it estimates the anticipated revenue from the endowment capital provided to the project. Second, the costs

associated with generating endowment income, general management of the Foundation, operating the proposed grantmaking program, and raising additional endowment capital and operating funds are calculated. Examining these two issues provides information as to the level of financial resources expected to be available for direct grants. Finally, the analysis considers the factors which will determine if financial resources will be available when needed during the life of the project.

A.2.1 Project Revenue: USAID-funded endowment

The investment income from the endowment capital is treated as revenue to the project. The two significant financial objectives of the endowment fund are to preserve the purchasing power of the assets over the life of the project (and throughout time) and to provide a substantial, stable flow of cash income for the Foundation's general management expenses and grantmaking activities. The purchasing power of the endowment is preserved by maintaining the real value of the assets over time. To accomplish this objective, a sufficient portion of the total investment return must be retained in the endowment to offset inflation, and the annual rate of spending must match the real rate of return, net of all investment management fees. To achieve the objective of providing a substantial and stable flow of cash income, the endowment assets must produce a real rate of total return which matches the rate of annual spending.

The Foundation has established a spending rule calling for the expenditure of 5 percent of a three year moving average of the fund's market value. This spending policy will yield an annual revenue stream of approximately $825,000 from the $16.5 million of endowment capital. This spending rule will allow the Foundation to maintain the real value of the endowment and provide for a stream of cash income subject to only moderate volatility.

The income stream from the endowment will be subject to a level of volatility (the frequency and amount an investment fluctuates from its average return) largely determined by the types of assets chosen for investments by the Foundation's Investment Committee. While the annual real return from the endowment investment portfolio (net of all fees) is estimated to be 5 percent over time, in any given year the total return can be higher or lower. Because the Foundation will rely on the income from the endowment to produce a very high percentage of the Foundation's annual budget, the amount and stability of the income stream it produces is central to the Foundation's overall financial position. The Foundation will establish a contingency fund to cover budgeted expenses should investment income fail to reach projected levels. A sensitivity analysis (Table E) was conducted to show annual income levels at real rates of return below 5 percent. The 3 percent return constitutes the worst case scenario used in the economic analysis.

A subsidiary assessment is presented in Table 1. The analysis, which merges the annual rate of change in the Dow Jones Industrial Share Price Index with dividend disbursements, indicates that:

- The Foundation's 5 percent "spending rule" is attainable. The mean of the annual rate of change in the Index, including dividend disbursements, was 4.92 percent, in real terms, during the period under investigation, and the Foundation will have the advantage of a professional management team to guide its investment portfolio throughout the life of the project.

- The 3 percent real rate of return on endowment funds, which comprises the worst case scenario in the economic analysis, provides a realistic benchmark for an appraisal of the vagaries of stockmarket fluctuations. The mean annual compounded rate of change during the period between 1970 and 1992 was more than a percentage point greater than the benchmark, as was a simple averaging of the best and worst interval periods (1973-77 and 1982-86).

Table 1. Annual rate of change in Dow Jones Industrial Share Price Index - 1970 to 1992.

Period	Nominal Rate of Change (i)[a]	Inflation Rate (f)[b]	Real Rate of Change (r)[c]
	percent		
1970	11.74	5.40	6.02
1971	12.43	4.58	7.51
1972	12.87	6.44	6.04
1973	-14.77	8.72	-21.61
1974	-15.08	9.58	-22.43
1975	29.61	6.30	21.9
1976	3.55	6.88	-3.12
1977	-10.30	7.87	-16.84
1978	14.80	8.62	5.69
1979	15.22	9.47	5.25
1980	22.25	10.13	11.01
1981	-12.42	6.22	-17.55
1982	32.96	4.06	27.77
1983	11.70	4.36	7.03
1984	12.00	3.74	7.96
1985	24.99	2.65	21.76
1986	32.77	3.20	28.65
1987	-3.43	3.90	-7.05
1988	15.38	4.43	10.49
1989	17.98	4.42	12.99
1990	10.16	3.88	6.05
1991	19.82	2.89	16.45
1992	6.73	2.56	4.07
1970-92	9.97	5.63	4.11
1973-77	-2.75	7.86	-9.84
1982-86	22.51	3.60	18.25

[a] Computed on the basis of the Industrial Share Price Index provided in the International Monetary Fund's compendium of International Financial Statistics. A 2.5 percent premium was appended to each year's value to account for the average annual return on dividend disbursements.

[b] Computed on the basis of the GDP Deflator provided in the Economic Report of the President (1994).

[c] $r = [(1 + i)/(1 + f)] - 1$. The mean and standard deviation of the annual real values from 1970 through 1992 are 4.92 ± 14.16, respectively.

A.2.2 Project Costs

The following section examines the costs of: endowment management, governance and operations, grantmaking, fund raising, grants and USAID funds. It also reviews the pro-forma cash flow analysis.

A. Endowment Management Costs

The management of an endowment investment portfolio is a specialized area of investment management. The Foundation will use professional investment management for its entire investment portfolio (equity and fixed-income investments). The most cost effective way to obtain professional management for an endowment of approximately $20 million is to utilize institutional commingled funds offered by investment management firms. Management fees are based on the market value of the portfolio under management. Investment management fees on the $16.5 million are estimated to be between .75 and 1 percent or approximately $125,000 per year.

B. Governance and Basic Operational Costs

The Foundation is designed to operate in accordance with international standards. Core operating costs (i.e. general management) include salaries for professional staff, office space, utilities, equipment, audits, etc. Other significant costs include consultations with various constituencies, Board of Trustee and Executive Board meetings, ample public reporting, donor reporting, professional financial management, etc. These costs are estimated to be $175,000 per year during the initial 5 year start-up phase. As the Foundation enlarges the scope of its grantmaking activities, these costs are likely to increase.

C. Grantmaking Related Costs

The small grants program of IBF will provide a unique opportunity for organizations and individuals with innovative proposals to contribute in a substantive way to sustainable conservation practices throughout the country. This will require a significant investment on the part of the Foundation in order to assure the quality of the grantmaking process. A number of stipulations that have already been advanced will have a direct bearing on the costs of the disbursement program. These include the following: (a) the scope of the grants will be to a wide variety of organizational types; (b) the geographic focus will encompass the entire Indonesian archipelago, requiring high travel and communication costs; (c) grant amounts will be small, so administrative expenses will be greater; (d) grants will be strategically targeted on the most productive and promising activities, so intensive professional staff involvement is required in screening and selecting grantees; and (e) evaluations will be conducted because of the highly public nature of the Foundation's activities. Estimated grantmaking related costs are $100,000 annually.

D. Fund Raising Costs

Private foundations typically do not attempt to raise additional endowment capital or operating funds. They generally rely on the initial (usually a substantial amount) funds provided by the benefactor. Community foundations, on the other hand, typically spend a great deal of time and expense attempting to raise capital for operations and endowments. The IBF, as a hybrid private/public foundation, will undertake a significant fund raising effort to enlarge the endowment, raise annual operating funds and seek "pass through" funds for its grantmaking program. The costs associated with raising endowment capital, operational financing and pass through funds, which include the cost of preparing proposals, informational materials, direct solicitation, and perhaps special events, are estimated to be $50,000 annually. Income from the endowment will be used to cover fund raising costs.

E. Cost of Grants

The amount of funds available for grant awards from the USAID-funded portion of the endowment is estimated to be $500,000 annually. An additional $100,000 is anticipated as "pass through" funds from international donors. If the Foundation is successful in raising matching endowment capital of $4.7 million, this will provide approximately $235,000 per year in additional income.

F. Cost of Funds

The endowment funds are a grant from USAID and thus, from the recipient's perspective, the cost of funds is zero. From USAID's perspective the cost of funds to capitalize the endowment are "opportunity costs"--the returns from other possible uses. Because the use of these funds is restricted to the U.S. - Japan - GOI program of biodiversity conservation projects in Indonesia, from the Mission's point of view, the opportunity costs, in financial terms, approaches zero.

G. Pro Forma Cash Flow Analysis

The Cooperative Agreement anticipates a transfer of approximately $16.5 million directly to the Foundation for the purpose of establishing an endowment fund. These funds will be placed in equity and fixed-income investments using a layered approach over several months. The asset allocation will be approximately 60 percent to equities and 40 percent to fixed-income investments. The Foundation will use income from the bond portfolio to cover monthly operating expenses. Cash transfers from a U.S. dollar account to a rupiah account will be arranged on a monthly basis. Funds will be withdrawn from the equity portfolio periodically to match the grantmaking award cycles. These are currently planned for twice a year. The pro forma financial profile demonstrates that this arrangement will ensure that adequate funds are available to the project when needed.

Table B provides a summary estimate of operating expenditures of the foundation, including the cost of the grants program. Endowment earnings are the primary source to cover these costs. Complementary investments from other donor agencies and private contributors are anticipated in the project design. These contributions are not included in this cash flow profile but the ability of the project to achieve its objectives may be contingent on these complementary investments.

The pro forma cash flow profile makes a number of important assumptions about levels of inflation and returns on the investment of endowment assets based on historical trends. The analysis demonstrates that achieving a real rate of return of five percent will provide enough revenue to meet operating costs. Investment income will vary from year to year however, due to fluctuations in rates of return on investments. There may be periods of market down turns where endowment earnings are not adequate to meet all operating expenditures. During these periods, endowment principal may have to be used. During periods of strong market upswings, investment income may exceed projected levels of spending. In these years, it will be essential for the Trustees to act consistent with long term spending policies.

A.2.3 Conclusions from the Analysis

The Foundation's distribution of small grants to a variety of organizations throughout the country is aimed at stimulating the development of innovative approaches to conserving biodiversity and reaching groups directly involved with the use of biodiversity resources. The expected benefits will be significant, and it is unlikely that they could be replicated by comparable expenditures of investment funds through a large grant program focused on organizations located in and around Jakarta.

The cost of a high quality, small grant program focusing on priority geographic areas, however, is quite high. This reflects the following project design principles: (a) the scope of grantmaking is across the entire archipelago; (b) the large number of small grants awarded to a wide range of organizations; (c) use of paid professional project staff to administer grantmaking program; (d) high degree of board involvement, participation, and consultations with constituencies; (e) the use of professional endowment management; and (f) financial management, legal and auditing to meet reporting requirements, accountability and transparency. General management expenses (overhead) is calculated using three methods; as a percentage of assets, of grants, and of income.

The financial analysis examines foreign exchange risks associated with maintaining endowment capital in U.S. dollar denominated assets. By holding U.S. dollar denominated assets, the Foundation bears the bulk of the foreign exchange risk.

A.2.4 Sensitivity Analysis

A sensitivity analysis was performed based on the ability to cover recurrent costs as fluctuations in the real rate of return from endowment assets occur. A decline in real return from five to three percent, for example, reduces net investment income by approximately US$ 330,000. Since the cost of maintaining the real value of the endowment and endowment management fees are somewhat fixed, this $300,000 must either be covered by a contingency fund, reduction in endowment capital or a reduction in operating and grantmaking expenses. The Foundation's spending policy of 5 percent per year, based on a 3 year moving average of endowment asset value, is intended to smooth out variations in year to year investment returns.

A.2.5 Assessment of Project Risks

A financial analysis also examines the relative degrees of certainty placed on each of the revenue and cost items in the financial analysis. The factors that are expected to affect these variables directly are identified as follows:

A.2.5.1 *Foreign Exchange Risk* Since the rates at which different currencies are exchanged vary, sometimes substantially, there is a risk that the rate between the US dollar, in which the endowment earnings are denominated, and the Indonesian rupiah in which all program expenditures are denominated, will change, perhaps eroding the value of the endowment. This is called the "foreign exchange risk." For example, if Indonesia overvalues it's currency, the dollar has less value and thus fewer rupiah will be available to be used as grant funds to Indonesian organizations. By holding U.S. dollar denominated assets, the Foundation bears the bulk of the foreign exchange risk.

A.2.5.2 *Market risk* The endowment asset portfolio can erode in value if the capital markets in which it is invested experience a down turn. For example, investment in an emerging market pooled vehicle may decline substantially during a bear market. Volatility in capital markets can cause endowment earnings to fluctuate from year to year.

A.2.5.3 *Credit risk* A company the endowment owns stock in can decline in value or go bankrupt. A municipality may fail to pay the bond principal and interest it owes to the foundation. According to recent press reports, the Rockefeller Foundation may have lost millions of dollars due to a drastic decline in the value of one of its investments.

A.2.5.4 *Inflation risk* U.S. inflation can reduce real returns substantially if the endowment assets are allocated heavily to "safe" fixed income securities such as U.S. Treasury bills.

A.2.5.5 *Political Risk* Because the project is dependent on its independent status granted by the current government, there are certain risks associated with possible changes in domestic political leadership during the 10 year life of the project. The broad range of participants involved in implementing the project and the stature of the Foundation's Trustees, will help ensure that its independent status can be maintained.

A.2.6 Notes to Detailed Project Financial Profile

The Financial profile (Table B) identifies all of the revenues and expenditures anticipated during the 10 year life of the project. Financial projections show the inflow of funds from endowment investment earnings (revenues) and the outflow of funds (costs) to meet anticipated operating expenditures on an annual basis. The Foundation will prepare detailed monthly cash flow statements.

A.2.7 Audit Coverage

The IBF project will be covered by an independent audit conducted annually by an international accounting firm. The scope of the audit will include the endowment, the uses of investment income and any funds expended under the cooperative agreement. Recipients of foundation grants will generally (e.g. if over $100,000 would be) not be covered under the project audit.

A.3 ECONOMIC ANALYSIS

A.3.1 Scope and Purpose of the Economic Analysis

The purpose of the economic analysis was to determine whether the benefits that are expected to be generated by the project justify the costs of establishing and maintaining the Indonesian Biodiversity Foundation. The analytical approach includes elements from the financial analysis, but incorporates social costs and benefits that are expected to accrue to the economy as a whole into the evaluation.

A.3.2 The Economic Benefits of the Project

The economic benefits of the project are inextricably linked to the Foundation's ability to develop pragmatic approaches to conserving Indonesia's biologically diverse resources. The Foundation will achieve this goal through its leadership roles in advocacy, networking, and innovative grantmaking.

The establishment of almost 19 million hectares of terrestrial and marine conservation areas, incorporating reserves in every major biogeographical zone of the country, as well as 18 million hectares of protection forests, attests to the importance that the Indonesian government has, by its actions, attached to the conservation of these resources.

The intent of the government's efforts in establishing conservation areas has been commendable, but the design and implementation of effective measures to maintain the ecological integrity of these areas have yet to be developed in a meaningful manner. The Ministry of Forestry, recognizing the limitations of its own resources, is increasingly encouraging the formation of new management alliances in which local resident communities, NGOs, and the private sector assume more significant roles in managing these areas.

The Foundation will not be alone in fostering the development of practical approaches to conserving the country's biodiversity, but it will have one of its most distinctive programs. The flexible funding lever of the Foundation's grants program is designed to stimulate innovative approaches to conservation at the local level that would be difficult to replicate in programs with comparable investments. The advocacy and networking roles that the Foundation is expected to assume will also stimulate the development of improved policies and programs for managing biodiversity resources throughout the country. The assumption of these latter roles is exemplified by actions that have previously been initiated. The Foundation's leadership role has already been used to articulate the values of biological diversity and convince authorities in East Kalimantan that a road that was to be constructed through an established conservation area of biologically important lowland *Dipterocarpaceae* forests should be relocated. This resulted in the continued protection of an extensive forest area. In addition, on the Foundation's initiative, a national network of organizations and individuals concerned with the conservation of biologically diverse resources has been organized. The Foundation plans to use this network as a vehicle for exchanging information on threats to biodiversity resources, innovative approaches to conservation, and policy options. The Foundation will use its existing linkages with key policy makers to promote the adoption of improved policies and practices.

There are several interrelated types of economic values that are associated with the conservation of biological resources. These include:

- use values derived from consumptive and nonconsumptive uses of the goods and services that these resources provide;

- option values that are associated with future uses of plant and animal species that are currently endangered and may be irreversibly lost, even though those future uses have yet to be identified;

- bequest values that are associated with the desire of one generation to pass on its inheritance of natural resource wealth to succeeding generations; and

- existence values that are associated with the inherent right of an organism to life.

While the value to society of this complex mix of benefits is indisputable, many of its component parts are difficult, if not intractable, to quantify with a high degree of accuracy. In the analysis of the Foundation's activities, a proxy measure, representing the *minimum value* of the mix of benefits is provided to identify the threshold level of value that can be expected as a result of the Foundation's activities. The basis of the assessment is the implicit value that society bestows on the preservation of a conservation area. That is, the opportunity cost associated with the societal decision to reserve a biologically diverse area implies that the value of conserving the resources in the area is at least as great as the value of allocating the resources to their next best use. In the benefit-cost analyses that are provided, the next best use is represented by timber extraction activities, which provide a convenient measure of the value of alternative allocations.

About $500,000, in real terms, of the $825,000 that will be available from the Foundation's endowment fund every year will be allocated to the grantmaking program. This will provide annual funding for about 50 grants, of $10,000 each for community-based conservation programs. The size of the area that a recipient's activities will be concentrated in is anticipated to be about 250 hectares (ha.).[1] Field activities will thus be dispersed over about 12,500 hectares a year. Assuming, rather conservatively, that:

- Only half of the area under the grants will be used to promote forest conservation (25 out of 50 grants);

- Only 25% of the grants in any given year will be successful in developing viable approaches for sustainably managing these forest areas, which otherwise would not be protected;

- Each hectare of closed forest will contain, on average, 35 cubic meters (m^3) of commercial timber[2]; and

- The standing value of commercial timber is $45 per cubic meter[3].

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[1] This is expected to be an effective size area for developing strong alliances at the local level. Programs and policies that apply to much larger areas are also expected to be developed as a result of the cumulative field experiences of the grantees.

[2] This allows for the inclusion of a wide variety of forest types of varying ages in the grants program.

[3] In a functioning market, the standing value (stumpage value) of commercial timber is determined by means of a competitive bidding process. Studies of noncompetitive markets in Indonesia, and other countries with similar forest types, suggest that the value

The annual value, in real terms, of the benefits that can be attributed to the Foundation's activities will, at the very least, be:

$$(12{,}500 \text{ ha.})(1/2)(1/4)(35 \text{ m}^3/\text{ha.})(\$45/\text{m}^3) = \$2{,}460{,}938$$

In a "worst case' scenario, with a real return on endowment funds reduced to 3 percent, the number of annual grants would also be reduced (from 50 to 30), and the annual stream of benefits would become:

$$(7500 \text{ ha.})(1/2)(1/4)(35 \text{ m}^3/\text{ha.})(\$45/\text{m}^3) = \$1{,}476{,}562$$

A.3.3 The Economic Costs of the Project

The opportunity cost associated with the $19.0 million in capital that will be allocated to the project, which includes $16.5 million to establish the Foundation's trust fund, and $500,000 that will be provided annually in the first 5 years of the project to cover start-up costs, is, in a very real sense, already predetermined. Indeed, since the expenditures of the funds are restricted to uses that implement the U.S.-Japanese-Indonesian Biodiversity Conservation Program, the opportunity cost reflects returns on alternative uses of the investment to support biodiversity conservation programs in Indonesia. The opportunity cost in the base case is represented by a social discount rate, in real terms, of 6 percent, which is consistent with the discount rate that is used in public project evaluations in Indonesia.

A.3.4 Benefit-Cost Analyses

Three benefit-cost analyses are provided in Table 2: 1) the base case, with a 6 percent social discount rate; 2) the base case with a social discount rate of 8 percent, which is consistent with the real rate of return in the private sector of the economy; and 3) the base case with a 3 percent real return on endowment funds, which constitutes the "worst case" scenario. A ten-year timeline was used in the analyses to highlight the sustainable nature of the Foundation's activities. The benefit-cost ratios in all three cases, 1.46, 1.29, and 1.07, respectively, are indicative of the economic soundness of the project. The fact that the benefit streams used in the analyses understate the true value of the Foundation's conservation activities makes the economic justification for the project even more compelling.

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of standing timber should be about 40 to 50 percent of the delivered mill price.

Table 2. Benefit-Cost analyses of investments to establish and maintain the Indonesian Biodiversity Foundation.

										d ↑
	c ↑	c ↑	c ↑	c ↑	c ↑	c ↑	c ↑	c ↑	c ↑	c ↑
0	1	2	3	4	5	6	7	8	9	10
↓ b ↓ a	↓ b	↓ b	↓ b	↓ b						

$$B/C = \sum_{j=1}^{n} (B_j \,/\, (1 + i)^j) \,/\, (C_j \,/\, (1 + i)^j)$$

1. Base Case.

a = $ 16,500,000
b = $ 500,000
c = $ 2,460,938
d = $ 16,500,000
B/C = 1.46

2. Base Case with social discount rate = 8 percent.

a = $ 16,500,000
b = $ 500,000
c = $ 2,460,938
d = $ 16,500,000
B/C = 1.29

3. Base Case with return on endowment funds = 3 percent.

a = $ 16,500,000
b = $ 500,000
c = $ 1,476,562
d = $ 16,500,000
B/C = 1.07

A.4 TECHNICAL ANALYSIS

The technical analysis examines the Foundation's ability to plan and carry out a grant making program, including priority areas of focus, types of activities to be supported, and grant making procedures (e.g., consultations, solicitations, review and award of grants, and monitoring performance of grantees). The analysis also looked at the capability of prospective grantees and Foundation staff, and planned actions to strengthen capabilities.

A.4.1 Operating a High Quality Grant Making Program

The Indonesia Biodiversity Foundation will be a grant making foundation. Grants are investments in people and their ideas. The challenge for the Foundation is to identify opportunities where grants to individuals, organizations or institutions can best serve to sustain Indonesia's biological wealth while at the same time seeking ways to use this wealth for the benefit of humanity.

The USAID grant worthiness assessment determined that the IBF has an adequate grant-making policy, procedures and staff to undertake a grants program designed to sustain biodiversity in Indonesia. The Foundation's grant making policy and conflict of interest policy are included at the end of this section.

The task of the grant making program is not simply to provide capital in the form of grants to organizations and individuals engaged in biodiversity related projects. The Foundation will develop an array of grant making program policies designed to use the foundation's resources strategically to promote the wider adoption of proven policies and practices. This will involve supporting well-established organizations and scientists as well as earmarking funds for small grants to remote communities, pro-actively seeking out organizations involved in innovative projects or assisting recipients with the task of building up their institutional capabilities.

A portion of the investment income from the endowment will be used to cover the administrative costs of the grant making program. These costs include widespread grant solicitation, processing of applications, review panels, program staff, travel funds, workshops and trainings for prospective and approved grantees, reporting and evaluations.

The IBF Project is designed to ensure that prospective grant seekers perceive that they have a fair chance at securing funding for their projects. Foundation policies set by the Trustees articulate the "rules of the game" to ensure fair treatment and transparent procedures. All applicants for grant funds will be informed whether their proposal has been approved or denied in a timely basis with an explanation of the reasons behind the decision.

The IBF will demonstrate its grant making capabilities and gain credibility early in its organizational life through the funding of innovative project activities. Illustrative grants could include those for applied research and surveys, institutional strengthening, demonstration of improved strategies for in-situ or ex-situ conservation, policy studies, demonstration of productive uses of biological resources and environmental awareness.

The grant making program of the Foundation will begin shortly after the disbursement of USAID funds to the Foundation. It is anticipated that when the grant program is fully operational, 10 to 25 grants will be made each year. Most of these grants will be under US$ 25,000. The foundation will develop its grant making in stages, initially focusing on five program themes and geographic areas, and funding a limited number of grants.

A.4.2 Grant Making Program Priority Focus and Activities

Foundation staff carried out extensive consultations in Jakarta, Central Java and East Kalimantan to present the Foundation's objectives and solicit suggestions on Foundation development, operation and focus. Based on consultations, extensive expertise and experience, and the detailed technical analysis in *The Biodiversity Action Plan for Indonesia*, the Foundation's grant making policy calls for focusing support on three program areas during the initial years: a) building constituencies for sustaining biodiversity, b) identifying and analyzing public policy priorities, and c) strengthening community-based nature conservation activities. The Foundation intends to place priority attention on in-situ conservation, especially in threatened ecosystems such as the *Dipterocarpaceae* forests of Kalimantan, testing innovative approaches for promoting community participation, marine conservation, and ex-situ conservation to document important genetic resources in areas with high population pressure and development. Accordingly, the Foundation identified five priority geographic areas:

a) Development of in-situ conservation in East Kalimantan;
b) Sustainable use of biodiversity to benefit communities in North Sumatra;
c) Development of eco-tourism in Bali and Nusa Tenggara Timor;
d) Marine biological diversity conservation in Jakarta Bay; and
e) Development of ex-situ conservation on Java;

The Foundation also plans to: strengthen the administrative and technical expertise of Foundation staff , hold national and regional consultations to update grant making programs, and assess and strengthen the capability of prospective grantees to undertake Foundation-funded activities.

A.4.3 Administrative Capability of Prospective Grant Recipients

This section assesses the general capabilities of prospective grantees, reviews the experiences of the Global Environmental Facility-Small Grants Program (GEF-SGP) and the Biodiversity Support Program, illustrates the types of grants that could be provided by the Foundation for each of the Foundation's five themes, and summarizes the application of the previous analysis for the design and implementation of the Foundation's grant-making program.

A.4.3.1 *General Assessment* The Foundation has determined that eligible recipients include: NGOs, community groups, scientific and educational institutions. The technical feasibility of individuals and organizations undertaking such activities varies, of course, according to the complexity of the planned activities and administrative/technical capability of the prospective grantees. Many of prospective grantees have a proven capability in implementing projects funded by donors. Some of the prominent and well-established Indonesian NGOs engaged in environmentally related activities include: LATIN, Biological Science Club, WALHI, WWF, Sejati, Pelangi, and Bina Swadaya. There are also numerous scientific and academic institutions capable of carrying out research, conservation, policy analysis and environmental education activities. In general, these prospective grantees would benefit from technical assistance in program planning, proposal writing, financial management, monitoring and reporting on progress. In the future, the Foundation may also target some of its grants to emerging NGOs and community groups in remote areas. These groups will likely require considerable technical assistance in preparing well focused proposals and in strengthening their managerial capabilities.

A.4.3.2 *Global Environmental Facility-Small Grant Program (GEF-SGP) Experience* Dana Mitra Lingkungan, a leading Indonesian environmental NGO, recently received funding from the Global Environmental Facility to carry out a small grants program (GEF-SGP). DML evaluated over 70 proposals and awarded six grants ($200,000 for the grants and about $40,000 for operating the program). The amount allocated for operating the program was considered far too little to ensure effective collaboration, institutional development and monitoring. Nevertheless, this intensive and well focused grant making experience identified a number of common constraints faced by prospective grantees, especially environmental NGOs. These include:

a) Lack of a sound and logical plan that was well written, too wide a range of goals;
b) Questions on the sustainability of operations and lack of qualified staff;
c) Proposals tended to conform to donor interests rather than encouraging the development of original ideas and approaches;

d) Confusion between needs and wants of the local community as interpreted by the involved NGO; and
e) Lack of understanding on the administrative procedures/requirements of the donor by prospective grantees.

It is important to note, however, that the National Coordinator and staff for the program were able to overcome most of these constraints through technical support and encouragement. The trainer must have a solid understanding of the technical aspects, and be familiar with the culture and level of education of prospective grantees.

GEF-SGP's grant-making experience also identified limitations by donors. These include:

a) Imposing fixed criteria that restricts innovation and flexibility;
b) Overly high expectations of NGO capabilities;
c) Disbursing grants too large for NGOs to absorb or too small to have a significant impact on the environmental problem to be addressed;
d) Not allocating sufficient time and resources to build the technical and financial management ability of NGOs; and
e) Lack of public information on the types of activities supported by donors which would help prospective grantees understand what to expect from given donors.

A.4.3.3 *Biodiversity Support Program Experience* The USAID-funded Biodiversity Support Program, a consortium of three U.S. NGOs: the Worldwide Fund for Nature, the Nature Conservancy and the World Resources Institute, has financed a wide range of biodiversity conservation activities, from small grants ($15,000 or less) to very large programs (e.g., $175,000 to $700,000). The small grants ($15,000 or less) provided to individual scientists may be of particular interest to the Foundation. BSP supported scientists and researchers to carry out studies on: the effects of selective logging on the ability of *Dipterocarp* tree species to regenerate; ethnobotany of Asmat culture in Irian Jaya; preliminary research on the economics of sustainable forest management in Indonesia; and the diversity, ecology, economic value and management practices on native mangos in South Sulawesi. These grants were approved based on a relatively simple proposal format and involved minimal administrative requirements (e.g., an outside audit of the recipient's accounting was not required) .

In addition, the USAID-assisted U.S.-Asia Environmental Partnership funded the Biodiversity Conservation Network through the Biodiversity Support Program. BCN provides planning grants (up to $50,000) and implementation grants (about $300,000). The BCN applies an extremely rigorous review process to ensure that prospective grants 1) propose a viable enterprise that depends directly on the existence/use of in-situ biological resources, 2) the proposed enterprise generates benefits for the community in the

short-term and after BCN funding ends, and 3) community must be actively involved and the conservation of the biological resources. Beginning in 1993 BCN widely distributed the announcement and request for proposals throughout Asia and the U.S. From Indonesia, over a hundred proponents responded and about eleven grants have been awarded or are near approval. This demonstrates a very strong demand for conservation related grant funds. BCN's rigorous analysis and extensive consultations with prospective grantees has greatly improved grantees' proposals. However, it is very labor intensive and can place considerable stress on the collaborative relationship between a donor and prospective grantees.

A.4.3.4 *Examples of Biodiversity Conservation Grants* Examples of ongoing biodiversity conservation activities by NGO grantees are outlined below for each of the Foundation's five program themes. This illustrates the excellent potential of prospective grantees for handling grants of $50,000 or less.

a) Development of ex-situ conservation on Java;

Yayasan Mandiri is promoting the cultivation of aren plants (Arenga pinata) for energy resource gardens in West Java. This $41,000 grant (GEF-SGP) encourages the rehabilitation of critical lands, income generation and conservation of a rare plant species.

b) Development of in-situ conservation in East Kalimantan;

Biological Science Club (BScC) has a $47,950 grant from BCN for promoting domestic eco-tourism, orchid cultivation and production of wooden handicrafts for communities living in the bufferzone are of the Gunung Halimun National Park, West Java. BScC also has a $41,000 grant (GEF-SGP) to conduct ethnobotanical research in support of the management of the Gunung Halimun National Park.

Worldwide Fund for Nature-Indonesian Programme received a $50,000 grant from BCN to develop a community-based butterfly farming operation in Irian Jaya.

c) Development of biodiversity resources to benefit resident communities in North Sumatra;

Lembaga Alam Tropika Indonesia (LATIN) received a $47,550 planning (BCN) grant from BCN to develop a community based project in West Sumatra for harvesting resin from 'damar' trees. LATIN also has a $25,000 grant (GEF-SGP) to develop community-based conservation programs aimed at

reducing the loss of forest habitat of the Javan Rhina (*Rhinoceros sondaicus*).

Sekretariat Pengembangan Kawasan Mentawai (SPKM) has a $28,000 grant (GEF-SGP) to develop community-based conservation programs, including eco-tourism and other income generating activities in West Sumatra.

Yayasan Dian Tama and Environmental Enterprises have a $50,000 grant for exploring the commercial viability of harvesting forest products (e.g., bamboo, damar and rattan) in West Kalimantan.

Pusat Latihan Wiraswasta Tani (PUSLAWITA) has a $16,000 grant (GEF-SGP) to establish an agroforestry training center and develop training materials for agroforestry practices suitable for conditions in East Timor.

d) Development of eco-tourism in Bali and Nusa Tenggara; and

Yayasan Hualopu submitted a proposal for a marine biodiversity conservation project in Maluku and Irian Jaya, promoting pearl production, fish marketing and marine tourism.

e) Development of marine biological diversity in Jakarta Bay.

Yayasan Bina Sains Hayati (YABSHI) is conducting ethnobiology research to support the management of the Togian Islands Nature Reserve in Central Sulawesi ($46,000 grant from GEF-SGP). This group is also involved in the BCN-funded grant to Conservation International to help develop eco-tourism and other marine based enterprises for communities residing in and adjacent to the Togian Islands Nature Reserve.

A.4.3.5 *Survey of the Capability of Three NGOs* Three NGOs active in biodiversity conservation were interviewed to assess their administrative capability to provide a better understanding of the types of training and technical assistance that potential grantees may require. The three NGOs selected were: Lembaga Alam Tropika Indonesia (LATIN), Biological Science Club (BScC), and Yayasan Bina Sains Hayati Indonesia (YABSHI).

LEMBAGA ALAM TROPIKA INDONESIA (LATIN)
(The Indonesian Tropical Institute)

1. **What is the primary objective of the prospective grantee?**

   To enhance community's capability and conserve natural resources, environment and agricultural development in relation to sustainable development.

2. **What are the prospective grantee's major <u>ongoing</u> and <u>planned</u> programs to meet this objective?**

   On going programs/activities:

   a. Policy Study on Conservation Areas in Indonesia
   b. Study on Conservation and Utilization of Tropical Forest Medicinal Plants
   c. Study on Ecolabelling of Indonesia's Forest Products
   d. Action Programs on Conservation of Java Rhino through Community Welfare Approach, Ujung Kulon National Park, West Java
   e. Conservation Program of Forest Medicinal Plants, Meru Betiri National Park, East Java
   f. Management Program of Buffer Zone in Bukit Barisan Selatan National Park, through Utilization and Development of Krui's Community Damar Forest in Sumatra

   Planned activities:

   For short term programs, Latin will focus it's activities on: a) Forestry related issues, b) Conservation and conservation areas, c) Non-timber forest products and d) Community based forest management

3. **How many full-time professional staff?**

   Nine full-time professional staff; twelve associates

4. **What is the prospective grantee's estimated annual budget in 1993 for:**
   a) program costs?
   Rp.35,438,000

   b) operating costs?
   Rp.24,284,462

5. **Funding for programs comes primarily from what sources?**

   1. WALHI-USAID/Jakarta
   2. WALHI-USAID/Washington
   3. Ford Foundation-Bina Swadaya
   4. Rain Forest Alliance

5. Man and Biosphere (MAB)-UNESCO
6. MacArthur Foundation
7. Rhino-BII via KLH
8. Biodiversity Conservation Network, US-AEP (USAID/W)

6. **Has an independent audit been conducted of the prospective grantee's financial records?**

No independent audit so far, proposed for this year: 94/95

7. **What type of reporting does the prospective grantee do on a regular basis, e.g., quarterly progress reports and/or annual reports and newsletter?**

a. Annual Reports to Donors, b) Leaflets and c) Publications

8. **What technical assistance, if any, would the prospective grantee consider very important for their institutional development?**

a) help in preparing a long-term plan for their organization?

No

b) strengthening their ability to write proposals for funding?

No

c) assistance in developing their financial management systems?

Yes

d) technical advice regarding issues and approaches in biodiversity conservation?

Yes

e) assistance in improving monitoring and evaluation capability?

Yes, but not a high priority since they consider their exiting capability to be adequate.

BIOLOGICAL SCIENCE CLUB (BScC)

1. **What is the primary objective of the prospective grantee?**

To conduct research, development and training for the benefit and development of local communities in and around protected areas.

2. **What are the prospective grantee's major <u>ongoing</u> and <u>planned</u> programs to meet this objective?**

Ongoing programs/activities:
a. Etnobotanic Research and Community Development In and Around Gunung Halimun National Park.
b. Development of Local Enterprise In and Around Gunung Halimun National Park.
c. Hornbill Research Project in Tangkoko and Dumoga Bone National Parks, North Sulawesi.
d. Research on Population of Bawean Deer.
e. Survey on Avifauna in Halmahera, Flores and Sumbawa.
f. Production of Publications Related to Biodiversity Conservation and Training.

Planned activities:
a. Implementation Development of Local Enterprises with Stress on Ecotourism and Community Development.
b. Biodiversity Promotion Program (BCPP) for Gunung Gede Pangrango and Halimun.
c. Research on Etnobotany in Gunung Halimun, Lorentz, and Long Pangahai (East Kalimantan).
d. Microhydro and Irrigation Rehabilitation/development and Conservation Farming.
e. Gibbon Research in Gunung Halimun.

3. **How many full-time professional staff?**

Total of 17 which consists of: 6 Etnobotanists, 3 working for BCN, 3 Hornbill specialists, 1 Program Coordinator, 1 Training Specialist, 1 Publication Specialist, 1 Secretary and 1 Public Relation.

4. **What is the prospective grantee's estimated annual budget in 1993 for:**
a) program costs?
Rp.42,928,625.

b) operating costs?
Rp.29,000,000

5. **Funding for programs comes primarily from what sources?**

a. Conservation International (CI)
b. UNDP (GEF Small Grant)
c. ICBP
d. Nagao Natural Environment Foundation (NEF)
e. Cambridge University
f. IUCN
g. University of East Anglia, UK (I&II)
h. WALHI
i. DHV
j. BCN, US-AEP (USAID)

6. **Has an independent audit been conducted of the prospective grantee's financial records?**

   Yes, for FY 92 and 93, by Drs.A. Rodi Karta Mulya Accounting Firm

7. **What type of reporting does the prospective grantee do on a regular basis, e.g., quarterly progress reports and/or annual reports and newsletter?**

   a. Newsletter b. Quarterly Report c. Completion Report and d. Biannual Report.

8. **What technical assistance, if any, would the prospective grantee consider very important for their institutional development?**

   a) help in preparing a long-term plan for their organization?

      Yes

   b) strengthening their ability to write proposals for funding?

      Yes

   c) assistance in developing their financial management systems?

      Yes

   d) technical advice regarding issues and approaches in biodiversity conservation?

      Yes

   e) assistance in improving monitoring and evaluation capability?

      Yes

YAYASAN BINA SAINS HAYATI INDONESIA (YABSHI)

1. **What is the primary objective of the prospective grantee?**

   Bridging communication between biological research scientists and potential users of their research results and findings through publications, training and education on biodiversity conservation related subjects.

2. **What are the prospective grantee's major <u>ongoing</u> and <u>planned</u> programs to meet this objective?**

Major on going programs/activities:
a. Community Based Biodiversity Conservation, Togian Islands.
b. Survey on Conservation Status of the Java Silvery Gibbon
c. Park Rangers training, Ujung Kulon National Park.
d. Publication of Biodiversity Research Papers.

Major planned activities:
a. Publication of Indonesian Biodiversity Book Series.
b. Monitoring of Species Threat.

3. **How many full-time professional staff?**

Ten full-time staff, consisted of three primatologists, two ornithologists, one small mammal biologist, one wild-life biologist, one marine biologist and two support staff.

4. **What is the prospective grantee's estimated annual budget in 1993 for:**
a) program costs?

RP.110,000,000.

b) operating costs?

Rp.72,000,000.

5. **Funding for programs comes primarily from what sources?**

a. The John and Catherine MacArthur Foundation
b. Canadian University Service Overseas
c. United Nations Development Programme
d. The Biodiversity Conservation Network with Conservation International.

6. **Has an independent audit been conducted of the prospective grantee's financial records?**

No

7. **What type of reporting does the prospective grantee do on a regular basis, e.g., quarterly progress reports and/or annual reports and newsletter?**

a. Semi annual b. Annual c. For BCN (planned): quarterly. For financial reporting, varies from donor to donor.

YABSHI provided several samples of publications and reports.

8. **What technical assistance, if any, would the prospective grantee consider very important for their institutional development?**

a) help in preparing a long-term plan for their organization?

Yes, but not a high priority.

b) strengthening their ability to write proposals for funding?

Yes

c) assistance in developing their financial management systems?

Yes

d) technical advice regarding issues and approaches in biodiversity conservation?

Yes, on social issues, but not on technical

e) assistance in improving monitoring and evaluation capability?

Yes, especially on appropriate systems of monitoring and evaluation.

A.4.3.6 *Analysis of Grant Making Experience and Capability of Potential Grantees* Analysis of the above grant-making experiences generated valuable information in designing the Foundation's overall program and grant making policy. The Foundation's grant making policies and procedures need to clearly specify the evaluation criteria, procedures for review and approval. A flexible approach, however, is needed in order to encourage innovative approaches. For instance, this may include a small grant component (e..g, under $10,000 in Rupiah). This would enable the Foundation to award a limited number of small grants and complement the main grant-making program. The ability to allocate significant resources for strengthening the technical and administrative ability of prospective grantees is also essential. As a result the Foundation plans to build on initial consultations in selected regions by holding workshops to discuss biodiversity conservation priority needs and actions, followed by training sessions on program planning and proposal writing. More specific technical assistance on financial management and implementation is envisioned for prospective grantees that have demonstrated a strong interest and potential to handle Foundation funds properly. A key challenge of Foundation program officers and technical advisors will be to help grantees develop a sense of ownership of a given activity. Foundation staff will need to strike a balance between strengthening the administrative and technical capability of

grantees and ensuring that innovative activities in biodiversity conservation are carried out.

A.4.4 Promoting Wider Adoption of Proven Policies and Practices

Through its grants program, the Foundation intends to promote the wider adoption of improved policies and proven practices in biodiversity conservation. The Foundation intends to encourage a broader understanding of the economic and ecological importance of Indonesia's unique and valuable biological resources. The Foundation plans to fund the analysis and discussion of critical policy issues, such as intellectual property rights, community use rights for forest and marine resources, and the feasibility of subsidies that undervalue natural resources. Grants are also envisioned for innovative conservation programs in the field to test new management practices. Possible examples include: documenting traditional knowledge in the use of biological resources, developing community-based enterprises based on the wise use of biological resources and applied research on biotechnology. A key task for Foundation staff will be to link field activities with policy analysis, and build upon other biodiversity conservation activities.

A.5 Social Soundness Analysis

The project has a high degree of social soundness. The design provides a flexible institution to respond to the desires of Indonesians and the global community for sustaining Indonesia's tremendous biological resources; it provides for long-term support for this effort; and it encourages broad based participation in its implementation. The project implementation plan is based on a careful and realistic design, and monitoring and evaluation capacity is fully adequate.

A.5.1 Socio-Cultural Context and Feasibility

There is increasing concern in Indonesia on the part of both government and the private sector of the implications of environmental degradation for the nation's long term development. The scientific community, NGOs and government recognize the need to develop strategies to achieve developmental goals while sustaining its natural resources. They further recognize the importance of new institutional forms which can engender cooperation, create networks, provide innovative solutions to complex problems and flexibly respond to emerging problems. There is also increasing concern in Indonesia for the development of transparent and accountable organizations in the public sector. Discussion of concepts such as openness, broad participation and equity are now widespread. International standards are being applied in industrial

and service sector activities. The project will help meet the demand for concrete responses to these issues and concerns.

A.5.2 Beneficiaries

The beneficiaries of this project can be classified in two ways. First, there are direct beneficiaries from the Foundation's grants. Second, there are those who will be indirect beneficiaries of the projects funded by the Foundation.

The direct beneficiaries of this project and their socio-economic situation cannot be precisely determined apart from a review of the specific grants made by the foundation. In general, however, a significant portion of the target beneficiaries will be persons and communities whose income level classifies them as poor. These community groups will include fishermen, small upland farmers, and indigenous people populating forested areas. Individuals and groups will benefit from grants for scientific research, policy studies and monitoring activities. In addition, managers and participants in organizations receiving foundation grants are expected to benefit through the training and capacity-building components of grants.

The indirect beneficiaries of this project include those individuals and groups who will benefit from participating in the implementation of the project and the resulting dialogue on issues involving strategic assessments of conservation strategies, participatory decision making with respect to allocation of funds, and institutional transparency and openness. The citizens of developed countries will be indirect beneficiaries of the conservation of Indonesia's biological wealth.

A.5.3 Participation

The design and implementation of the Indonesian Biodiversity Foundation Project provides an effective means for involving a broad array of individuals directly and constructively in the development process. The ownership of the Foundation is clearly in the hands of responsible and dedicated Indonesian private citizens. The wide range of participants involved have demonstrated a commitment toward achieving shared goals which respond to an environmental problem of both national and international concern. Recipients of foundation grants will be encouraged to document and disseminate their experiences in implementing conservation activities, thereby encouraging replication by others and influencing the policies of local, regional and national government. Linkages with the international community of donors, scientists and NGOs can lead to collaborative work which will influence the actions of governments worldwide.

A.5.4 Impact

The development of an independent foundation of international standing is intended to encourage the development of the philanthropic sector in Indonesia. By maintaining the highest standards of transparency, accountability and professional standards, the project intends to influence the development of other nongovernmental organizations as well as promote greater confidence in the performance of the nongovernmental sector on the part of government and the private sector.

Foundation grants will be provided to projects which exhibit a strong potential for impact in their respective program area. Grant criteria will include replicability, sustainability and potential to influence broader policies. Technical assistance provided to emerging NGOs and community groups will help strengthen their organizational capacities and improve their prospects for have lasting impacts on their communities. The evaluation plan for the project is specifically intended to identify the foundation as a catalytic institution.

A.6 GENDER CONSIDERATIONS

Increasing the numbers and quality of participation for women in development activities is a constant and cross-cutting concern for the Mission. The targeted beneficiaries of the project are future generations whose livelihoods and quality of life depend upon the sustainable use of Indonesia's biological resources, specifically its flora and fauna. It is difficult, however, to identify specific individuals that would benefit (i.e. women, mothers, youths). Further, biodiversity conservation is a public, not a private benefit and individuals will be the long run beneficiaries of biodiversity conservation.

The major impact of the project on women is expected to be through the grant making program. Women living in and around forests or coastal areas tend to be responsible for gathering firewood, harvesting food and marketing products. Accordingly, some of the expected Foundation grants, such as those promoting community participation in conserving biodiversity resources will directly benefit women. For example, a typical grant may support an NGO to carry out a community development activity involving the sustainable use of forest or marine resources from a bufferzone area outside a national park in order to generate information for improved policies for other national parks and protected areas. Thus, the participants and immediate beneficiaries could be women but the ultimate beneficiaries will be communities living in and around other national parks and protected areas that benefit from the adoption of improved policies and practices. Hence, as appropriate, the evaluation of proposed grants would include a) assessing the role of women in the use of forest or marine resources and potential opportunities to involve women in promoting more sustainable use of biological resources, and b) analyzing the

present role of women in proposed activities and what steps will be taken to ensure women's participation.

Grant recipients will be chosen based on their ability to reach and help the target beneficiaries as well as in carrying out an effective development approach. Hence, the IBF grant making policy includes, as appropriate, the ability of prospective grant proposals to involve and benefit women as one of the evaluation criteria.

Handbook 3 guidance calls for discussion in this section of the Project Paper of the "extent to which sex-aggregated data is available" and "constraints to women's participation and opportunities for enhancing women's participation." Because of the nature of the project, specific baseline information data cannot be reported in advance of knowing the grants which will be funded by the Foundation. However, discussion of women's participation (constraints and opportunities) within these grant activities will be included in regular implementation reports, and in the mid-term and final evaluations.

A.7 ENVIRONMENTAL ANALYSIS

The project will support the development of improved environmental and natural resources management policies and practices. The project will help fulfill the following U.S. congressional mandates for USAID to support productive work in environment and natural resources management: Foreign Assistance Act., Section 119.

The Foundation will fund activities which may include: policy analysis, efforts to improve public awareness, scientific and applied research and conservation activities carried out by local organizations. The policy studies will analyze the impact of public policies and potential reforms on the conservation of biological resources. Public awareness activities will inform the general public of the importance of biodiversity conservation. Research and conservation activities will support scientists, community groups, local NGOs, universities, and others in undertaking projects to explore new approaches to conservation.

Considering the above project approach, a categorical exclusion from USAID's Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary requirements was approved for the proposed endowment contribution, technical assistance; commodity procurement; training; and possible grants for program activities. This determination would be in accordance with USAID Regulation 16, Section 216.2 (c)(2)(vi), which provides for a categorical exclusion in situations where contributions are made to international, regional or national organizations by the Unitest States which are not for the purpose of carrying out a specifically identifiable project or projects. USAID also assisted the Foundation in developing criteria for the

preparation and approval of grants to ensure that attention is placed on minimizing potential negative environmental impacts.

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3/25/95

Indonesian Biodiversity Foundation - Project Paper

B. LOGICAL FRAMEWORK MATRIX

VOLUME II
(ANNEXES)

ANNEX B

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Indonesian Biodiversity Foundation Project (497-0384)
Total U.S. Funding: $ 19 million

LOP From: April, 1995 to March 2005
Date Prepared: March, 1995

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Goal:	**Measures of Goal Achievement:**	**Method/Sources of Verification:**	**Assumptions for Achieving Goal Targets:**
To strengthen Indonesia's ability to protect and sustain its extraordinary biodiversity for the benefit of both its own citizens and the international community now as well as for future generations to come	Rate of habitat loss/degradation reduced	National and international reports on environmental conditions in Indonesia.	Continued political and economic stability, both national and international, and GOI support for environmental conservation.
Project Purpose:	**End of Project Status:**	**Method/Sources of Verification:**	**Assumptions for Achieving Purpose:**
1) To create and strengthen the capability of institutions engaged in the sustainable use of biodiversity, and	1.1) A self-sustaining independent Indonesian foundation taking a catalytic role in the conservation of Indonesia's biodiversity, and networks established/ strengthened among community groups, NGOs and scientific/ educational institutions concerned with biodiversity conservation.	1.1) Project evaluations.	1.1) Government allows the developmentment of an independent grantmaking foundation dedicated to biodiversity conservation.
	1.2) At least $6.5 milllion in matching contributions (e.g. from Indonesian private sector, GOI, international firms and other donors) mobilized by the Foundation to conserve biodiversity.	1.2) Foundation reports.	1.2) Government continues to become more open and transparent and allows policy process to respond to improved information about natural resource management and the respective roles of the public and private sectors, NGOs and local communities.
2) To promote the wider adoption of proven policies and practices in biodiversity conservartion.	2) Improved policies and practices tested and adopted to conserve biodiversity.	2) GOI decrees from the MOFr, LH on biodiversity conservation.	2) Public debate regarding environmental issues is allowed in national and local fora.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs:	Magnitude of Outputs:	Method/Sources of Verification:	Assumptions for achieving purpose:
1) One independent foundation with international standards of governance and operations strengthened and dedicated to funding biodiversity conservation.	1.1) Annual reports of operations issued. Regular meetings of the Board of Trustees and Executive Board held. One independent and two internal evaluations conducted.	Project evaluation and monitoring reports, e.g. grantee reports and Foundation quarterly and annual reports.	1) Foundation carries out its institutional development strategy as planned, able to retain and train professional staff.
	1.2) In the first five years, the Foundation generates at least $700,000 in matching contributions for program and operating costs, and over the life of the project at least $6.5 million in matching contributions generated for the endowment; program and operating costs.	Project evaluation and monitoring reports, e.g. grantee reports and Foundation quarterly and annual reports.	
2) An endowment fund established and sustainably managed to preserve its value in real terms, and generates an annual income of at least four percent of its market value, and Foundation generates additional contributions for endowment and programs.	2.1) USAID funded endowment generates an average annual net income of $700,000 for program and operating costs during years 2-5, and $1 million for program and operating costs during years 6-10.		2.1) Approved investment firms(s) and investment policy able to achieve desired rates of return given future financial market conditions.
			2.2) Foundation able to carry out effective fund raising program, demonstrate the need for additional financial support for biodiversity conservation to the appropriate sources of funding, and prospective sources of funding capable of doubling endowment in ten years exist.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3) High quality grantmaking program developed and carried out.	3.1) During the first five years, Grant making Committee meets at least ten times, at least five requests for grant proposals issued and $2,000,000 in grants awarded; during years 6-10, Grantmaking Committee meets at least ten times, at least five requests for proposals issued and over $5 million in grants awarded. 3.2) During the first five years, at least ten national and regional consultations held to discuss priority biodiversity conservation issues and the role of the Foundation; during years 6-10, at least twenty workshops held.	Project evaluation and monitoring reports, e.g. grantee reports and foundation quarterly and annual reports and national and local media.	Qualified organizations and individuals can be identified and are available.
3.a) Conservation programs initiated.	3.a) Ten programs carried out involving NGOs, communities and others in conserving biological diversity during the first five years; and fifteen additional programs undertaken during years 6-10.		
3.b) Capacity of scientific institutions strengthened.	3.b) Four biodiversity research projects undertaken by key Indonesian natural science institutions and/or scientists in the first five years; and an additional six projects carried out during years 6-10.		
3.c) Increased public awareness of biodiversity conservation issues.	3.c) Ten seminars and media presentations on biodiversity conservation in the first five years; and ten additional seminars/media presentations held during years 6-10.		

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3.d) Productive uses of biological resources developed.	3.d) Four research projects undertaken by key Indonesian natural science institution scientists that demonstrate economic feasibility and ecological sustainability of biodiversity in first 5 years; and six additional research studies undertaken in years 6-10.		
3.e) Networks to support biodiversity conservation established and strengthened.	3.e) Three networks established/ strengthened among scientists, NGOs and others concerned with biodiversity conservation.		
3.f) Recommendations formulated for improving policies.	3.f) During the first five years, four policy studies completed of national significance and recognition; and six additional policy studies completed in years 6-10.		

Project Inputs:	Implementation Target: ($) USAID	IBF/OTHERS	TOTAL	Method/Sources of Verification:	Assumptions for providing inputs:
1. Endowment	16,500	4,700	20,000	a) Project documents.	Financial resources provided as planned.
2. Pilot Grant-making Program	1,250	1,200	1,450		
3. Technical Assistance, Short-term Training, Commodities, Operating costs, Evaluation and Audit	1,000	600	1,600	b) FIN Quarterly Financial Reviews, SAPIRs and PIRs.	
4. Contingency (10%)	250		250		
TOTAL	19,000	6,500	25,500		

Indonesian Biodiversity Foundation - Project Paper

C. PRISM OBJECTIVES TREE

VOLUME II
(ANNEXES)

ANNEX C

STRATEGIC OBJECTIVE 3:

DECENTRALIZED AND STRENGTHENED NATURAL RESOURCES MANAGEMENT

3.1. Local communities actively participating in natural resources planning and management.
3.2. Natural resource-based industries using "best practices" for land-use management and production processes.
3.3 Policy implementation devolving to the local level.
3.4. NGO's strengthened to promote improved natural resoruces management.

PROGRAM OUTCOME 3.1.: Greater stakeholder participation in decisions about the planning, management, use, and monitoring of natural resources.

3.1.1. Tested "traditional forest areas" and "integrated conservation. and development" concepts for community management of forest and of coastal and marine resources.

3.1.2. Established models for enhancing community participation in management planning and implementation for selected national parks.

3.1.3. Determined the biological and technical feasibility of enterprise-oriented approaches to community-based sustainable managment of forest and marine resources.

3.1.4. Expanded implementation of agricultural practices based on agroecosystems approaches fostered by IPM to address new problems and new areas.

PROGRAM OUTCOME 3.2.: Increased conservation and pollution reduction by natural resource-based industries.

3.2.1. Increased incentives for natural resource-based industries to adopt better land husbandry practices and to produce higher value, less polluting products.

3.2.2. Demonstrated technologies for efficient resources use under stainable management.

3.2.3. Accelerated adoption of pollution prevention technologies among natural resource-based industries.

PROGRAM OUTCOME 3.3.: Improved policy development and implementation.

3.3.1. Strengthened networks for natural resources policy and law reform.

3.3.2. Strengthened partnerships among the GOI, the private sector, and communities for local and regional environmental impact planning and monitoring.

3.3.3. Increased participation of women in all aspects of natural resources management.

3.3.4. Improved information sharing on environmental issues.

PROGRAM OUTCOME 3.4.: Strengthened institutional capacity for biodiversity conservation.

3.4.1. Established sustainable support for private biodiversity institutions.

3.4.2. Strengthened environmental NGOs carrying out research, public awareness, policy studies and other activities to support biological diversity.

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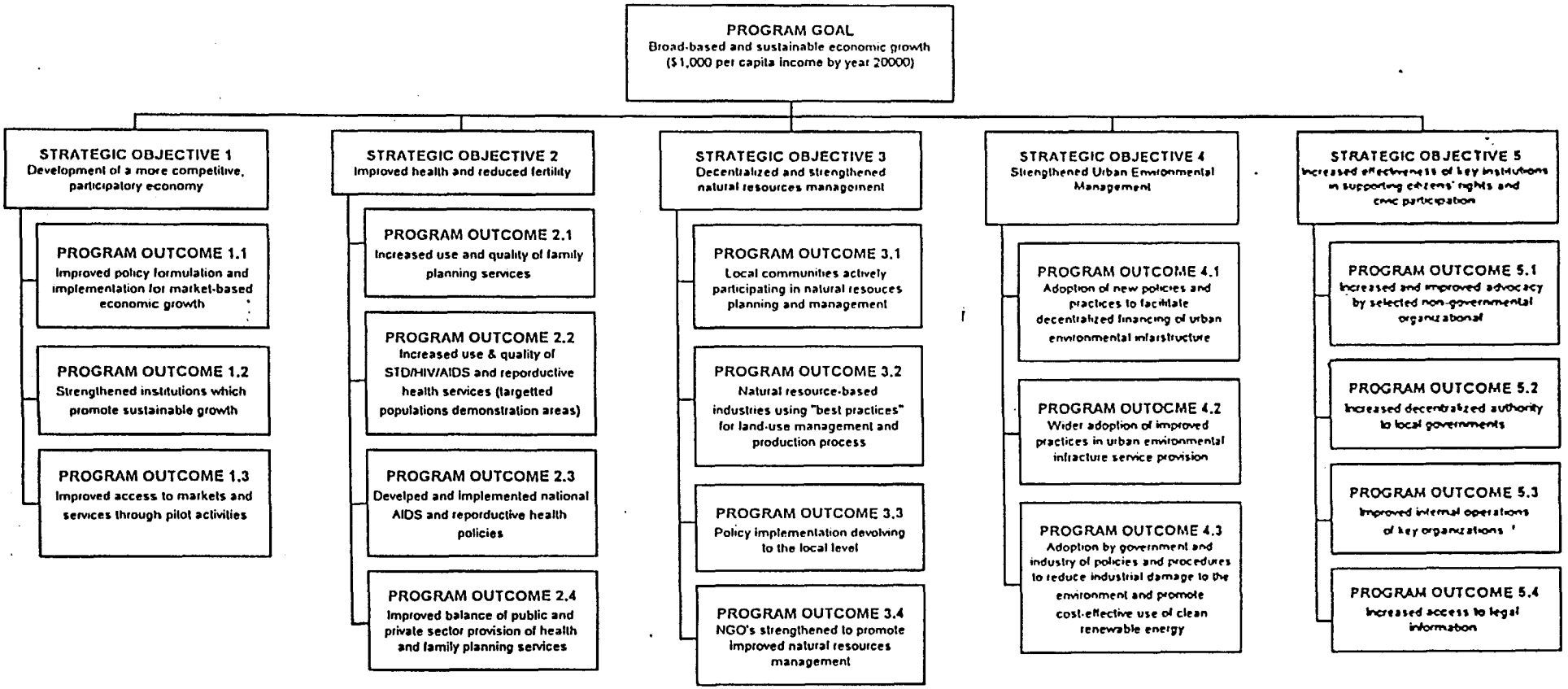
Annex :C

USAID/Indonesia Strategic Objectives and Program Outcomes



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Indonesian Biodiversity Foundation - Project Paper

D. PROPOSED PROGRAM DESCRIPTION FOR THE COOPERATIVE AGREEMENT

VOLUME II
(ANNEXES)

ANNEX D

PROGRAM DESCRIPTION

for the

COOPERATIVE AGREEMENT

between the

YAYASAN KEHATI

(INDONESIAN BIODIVERSITY FOUNDATION)

and the

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

March, 1995

Program Description
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Yayasan KEHATI's three strategic objectives are:

* Promoting policies for the enhancement of biodiversity;

* Networking among NGOs, research and educational institutions governmental agencies and business community to exchange information related to the sustainable use of biodiversity;

* Fostering and improving the capabilities of society to conserve and use biodiversity in a fair, equitable and sustainable manner.

It is not the intention of Yayasan KEHATI to duplicate the work of other organizations or become a competitor. In Indonesia, the government agencies and research/educational organizations are active at the national level in what may be viewed as the formal sector of biodiversity conservation. NGOs and community organizations tend to work at the grass roots or informal level. The business community is active in both the exploitation and the utilization of biological resources. In summary, Yayasan KEHATI will strive to bring together and promote the work of NGOs, research and educational institutions, community organizations, the business community and others.

Yayasan KEHATI will achieve its three objectives (noted above) through two main programs:

A. grantmaking, and

B. consultations, collaborations and networking.

During the five years (1995 to 1999) Yayasan KEHATI will continue the process initiated in 1993 of building the Foundation into an independent, professional institution of international standards which can be sustained over decades. Strengthening the institutional capability of the Foundation has three primary components:

C. governance and administration,

D. endowment management, and

E. fund raising.

These programs are described below as well as the implementation schedule and performance indicators.

A. Grantmaking

Yayasan KEHATI's primary activity will be to conduct a national small grants program and networking. The grantmaking program will initially focus on the following four types of activities in promoting biodiversity concerns.

1. *Priority Grantmaking Activities*

a. Public Awareness

Without broad understanding and support for biodiversity conservation, it is unlikely that the sustainable use of biodiversity can be achieved. Yayasan KEHATI will support, through grants, NGOs and community groups undertaking public education and media programs which demonstrate to the general public, government officials, policy makers and leaders, the importance of sustaining Indonesia's biodiversity.

b. Policy Analysis

At the national and regional level, government regulations, policies, legislation and development programs have an impact on the use and conservation of biodiversity. Traditional communities have their own practices of using and conserving biodiversity. Yayasan KEHATI will encourage the identification and analysis of both traditional uses and public policies in an effort to harmonize these formal and informal approaches towards biodiversity. Conflict resolution between the two systems will also be a priority. Grants will be provided to NGOs, research institutes and institutions of higher education.

c. Community-based Activities and Capacity Building

Yayasan KEHATI will provide grants for innovative, community-based conservation activities undertaken within the geographic priority areas chosen. Many activities have already been initiated but are not recognized at the national level. Yayasan KEHATI will bring these activities to attention of regional and national leaders. Improving the capacity of organizations and groups to participate in conservation activities will be an important focus of grants whether at the level of academic institutions or at the farmer level.

PROGRAM DESCRIPTION

I. INTRODUCTION

A. Background

The United States and Japan, under the Tokyo Declaration of January 1992, mutually agreed to strengthen their cooperation in preserving the global environment by assisting developing countries in managing and conserving their natural resources. Indonesia is one of the world's foremost centers of biological diversity. Biological diversity, or biodiversity constitutes the totality of all extant species, ecosystems and genes. It represents the variety and uniqueness of all genes, flora, fauna and habitats found in the world. Indonesia's extraordinary biological resources, essential for human survival and national economic development, are currently being threatened. Conserving biodiversity involves maintaining levels of species and habitats to ensure their survival and continuing evolution. One of the constraints to conserving biological diversity is the lack of sustainable and flexible sources of funding.

Indonesia is the first site of a proposed program of coordinated financial and technical assistance for the conservation of biological diversity. The Indonesian Biodiversity Conservation Program -- a joint effort between Indonesia, Japan and the U.S. -- is designed to conserve Indonesia's tremendous biotic wealth by supporting the implementation of Indonesia's *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia.* The program is an important step in fulfilling commitments made under the International Convention on Biological Diversity and at the Earth Summit in Rio in June 1992. The GOI, U.S. and Japan will fund joint and complementary components of the program. The U.S. contribution to this program is through the **Indonesian Biodiversity Foundation Project** (IBF) which finances the planned Cooperative Agreement with the Indonesian Biodiversity Foundation (referred to as "the Foundation", "Yayasan KEHATI" or "KEHATI").

Under the program, the IBF project supports the development of the Indonesian Biodiversity Foundation (Yayasan KEHATI), an independent, self-sustaining grantmaking institution dedicated to funding biodiversity conservation activities by Indonesian NGOs, scientists, local communities and others. Yayasan KEHATI provides Indonesia with a flexible, funding mechanism to more aggressively pursue efforts to conserve the country's biotic wealth. As an international standard foundation it is designed to stimulate and lead national, regional and local biodiversity conservation programs carried out by the non-governmental sector. Japan plans to provide facilities for a biological life sciences center for *ex-situ* research and support the management of the Gunung Halimun National Park (*in-situ* conservation programs).

Japan's contribution is about $20 million. In conjunction with the Japanese-funded project, the Government of Indonesia will finance operating costs.

Indonesia was one of the first countries to sign the Convention of Biodiversity at the Earth Summit in 1992, and formally ratified the Convention in 1994. The Government of Indonesia has demonstrated its commitment to conserving biological diversity by preparing the National Strategy for Biodiversity Management and the Action Plan for Biodiversity Conservation for Indonesia. The National Strategy emphasizes the sustainable use of biodiversity (domesticated species and agro-ecosystems are included) while the Action Plan identifies priority activities to conserve protected areas. Furthermore, the Government's five year development plan (1993-1998) stresses the need to conserve biodiversity in support of sustainable economic growth.

The Government is not the only agent involved with the conservation of biodiversity in Indonesia. Conservation covers many aspects, including: biological sciences, political, economical, social and cultural considerations. Such broad coverage requires the participation of government agencies, private sector, scientific and educational communities, NGOs, farmers and fishermen, and others. There are a growing number of NGOs throughout Indonesia with a strong interest in environmental conservation. In general, these NGOs have limited institutional capability and funding. Several international environmental NGOs are currently active in supporting biodiversity conservation in Indonesia.

B. Yayasan KEHATI's Role in the National Context

Legally established in January, 1994, Yayasan KEHATI opened its Jakarta office in July, 1994. The Board of Trustees is composed entirely of distinguished private citizens and includes representatives from two well established international foundations. Yayasan KEHATI has a lean and profession staff, consisting of an Executive Director, Program Coordinator, Finance Manager and support staff. Yayasan KEHATI has met USAID's "grant worthiness" assessment and demonstrated the technical and administrative ability to handle USAID funds.

II. YAYASAN KEHATI'S PROGRAM

Yayasan KEHATI's goal is to promote the sustainable use of Indonesia's biological diversity in support of national development for current and future generations. Thus, Yayasan KEHATI aims to promote biodiversity conservation through its leadership, networking and innovative grantmaking programs.

d. Diagnostic Research

High quality applied research is an essential part of efforts to conserve biodiversity. Much of the scientific research currently undertaken is valuable only to a limited part of the scientific community. Yayasan KEHATI will support applied research which analyzes issues of broad relevance in particular geographic locations. Research findings will be widely disseminated to individuals and institutions for the purpose of building a consensus on conservation practices.

e. Emerging issues

Like many developing countries, Indonesia is undergoing rapid development. Quite often, conflicting interests between parties cannot be avoided. The rights of local communities in defending their land, the outbreak of forest fires, etc. are examples of issues which cannot be anticipated in advance. Yayasan KEHATI will make grants to study such emerging issues.

2. *Geographic Priorities for Grantmaking*

Yayasan KEHATI intends, eventually, to serve the entire country of Indonesia through its grantmaking and networking. It is recognized that some of the greatest threats to the sustained use of biodiversity arise in some of the biologically richest regions of the country. At the same time, limited resources for grants mean that Yayasan KEHATI cannot serve all of Indonesia's biodiversity conservation needs.

Therefore, Yayasan KEHATI's grantmaking policy will be developed in stages over several years. Yayasan KEHATI has identified 5 (five) geographical areas to be targeted during the first five years of its grantmaking program. They are:

East Kalimantan
Java
Gunung Leuser and Kerinci Seblat, Sumatra
Bali-Lombok-Nusa Tenggara Timur
Pulau Seribu

The selection of these sites by Yayasan KEHATI's Board was based on extensive consultations and the following criteria:

* availability of basic information on the condition of local biodiversity;
* the occurrence of rapid development activities which have potential negative impacts;
* problems and issues of conservation or utilization which are site specific;
* the presence of potential grant recipients and partners (institutional/individual); and
* high potential for Yayasan KEHATI's grant support to have a significant impact.

The five geographic areas and site specific focus are described below.

a. East Kalimantan

East Kalimantan is known for its low land humid forest which are rich in Dipterocarp species. This group of plants is valued for its timber quality, hence its intensive exploitation. East Kalimantan is also identified as outstanding in its wild orchid species, rattan and fruit trees. Unless in situ conservation is attempted, these various plant species of East Kalimantan will be depleted together with the erosion of the timber species. At the same time, species of birds and other small animals which are unique to this area could disappear. Thus, Yayasan KEHATI will support activities which address strategic issues of **in-situ conservation.**

b. Java

Of the five major islands, Java is the most populated. About 60% of the 190 million Indonesians reside on this island. With such a dense population, natural ecosystems have largely disappeared. In term of biodiversity, Java contains various traditional cultivars of fruit trees, minor legumes, local vegetables, medicinal plants, etc. which are closely related to the culture of its inhabitants. This biological wealth is hardly tapped by modern technologies, hence the productivity of its use is low. Because many farmers are no longer interested in cultivating these biological resources, the diversity is eroding. Therefore, Yayasan KEHATI will attempt to support activities leading to the **ex-situ conservation** of this biodiversity through on-farm conservation, collection gardens, and/or seed storage wherever applicable.

Gunung Gede Pangrango National Park is the largest remaining forest area in Western Java, the mostly densely populated area of Indonesia. Thus, these forest resources are severely threatened by population encroachment and illegal use of forest products. Conservation of this area would provide valuable environmental services, including environmental education. Thus, Yayasan KEHATI will support **in-situ conservation** of this area through the development of a biodiversity network among NGOs, community groups, educational institutions, government agencies, business community and others.

c. Gunung Leuser and Kerinci Seblat, Sumatra

Two of the largest protected areas in Indonesia are Gunung Leuser, North Sumatra and Kerinci Seblat, South Sumatra. Because of their uniqueness in term of biodiversity wealth, these protected area are designated as national parks and internationally as a UNESCO-Biosphere Reserves. Such a prestigious designation, however, does not provide economic incentives to the communities living within and surrounding the protected area. Yayasan KEHATI believes that economic incentives plays an essential role in promoting

community participation in conservation. Therefore, Yayasan KEHATI will support **community based conservation of biodiversity through resource development.**

d. Bali-Lombok-Nusa Tenggara Timur

This chain of islands has a great deal of unique biodiversity. An imaginary line, known as the Wallace line, runs between Kalimantan and Sulawesi to the south between Bali-Lombok, dividing Indonesia into two regions West and East. At the same time, this line poses a boundary for the movement of wildlife, so that those found in the West are not the same as those in the East. The West is characterized by large animals (elephants, rhino, tiger, etc.), while the East is rich with beautiful birds. Unique to Nusa Tenggara Timur are the *Rusa Timor* and *Komodo dragon*, while *Bali Starling* is admired for its beauty. As far as marine biodiversity is concerned, the richness of this area cannot be overemphasized.

Culturally, Bali-Lombok-Nusa Tenggara Timur have a lot to offer. Coupled with this culture is the way the people utilize biodiversity in their daily life, which differs from the neighboring island Java. For decades Bali and its culture has attracted visitors, both domestic and foreign. Lombok, which is progressing in its infrastructure development, is experiencing a rapid increase in tourist arrivals Nusa Tenggara Timur is also inviting tourists. Considering the beauty of the natural environment and the traditional culture of Bali-Lombok-Nusa Tenggara Timur, the development of eco-tourism in this area may induce the local community to participate its conservation. Yayasan KEHATI is interested in supporting activities which promote the development of eco-tourism.

e. Pulau Seribu

Within the bay of Jakarta there are number of small islands, many of which are inhabited. The rapid development of Jakarta has affected the marine resources in Jakarta Bay negatively, including its coral reef ecosystem. Moreover, as part of the present day life, recreation has become the need of those who have reached a certain economic level. In consequent, several islands have been developed into recreational resorts. In view of biodiversity conservation, Rambut and Nusa Dua Islands are important bird sanctuaries. However, many species of birds live beyond the islands for their feed, so that they are vulnerable. Yayasan KEHATI will look for opportunities to support activities and projects which support the development and proper management of marine resources and other local biodiversity in Pulau Seribu.

Program Activities	1995	1996	1997	1998	1999
Public Awareness	30%	20%	20%	20%	20%
Policy Analysis	10%	10%	20%	20%	20%
Empower/Capacity	40%	40%	30%	30%	30%
Diagnostic Research	0%	10%	20%	20%	20%
Emerging Issues	20%	20%	10%	10%	10%

3. *Potential Grant Recipients, Types of Projects, Size of Grants and Duration*

a. Potential Grant Recipients

Institutions which will be eligible to receive grant funds from Yayasan KEHATI will be legally constituted Indonesian organizations, including: voluntary/non-governmental organizations, policy and scientific research institutes, institutions of higher education, local community-based organizations, cultural/religious organizations, youth/student organizations and, professional associations.

b. Types of Projects

It is anticipated that Yayasan KEHATI will fund the following types of activities and projects: local conservation activities; policy analysis and advocacy; NGO strengthening and capacity building; scientific research and; public education.

c. Size of Grants and Duration

The size of grants provided by Yayasan KEHATI will depend on the types of activities to be supported. Grants to NGOs will generally be in the range of Rp. 2 - 15 million. Grants for policy and scientific research will be in the range of Rp. 5 - 40 million. Yayasan KEHATI may make grants for multi-organizational collaboration of up to Rp. 200 million. Most grants will be made for a period of one year with an option to renew for an additional year.

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4. *Grantmaking Procedures and Schedule*

a. Grantmaking Procedures

Yayasan KEHATI will solicit proposals from prospective grantees in each of the targeted geographical areas on a sequential basis. The application, evaluation, approval, disbursement cycle will occur over a six month period. The grant cycle can be summarized as follows.

An initial dialog meeting will be held in the geographic target areas to discuss current issues related to biodiversity in that area. Within one month, a follow-up workshop will be held to develop strategies and discuss specific projects. Following the workshop, organizations will be given approximately one month to prepare applications for specific projects or activities. Yayasan KEHATI will set a deadline for the receipt of such proposals. Yayasan KEHATI will then take approximately 30 days to screen and review all applications and announce the grants to be awarded. During the fifth month of the cycle Yayasan KEHATI will prepare written grant agreements and disburse funds to grant recipients. During the sixth month, a final meeting will be held in the area to launch the projects and plan for monitoring and evaluation. After the completion of this 6 month cycle, Yayasan KEHATI will begin the same process in another geographical area. With experience, Yayasan KEHATI may be able to conduct two cycles concurrently.

b. Grantmaking Schedule

Yayasan KEHATI will carry out its grantmaking activities on the following schedule:

East Kalimantan	April 1995 to September 1995
Java (Gunung Gede Pangrango)	September to February 1996
Gunung Leuser/Kerinci Seblat	January 1996 to June 1996
Bali/NTT	July to December 1996
Jakarta bay	January 1997 to June 1997

At the beginning of 1997, Yayasan KEHATI will determine if these geographical areas should be served by another round of grantmaking activities or whether additional sites should be selected. For instance, Irian Jaya is considered a high priority area.

B. Consultations, Collaboration and Networking

1. *Purpose*

Yayasan KEHATI's second program area involves increasing consultation, collaboration and networking among organizations concerned with biodiversity conservation. This program is constructed to be flexible in approach, exploiting strategic opportunities as they emerge. The primary focus of this program area is:

* to co-sponsor meetings, conferences, workshops to support and strengthen networks and promote the exchange of information on biodiversity conservation.

* to collaboration with academic institutions to increase the awareness of biodiversity issues in curriculum development and course content;

* to collaborate with NGOs and others in bufferzone development at sites within the five priority geographic areas.

2. *Approach*

a. Provincial, National, Southeast Asia and International Meetings

Yayasan KEHATI will look for opportunities to co-sponsor meetings with other organizations, increase Indonesian participation at regional and international forums, provide leadership for emerging issues and act as a non-partisan intermediary in potentially contentious issues. Yayasan KEHATI also anticipates providing leadership to the international and local donor community by providing information on successful project strategies as well as identifying promising projects requiring continued support. These exchanges will involve all levels of Indonesian society as well as interested Southeast Asian and international parties. Yayasan KEHATI will support three types of meetings: provincial and national (Indonesia), regional (SE Asia) and international. Opportunities for co-sponsoring regional and international meetings are difficult to predict years in advance, but based on experienced gained in 1995, there appears to be many opportunities. The Chairperson and Executive Director will be actively seeking opportunities in this area. In the first year alone, Yayasan KEHATI will co-sponsor an international meeting, regional meeting and several national meetings. Development of Yayasan KEHATI's leadership capability will generate additional opportunities for significant achievements in collaboration and networking.

b. Development of Biodiversity Curriculum

Yayasan KEHATI will support the development of publications on the economic and ecological aspects of biodiversity conservation for use by academic institutions. Yayasan KEHATI will also co-sponsor with institutions development of curriculum and training of staff on approaches for teaching new biodiversity conservation information. One area of specific interest is incorporating the economic dimensions regarding the sustainable use of biodiversity in the traditional forestry and natural resources management curriculum. It is expected that this activity will contribute to a broader understanding of the need to conserve Indonesia's biological resources, identification of innovative ways to add value plus to the use of Indonesia's biodiversity in economic growth, and recommendations for improved policy options.

c. Development of Biodiversity Networks for Bufferzone Management

Yayasan KEHATI will develop provincial biodiversity networks for managing bufferzones in the five geographic areas identified above. The objective is to identify viable activities and enterprises that raise the incomes of local communities through the conservation of forest resources. Accordingly, Yayasan KEHATI intends to motivate the participation of NGOs, universities, policy makers and businessmen in identifying and carrying training, eco-tourism and other activities. This activity will be closely linked with the grantmaking program.

d. Collaboration with Private Sector

Yayasan KEHATI will analyze policies relating to collaborating with the private sector in the use of biodiversity resources. This will entail exploring various contractual mechanisms (e.g., the MERCK agreement in Costa Rica) and identifying improved policy options and viable implementation approaches. Other areas to be explored include collaboration in ecotourism, such as with International Conservancy.

e. Relationship Between Grantmaking and Networking

Yayasan KEHATI places priority attention on grantmaking. However, there is a critical need to strengthen the capability of potential recipients and to identify viable program activities. Thus, Yayasan KEHATI's networking is designed to complement and support the grantmaking program. Yayasan KEHATI will follow its Grantmaking Policies and Procedures in reviewing and approving proposals for workshops, consultations and collaboration. For unsolicited proposals this will entail internal review and, for proposals endorsed by Yayasan KEHATI staff with a requested Yayasan KEHATI contribution of greater than Rp 10 million, evaluation by an independent panel of experts.

C. Governance and Administration

The management of Yayasan KEHATI's program involves all three parts of its governance structure: Board of Trustees, Executive Board and Committees, and Professional Staff.

The Board of Trustees set Yayasan KEHATI's broad program policies. These include the kinds of organizations the Foundation will serve through its grantmaking (e.g. NGOS, academic/research institutions, community groups, etc), and the broad outlines of the kinds of grantmaking programs Yayasan KEHATI will develop and the focus for collaboration and networking.

The Executive Board is responsible for establishing more specific program priorities. These include program emphasis, geographical priorities and annual strategies. The Grantmaking Committee is charged with reviewing and recommending grantmaking policies to the Executive Board and evaluating the effectiveness of the grantmaking procedures.

The Executive Director and other professional staff are responsible for the execution of the a) grantmaking program and b) the consultation, collaboration and networking program. For the grantmaking program this includes organizing and conducting regional dialogues and workshops, screening and reviewing grant applications and providing assistance to grantees where needed. Yayasan KEHATI's program coordinator will be mainly responsible for these functions. The staff in conjunction with specially constituted Review Panels will evaluate promising grant applications and prepare recommendations for approval by the Executive Board. Yayasan KEHATI's administrative staff will handle all aspects of grants administration. Detailed Grantmaking Policies and Procedures have been developed.

The present professional staff of Executive Director, Finance Manager, Program Coordinator and Secretary are adequate for initial grantmaking and networking activities. As the grantmaking program enlarges, additional program officers will be hired to handle the increased workload. Yayasan KEHATI is committed to keeping staff levels at a lean and efficient level.

Yayasan KEHATI will conduct its grantmaking and networking programs in a fair and transparent manner. Yayasan KEHATI will make available to prospective grantees written materials concerning policies, program priorities, geographic interests and, grantmaking practices. A financial management system designed by Price Waterhouse is in place to support the proper implementation of the grantmaking program. All consultations, collaboration and networking will be of a non-partisan nature, information and meetings will be open to members of the public and all interested organizations. Yayasan KEHATI will strive to be inclusive and participatory in its activities.

Yayasan KEHATI may engage the services of consultants to perform specialized tasks such as preparation of public information materials, evaluate endowment investment management strategies, provide training on fund raising, design effective internal management systems and provide board and staff training in foundation operations.

Yayasan KEHATI will encourage the active participation of Trustees and committees in the governance of Yayasan KEHATI. Trustees are expected to attend board meetings, represent Yayasan KEHATI among the various constituencies and, if possible, participate in Yayasan KEHATI-sponsored networking activities.

During the period of 1995 to 1999, Yayasan KEHATI will focus on establishing strong governance and leadership, and high-quality staff. The Board of Trustees during this period will be developed into a group with the capacity to provide broad policy guidance to Yayasan KEHATI. International standards regarding conflicts of interest will be maintained. The Executive Board will be active contributors to the development of the Foundation. Committees will be further developed to assist the Executive Board in its responsibilities. International standards of financial management will be fully implemented during this period. General operating procedures will be developed and a public relations strategy implemented.

Yayasan KEHATI will devote attention to training of staff and selected Board members. Study tours, internships and specific technical and managerial training will be supported.

Recruitment of additional staff will be conducted in an open transparent manner.

Yayasan KEHATI will maintain a high level of "transparency" in all of its financial affairs. Price-Waterhouse has already designed and installed the financial system. Annual reports, including audited financial statements will be published in national newspapers along with a complete list of grants awarded during the previous year.

D. Endowment Management

Under the Cooperative Agreement, USAID intends to provide Yayasan KEHATI with $16.5 million for the establishment of an endowment fund. This endowment will provide Yayasan KEHATI with a sustained source of income to meet operational expenses and fund a portion of the grantmaking and networking programs.

The endowment will be managed in accordance with Yayasan KEHATI's Investment Policy Statement and Guidelines as approved by the Executive Board and USAID Indonesia. The Executive Board, Investment Committee and Finance Manager are responsible for ensuring that the long term investment objective of managing the endowment is achieved. They will also monitor the spending rate and risk levels of the endowment. Yayasan KEHATI will

invest the endowment capital in an international portfolio consisting of both fixed-income and equity investments.

An Investment Committee, composed of both Trustees and outside experts, will advise the Executive Board on investment management matters. The Committee is responsible for recommending asset managers, long-term asset allocation strategies and monitoring investment performance. Yayasan KEHATI will contract with professional fund managers to invest the endowment assets in a diversified investment portfolio capable of providing annual income for programs and adequate capital growth to maintain the real value of the fund.

E. Fund Raising

The funds provided by USAID under the Cooperative Agreement represent "seed" money to establish Yayasan KEHATI and ensure its initial development. A major fund raising effort will be undertaken over the next 10 years to raise additional contributions for operations, programs and the endowment. This strategy is described in detail in Yayasan KEHATI's Fund Raising Policy Statement

The Executive Board of Yayasan KEHATI has prepared a fund raising strategy which targets goals for raising contributions for annual operating expenses, program expenses and additional endowment capitalization. The five year projections are:

$ 3.0 million for operating expenses
$ 4.0 million for program expenses
$ 1.0 million for endowment capitalization

<u>1995 to 1999 fund raising schedule</u>

1995 International Foundations will be solicited
U.S. corporations operating in Indonesia will be contacted

1996 Discussions with bi-lateral donors will be initiated
Non-U.S. corporations will be contacted

1997 Multi-lateral donors will be solicited
Indonesian corporations will be contacted

1998 Continue to strengthen relationships with all these donors and potential donors

1999 Continue to strengthen relationships with all these donors and potential donors

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To promote awareness of Yayasan KEHATI's objectives and programs, the following informational materials will be developed.

1. a brochure about Yayasan KEHATI (in English and Bahasa Indonesia);
2. a brief newsletter informing the public about Yayasan KEHATI activities (to be published 2-3 times per year);
3. video on biodiversity conservation; and
4. translating into Bahasa Indonesia's Yayasan KEHATI's policy statements for broad distribution.

III. MANAGEMENT OF THE COOPERATIVE AGREEMENT

The management of the Cooperative Agreement is the responsibility of both Yayasan KEHATI and USAID/Indonesia and under the broad coordinating role of the Program Coordinating Committee, chaired by State Ministry of Environment (MNLH). The complexity of the program and management functions calls for a clear delineation of the roles and responsibilities of these two entities. Figure 1 illustrates the relationship among the key organizations involved in the Cooperative Agreement, Indonesian Biodiversity Foundation Project and Indonesian Biodiversity Conservation Program. The following section describes the roles and relationships of Yayasan KEHATI, USAID and other implementing entities.

A. Roles and Relationships

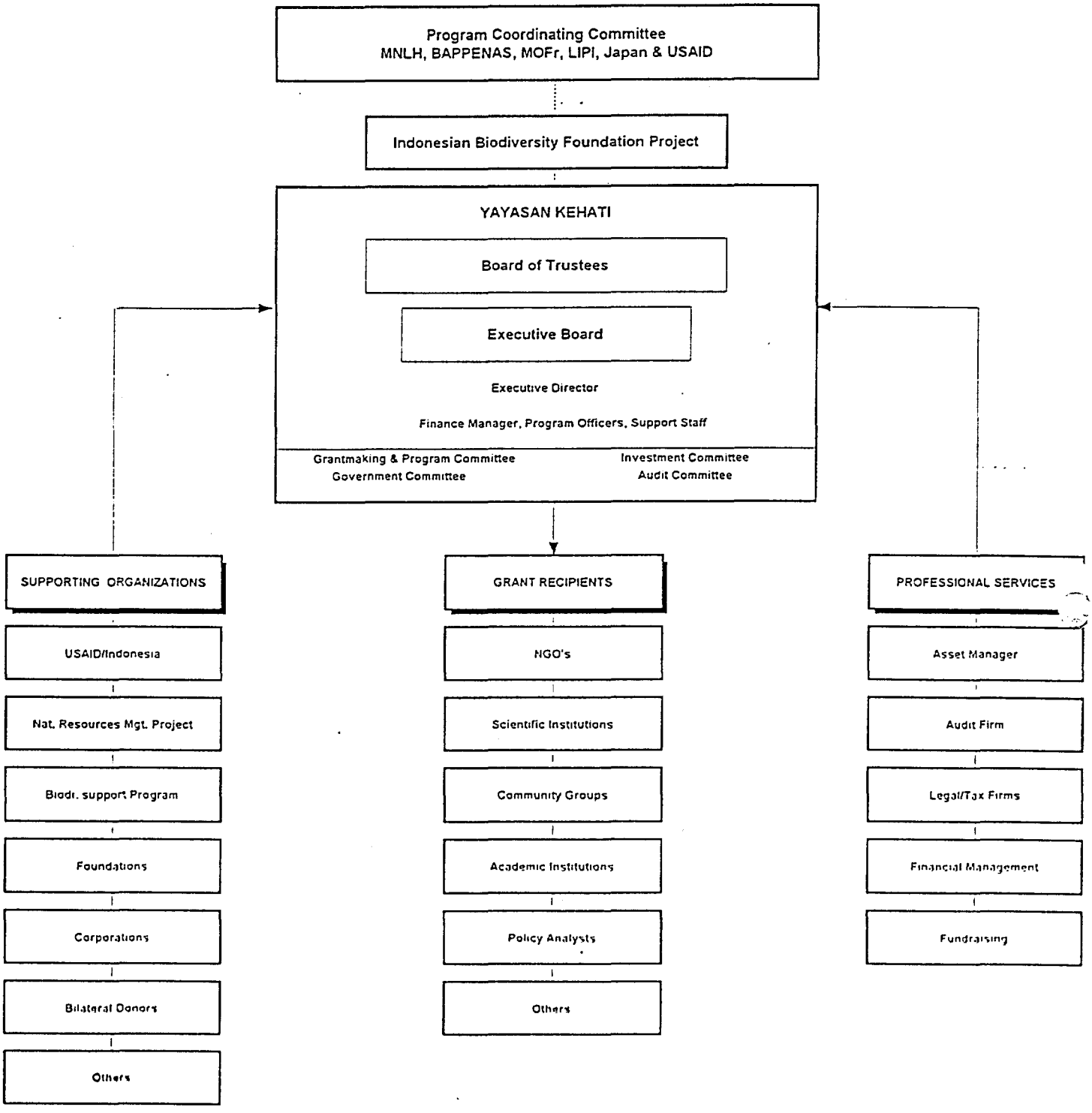
1. *Yayasan KEHATI's Role and Responsibilities*

The main responsibility for implementing the Cooperative Agreement rests with the Executive Board of Yayasan KEHATI. The trustees have empowered the Executive Board, and as appropriate, the professional staff, with the authority to represent Yayasan KEHATI in legal matters and the management of financial assets. Management tasks for the Executive Board include: establishing personnel and operating policies, approving operating budgets, recruiting and orienting senior professional staff, establishing advisory panels and committees, establishing reporting schedules, ensuring accounting and audit requirements are met, assuring compliance with USAID regulations, identifying and soliciting other financial resources, establishing major program priorities, and developing grantmaking and investment polices.

FIGURE 1

ORGANIZATIONAL STRUCTURE

INDONESIAN BIODIVERSITY FOUNDATION PROJECT



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The Executive Director and other professional staff of Yayasan KEHATI are responsible for the daily operations of program activities and for technical performance. The Executive Director is responsible for hiring, orienting and training program officers to cover the major program domains determined by the trustees. The Finance Manager is responsible for implementing the financial management systems in accordance with international standards, overseeing budgets, preparation of financial reports and audit requirements. Support staff will implement the internal operating systems consistent with the highest standards of professionalism and transparency.

Yayasan KEHATI's Investment Committee is responsible for monitoring performance of the endowment fund and will report to the Executive Board on investment portfolio performance. The Executive Board will ensure investment procedures comply with Yayasan KEHATI's Investment Policy Statement and Guidelines governing the USAID-funded endowment (approved by the Board of Trustees and USAID).

Program Coordinator(s) have primary responsibility for implementing the operational aspects of the grantmaking program. They will solicit proposals within program areas designated by the trustees, review and recommend projects, monitor compliance with grant provisions and report results of evaluations to concerned parties. To assist in the implementation of the grantmaking program, Yayasan KEHATI will establish several advisory committees composed of respected scientists, NGO leaders, business persons and regional leaders. These advisory committees will provide Yayasan KEHATI with scientific and policy competence and enhance the credibility of Yayasan KEHATI's grantmaking program. Yayasan KEHATI may also form review panels to evaluate grant proposals and recommendations prepared by Yayasan KEHATI's staff.

2. *MNLH's Role and Responsibilities*

MNLH's role is to coordinate, monitor and evaluation implementation under the Indonesian Biodiversity Foundation Project.

3. *USAID's Role and Responsibilities*

The Cooperative Agreement (CA) authorizes a form of assistance that includes substantial USAID involvement in carrying out the program description. USAID/Indonesia will be exercising a high level of involvement in program implementation for several reasons. First, as a new organization, Yayasan KEHATI will be provided with extensive technical and financial assistance to develop into a strong, professional institution. Second, the authority to create an endowment using appropriated dollars is a recent development and will be closely monitored by USAID/Washington and Congress. Third, the IBF project is being attributed to

the United States' contribution to the Global Environmental Facility and thus will require special monitoring.

USAID staff will visit field sites of selected Yayasan KEHATI grantees to monitor the performance of Yayasan KEHATI grantees in order to assess their progress in meeting their objectives, including progress in achieving specified outputs as measured by interim benchmarks or indicators of progress for individual grants. This information will be used in evaluating the effectiveness of Yayasan KEHATI's grantmaking program.

The Office of Agro-Enterprises and Environment of USAID/Indonesia will manage the technical elements of the Cooperative Agreement. The AEE Project Officer (U.S. Direct Hire) will be responsible for communication with Yayasan KEHATI on all program and technical matters related to the CA. The USAID Project Officer will have other responsibilities and will allocate about one fourth of his/her time directly to managing this Cooperative Agreement. A full-time Foreign Service National (FSN) Project Manager will be assigned to carry out USAID management and monitoring functions. The Project Officer and Project Manager will be responsible for preparing and submitting quarterly and semi-annual reports on implementation progress of the Cooperative Agreement to senior Mission management, with copies provided to Yayasan KEHATI. USAID will be granted observer status at all regular meetings of the Board of Trustees.

3. *Role and Responsibilities of the Natural Resources Management Project*

USAID presently provides initial technical assistance to Yayasan KEHATI through an existing contract with Associates in Rural Development, Inc. (ARD), funded under the Natural Resources Management (NRM) project (also referred to as the NRMP). This includes the provision of one long-term technical advisor and short-term technical assistance (through July, 1996). The long-term advisor assists Yayasan KEHATI in designing and implementing the work plans under the Cooperative Agreement as well as to help Yayasan KEHATI coordinate technical funded sources (such as the Biodiversity Support Program). USAID also financed Yayasan KEHATI's office space for the first year (April, 1994 - May, 1995) and provided equipment and furniture to meet Yayasan KEHATI's initial needs through the ARD contract. This is consistent with the NRM Project's purpose to support the development of improved natural resource management policies and practices. This additional USAID support consists of non-financial assistance; funds are not provided directly to Yayasan KEHATI.

4. *Role of Indonesian Biodiversity Conservation Program Coordinating Committee*

The *Program Coordinating Committee* is responsible for ensuring that the various program components -- of which the IBF Project is one --are operated effectively and efficiently, and will propose appropriate measures to the countries concerned to guide the program. The

Committee will meet at least twice a year with Yayasan KEHATI invited to participate as an observer and share information on Yayasan KEHATI's activities. MNLH chairs the PCC and oversees its coordinating, monitoring and evaluation of program activities.

B. Implementation Schedule

Key implementation activities are listed below. Activities such as, quarterly progress reports; quarterly financial statements/cash advance requests; quarterly cash disbursements; semi-annual assessments of financial status/risks of endowment assets; grant solicitation, review and approval; regional consultations/field trips; and annual reports are only listed initially but will be regular activities.

March 1995

Register as a Private Voluntary Organization with USAID
Signing of the Cooperative Agreement by USAID
Issue first annual report
Apply for U.S. Tax Exemption under Section 501(c)(3)

April 1995

Yayasan KEHATI staff conduct regional meetings to determine program priorities, assess capability of prospective grantees and arrange training
Issue audited financial statement for 1994
Sign MOU between GOI, Yaysan KEHATI, USG

May 1995

First cash advance
Study tour conducted for selected staff and board members
Regional meetings conducted on program activities
Endowment asset manager(s) selected, draft contract(s) negotiated, USAID approval of executed contract(s)

June 1995

Monthly progress report (for May), liquidation of cash advance for May, estimate of expenses and request for cash needs for the next three months (June-August), process repeated each month
Issue first request for proposals
Disbursement for capitalization of the endowment

August 1995

Staff and advisory committee(s) evaluate proposals and inform grantees of issues/status

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September 1995

National and regional consultations held on Yayasan KEHATI's program
Training held for prospective grantees
Proposals revised

November 1995

First grants awarded

December 1995

Second request for proposals issued
First semi-annual review of financial status of endowment and risk assessment

January 1996

Internal evaluation of CA performance by Yayasan KEHATI
Yayasan KEHATI and USAID evaluation to assess technical assistance needs, determine appropriate actions

February 1996

Staff and advisory committee(s) evaluate proposals and inform grantees of issues/status
National and regional consultation held on program

March 1996

Second round of grants awarded

May 1996

Third request for proposals issued, etc.

January 1997

First internal evaluation

January 1998

Mid-term evaluation

June 1999

Second internal evaluation

January 2000

Second mid-term evaluation

January 2003
Third internal evaluation

January 2005
Final evaluation

C. Performance Indicators

The following section describes performance benchmarks to measure progress under the three components of governance, endowment and grantmaking. It also includes target outputs over ten years, and expected status at the end of the Cooperative Agreement.

1. *Performance Benchmarks*

a. Benchmarks for Foundation Governance

The following activities are aimed at helping to measure Yayasan KEHATI's progress in strengthening institutional ability to meet international standards of good governance.

* Maintain an active Board of Trustees, Executive Board, committees and advisory panels with clear responsibilities and goals.

* Yayasan KEHATI will have an annual financial audit of the endowment principal and use of the investment income, and of overall financial management. Yayasan KEHATI will widely distribute the annual audited financial statement and annual performance report describing institutional development, grantmaking, networking and other programs (e.g., list recipients, amount of grant or workshop, objectives and outputs planned and/or accomplished), and provide a copy to MNLH and USAID Indonesia. The Board of Trustees will select an independent auditor in accordance with the "Guidelines for Financial Audits, Contracted by Foreign Yayasan KEHATIs" issued by the USAID Inspector General.

* Yayasan KEHATI will ensure that individual grants over $100,000 per year (funded by USAID) to Indonesian NGOs, universities, individual scientists, etc. (Sub-grantees in USAID terminology) will be included under the scope of an independent financial audit.

* During the first five years of the Cooperative Agreement, quarterly and annual performance reports prepared for USAID Indonesia and MNLH documenting implementation progress based upon the CA work plan, liquidating previous USAID

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cash advances and requesting additional USAID cash advances, based on the approved annual work plans and budgets; after year six, annual performance reports prepared and provided to USAID.

* "Best efforts" to generate additional funding for the endowment and grantmaking program by carrying out fund raising strategy documented.

* Independent evaluations conducted in years 3,5 and 10.

* Maintain registration with USAID as a Private Voluntary Organization (submit the annual report on PVO registration to USAID Indonesia within six months of the end of Yayasan KEHATI's fiscal year) and tax exempt status with the Internal Revenue Service in the United States, and maintain and enforce Yayasan KEHATI's policies concerning grantmaking, conflicts of interest, fund raising, By-Laws and Articles of Association.

* Yayasan KEHATI shall invite one representative of USAID, designated by USAID, to participate in all proceedings of the Board of Trustees as an observer.

b. Benchmarks for Endowment Management

The following benchmarks will be used to monitor the establishment and management of the endowment.

* The investment objective of maintaining the real value of the endowment is achieved.

* Maintain an active Investment Committee composed of members of the Board of Trustees and others with financial expertise to set long-term investment objectives, target rate of return and long-term asset allocation strategies, and to monitor performance of the endowment investments and asset managers.

* Maintain books, records, documents, and other evidence relating to the endowment assets and use of CA funds and endowment income, in accordance with generally accepted accounting principles formally prescribed by the U.S., Indonesia or the International Accounting Standards Committee.

* Endowment assets managed in accordance with the Investment Policy Statement and Guidelines and other conditions as agreed upon by USAID and Yayasan KEHATI.

c. Benchmarks for the Grantmaking Program

The following benchmarks will be used to monitor implementation progress in developing the grantmaking program:

* Documentation of the steps taken by Yayasan KEHATI to promote participation in the development of grantmaking policies, and implementation and evaluation of grants programs included in the annual reports. These steps would involve regional meetings, assessment of grantee capability and providing needed training, publication of grant solicitation procedures and awards, development of Women in Development (WID) reporting/benchmarks, and evaluation of grantee performance and distribution of evaluation results.

* Development of baseline information on the extent of research, public awareness, policy analysis, conservation extension and other activities carried out by scientists, NGOs, community groups and others to conserve the diversity of Indonesia's biological resources. This information will assist Yayasan KEHATI in developing the grantmaking program as well as in monitoring its ability to increase support for biodiversity conservation.

* Regular monitoring by Yayasan KEHATI of the performance of their grantees to assess their progress in meeting objectives, including progress in achieving specified outputs as measured by interim benchmarks or indicators of progress contained in approved grant proposals.

* Conduct independent evaluations of the Cooperative Agreement in years 3,5 and 10 that includes an analysis of the performance of selected Yayasan KEHATI grantees in achieving their specified objectives and target outputs. Results will be widely distributed.

* Adhere to Yayasan KEHATI's Grantmaking Policies and Procedures.

2. *Target Outputs*

Table A illustrates the target outputs during 1995 - 2004.

TARGET OUTPUTS OVER LIFE OF PROJECT

(numbers are total over life of project)

Project Outputs				
Project Component	1997 Year 3	1999 Year 5	2001 Year 7	2004 Year 10
Foundation Governance	2 annual reports 1 internal evaluation 1 independent evaluation	4 annual reports 2 internal evaluations 2 independent evaluations	6 annual reports 3 internal evaluations	9 annual reports 5 internal evaluations
	2 independent audits	4 independent audits	6 independent audits	9 independent audits
	4 Board of Trustee mtgs 12 Executive Board mtgs	5 Board of Trustee mtgs 20 Executive Board mtgs	6 Board of Trustee mtgs 28 Executive Board mtgs	9 Board of Trustee mtgs 40 Executive Board mtgs
	US$150,000 raised for operating costs as matching funds	US$325,000 raised for operating costs as matching funds	US$500,000 raised for operating costs as matching funds	US$650,000 raised for operating costs as matching funds
	$100,000 raised for program grants and costs as matching funds	$400,000 raised for program grants and costs as matching funds	$750,000 raised for program grants and costs as matching funds	$1.2 million raised for program grants and costs as matching funds
Endowment Management	5 investment committee meetings	10 investment committee meetings	14 investment committee meetings	20 investment committee meetings
	Portfolio performance evaluation to determine if total return is consistent with market benchmarks	Portfolio performance evaluation to determine if total return is consistent with market benchmarks	Portfolio performance evaluation to determine if total return is consistent with market benchmarks	Portfolio performance evaluation to determine if total return is consistent with market benchmarks
	$3.5 million gross investment income generated by USAID endowment fund	$6.6 million gross investment income generated by USAID endowment fund	$9.6 million gross investment income generated by USAID endowment fund	$14.0 million gross investment income generated by USAID endowment fund
		$4.7 million raised in matching contributions for the endowment	$4.7 million raised in matching contributions for the endowment (1)	$4.7 million raised in matching contributions for the endowment (1)
Grantmaking Program	$850,000 in grants awarded from endowment	$2.05 million in grants awarded from endowment	$3.25 million in grants awarded from endowment	$5.0 million in grants awarded from endowment
	Total of at least 45 grants	Total of at least 75 grants	Total of at least 125 grants	Total of at least 150 grants
	5 regional consultations	10 regional consultations	15 regional consultations	20 regional consultations
	2 requests for proposals issued	4 requests for proposals issued	6 requests for proposals issued	9 requests for proposals issued
Networking	20 meetings/workshops	30 meetings/workshops	50 meetings/workshops	75 meetings/workshops
	9 newsletters issued	18 newsletters issued	27 newsletters issued	36 newslettters issued

(1) In order to meet its 25 percent matching contribution for the project, the Foundation intends to raise $6.5 million ($1.8 million for program and operating costs, and $4.7 million for the endowment); however, over the life of the project (ten years), the Foundation intends to raise (a) an additional $18.8 million for the endowment, for a total of $23.5 million in matching contributions for the endowment, and (b) an additional $1.8 million raised for program and operating costs, for a total of $3.7 million in matching contributions for program and operating costs. Please see Table B "Pro Forma Financial Profile", for more information on the planned amount and timing of matching contributions.

3. *Expected Status at the End of the Cooperative Agreement*

By the end of the Cooperative Agreement, a professional foundation of international standards of good governance will be making catalytic grants to a variety of institutions, individuals and NGOs across the archipelago. An endowment will be established and operating that is producing income and will have reached at least $40 million in size due to contributions from other donors. Yayasan KEHATI will have generated about $2 million in contributions for its grant making program and operating costs. Yayasan KEHATI will have awarded over $5 million in grants from endowment income to scientists, NGOs, community groups and others to carry out a range of activities aimed at conserving Indonesia's unique and valuable biological diversity. Yayasan KEHATI will be considered a leader in articulating biodiversity conservation needs and recommending improved policies and practices.

D. Monitoring and Evaluation Procedures

Monitoring and evaluating implementation progress under the Cooperative Agreement will take place on several levels: (i) the performance of Yayasan KEHATI's trustees and staff in oversight and management of the Cooperative Agreement; (ii) the performance of Yayasan KEHATI grantees (e.g., NGOs, scientists, community groups and other recipients) and; (iii) USAID/Indonesia's performance in oversight and management of the Cooperative Agreement.

1. *Monitoring Implementation Performance*

During the initial five years of the Cooperative Agreement, Yayasan KEHATI will monitor implementation progress under the Cooperative Agreement through regular staff operations and report on progress each quarter as well as in an annual progress report. USAID Indonesia will monitor the implementation of the Cooperative Agreement through quarterly, semi-annual and annual reviews prepared by the USAID Project Officer. The information requirements of this monitoring include both financial and operational matters and will be included in quarterly reports prepared by Yayasan KEHATI for USAID Indonesia and MNLH, as chairman of the PCC. The project's technical advisor will also prepare quarterly activity reports on the advisor's activities for Yayasan KEHATI, USAID Indonesia and ARD Chief of Party.

During years six to ten, USAID Indonesia will monitor implementation progress through the review of Yayasan KEHATI's annual audited financial statement and annual performance report. USAID monitoring of Yayasan KEHATI's performance in carrying out the grant program will focus on those grants made by Yayasan KEHATI with USAID funds.

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2. *Subgrant Monitoring and Evaluation*

Yayasan KEHATI will be responsible for monitoring its subgrants and evaluating their effectiveness. Both formal and informal monitoring mechanisms will be employed. The formal mechanism may require each subgrantee to file an interim progress report half way into the subgrant period. This reporting may include: progress achieved under the subgrant; problems encountered in carrying out the subgrant funded activity; actions taken to solve problems; and requests for modification of the subgrant (if any). Yayasan KEHATI may divide subgrant payments, making the second payment contingent upon receipt of a satisfactory interim report. The informal mechanism involves the personal contact with the subgrantee by Yayasan KEHATI Program Coordinator. This will entail visits and telephone/fax communications by the Program Coordinator to the site of the subgrantee.

3. *Evaluation of Implementation Progress*

Yayasan KEHATI, USAID and MNLH, as chairman of the Program Coordinating Committee, will evaluate implementation progress under the Cooperative Agreement to assess progress in accomplishing intended objectives. Evaluations will assess whether contributions have: built a professional institution with international standards of good governance, provided sustained financial support of adequate size through the endowment, and established an innovative grants program which is promoting the sustained use and conservation of biodiversity in Indonesia. In addition, the implementation performance of the Cooperative Agreement will be evaluated in terms of its contribution to the Indonesian Biodiversity Conservation Program. The evaluation will also review Yayasan KEHATI's contributions to the program.

Yayasan KEHATI will arrange for three independent evaluations by qualified independent entities to assess implementation progress under the Cooperative Agreement (the first two will be financed by USAID funds under the Cooperative Agreement and the third evaluation will be financed by endowment income). The first evaluation will be held in the third year of the Cooperative Agreement and is tentatively scheduled for January, 1998. This evaluation will assess progress under the Cooperative Agreement and determine if any modification of the CA is appropriate. The second evaluation, scheduled for year five, will review overall implementation progress under the Cooperative Agreement, USAID management requirements and discuss possible modifications of the Cooperative Agreement. The third and final evaluation is scheduled for year ten, January 2005. These evaluations will focus on (a) progress in foundation development and governance, (b) the management of the USAID funded endowment and the use of endowment income, and (c) the strategic developmental impact of the grantmaking program. Yayasan KEHATI will be responsible for providing the evaluation teams with the necessary information for these evaluations and sharing results among participants.

These project evaluations will also include general information (based on readily available reports and interviews) regarding the performance of grants supported by income from the USAID-funded endowment and other donors as a means of assessing the institutional ability of Yayasan KEHATI and developmental impact of its grant-making program.

Yayasan KEHATI will conduct at least three internal evaluations of implementation progress under the Cooperative Agreement. These are tentatively scheduled for January 1997 and June 1999 and January 2003. The scope of these internal evaluations will include, the performance of the governing boards and committees, the efficiency of internal operations, staff performance and the effectiveness of the grantmaking program. In addition, the evaluators will also be asked to assess USAID Indonesia's performance in oversight and management of the Cooperative Agreement. Independent evaluators from the NGO, scientific, academic communities will participate. Yayasan KEHATI will provide a copy of these evaluations to the USAID Project Officer and MNLH, chairman of the Program Coordinating Committee.

The Program Coordinating Committee, representing the governments of Indonesia, Japan and the United States, will meet with the mid-term and final evaluation teams to discuss the contributions of Yayasan KEHATI, under the Cooperative Agreement, with respect to the overall implementation of the Indonesian Biodiversity Conservation Program. The specific focus of this evaluation will be to examine how effectively Foundation activities are contributing to the implementation of the *National Strategy for Biodiversity Management* and the *Biodiversity Action Plan for Indonesia* and to what extent Yayasan KEHATI's programs are collaborating with and reinforcing program components funded by the governments of Indonesia and Japan.

4. *Audit*

Yayasan KEHATI will arrange, through competitive procedures, for well established independent financial management firms to conduct an audit of Yayasan KEHATI's financial records. A financial audit will be conducted each of the ten years of the project. This audit will cover the status of the principal and income of the USAID-funded endowment.

E. Technical Assistance Requirements

Under the Cooperative Agreement, Yayasan KEHATI will be provided the following technical assistance to strengthen its institutional capability. One long-term advisor, experienced in foundation development and operations, and management of endowments, is assigned to Yayasan KEHATI through July, 1996 (under the ARD contract, NRM Project). Approximately 18 person-months of expatriate or 36 person-months of Indonesian short-term technical assistance is also allocated under the ARD contract (through July, 1996), depending

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upon demand for short-term assistance and available funding. Priority needs for short-term technical assistance include: financial management systems implementation, grants administration processes, public information programs, board and staff development and training, investment management, legal advice, and grantmaking strategies and policies.

Given the complicated and challenging tasks in carrying out the project, additional long-term and short-term technical assistance may be needed from August, 1996 through July, 1999. Thus, in early 1996, Yayasan KEHATI and USAID will review and revise the terms of reference of the long-term advisor (as appropriate), assess long- and short-term technical assistance needs and determine appropriate contracting procedures to provide this assistance after July 1996.

F. Development of Annual Work Plans

In close collaboration with the USAID Project Officer and Project Manager, Yayasan KEHATI will develop annual work plans for the first five years to be financed by USAID funds under the Cooperative Agreement. Annex 1 includes the 1995/96 work plan.

IV. TOTAL PROGRAM FUNDING

The total cost of the program is $25.5 million ($19 million from USAID and $6.5 million in matching contributions from Yayasan KEHATI).

YAYASAN KEHATI'S

(Yayasan KEHATI'S)

1995/96 WORK PLAN

March, 1995

ANNEX 1

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for
YAYASAN KEHATI'S
1995/96 WORK PLAN

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ANNEX 1

Yayasan KEHATI OR YAYASAN KEHATI'S

1995/95 WORK AND FINANCIAL PLAN

I. INTRODUCTION

This document describes Yayasan KEHATI's 1995/96 work plan which for programmatic purposes begins April 1, 1995 through December 31, 1996.

II. PROGRAM WORK PLAN

Program work plan covers the two main program areas, (1) grantmaking program and (2) consultations, collaboration and networking program.

A. Grantmaking Program

1. *Overview*

Yayasan KEHATI plans to hold up to 18 regional dialogues and follow-up workshops in the five geographic priority areas during 1995/96. The timing and location of the initial dialogues and workshops are:

East Kalimantan	April - September 1995
Java	July - December 1995
Sumatra	January - June 1996
Bali/NTT	March - October 1996
Jakarta Bay	September 1996 - Feb. 1997

During 1995 the grantmaking program will focus on E. Kalimantan and Java. Thus, Yayasan KEHATI intends to initiate two grantmaking cycles during 1995 and three cycles in 1996. The first cycle will begin in April with completion in September. In September, the second grantmaking cycle will begin for Java with completion in February 1996. Grants will be awarded for both E. Kalimantan and Java during 1995, but actual disbursement for Java may occur in early 1996. During 1996, Yayasan KEHATI will focus on the other two priority geographic areas.

For each geographic area, Yayasan KEHATI will sponsor a workshop to follow up on the initial dialog (e.g., within two months of the initial dialog meeting). This workshop will focus on specific issues and opportunities in order to identify viable actions. During the workshop, participants will discuss potential projects appropriate for funding by Yayasan KEHATI. At the end of the workshop, participants will be informed on Yayasan KEHATI's procedures for submission, review and approval of grant applications.

Yayasan KEHATI will set a deadline of approximately 2 months following the workshop for submission of proposals. All applications will be reviewed by the Program Officer, Executive Director and an independent review panel. Within one month Yayasan KEHATI will announce which grant applications have been approved, and inform other of the status of their proposal.

Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
On site Dialog Meeting	On site Workshop	Preparation of applications	Kehati review applications	Award grants disburse funds	Meeting to launch projects

Note to table:
Month 1: one day dialogue between Yayasan KEHATI and the biodiversity constituencies (scientific community, government/private sector, Non-Government Organizations) on the importance of biodiversity in term of the national/ provincial/local needs, the wealth of the site, the role of community in biodiversity conservation, the problems encountered, etc.

Month 2: a follow up workshop in each locality to identify program areas (awareness, research, capacity building, community empowerment, policy) for in-situ conservation (East Kalimantan), ex-situ conservation (Java), etc., with the hope that a plan of actions for that area is developed.

Month 3: Potential grantees prepare applications. Yayasan KEHATI conduct consultations on preparation of applications if necessary

Month 4: Yayasan KEHATI's staff and panels review and screen grant applicants

Month 5: Yayasan KEHATI announces grant awards. Grant agreements prepared and funds disbursed

Month 6: On site follow-up meeting to announce grant winners and launch projects/activities.

2. Activities in Priority Geographic Area

a. In-Situ Conservation in East Kalimantan

Objectives:

1. Promote awareness on the existing in-situ conservation system in East Kalimantan;
2. Identify research (biological, social, economic) activities on in-situ conservation;
3. Strengthen on going grass root initiatives for in- situ conservation; and
4. Identify linkages between national, provincial, local policies on in-situ conservation.

Outputs:

1. Tools to promote awareness of in-situ conservation developed;
2. Research agenda for in-situ conservation developed;
3. Grass root initiatives documented; and
4. In-situ conservation policies analyzed and policy options identified.

b. Ex-Situ and In-Situ Conservation in Java

Objectives:

1. Promote the ex-situ conservation of endangered species/genetic resources;
2. Identify priority applied research topics on ex-situ conservation activities;
3. Strengthen the efficiency of traditional practices for ex-situ conservation;
4. Promote community collection gardens; and
5. Support in-situ conservation in and around the Gunung Gede Pangrango National park.

Outputs:

1. Brochures and posters on endangered species/genetic resources developed;
2. Research carried out to support ex-situ conservation;
3. Pilot models for supporting on-farm conservation and community participation tested.

c. Community-Based Conservation of Biodiversity in Gunung Leuser and Kerinci Seblat

Objectives:

1. Increase awareness of the importance and the uniqueness of Leuser's biodiversity;
2. Identify incentives (economic, social, cultural) for community involvement;
3. Develop research agenda on community-based conservation of biodiversity; and

4. Document local knowledge/practices which support biodiversity conservation.

Outputs:

1. Brochures and posters of Leuser's biotic richness prepared;
2. Potential incentives for community participation identified;
3. Applied research conducted; and
4. Traditional knowledge/practices supporting biodiversity conservation documented.

d. Eco-tourism Development in Bali-Lombok-Nusa Tenggara Timur

Objectives:

1. Promote sustainable utilization of biodiversity through eco-tourism;
2. Identify biological resources which uniquely support tourism; and
3. Identify research areas(social, culture, economic) for eco-tourism.

Outputs:

1. Concept of ecologically sustainable eco-tourism developed for Bali-Lombok-Nusa Tenggara Timur;
2. Documented unique biodiversity which has a potential for eco-tourism; and
3. Applied research agenda to support eco-tourism developed.

e. Marine resources development in Pulau Seribu

Objectives:

1. Identify the key problems facing conservation of marine resources in Pulau Seribu;
2. Promote greater awareness on the sustainable utilization of marine resources;
3. Support research which helps to solve marine conservation problems; and
4. Analyze provincial/local policies which may affect marine conservation.

Outputs:

1. Key problems of marine resources conservation are identified;
2. Public awareness materials for marine conservation developed;
3. Policy options for marine resources conservation identified.

Within these areas, grants will be awarded to support projects which address priority activities in the five geographic areas. Yayasan KEHATI expects to modify selection of priority geographic areas and funding allocations based on additional meetings, workshops, review of grant applications and evaluations.

3. *Updating Baseline Information on Biodiversity Conservation Activities*

One of the outcomes from the regional dialog meetings will be updating Yayasan KEHATI's present report on baseline information regarding the extent of research, public awareness, policy analysis, community-based biodiversity conservation activities currently being carried out by NGOs, academic institutions, government and communities. This information will assist Yayasan KEHATI in strategically designing its grantmaking assistance within the targeted geographical area. Invitees will include scientists, NGOs, community leaders, academics, private sector, government representatives and other interested parties. This type of information will be reflected in Yayasan KEHATI's annual performance report.

B. Consultations, Collaboration, Networking

Yayasan KEHATI plans to initiate this program through three types of activities: a) provincial, national, Southeast Asia and international meetings, b) development of biodiversity curriculum, and c) development of biodiversity networks for managing bufferzones.

1. *Provincial, National, Southeast Asia and International Meetings*

Yayasan KEHATI will continue to supporting networks among national and international NGOs and donor agencies concerned with biodiversity conservation by holding bi-monthly meetings in Jakarta. As in the past, Yayasan KEHATI will serve as the catalyst and secretariat for the meetings while ensuring the participating organizations share in hosting the meetings on a rotating basis.

Yayasan KEHATI also plans to bring attention to an important emerging biodiversity issue during 1995. Broader debate and understanding regarding the topic of "biosafety" for Indonesia in the area of biotechnology will be pursued. Depending on initial consultations, Yayasan KEHATI will sponsor a national level meeting of experts on this emerging issue.

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In South-East Asia, Yayasan KEHATI plans to participate in a number of meetings during 1995/96. These include:

* International Network on Bamboo and Rattan-IDRC: April 1995, Bogor
* United Nations Environment Programme (UNEP): June, 1995, Jakarta, on Community Based Conservation of Biodiversity.
* International Plant Genetic Resources Institute and National Committee on Genetic Resources: August, 1995 on Genetic Resources for the Welfare of the S.E. Community.
* Bamboo, People and the Environment Conference, June, 1995 on the economic potential of bamboo production and use.

Yayasan KEHATI plans to co-sponsor two meetings of global importance during 1995.

* Conference of the Parties to the UN Convention on Biodiversity, November, 1995: Jakarta.
* Global Forum of Biodiversity, November, 1995, Jakarta Kehati is organizing it together with World Resource Institute and International Union for Conservation of Nature.

2. *Development of Biodiversity Curriculum*

Yayasan KEHATI will continue to develop its collaboration with Bogor Agricultural Institute in Bogor and the University of Gadja Madah in Yogjakarta in order to enrich the content of forest and natural resource management courses by incorporating biodiversity conservation materials. Other research institutes will be contacted to encourage their involvement as well. Yayasan KEHATI will hold several consultative meetings during 1995 to discuss further this collaboration, priority activities and the appropriate mechanisms for carrying out activities, such as preparation of educational materials on the economic and ecological importance of biodiversity conservation and training.

3. *Development of Biodiversity Networks for Managing Bufferzones*

Yayasan KEHATI will support the initial development of provincial biodiversity networks in the five geographic regions through introductory consultations and workshops. Priority areas for 1995 are East Kalimantan and Java. This activity will be closely linked with the grantmaking program.

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4. *Procedures for Approving Networking Activities*

Yayasan KEHATI will review proposals, including unsolicited proposals, for funding workshops, etc. based on Yayasan KEHATI's Grantmaking Policies and Procedures. This would include an initial review internally. If Yayasan KEHATI staff consider an unsolicited proposal has a high potential for funding, and the proposal represents a significant financial contribution by Yayasan KEHATI, such as more than Rp 10 million, then an independent review panel would evaluate the proposal and provide comments and recommendations. Yayasan KEHATI will document all steps taken for the review of unsolicited proposals to ensure a fair and transparent evaluation process.

C. Institutional Development Work Plan

The institutional development of Yayasan KEHATI is a key part of the 1995 work plan. Activities fall under the categories of Governance/Administration, Endowment Management, and Securing Additional Financial Resources.

1. *Governance and Administration*

Yayasan KEHATI will maintain and strengthen the institutional mechanisms for governance. During 1995/96 Yayasan KEHATI will convene at least two meetings of its full Board of Trustees. The purpose of these meetings will be to further clarify the roles trustees can play in developing the Foundation's broad strategies and programs.

The Executive Board will continue its active schedule of meetings for the purpose of monitoring and developing specific policies and procedures for governance and operation. At least eight Executive Board meetings are planned during 1995/96.

Yayasan KEHATI's Grantmaking Committee and an Investment Committee will continue and strengthen development of their respective roles and responsibilities. Each committee is expected to meet at least four times during 1995/96. An Audit Committee will be formed at the end of the fiscal year(s) to oversee the annual financial audit of the Foundation.

The financial management system is currently in the initial stages of implementation. During 1995, implementation of the system will include the installation of the appropriate software packages and training of staff on the use of the new software.

Developing office operational systems and procedures will be a high priority during 1995. This will include: establishing electronic filing systems and a directory for use by staff, constituency databases; review and update staffing patterns, job descriptions and work plans;

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review procedures for budget; and assess other management and personnel administration systems. The objective is to create a highly professional and efficient office operation.

Initiating the operations of full-scale grantmaking and networking programs promises to be one of Yayasan KEHATI's biggest challenges during 1995/96. Working from the newly established grantmaking policies and procedures, the initial grants administration system will be developed. This includes solicitation materials, application forms, screening procedures, organizing review panels, grant acceptance/rejection letters, grant agreement and fund disbursement procedures. Yayasan KEHATI will seek technical assistance from international foundations and other sources as needed.

During 1995, Yayasan KEHATI will further develop its five year strategic plan, based in part on the programmatic experience gained during the first year of operations. Yayasan KEHATI will attempt to be sensitive to newly emerging issues in biodiversity as well as developing a flexibility to occupy a strategic niche among existing organizations and institutions.

Staff and board training in grantmaking will be a high priority during the first year. Training may entail study tours and an internship at an operating foundation and/or through special training courses. The Executive Director and Finance Manager will seek opportunities to gain training and exposure to philanthropic practices and endowment management. A study tour may be arranged if appropriate.

Yayasan KEHATI will prepare and widely distribute its annual audited financial statement and performance report. The performance report (in English and Bahasa Indonesia) will briefly describe Yayasan KEHATI's goals and programs, list recipients, the amount of grants provided and accomplishments expected or achieved, and planned activities. Yayasan KEHATI considers the preparation and distribution of these reports to be an extremely important task as they will contribute to documenting a "track record" and demonstrating transparency in operations.

2. *Endowment Management*

The establishment of the endowment fund will be a major activity in 1995. The selection of asset managers and/or commingled funds for the investment portfolio will be a top priority. The Executive Board, Investment Committee and Finance Manager will be involved with possible assistance from outside professional consultants. Tasks such as transferring USAID's endowment grant to investment manager accounts, arranging for custodial accounts, implementing the layering of capital into investment instruments over several months and developing the procedures for the transfer of cash from the U.S.-based accounts to bank accounts in Indonesia will be undertaken during this period.

Reporting systems will be developed to keep the Executive Board, Investment Committee and staff informed of investment portfolio performance. Monitoring schedules and performance benchmarks will be instituted. By the end of 1995, the Investment Committee will review the existing investment policies and recommend modifications or revisions if necessary, in consultation with USAID Indonesia.

3. *Fund Raising*

Yayasan KEHATI's scope of activities is quite broad and considerable amount of funding is required to carry out these programs. Therefore fund raising activities need to be planned and carried out immediately. Accordingly, Yayasan KEHATI will undertake the following activities.

1. Request technical assistance in planning and carrying a well targeted fund raising strategy;
2. Enhance partnership with regional/international institutions to cofinance activities; and
3. Promote Yayasan KEHATI programs to attract contribution for its endowment fund.

Yayasan KEHATI's Board of Trustees consists of eminent Indonesian citizens with prominent influence in his/her own circle. Moreover, Yayasan KEHATI has two members on the Board of Trustees from well established international foundations who have significant potential to support fund raising. Yayasan KEHATI will make use of these comparative advantages.

During 1995/96, Yayasan KEHATI plans to begin implementing its present fund raising strategy. Several proposals for funding will be prepared and submitted to international foundations. Yayasan KEHATI plans to make some initial contacts with international corporations with operations in Indonesia, who may be interested in supporting Yayasan KEHATI's activities. In addition, Yayasan KEHATI will seek to better define and articulate its fund raising strategy further with the assistance from outside fund raising consultants.

4. *Promote Public Awareness of Yayasan KEHATI's Programs*

To promote awareness of Yayasan KEHATI's objectives and programs, the following informational materials will be developed.

1. a brochure about Yayasan KEHATI (in English and Bahasa Indonesia);
2. a brief newsletter informing the public about Yayasan KEHATI's activities (to be published 2-3 times per year);

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3. video on biodiversity conservation; and
4. translating into Bahasa Indonesia Yayasan KEHATI's policy statements for broad distribution.

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E. DETAILED PROJECT BUDGET

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DETAILED PROJECT BUDGET

ANNEX E

Project Expenses	Year 1 1995	Funding Source	Year 2 1996	Funding Source	Year 3 1997	Funding Source	Year 4 1998	Funding Source	Year 5 1999	Funding Source
Core Operating Expenses										
Staff Expenses	75,000	CA/BSP	75,000	CA/Endow	75,000	CA/Endow	75,000	CA/Endow	75,000	Endow
Office Expenses	60,000	CA/BSP	60,000	CA/Endow	75,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow
Travel and Honoraria	25,000	BSP/Endow	25,000	CA/Endow	25,000	CA/Endow	15,000	CA/Endow	15,000	CA/Endow
Professional Fees	225,000	CA/Endow	200,000	CA/Endow	225,000	CA/Endow	200,000	CA/Endow	245,000	CA/Endow
Public Information	50,000	BSP/CA	25,000	CA/Endow	25,000	CA/Endow	25,000	CA/Endow	20,000	CA/Endow
Meetings	15,000	BSP/Endow	15,000	Endow	15,000	Endow	15,000	Endow	10,000	Endow
Sub-total	450,000		400,000		440,000		380,000		415,000	
Program-related Expenses										
Program Staff	30,000	CA/Endow	55,000	CA/Endow	55,000	CA/Endow	85,000	CA/Endow	90,000	Endow
Travel	15,000	CA/Endow	35,000	CA/Endow	25,000	CA/Endow	35,000	CA/Endow	35,000	Endow
Meetings & Workshops	50,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow	50,000	CA/Endow
Public Information	20,000	CA/Endow	30,000	CA/Endow	20,000	CA/Endow	25,000	CA/Endow	25,000	Endow
Consultants/TA/Training	125,000	CA	200,000	CA	200,000	CA	170,000	CA	150,000	CA
Evaluations & Monitoring	10,000	CA/Endow	55,000	CA/Endow	100,000	CA/Endow	75,000	CA/Endow	100,000	CA/Endow
Sub-total	250,000		425,000		450,000		440,000		450,000	
Grantmaking Program										
Grants awarded	250,000	CA/Endow	500,000	CA/Endow	660,000	CA/Endow	800,000	CA/Endow	1,000,000	CA/Endow
Networking Program	64,375	CA/Endow	100,000	CA/Endow	125,000	CA/endow	150,000	CA/endow	150,000	CA/endow
Sub-total	314,375		600,000		785,000		950,000		1,150,000	
Investment Management	60,000	Endow	123,750	Endow	123,750	Endow	146,250	Endow	159,000	Endow
TOTAL	1,074,375		1,548,750		1,798,750		1,916,250		2,174,000	

	Year 6 2000	Funding Source	Year 7 2001	Funding Source	Year 8 2002	Funding Source	Year 9 2003	Funding Source	Year 10 2004	Funding Source
Core Operating Expenses										
Staff Expenses	85,000	Endow/MF	85,000	Endow/MF	85,000	Endow/MF	85,000	Endow/MF	90,000	Endow/MF
Office Expenses	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF
Travel and Honoraria	10,000	Endow/MF	10,000	Endow/MF	10,000	Endow/MF	15,000	Endow/MF	15,000	Endow/MF
Professional Fees	70,000	Endow/MF	75,000	Endow/MF	75,000	Endow/MF	75,000	Endow/MF	75,000	Endow/MF
Public Information	8,000	Endow/MF	8,000	Endow/MF	13,000	Endow/MF	13,000	Endow/MF	15,000	Endow/MF
Meetings	2,000	Endow/MF	2,000	Endow/MF	2,000	Endow/MF	2,000	Endow/MF	5,000	Endow/MF
Sub-total	225,000		230,000		235,000		240,000		250,000	
Program-related Expenses										
Program Staff	90,000	Endow/MF	90,000	Endow/MF	95,000	Endow/MF	100,000	Endow/MF	100,000	Endow/MF
Travel	40,000	Endow/MF	45,000	Endow/MF	50,000	Endow/MF	60,000	Endow/MF	75,000	Endow/MF
Meetings & Workshops	50,000	Endow/MF	50,000	Endow/MF	50,000	Endow/MF	70,000	Endow/MF	75,000	Endow/MF
Public Information	30,000	Endow/MF	30,000	Endow/MF	35,000	Endow/MF	40,000	Endow/MF	50,000	Endow/MF
Consultants/TA/training	45,000	Endow/MF	35,000	Endow/MF	40,000	Endow/MF	45,000	Endow/MF	50,000	Endow/MF
Evaluations & Monitoring	30,000	Endow/MF	30,000	Endow/MF	30,000	Endow/MF	40,000	Endow/MF	50,000	Endow/MF
Sub-total	285,000		280,000		300,000		355,000		400,000	
Grantmaking Program										
Grants awarded	1,000,000	Endow/MF	1,200,000	Endow/MF	1,375,000	Endow/MF	1,515,600	Endow/MF	1,600,000	Endow/MF
Networking Program	150,000	Endow/MF	150,000	Endow/MF	150,000	Endow/MF	150,000	Endow/MF	150,000	Endow/MF
Sub-total	1,150,000		1,350,000		1,525,000		1,665,600		1,750,000	
Investment Management	189,000	Endow	219,000	Endow	249,000	Endow	279,000	Endow	300,000	Endow
TOTAL	1,849,000		2,079,000		2,309,000		2,539,600		2,700,000	

Notes: MF = Matching Funds Endow = Endowment earnings CA = Cooperative Agreement funds

ILLUSTRATIVE FORMAT FOR FINANCIAL REPORT AND CASH ADVANCE REQUEST

Period: Monthly or Quarterly

Element Description	Amount Budgeted	Amount Committed	Amount Disburse	Outstanding Cash Advance	Expenditure Amount Requested for Liquidation	Revised 90 days (..... to .....) Cash Advance Request
Operating Costs						
Grant Making and Networking						
Program - Related Activities						
Endowment Establish						
Evaluation						
Total:						

ILLUSTRATIVE FORMAT FOR SUMMARY ANNUAL FINANCIAL PLANNING CY .....

Period: Annually

Element Description	Amount Budgeted	Amount Committed	Amount Disburse	Balance	Amount Planned for .....
Operating Costs					
Grant Making and Networking					
Program=Related Activities					
Endowment Establish					
Evaluation					
Total:					

Annex F

ILLUSTRATIVE FORMAT FOR
DETAILED ANNUAL FINANCIAL PLAN

Element Description	CY												
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total
Operating Costs													
Grant Making and Networking													
Program-Related Activities													
Endowment Establish													
Evaluation													
Total:													
Cummulative Total:													

Annex F

ILLUSTRATIVE FORMAT FOR PROGRESS REPORTS

Period: Annually

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Accomplishment In current Reporting Period	Accomplishment in Current Reporting Period
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

Annex F

ILLUSTRATIVE FORMAT FOR PROGRESS REPORTS

Period: Quarterly

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Accomplishment In current Reporting Period	Activities Planned over Next 90 days
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

Annex F

ILLUSTRATIVE FORMAT FOR PROGRESS REPORTS

Period: Monthly

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Accomplishment In current Reporting Period	Activities Planned over Next Month
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

ILLUSTRATIVE FORMAT FOR ANNUAL WORKPLAN
CY .....

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Activities Plan	
			January	February
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

ILLUSTRATIVE FORMAT FOR ANNUAL WORKPLAN
CY .....

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Activities Plan	
			March	April
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

ILLUSTRATIVE FORMAT FOR ANNUAL WORKPLAN
CY .....

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Activities Plan	
			May	June
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

ILLUSTRATIVE FORMAT FOR ANNUAL WORKPLAN
CY .....

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Activities Plan	
			July	August
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activties				
Endowment Management				
Evaluation				

ILLUSTRATIVE FORMAT FOR ANNUAL WORKPLAN
CY .....

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Activities Plan	
			September	October
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

ILLUSTRATIVE FORMAT FOR ANNUAL WORKPLAN
CY .....

Element Description	Target Outputs In Coop. Agreement	Accomplishment To date up to Previous Reporting Period	Activities Plan	
			November	December
Foundation Operation and Governance				
Grant Making and Networking				
Program - Related Activities				
Endowment Management				
Evaluation				

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F. FORMAT FOR WORK AND FINANCIAL PLANS

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(ANNEXES)

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G. SUMMARY OF BIODIVERSITY ACTION PLAN

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(ANNEXES)

Annex G

THE "NATIONAL BIODIVERSITY ACTION PLAN"

To start to address the issue of the loss of biodiversity Indonesia's Ministry of National Development Planning issued a *National Biodiversity Action Plan* (January, 1993) which sets priorities for biodiversity conservation. The plan also identifies various legal, economic, and organizational improvements required to lay the foundation for a sustainable, self-regulating biodiversity resource sector. The goal of the *National Biodiversity Action Plan* is to conserve as much as possible of the biodiversity on which the livelihood and prosperity of Indonesia depends.

Purposes of the *Action Plan*:
Procedurally the purpose of the Action Plan is three-fold:

(1) to constitute the biodiversity component for the 25-Year Development Plan and for Repelita VI;

(2) to provide guidance for policy, legal and institutional reforms; and

(3) to provide policy guidance for biodiversity projects.

Objectives:
The *Action Plan* has three major objectives:

1. to slow the loss of primary forests, wetlands, coral reefs and other terrestrial and marine habitats of primary importance for biodiversity;

2. to expand the data and information available on the nation's biodiversity and make it available to policy makers and the public; and

3. to foster the utilization of biological resources in ways that are sustainable and less harmful than current practices.

These three objectives can only be attained through an integrated and complementary process of institutional, policy and legal reform and development, coupled with increased investments through carefully developed projects.

Increased Community Participation:
Increased participation by the public, particularly by communities living in, and dependent on, areas of high biodiversity, is a major objective of the Action Plan and an important prerequisite for the Plan's implementation. It is recognized that NGOs can play a productive role in increasing

participation and must be accepted as partners with government agencies in working to conserve biodiversity.

Priority of *In Situ* Conservation:
The first priority for maintaining biodiversity must be *in situ* conservation, both within the protected areas network and in oceans, coastal zones, forests and multiple-use and agricultural landscapes outside protected areas. *Ex-situ* conservation can be a useful supplement to species protection within natural ecosystems and for preservation of genetic variety in agricultural systems.

Four Components to the Plan:
In accordance with these priorities, the National Biodiversity Action Plan will comprise four main components:

- *in situ* conservation in national parks, reserves and protection forests;
- *in situ* conservation outside the protected area network in forests, wetlands and agricultural landscapes;
- *in situ* conservation of marine and coastal resources; and
- *ex-situ* conservation including gene banks, seed banks, preservation of crop varieties, and captive breeding programmes.

Stronger Policies, Institutions, Laws:
Successful implementation of the Action Plan in each of these areas will require reform and strengthening of policies, institutions and legal arrangements; strong inter-sectoral cooperation; strengthening of arrangements for public participation; setting realistic priorities; identification of research, education and training needs; adequate investments in training, manpower and other needs; careful and participatory project development, and full economic evaluation of the costs and benefits of both conservation and utilization of biological resources.

The *Action Plan* proposes that Indonesia implement over the next five to 25 years a total of 54 recommendations covering six key areas of institutional reform and strengthening:

1. legislation,
2. institutional capability,
3. development of inter-sectoral coordinating mechanisms,
4. allocation of management responsibilities,
5. needs and potential roles of local communities, and
6. economic evaluation of costs and benefits of biodiversity.

The Plan proposes the establishment of a Biodiversity Commission with representatives from all key government agencies with observers from the NGO, donor, and university communities. The *Action Plan*'s implementation strategy includes the following points:

1. Organization of the Biodiversity Commission,
2. Institutional Actors,
3. Processes for Dialogue and Coordination,
4. Resource Needs,
5. Funding Strategies and Mechanisms,
6. Economic Incentives and Penalties to Promote Biodiversity Conservation,
7. Launching the Plan,
8. Securing Political and Financial Support,
9. Review Process, and
10. Projects to Increase Sustainable Benefits from Biodiversity.

The joint GOI-GOJ-USG Indonesian Biodiversity Conservation Program intends to focus on several aspects of the Action Plan, while the USAID/Indonesia-funded Indonesian Biodiversity Foundation project will concentrate on selected features of the overall *Action Plan*.

Indonesian Biodiversity Foundation - Project Paper

H. STATUTORY CHECKLIST

VOLUME II
(ANNEXES)

A.I.D. PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into two parts: 5C(1) - Country Checklist; and 5C(2) - Assistance Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1994 Foreign Assistance Appropriations Act ("FY 1994 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country-specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics Certification

(FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of non-agricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 522 of the FY 1994 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the April 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without

Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance?

a) NA

b) NA

(2) with regard to a major illicit drug producing or drug-transit country for which the President has <u>not</u> certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

a) NA

b) NA

2. Indebtedness to U.S. citizens (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

NA

3. Seizure of U.S. Property (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to

NA

discharge its obligations toward such citizens or entities?

4. Communist countries (FAA Secs. 620(a), 620(f), 620D; FY 1994 Appropriations Act Secs. 507, 523): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No

No

No

No

5. Mob Action (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

No. See "Taking into Consideratior Memo dated Nov. 3(1994

6. OPIC Investment Guaranty (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

No. See "Taking into Consideratior

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

a) No. See "Takin into Consideratior b) NA

8. Loan Default (FAA Sec. 620(q); FY 1994 Appropriations Act Sec. 512

(Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

a) No

b) No

9. Military Equipment (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

NA

10. Diplomatic Relations with U.S. (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

11. U.N. Obligations (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

No (Indonesia is not in arrears).

12. International Terrorism

a. Sanctuary and support (FY 1994 Appropriations Act Sec. 529; FAA Sec. 620A): Has the country been determined by the President to: (a) grant

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sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

a) No

b) No

b. Airport Security (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. Countries that Export Lethal Military Equipment (FY 1994 Appropriations Act Sec. 573). Is assistance being made available to a government which provides lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act?

No

14. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. Nuclear Technology (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the

No

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United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

16. Algiers Meeting (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Yes (see "Taking into Consideration" memo)

17. Military Coup (FY 1994 Appropriations Act Sec. 508): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

18. Exploitation of Children (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

19. Parking Fines (FY 1994 Appropriations Act Sec. 574): Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of September 30, 1993?

Yes

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

Human Rights Violations (FAA Sec. 116): Has the Department of State

determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? NA

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;

No. This project is a biodiversity conservation project and is not designed to directly affect trade, competition or encourage cooperatives, etc., however, one or more of these concern may be affected indirectly as a result of the foundatic

(d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The endowment fund of the Foundation will be managed by U.S. private sector investment firm in instruments in the U.S.

3. Congressional Notification

a. General requirement (FY 1994 Appropriations Act Sec. 515; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

NA

b. Special notification requirement (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

Yes

c. Notice of account transfer (FY 1994 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

NA

c. Cash transfers and nonproject sector assistance (FY 1994 Appropriations Act Sec. 537(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice

NA

included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

a) Yes

b) Yes

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

No complications expected

6. Water Resources (FAA Sec. 611(b)): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

NA

7. Cash Transfer/Nonproject Sector Assistance Requirements (FY 1994 Appropriations Act Sec. 537). If assistance is in the form of a cash transfer or nonproject sector assistance:

NA

a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

b. Local currencies: If assistance is furnished to a foreign government under arrangements which result

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in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? NA

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? NA

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? NA

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? NA

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? NA

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions No. This project is a biodiversity conservation project

on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	and is not designed to directly affect trade, competition or encourage comperatives etc.; however, one or more of these concerns may be affected indirectly as a result of the foundation.
10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The endowment fund of the Foundation will be managed by U.S. private sector investment firm in instruments in the U.S.
11. Local Currencies	
a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	NA (Pro Ag is not with the GOI)
b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	NA
12. Trade Restrictions	
a. Surplus Commodities (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	NA
b. Textiles (Lautenberg	

Amendment) (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? NA

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? a) No b) No

14. PVO Assistance

a. Auditing and registration (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? Yes

b. Funding sources (FY 1994 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? NA

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Yes

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

17. Abortions (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

NA (project does not deal with abortions)

b. Are any of the funds to be used to pay for the performance of

involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? NA

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? NA

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.) NA

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) NA

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? NA

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? NA

18. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? NA

19. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1994 Appropriations Act

Secs. 503, 505): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	NA
b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	NA
20. Procurement	
a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes
b. U.S. procurement (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?	Yes
c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	NA
d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	NA (no agricultural procurement)
e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a	NA (no engineering services required)

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competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? — NA (no shipping required)

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

i. Consulting services (FY 1994 Appropriations Act Sec. 567): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes

j. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? — Yes

k. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

l. Chemical Weapons (FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production? — NA

21. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — NA

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — NA

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? NA

22. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? NA

23. Communist Assistance (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? NA

24. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

25. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized Yes

property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

26. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes

27. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? — Yes

28. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes

29. Export of Nuclear Resources (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? — Yes

30. Publicity or Propaganda (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? — No

31. Marine Insurance (FY 1994 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? — NA (no shipping anticipated)

32. Exchange for Prohibited Act (FY 1994 Appropriations Act Sec. 533): Will any assistance be provided to any foreign

government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No

33. Commitment of Funds (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No

34. Impact on U.S. Jobs (FY 1994 Appropriations Act, Sec. 547):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? No

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? No

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1994 Appropriations Act

Sec. 513(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?	NA
2. Tied Aid Credits (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?	NA
3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes
4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The Foundation will review proposals and applications from Indonesian NGOs to fund activities that are important to the conservation of Indonesia's biodiversity
5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to	Yes

the increase of productive capacities and self-sustaining economic growth?

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

This project is a biodiversit conservation project and is not designed to directly affect poverty alleviation, develop democracy and local governments etc. However, one or more of these concerns may be affected indirectly as a result of the foundation.

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes

9. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

10. **Disadvantaged Enterprises** (FY 1994 Appropriations Act Sec. 558): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

NA

11. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

a) Yes

b) Yes

c) Yes

d) No

12. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives

Yes (to all)

to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment

1) No

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indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

2) No
3) No
4) No
5) No
6) No

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

Yes

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes

13. Energy (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy

NA

efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

14. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. NA

15. Deobligation/Reobligation (FY 1994 Appropriations Act Sec. 510): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? NA

16. Loans

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. NA

b. Long-range plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? NA

c. Interest rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at NA

least 3 percent per annum thereafter?

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

NA

17. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

This project is a biodiversity conservation project and is not designed to directly affect these concerns. However, one or more of these concerns may be affected as a result of the foundation.

18. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research,

This project is a biodiversity conservation project and is not designed to directly affect these concerns. However, one or more of these concerns may be affected as a result of the foundation.

has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic-research to local conditions shall be made.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people. NA

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution. NA

19. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach. NA

20. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource NA

development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

21. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; — NA

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; — The Foundation will review proposals and applications from PVOs/NGOs to fund activities that are important to the conservation of Indonesia's biodiversity.

c. research into, and evaluation of, economic development processes and techniques; — NA

d. reconstruction after natural or manmade disaster and programs of disaster preparedness; — NA

e. for special development problems, and to enable proper utilization — NA

of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. NA

22. Capital Projects (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? NA

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY NA (DA funds)

1. Economic and Political Stability (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. Commodity Grants/Separate Accounts (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

4. Generation and Use of Local Currencies (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so,

will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

5. Capital Projects (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.)

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Indonesian Biodiversity Foundation - Project Paper

I. USAID/W APPROVAL AND GUIDANCE

VOLUME II
(ANNEXES)

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BY: J. Bisson
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RECEIVED JUN 21 1994 USAID/C&R Jakarta

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E.O. 12356: N/A
TAGS:
SUBJECT: ENDOWMENT PROPOSAL -- INDONESIA BIODIVERSITY FOUNDATION (497-0384)

REF: (A) JAKARTA 04547; (B) WEDEN/MORSE COMMENTS ON DRAFT AGENCY ENDOWMENT GUIDLINES; AND, (C) BISSON/SUGGS E-MAIL DATED 19 MAY 94

USAID ROUTING		
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1. THE ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST (AA/ANE) HEREBY APPROVES USAID/JAKARTAIS PROPOSED DESIGN FOR THE ENDOWMENT OF THE INDONESIA BIODIVERSITY FOUNDATION (IBF OR FOUNDATION).

2. FORMAL ANE BUREAU REVIEW OF USAID/JAKARTAIS PROPOSAL FOR ESTABLISHING THE ENDOWMENT FOR THE IBF WAS HELD ON MAY 20, 1994, AND CHAIRED BY ANE/ASIA/DR/PD, JIM DEMPSEY. NO MAJOR ISSUES WERE RAISED.

3. USAID/JAKARTA IS COMMENDED ON ITS PLANS AS OUTLINED IN REFS. YOUR DESIGN AFFORDS THE FLEXIBILITY NEEDED IN USING WHAT IS ESSENTIALLY AN EXPERIMENTAL MECHANISM, THE APPROPRIATED-DOLLAR ENDOWMENT, AS A SUSTAINABLE SOURCE OF FUNDING THE FOUNDATION'S CATALYTIC GRANT MAKING PROGRAMS TO CONSERVE INDONESIA'S BIOLOGICAL DIVERSITY. THE BUREAU REVIEW COMMITTEE (BRC) APPROVES THE MISSION'S APPROACH TO IMPLEMENTING THE ENDOWMENT AND OFFERS THE FOLLOWING COMMENTS.

A. FUNDING FOR THE ENDOWMENT

NEA 6.52

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PARA. 4 OF REF (A) INDICATES THAT THE MISSION'S PLANS TO CAPITALIZE THE ENDOWMENT THROUGH TWO DISBURSEMENTS IN TWO YEARS. MISSION IS REMINDED THAT ONLY FY 94 FUNDING LEVELS ARE FIRM AT THIS TIME -- WITH USD 2 MILLION DA FROM THE ANE BUREAU, AND USD 8 MILLION FROM TREASURY FOR USE AS A USAID-ATTRIBUTED GEF PROJECT. IF THE FULL USD 10 MILLION REQUESTED FOR FY 95 IS NOT AVAILABLE, FUNDS MAY HAVE TO BE DISBURSED TO THE ENDOWMENT OVER A THREE-YEAR PERIOD.

B. INVESTMENT POLICY

THE BRC IDENTIFIED THREE ASPECTS OF THE PROPOSAL'S PROVISIONS FOR INVESTMENT POLICY FORMULATION THAT WARRANT CAREFUL CONSIDERATION BY USAID/JAKARTA AND THE IBF.

-- (1) EARNINGS RETENTION

PARA. 11 OF REF (A) SUGGESTS THAT OVER 40 PERCENT OF INVESTMENT EARNINGS ON A USD 16-17 MILLION ENDOWMENT WILL BE REINVESTED IN THE ENDOWMENT TO MAINTAIN ITS REAL VALUE. MAINTAINING AS HIGH AS A 40 PERCENT RETENTION-REINVESTMENT TARGET IN THE LONG-TERM TO HEDGE AGAINST INFLATION MAY LIMIT THE AVAILABILITY OF INCOME FOR GRANT MAKING WHEN IT IS MOST NEEDED; PARTICULARLY IF FUNDING FROM OTHER DONORS IS NOT FORTHCOMING.

A HIGH REINVESTMENT TARGET MAY BE JUSTIFIED IN THE FIRST THREE TO FIVE YEARS TO BUILD UP THE ENDOWMENT BASE WHILE INSTITUTIONAL GRANT FUNDS ARE USED FOR PILOT SUBGRANTS TO LOCAL NON-GOVERNEMNTAL ORGANIZATIONS. HOWEVER, THE MISSION SHOULD CONSIDER PERIODIC REVIEW OF THIS APPROACH TO ENSURE AVAILABILITY OF ADEQUATE INCOME TO FUND BIODIVERSITY GRANTS WHILE MEETING INVESTMENT FUND OBJECTIVES OF SAFETY, INCOME GENERATION, AND CAPITAL PROTECTION.

-- (2) COUNTRY OF INVESTMENT

PARA. 9 OF REF (A) INDICATES THAT INVESTMENT FUNDS WILL BE SPREAD ACROSS A WIDE RANGE OF CAPITAL MARKETS AND ASSET CLASSES, ETC. THE COMMITTEE NOTED THAT INVESTMENT IN THE UNITED STATES WILL BE AN IMPORTANT OPTIC IN CONGRESSIONAL OVERSIGHT OF APPROPRIATED-DOLLAR ENDOWMENTS. DRAFT GUIDELINES ON ENDOWMENTS STATE THERE IS NO LEGAL

RESTRICTION ON WHERE FUNDS MAY BE INVESTED, INDICATING THAT FUNDS OFFERED THROUGH A U.S. BROKER MAY INCLUDE INVESTMENTS IN ASIAN AND EUROPEAN SECURITIES OFFERED ON

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U. S. MARKETS.

HOWEVER, THE GUIDELINES SUGGEST A STRONG PREFERENCE THAT ENDOWMENT FUNDS BE INVESTED IN THE UNITED STATES. THE

DRAFT GUIDELINES STATE: " IT IS EXPECTED THAT THE BULK OF FUNDS OF AN ENDOWED ORGANIZATION LOOKING FOR LONG-TERM STABILITY BE INVESTED IN THE UNITED STATES."

-- (I) SOCIALLY-RESPONSIBLE INVESTMENTS

WITH RESPECT TO THE TYPE OF INVESTMENT MADE WITH THE ENDOWMENT, THE COMMITTEE NOTED THAT SUPPORT FOR "GREEN INVESTMENT" IS GROWING IN THE IMPLEMENTING AGENCIES OF THE GEF. THE ENDOWMENT'S TIE TO THE GEF GIVES IT A HIGHER PROFILE THAN A REGULAR BILATERAL PROGRAM, INDICATING THAT ISSUES ON THE ENDOWMENT, INCLUDING ENVIRONMENTAL SOUNDNESS OF INVESTMENT PRIORITIES, ARE LIKELY TO BE MORE VISIBLE IN THE FUTURE.

IBF MAY WISH TO CONSIDER THE PROS AND CONS OF A RISK MANAGEMENT STRATEGY THAT INCLUDES SOUND GREEN INVESTMENTS AS IT DEVELOPS ITS INVESTMENT STRATEGY.
CHRISTOPHER
BT
#5247

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E.O. 12356: N/A
TAGS:
SUBJECT: GUIDELINES TO IMPLEMENT USAIDIS AUTHORITY TO CAPITALIZE ENDOWMENTS WITH APPROPRIATED FUNDS.

1. ATTACHED BELOW IS THE TEXT OF POLICY DETERMINATION (PD) NUMBER 21 WHICH IS EFFECTIVE IMMEDIATELY.

2. TEXT OF PD 21: GUIDELINES TO IMPLEMENT USAIDIS AUTHORITY TO CAPITALIZE ENDOWMENTS WITH APPROPRIATED FUNDS.

USAID ROUTING		
TO	ACT	INFO
DIR		✓
DD		✓
EPSO		✓
LA		✓
PPS	✓	
ENO		
CM		
FIN		✓
FIN/B		✓
FIN/FA		
AGE		✓
HRD		✓
HRD/P		
HRD/T		
HRD/WHP		
HRD/E		
HRD/EE		
PED		✓
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I. INTRODUCTION

RECENT LEGISLATIVE CHANGES GREATLY EXPAND USAID'S ABILITY TO FUND ENDOWMENTS. ENDOWMENTS PROVIDE ANOTHER MECHANISM FOR ACHIEVING USAID'S DEVELOPMENT GOALS WHICH COMPLEMENTS OUR MORE TRADITIONAL ASSISTANCE FORMS. UNLIKE TRADITIONAL MECHANISMS WHICH FOCUS ON FINANCING GOODS AND SERVICES IN FURTHERANCE OF FOREIGN ASSISTANCE OBJECTIVES, ENDOWMENTS ALLOW US TO SUPPORT MORE DIRECTLY AN ENTITY WHOSE PURPOSE IS TO FURTHER SUCH OBJECTIVES.

HOWEVER, ENDOWMENTS ALSO PRESENT A SERIES OF UNIQUE DIFFICULTIES THAT MUST BE THOROUGHLY ASSESSED BEFORE A MISSION OR BUREAU MAKES A FUNDING DECISION. THESE PROBLEMS ARE OFTEN EXACERBATED BECAUSE OF A LACK OF FAMILIARITY WITH ENDOWMENTS IN MANY DEVELOPING COUNTRIES, AND BECAUSE THE LEGAL AND REGULATORY ENVIRONMENT IN SUCH COUNTRIES MAY NOT PROVIDE AN ADEQUATE FRAMEWORK FOR THE ESTABLISHMENT AND OVERSIGHT OF SUCH FUNDS. IN MANY CASES, DESIGN OF AN ENDOWMENT MAY ALSO BE VERY LABOR INTENSIVE.

THESE GUIDELINES ARE INTENDED TO ASSIST MISSIONS AND BUREAUS IN THEIR ANALYSIS AND FUNDING OF ENDOWMENTS, AND TO ENSURE THAT RELEVANT FACTORS ARE ADEQUATELY TAKEN INTO ACCOUNT. SOME OF THE MAIN ISSUES COVERED ARE: THE OBJECTIVES WHICH CAN BE ACHIEVED THROUGH THE USE OF ENDOWMENTS; CHARACTERISTICS OF ORGANIZATIONS FOR WHICH ENDOWMENTS ARE APPROPRIATE; FINANCIAL MANAGEMENT OF BOTH THE INVESTMENT FUND AND PROGRAM INCOME; APPLICATION OF LEGISLATIVE RESTRICTIONS; MECHANISMS AND APPROPRIATE DEGREE OF OVERSIGHT; AND TERMINATION OF THE ENDOWMENT.

II. BACKGROUND

PRIOR TO 1990, USAID-S AUTHORITY TO GRANT FUNDS FOR THE ESTABLISHMENT OF ENDOWMENTS WAS SEVERELY RESTRICTED. FEDERAL APPROPRIATIONS LAW GENERALLY PROHIBITS A GRANTEE FROM RETAINING INTEREST EARNED ON APPROPRIATED DOLLARS. AS A RESULT, THERE WAS NO PRACTICAL MEANS FOR ESTABLISHING ENDOWMENTS WITH DOLLARS APPROPRIATED TO USAID, OR WITH LOCAL CURRENCY ACQUIRED BY THE EXCHANGE OF THESE DOLLARS.

THE ONLY WAY THAT ENDOWMENTS COULD BE ESTABLISHED WITH USAID FUNDS BEFORE 1990 WAS WITH EXPLICIT CONGRESSIONAL APPROVAL. THIS MECHANISM WAS ONLY OCCASIONALLY USED.

THE OTHER MECHANISM FOR ESTABLISHING ENDOWMENTS IN CONJUNCTION WITH USAID ACTIVITIES WAS TO USE HOST COUNTRY OWNED LOCAL CURRENCY. BECAUSE THESE FUNDS ARE NOT APPROPRIATED TO USAID OR OWNED BY USAID, THEY ARE NOT SUBJECT TO FEDERAL APPROPRIATIONS LAWS (OR MOST OTHER STATUTORY RESTRICTIONS ON THE USE OF USAID FUNDS). LOCAL CURRENCY ENDOWMENTS HAVE BECOME INCREASING COMMON, PARTICULARLY OVER THE LAST DECADE, SUPPORTING PROGRAMS IN CE MANAGEMENT, AND AGRICULTURAL RESEARCH.

LEGISLATION ENACTED AS PART OF THE FY 1990 FOREIGN ASSISTANCE APPROPRIATIONS ACT TOOK THE FIRST STEP FORWARD IN PERMITTING THE USE OF APPROPRIATED FUNDS FOR FUNDING ENDOWMENTS. SECTION 584 OF THAT ACT PERMITTED NON-GOVERNMENTAL ORGANIZATIONS (NGOS) TO RETAIN INTEREST ON, AND THUS ESTABLISH ENDOWMENTS WITH, LOCAL CURRENCY ACQUIRED THROUGH THE EXCHANGE OF APPROPRIATED DOLLARS. THE LEGISLATION WAS DIRECTED MAINLY AT TRANSACTIONS INVOLVING DEBT SWAPS, WHEREBY USAID PROVIDES A GRANT TO AN NGO TO PURCHASE DISCOUNTED DEBT OF A DEVELOPING COUNTRY, WHICH IS THEN REDEEMED BY THE HOST GOVERNMENT WITH LOCAL CURRENCY FUNDS. SECTION 584 MADE POSSIBLE THE RETENTION OF INTEREST EARNED ON THE LOCAL CURRENCY FUNDS ACQUIRED THROUGH DEBT SWAPS, AND AS A BY-PRODUCT, ALSO MADE POSSIBLE THE ESTABLISHMENT OF ENDOWMENTS WITH THESE FUNDS.

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THE SECTION 584 AUTHORITY WAS CONTINUED IN FISCAL YEARS 1991 AND 1992.

IN FY 1993 CONGRESS SIGNIFICANTLY EXPANDED THE AUTHORITY, TO PERMIT NON-GOVERNMENTAL ORGANIZATIONS WHICH WERE

CONTRACTORS OR GRANTEES OF USAID TO RETAIN INTEREST ON APPROPRIATED DOLLARS RETAINED AS DOLLARS AS WELL AS THOSE CONVERTED INTO LOCAL CURRENCY, AND TO ESTABLISH ENDOWMENTS WITH THESE FUNDS. (SECTION 567 OF THE FY 1993 FOREIGN ASSISTANCE APPROPRIATIONS ACT.) THE AUTHORITY WAS EXTENDED TO APPLY RETROACTIVELY TO PRIOR YEAR FUNDS AS WELL AS FY 1993 FUNDS. CONGRESS REENACTED THIS PROVISION IN THE FY 1994 APPROPRIATIONS BILL AS SECTION 534. (SECTION 534 OF THE FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS ACT, 1994; P.L. 103-87.) WITH THIS AUTHORITY, NGO'S MAY NOW BE PERMITTED TO ESTABLISH ENDOWMENTS DIRECTLY WITH FUNDS GRANTED TO THEM BY USAID, WITHOUT FIRST HAVING TO CONVERT THE FUNDS TO LOCAL CURRENCY.

III. SCOPE AND AUTHORITY

A. PURPOSE OF GUIDELINES. THE FUNDING OF ENDOWMENTS INVOLVES A NUMBER OF BUDGETARY, POLICY, AND LEGAL ISSUES NOT COMMONLY ENCOUNTERED IN MORE TRADITIONAL FORMS OF ASSISTANCE. THESE GUIDELINES ARE INTENDED TO HIGHLIGHT AND PROVIDE GUIDANCE ON THESE ISSUES IN ORDER THAT ENDOWMENTS MAY BE ESTABLISHED IN A MANNER CONSISTENT WITH SOUND PROGRAMMATIC, BUDGETARY, AND FINANCIAL MANAGEMENT PRACTICES, AND THE LAWS GOVERNING THE USE OF APPROPRIATED FUNDS.

INES DESCRIBE
USAID'S POLICIES GOVERNING THE USE OF GRANT FUNDS FOR FINANCING ENDOWMENTS; THE ORGANIZATIONS ELIGIBLE TO RECEIVE ENDOWMENTS; AND THE VARIOUS ADMINISTRATIVE AND CONTRACTUAL PROCEDURES REQUIRED IN ORDER TO ESTABLISH, MAINTAIN, AUDIT, DRAW DOWN, EVALUATE AND CLOSE AN ENDOWMENT. FOR THE PURPOSES OF THESE GUIDELINES, AN ENDOWMENT IS CONSIDERED TO BE THE CAPITALIZATION OF A FUND, INDEPENDENT FROM USAID, THE OBJECTIVE OF WHICH IS TO

GENERATE INCOME TO MAINTAIN ACTIVITIES OF A PRIVATE, NON-PROFIT INSTITUTION THAT ARE CONSISTENT WITH THE PURPOSES OF THE AGENCY'S AUTHORIZING LEGISLATION.

THE GUIDELINES APPLY TO ALL ENDOWMENTS FUNDED WITH APPROPRIATED DOLLARS, INCLUDING THOSE WHICH HAVE BEEN

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CONVERTED TO LOCAL CURRENCY THROUGH DEBT SWAPS OR NORMAL EXCHANGE PROCEDURES. THE GUIDELINES DO NOT APPLY TO THE FUNDING OF ENDOWMENTS WITH HOST COUNTRY-OWNED OR NGO-OWNED LOCAL CURRENCY. HOWEVER, MANY OF THE ISSUES DISCUSSED HEREIN ARE EQUALLY APPLICABLE TO ALL ENDOWMENTS, AND THE GUIDELINES MAY THEREFORE BE USEFUL REGARDLESS OF THE FUNDING SOURCE INVOLVED.

ENDOWMENTS ARE JUST ONE OF THE CIRCUMSTANCES IN WHICH INTEREST MAY BE RETAINED UNDER THE NEW LEGISLATIVE AUTHORITY. SEPARATE GUIDANCE WILL BE ISSUED ON THE RETENTION OF INTEREST OUTSIDE THE CONTEXT OF ENDOWMENTS.

C. MODIFICATIONS TO GUIDELINES. MODIFICATIONS TO THESE GUIDELINES MAY BE NEEDED AS USAID GAINS EXPERIENCE WITH THE ENDOWMENT PROGRAM. THE BUREAU FOR POLICY AND PROGRAM COORDINATION (PPC) ENCOURAGES INTERESTED PARTIES TO IDENTIFY PROBLEMS AND TO SUGGEST NEEDED CHANGES.

IV. DESIGN AND APPROVAL OF ENDOWMENTS

BECAUSE THE AUTHORITY TO ESTABLISH ENDOWMENTS IS NEW, THE AGENCY'S EXPERIENCE IN THIS AREA IS SOMEWHAT LIMITED. U.S. FOUNDATIONS CAN OFTEN BE AN INVALUABLE SOURCE OF EXPERTISE TO ASSIST US IN DEVELOPING ACTIVITIES THAT INVOLVE ENDOWMENTS.

TO ENSURE THAT THE EXPERIENCE BEING ACQUIRED IS ADEQUATELY SHARED THROUGHOUT THE AGENCY AND ITS OVERSEAS MISSIONS, AND THAT THIS GUIDANCE CAN BE UPDATED AND REFINED TO REFLECT INNOVATIONS IN THE FIELD, ALL ENDOWMENTS MUST BE APPROVED IN USAID/W AT THIS TIME. REGIONAL BUREAUS WILL BE RESPONSIBLE FOR APPROVING ENDOWMENTS ACCORDING TO THEIR NORMAL PROJECT APPROVAL PROCESSES. PPC AND THE OFFICE OF GENERAL COUNCIL (GC) SHOULD PARTICIPATE IN ALL REVIEWS. PPC WILL REVIEW THIS POLICY IN TWO YEARS TO DETERMINE PROVAL CONTINUES TO BE NECESSARY.

IN MOST CASES, FUNDS FOR AN ENDOWMENT FOR AN NGO WILL BE OBLIGATED THROUGH A GRANT, AND THE APPROVAL PROCESS SHOULD THEREFORE FOLLOW THE PROCEDURES APPLICABLE TO ALL SUCH GRANTS. HOWEVER, ENDOWMENTS HAVE A NUMBER OF CHARACTERISTICS THAT DIFFER FROM TRADITIONAL NGO GRANT

ACTIVITIES, AND THAT RAISE SIGNIFICANT POLICY ISSUES WHICH

SHOULD BE ADDRESSED. THE ISSUES SET FORTH BELO SHOULD BE SPECIFICALLY CONSIDERED DURING THE APROVAL PROCESS AND

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DOCUMENTED.

A. CONISTENCY WITH USAID STRATEGY. A PROPOSAL FOR AN ENDOWMENT MUST BE
ONSISTENT WITH THE OBJECTIVES AN
APPROVED STRATEGIES —
FOR THE COUNTRY, REGION, OR SECTOR IN WHICH THE FUNDS ARE TO BE EXPENDD

B. OBJECTIVES. AN ENDOWMENT SHOULDBE DIRECTED AT ACHIEVING OBJECTIVES NOT ATTAINABLE THROUGH TRADITIONAL ASSISTANCE MODES. SOME POSSIBLE JUSTIFICATIONS FOR ENDOWMENTS ARE CITED BELOW. ONE OR MORE SHOULD BE INCLUDED IN THE RATIONALE FOR A PROPOSED ENDOWMENT, AND THE BUREAU OR MISSION SHOULD ASSURE ITSELF THAT SUCH OBJECTIVE(S) ARE ACHIEVABLE UNDER THE CIRCUMSTANCES AT HAND.

1. AN ENDOWMENT MAY BE USED TO BROADEN AND ENHANCE THE FUNDING BASE OF AN NGO ENGAGED IN ACTIVITIES WHICH HAVE A LONG-TERM HORIZON AND WHERE FUNDING BY SHORT-TERM GRANTS OR A SERIES OF SUCH GRANTS IS LIKELY TO BE INSUFFICIENT TO REALIZE THE FULL PROGRAM OBJECTIVES.

2. THE FINANCIAL STABILITY PROVIDED BY AN ENDOWMENT MAY INSULATE THE ENDOWED ORGANIZATION FROM UNPREDICTABLE GOVERNMENT AND DONOR AGENCY BUDGET FLUCTUATIONS. AN ENDOWMENT MAY THUS ENABLE AN NGO TO BECOME MORE INDEPENDENT AND SELF-RELIANT IN IDENTIFYING AND SOLVING ENVIRONMENTAL, ECONOMIC, AND SOCIAL DEVELOPMENT PROBLEMS.

3. AN ENDOWMENT MAY ALLOW THE RECIPIENT ORGANIZATION TO ATTRACT OTHER FUNDS BY INCREASING DONOR CONFIDENCE, THUS LEVERAGING THE USAID FUNDS.

4. USAID FINANCING OF AN ENDOWMENT MAY BE USED TO ENCOURAGE THE ESTABLISHMENT OF PHILANTHROPIC PRINCIPLES IN COUNTRIES WHERE SUCH PRINCIPLES ARE LESS WELL-ESTABLISHED.

5. AN ENDOWMENT MAY ALLOW AN ACTIVITY TO BE INSTITUTIONALIZED AND CONTINUE BEYOND USAIDIS FUNDING, WHEN IT OTHERWISE MAY NOT HAVE BEEN.

6. AN ENDOWMENT IS ONE MECHANISM BY WHICH USAID MAY CONTINUE DEVELOPMENT STRATEGIES THROUGH INTERNATIONAL OR UPON TERMINATION OF AN USAID PRESENCE IN THE COUNTRY AND/OR THE TERMINATION OF USAID DIRECT ASSISTANCE ACTIVITIES.

C. BUDGETARY IMPACT. IN GENERAL, THE ESTABLISHMENT OF AN ENDOWMENT ENTAILS A MUCH MORE RAPID UP FRONT OUTLAY OF FUNDS THAN TRADITIONAL PROGRAM ACTIVITIES, AND IN SOME CASES MAY INVOLVE A RELATIVELY LARGE AMOUNT OF FUNDS. ALTHOUGH THE BUDGETARY IMPACT CAN BE LESSENED SOMEWHAT BY CAPITALIZING AN ENDOWMENT OVER MORE THAN ONE YEAR, IT IS STILL GREATER THAN IF FUNDS WERE EXPENDED OVER A PERIOD OF TIME FOR THE ACTIVITIES THEMSELVES.

THE BUREAU OR MISSION GRANTING THE FUNDS SHOULD DETERMINE WHETHER AN ENDOWMENT IS MORE COST EFFECTIVE THAN MULTI-YEAR SUPPORT OF THE ORGANIZATION THROUGH TECHNICAL ASSISTANCE AND INSTITUTIONAL AND PROJECT SUPPORT, AND WHETHER THE BENEFITS TO BE GAINED BY ESTABLISHING THE ENDOWMENT OUTWEIGH THE BENEFITS OF THE ALTERNATIVE USES OF THE PROGRAM FUNDS, WHICH IN MANY CASES WILL HAVE LESS ADVERSE BUDGETARY IMPLICATIONS.

D. CHARACTERISTICS OF THE NGO. THE FOLLOWING CHARACTERISTICS MUST BE DEMONSTRATED BY AN ORGANIZATION FOR WHICH AN ENDOWMENT IS PROPOSED:

1. IN ACCORDANCE WITH THE STATUTORY PROVISION AUTHORIZING ENDOWMENTS, THE ORGANIZATION RECEIVING THE ENDOWMENT MUST BE NON-GOVERNMENTAL. THE PURPOSE BEHIND REQUIRING THAT THE ORGANIZATION BE "NON-GOVERNMENTAL" IS

TO ENSURE THAT IT IS INDEPENDENT FROM THE GOVERNMENT. SOME GOVERNMENT INVOLVEMENT IS ACCEPTABLE, AS LONG AS THE GOVERNMENT DOES NOT CONTROL THE ORGANIZATION. FOR EXAMPLE, THE GOVERNMENT MAY BE REPRESENTED ON THE BOARD OF DIRECTORS OF THE ORGANIZATION, BUT ONLY BY A MINORITY OF THE BOARD MEMBERS.

2. UNDER THE USUAL CIRCUMSTANCES, THE ORGANIZATION WILL ALSO BE NON-PROFIT.

10 3. THE ORGANIZATIONIS ACTIVITIES MUST FALL WITHIN THE PURPOSES FOR WHICH THE USAID FUNDS HAVE BEEN AUTHORIZED,

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OR THE DOCUMENTATION ESTABLISHING THE ENDOWMENT MUST LIMIT THE USE OF THE USAID FUNDS TO SUCH PURPOSES.

, IT MUST
MEET PRE-AWARD SURVEY REQUIREMENTS DESIGNED TO ENSURE ADEQUATE ACCOUNTABILITY OF FUNDS.

5. THE ORGANIZATION MUST HAVE A DEMONSTRATED CAPACITY TO IMPLEMENT THE PROGRAM WHICH THE ENDOWMENT IS TO FUND, OR CONTROLS MUST BE BUILT IN TO ENSURE THAT THIS

CAPACITY IS DEVELOPED. IN SOME CASES, USAID MAY WANT TO PROVIDE A SEPARATE GRANT TO A WELL-ESTABLISHED NGO TO HELP WITH THE INSTITUTIONAL DEVELOPMENT OF A BENEFICIARY NGO THAT DOES NOT HAVE A PROVEN TRACK RECORD.

IF THE BENEFICIARY ORGANIZATION REQUIRES A HIGH DEGREE OF MONITORING AND OVERSIGHT (E.G., ITIS NEW OR WEAK), THIS MAY MEAN THAT AN ENDOWMENT IS NOT AN APPROPRIATE MECHANISM FOR PROVIDING ASSISTANCE TO IT. IN SUCH CASES, THE MISSION OR BUREAU SHOULD CONSIDER PROVIDING TRADITIONAL GRANT FUNDING FOR A NUMBER OF YEARS UNTIL THE ORGANIZATION HAS ESTABLISHED A TRACK RECORD, AND THEN EVALUATE WHETHER AN ENDOWMENT MAKES SENSE.

E. RECIPIENT FINANCIAL PARTICIPATION. USAID'S CURRENT GUIDELINES (PD-16) ENCOURAGE THE LARGEST REASONABLE AND POSSIBLE FINANCIAL PARTICIPATION OF THE RECIPIENT IN FINANCING A PROJECT, ESTABLISHING A REFERENCE POINT OF TWENTY-FIVE PERCENT OF PROJECT COSTS. IN SOME INSTANCES, HOWEVER, ESPECIALLY FOR NEWLY ESTABLISHED NGO'S, PARTICIPATION OF LESS THAN TWENTY-FIVE PERCENT MAY STILL BE SUBSTANTIAL, GIVEN THE NGO'S RESOURCES. IT IS ALSO POSSIBLE THAT NO FINANCIAL PARTICIPATION MAY BE APPROPRIATE IF THE NGO PROVIDES A CRITICAL AND NON-SUBSTITUTABLE SERVICE IN ACHIEVING BILATERAL ASSISTANCE OBJECTIVES. THE USAID OFFICIAL AUTHORIZING AN ENDOWMENT WILL MAKE THE FINAL DETERMINATION OF THE APPROPRIATE LEVEL OF FINANCIAL PARTICIPATION.

F. FINANCIAL MANAGEMENT CONSIDERATIONS. UNLIKE THE CASE OF GRANT EXPENDITURES, THE FINANCIAL CONSIDERATIONS OF ENDOWMENTS MUST BE ADDRESSED FROM TWO PERSPECTIVES: THE ADEQUACY OF CONTROLS RELATED TO THE EXPENDITURE OF FUNDS BY THE NGO FOR PROGRAM ACTIVITIES, AND THE ADEQUACY OF FINANCIAL ARRANGEMENTS AND CONTROLS RELATED TO THE INVESTMENT OF THE ENDOWMENT FUND ITSELF. A NUMBER OF DIFFERENT ARRANGEMENTS ARE POSSIBLE IN ESTABLISHING AN ENDOWMENT, AND OFTEN THESE ARRANGEMENTS ARE DRIVEN BY THESE FINANCIAL CONSIDERATIONS. ISSUES RELATING TO BOTH AGEMENT, AND SUGGESTIONS FOR

MECHANISMS FOR BUILDING IN CONTROLS; ARE SET FORTH BELOW.

1. PROGRAM EXPENDITURES. LEGALLY, THE ESTABLISHMENT OF AN ENDOWMENT IS ANALOGOUS IN MANY WAYS TO A CASH TRANSFER. THE PURPOSES OF THE GRANT ARE ACCOMPLISHED AT THE TIME THE ENDOWMENT IS ESTABLISHED; THEREFORE, STATUTORY AND REGULATORY RESTRICTIONS ON THE USE OF FUNDS, SUCH AS SOURCE/ORIGIN, DO NOT APPLY. (HOWEVER, USAID MAY APPLY SOME RESTRICTIONS AS A MATTER OF POLICY. SEE SECTION V.C. BELOW.) THE CONVERSE OF THIS IS THAT

USAID MAY NOT ACTIVELY PARTICIPATE IN THE IMPLEMENTATION OF PROGRAM ACTIVITIES.

(A) BUREAUS AND MISSIONS MUST THEREFORE ASSURE THEMSELVES THAT THE BENEFICIARY OF THE ENDOWMENT CAN ADEQUATELY IMPLEMENT ITS PROGRAMS AND MANAGE AND ACCOUNT FOR THE FUNDS IT EXPENDS WITHOUT DETAILED OVERSIGHT BY USAID.

(B) IF THE ORGANIZATION IS NOT A REGISTERED PVO, A PRE-AWARD SURVEY MUST BE PERFORMED TO ENSURE ADEQUATE ACCOUNTABILITY OF FUNDS.

(C) IF THE &RGANIZATION IS FOUND TO HAVE INADEQUATE FINANCIAL CONTROLS IN PLACE, OR IT IS BEING NEWLY CREATED, CONTROLS MUST BE BUILT INTO THE PROGRAM

DESIGN.

2. THE INVESTMENT FUND. AN ENDOWMENT BY ITS NAIURE INVOLVES A RELATIVELY LARGE AMOUNT OF APPROPRIATED FUNDS, LARGELY OUTSIDE OF USAID'S CONTROL, WHICH WILL CONTINUE TO EXIST FOR MANY YEARS, OFTEN BEYOND THE PERIOD OF USAID OVERSIGHT. IF THE ENDOWMENT IS TO SUCCEED, THE RETURN GENERATED BY THE ENDOWMENT, TOGETHER WITH OTHER AVAILABLE RESOURCES, MUST BE ADEQUATE TO SUPPORT THE PROGRAM OF THE BENEFICIARY ORGANIZATION, AND THE POSSIBILITIES FOR MISUSE MUST BE MINIMIZED. THE ARRANGEMENTS FOR MANAGEMENT OF THE FUND WILL VARY WITH THE SIZE OF THE FUND, THE TRACK RECORD OF THE BENEFICIARY NGO, AND WHETHER IT IS COMPOSED OF DOLLARS OR LOCAL CURRENCY.

IN ORDER TO ASSURE THAT THE FINANCIAL CONTROLS OVER THE INVESTMENT FUND ARE ADEQUATE, THE FOLLOWING POINTS SHOULD BE ADDRESSED DURING THE PROGRAM DESIGN AND APPROVAL PROCESS:

(A) COUNTRY OF INVESTMENT. LEGALLY, THERE IS NO RESTRICTION ON WHERE THE FUNDS MAY BE INVESTED. HOWEVER, BECAUSE THIS IS A NEW AUTHORITY WHICH WILL BE SUBJECT TO CLOSE SCRUTINY, WE ARE REQUIRING THAT THE FUNDS BE

INVESTED IN FINANCIAL INSTRUMENTS OFFERED IN THE U.S. THROUGH A U.S.-BASED FINANCIAL INTERMEDIARY. THIS STILL ALLOWS INVESTMENTS IN GLOBAL OFFERINGS. FOR EXAMPLE, FUNDS MAY BE INVESTED IN A MUTUAL FUND THAT INCLUDES EAN SECURITIES, AS LONG AS THE MUTUAL FUND IS OFFERED IN THE U.S. THROUGH A U.S. BROKER. INVESTMENT OPTIONS IN THE U.S. MARKETS ARE SUFFICIENTLY BROAD THAT THIS REQUIREMENT SHOULD NOT HAMPER DEVELOPMENT OF A SOUND INVESTMENT STRATEGY FOR THE ENDOWED ORGANIZATION. IN FACT, EVEN ABSENT THIS RESTRICTION, ONE COULD EXPECT THAT THE BULK OF FUNDS OF AN ENDOWED ORGANIZATION LOOKING FOR LONG-TERM STABILITY WOULD BE INVESTED IN THE U.S.

A SMALL AMOUNT OF FUNDS NEEDED FOR CURRENT LOCAL OPERATING EXPENSES WILL NECESSARILY BE HELD LOCALLY, PROBABLY IN AN INTEREST BEARING ACCOUNT.

ENDOWMENTS DERIVED FROM DEBT SWAPS ARE NOT SUBJECT TO THIS REQUIREMENT THAT ALL LONG-TERM INVESTMENTS BE IN THE U.S. THESE ARE LOCAL CURRENCY FUNDS BY THEIR NATURE AND THUS MAY BE INVESTED LOCALLY.

(B) CONFLICTS OF INTEREST. AN IMPORTANT CONCERN IN THE ESTABLISHMENT OF ENDOWMENTS IS CONFLICT OF INTEREST. THE MEMBERS OF THE BOARD OF DIRECTORS, A TRUSTEE, OR FINANCIAL MANAGER ALL MAY HAVE POTENTIAL CONFLICTS WITH RESPECT TO EITHER INVESTMENT OR EXPENDITURE OF THE FUNDS. WHEN THE FUNDS WE GRANT ARE REQUIRED TO BE INVESTED IN THE U.S., THE PROBLEM IS SUBSTANTIALLY DIMINISHED (WITH RESPECT TO THOSE FUNDS), BUT NOT ELIMINATED. WHEN FUNDS ARE DERIVED FROM DEBT SWAPS, HOWEVER, AND INVESTED LOCALLY, THE PROBLEM IS MUCH GREATER. THE ISSUE OF CONFLICT OF INTEREST REQUIRES CAREFUL TREATMENT AT THE DESIGN STAGE. MORE DETAILED GUIDANCE ON CONFLICT OF INTEREST, AND SAMPLE CLAUSES, ARE AVAILABLE FROM PPC, GC, AND RLA'S.

(C) MANAGEMENT OF THE FUNDS. ARRIVING AT A MECHANISM FOR MANAGING THE INVESTMENT FUND ENTAILS A FAIRLY COMPLEX BALANCING OF USAIDIS INTERESTS, THE NGO'S INTERESTS, AND COST.

(I) ONE OPTION IS TO ESTABLISH A TRUST ARRANGEMENT WHEREBY CONTROL OF THE INVESTMENT FUND IS TOTALLY SEPARATED FROM THE BENEFICIARY ORGANIZATION. THE TRUSTEE MAY BE A SEPARATE FOUNDATION OR NGO, A BANK, ETC. IF IT SEEMS ADVANTAGEOUS UNDER THE CIRCUMSTANCES, THE TRUSTEE ORGANIZATION MAY BE SPECIALLY CREATED IN ORDER TO MANAGE THE ENDOWMENT.

THERE ARE A NUMBER OF ADVANTAGES TO USING A TRUSTEE TO MANAGE THE INVESTMENT FUND:

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A LOCAL NGO THAT IS A BENEFICIARY MAY APPROPRIATELY
BOARD OF DIRECTORS COMPOSED ENTIRELY, OR
PREDOMINANTLY, OF NATIONALS OF THAT COUNTRY. WITH SUCH A BOARD, POTENTIAL CONFLICTS OF INTEREST IN INVESTING THE FUNDS COULD BE A SERIOUS PROBLEM, PARTICULARLY IF THE FUNDS ARE LOCAL CURRENCY DERIVED FROM A DEBT SWAP. IT MAY

BE PRUDENT AND DESIRABLE TO HAVE INTERNATIONAL PARTICIPATION IN THE MANAGEMENT OF THE FUND. SEPARATING CONTROL OF THE INVESTMENTS FROM CONTROL OF THE PROGRAM ACTIVITIES ALLOWS FOR AN INFUSION OF OUTSIDE INFLUENCE OVER THE INVESTMENT FUNCTION.

----- THE BOARD OF THE BENEFICIARY ORGANIZATION MAY BE

COMPOSED OF PEOPLE WHOSE CHARACTERISTICS AND SKILLS ARE APPROPRIATE FOR MANAGEMENT OF THE PROGRAM, BUT WHO DO NOT HAVE THE BACKGROUND AND EXPERIENCE TO MANAGE THE INVESTMENT OF THE ENDOWMENT FUND. AGAIN, HAVING AN INDEPENDENT ENTITY MANAGE THE FUND ALLOWS FOR THE SELECTION OF THOSE MOST SUITED TO EACH TASK.

----- SEPARATION OF THE FUND FROM THE BENEFICIARY MAY ALLEVIATE THE POSSIBILITY THAT SHORT-TERM PROGRAMMATIC PRESSURES COULD LEAD TO IMPRUDENT INVESTMENTS.

----- FINALLY, IF THE TRUSTEE IS EITHER OF U.S. NATIONALITY OR LOCATED IN THE U.S. AND SERIOUS PROBLEMS DEVELOP IN THE FUTURE, IT WILL USUALLY BE EASIER FOR USAID TO REACH THE FUNDS. ADDITIONALLY, THE TRUSTEE WOULD BE REGULATED BY U.S. LAWS IN THIS CASE, ADDING A DEGREE OF PROTECTION.

THE ACTUAL DEGREE OF INDEPENDENCE OF THE TWO ORGANIZATIONS SHOULD BE CLOSELY EXAMINED. FOR EXAMPLE, IS THERE ANY OVERLAP ON THE BOARD OF DIRECTORS? IF THE TRUSTEE IS A BANK, IS IT AFFILIATED WITH ANY OF THE BOARD MEMBERS OF THE BENEFICIARY ORGANIZATION?

IF A TRUST ARRANGEMENT IS USED, IN MOST CASES USAID WILL GRANT THE FUNDS TO THE BENEFICIARY NGO, AND THE BENEFICIARY WILL EXECUTE A TRUST ARRANGEMENT WITH THE TRUSTEE. HOWEVER, USAID SHOULD REQUIRE THAT IT APPROVE THE TRUST AGREEMENT PRIOR TO THE SIGNING OF THE GRANT OR THE DISBURSEMENT OF FUNDS. BOTH THE TRUST AGREEMENT AND THE GRANT AGREEMENT SHOULD ALSO SPECIFY THAT THE TRUST AGREEMENT MAY NOT BE AMENDED WITHOUT USAID APPROVAL DURING THE PERIOD OF USAID OVERSIGHT. AGAIN, THE TRUST AGREEMENT SHOULD SPECIFY THE GENERAL PARAMETERS OF INVESTMENTS ALLOWED AND THE RETURN EXPECTED. USAID WILL
LY INTO THE TRUST ACCOUNT.

IF BOTH THE TRUSTEE AND THE BENEFICIARY ARE NGO'S, USAID MAY WANT TO GRANT THE FUNDS DIRECTLY TO THE TRUSTEE, TO BE HELD IN TRUST FOR THE BENEFICIARY. HOWEVER, WE WOULD NEED TO ENSURE THAT THE APPROPRIATE HB13 PROVISIONS WERE PASSED ON BY THE TRUSTEE TO THE BENEFICIARY.

THE DISADVANTAGES TO USING A TRUST ARRANGEMENT ARE:

----- IF A SUITABLE TRUSTEE DOES NOT ALREADY EXIST, CREATING A NEW ORGANIZATION COULD BE DIFFICULT, TIME CONSUMING, AND EXPENSIVE.

----- EXISTING, EASILY ACCESSIBLE TRUSTEES, SUCH AS BANKS, MAY TEND TO BE EXTREMELY CONSERVATIVE IN THEIR INVESTMENT STRATEGIES, AND NOT ENSURE THE BEST RETURN ON THE FUNDS.

----- USE OF A TRUST ARRANGEMENT COULD RESTRICT THE NGO'S ABILITY TO BUILD A CAPACITY FOR MANAGEMENT OF LONG-TERM ASSETS. A LIMITED TRACK RECORD IN THIS AREA COULD FRUSTRATE THE NGO'S EFFORTS TO USE THE USAID FUNDING TO LEVERAGE CONTRIBUTIONS FROM OTHER SOURCES.

------ (II) AN INTERMEDIATE ARRANGEMENT THAT IS COMMON AMONG U.S. ORGANIZATIONS IS FOR THE BENEFICIARY ORGANIZATION TO FORM A SEPARATE FINANCE COMMITTEE FOR MANAGEMENT OF THE FUND. THE COMMITTEE TAKES ITS GENERAL DIRECTION FROM THE BOARD OF DIRECTORS OF THE ORGANIZATION, BUT INCLUDES OUTSIDE MEMBERS WITH FINANCIAL EXPERTISE. IF SUCH AN ARRANGEMENT IS CONTEMPLATED, IT SHOULD BE SPECIFIED IN THE GRANT AGREEMENT. THE NUMBER AND QUALIFICATIONS OF THE OUTSIDE MEMBERS MAY ALSO BE SPECIFIED, AND USAID SHOULD ENSURE THAT A SATISFACTORY COMMITTEE HAS BEEN FORMED PRIOR TO THE DISBURSEMENT OF FUNDS.

------ (III) IN MOST CASES, AT A MINIMUM, A PROFESSIONAL FINANCIAL MANAGER SHOULD BE RETAINED. IN THAT CASE, THE NGO RETAINS ULTIMATE CONTROL OF THE FUNDS, BUT ENTERS INTO A WRITTEN AGREEMENT WITH A MANAGER FOR DAY-TO-DAY INVESTMENT AND ACCOUNTING SERVICES. THE CONTRACT SHOULD SPECIFY THE GENERAL PARAMETERS OF THE TYPES OF INVESTMENTS TO BE PERMITTED, AND THE AMOUNT AND TIMING OF INCOME TO BE DISBURSED TO THE ORGANIZATION FOR ITS OPERATIONS. THE REQUIREMENT FOR SUCH A CONTRACT SHOULD BE INCLUDED IN THE GRANT AGREEMENT AND THE MISSION SHOULD REVIEW AND APPROVE THE CONTRACT EITHER PRIOR TO THE SIGNING OF THE GRANT, OR PRIOR TO THE DISBURSEMENT OF FUNDS INTO THE ENDOWMENT. THE GRANT AGREEMENT SHOULD ALSO SPECIFY THAT ANY AMENDMENTS TO THE FINANCIAL MANAGEMENT AGREEMENT MUST BE AID DURING THE PERIOD OF USAID OVERSIGHT.

(D) SEPARATE ACCOUNT. IF THE NGO HAS FUNDS FROM OTHER SOURCES, THE FUNDS CONTRIBUTED BY USAID TO THE

ENDOWMENT, AND THE RETURN ON THOSE FUNDS, SHOULD BE HELD IN A SEPARATE ACCOUNT TO FACILITATE MONITORING. IN MOST CASES, THIS SHOULD NOT INTERFERE WITH HAVING MULTI-DONOR CONTRIBUTIONS TO AN ENDOWMENT FUND. IN FACT, MANY

ORGANIZATIONS PREFER THIS—ARRANGEMENT, SINCE IT PROVIDES

SOME INCENTIVE TO SUBSEQUENT CONTRIBUTORS TO ADD FUNDS THAT ARE ALSO IDENTIFIABLY THEIR OWN, AND TO WHICH THEY MAY ALSO WANT TO ATTACH CONDITIONS. HOWEVER, IF A MISSION OR BUREAU BELIEVES THAT A SEPARATE ACCOUNT IS NOT FEASIBLE UNDER A PARTICULAR SET OF CIRCUMSTANCES, THEY MAY REQUEST AN EXCEPTION TO THIS REQUIREMENT FROM PPC.

(E) TYPES OF INVESTMENTS. ALTHOUGH THE STATUTORY PROVISION AUTHORIZING THE RETENTION OF INTEREST AND ESTABLISHMENT OF ENDOWMENTS STATES THAT THE FUNDS MAY BE PLACED IN ''INTEREST BEARING ACCOUNTS", WE HAVE NOT INTERPRETED THIS PROVISION TO RESTRICT INVESTMENTS OF THESE FUNDS TO SAVINGS ACCOUNTS OR SIMILAR INSTRUMENTS. RATHER, WE READ THIS LANGUAGE MERELY AS PART OF THE POSITIVE AUTHORITY CONGRESS WAS PROVIDING TO OVERCOME NORMAL PROHIBITIONS ON RETAINING "INTEREST" ON APPROPRIATED FUNDS. AS A MATTER OF POLICY, THE INVESTMENTS SHOULD BE SOUND AND PRUDENT AND NOT INCLUDE ANY OF A HIGHLY SPECULATIVE NATURE. THE SPECIFIC INVESTMENTS WHICH WILL BE MOST BENEFICIAL WILL VARY ACCORDING TO THE PARTICULAR CIRCUMSTANCES, AND MAY INCLUDE EQUITY INVESTMENTS.

(F) LIFE OF THE ENDOWMENT. IT MAY NOT BE NECESSARY OR DESIRABLE IN ALL CASES TO CREATE AN ENDOWMENT WITH USAID FUNDS LARGE ENOUGH TO FINANCE ACTIVITIES IN PERPETUITY, AND TO PERMIT THE USE OF THE INVSTMENT INCOME ONLY. IN SOME CASES, IT MA BE PREFERABLE TO DRAW DOWN ON THE PRINCIPAL TO SOME DEGREE, AS WELL. FOR EXAMPLE, USAID MAY FINANCE AN ORGANIZATION WITH THE UNDERSTANDING THAT IT WILL BE SEEKING ADDITIONAL FUNDING FROM OTHER SOURCES. IF THE FUNDING MATERIALIZES AS PROJECTED, ONE OPTION MAY THEN BE TO PRESERVE THE ENDOWMENT PRINCIPAL GRANTED BY USAID. AN ALTERNATIVE APPROACH MAY BE TO SPEND DOWN THE USAID FUNDS AND RETAIN THE NEW FUNDING AS THE SOURCE OF ON-GOING INCOME. IF THE ADDITIONAL FUNDING DOES NOT MATERIALIZE AS PLANNED, IT MAY BE ATION TO BEGIN DRAWING DOWN PRINCIPAL IN ORDER TO OPERATE AT A REASONABLE LEVEL OF ACTIVITY, RATHER THAN OPERATE AT A LEVEL THAT WOULD HAVE LIMITED IMPACT, EVEN IF THIS MEANS THAT IT MAY CEASE TO OPERATE ALTOGETHER IN A NUMBER OF YEARS.

IN OTHER CASES, USAID MAY BELIEVE THAT THE USEFUL LIFE

OF THE ORGANIZATION IS LIMITED, AND THEREFORE PRESERVATION OF THE ENDOWMENT PRINCIPAL IS NEITHER NECESSARY NOR DESIRABLE. FINALLY, BUDGETARY CONSTRAINTS MAY LIMIT THE SIZE OF THE ENDOWMENT AND NECESSITATE DRAWDOWNS. A WORD OF CAUTION, HOWEVER: IF THE FUNDS

ARE DRAWN DOWN TOO RAPIDLY, THE ENDOWMENT COULD APPEAR TO BE NOTHING MORE THAN AN ADVANCE OF FUNDS, AND THE FAILURE TO APPLY NORMAL FUNDING CONTROLS AND RESTRICTIONS COULD BE CALLED INTO QUESTION. THE MINIMUM PERIOD OVER WHICH WE WOULD EXPECT THE USAID FUNDS TO BE DRAWN DOWN IS 10-15 YEARS.

(G) FINANCIAL PLANS. IN ALL CASES, THE FINANCIAL PLANS, INCLUDING THE PROJECTIONS FOR RETURNS AND THE CIRCUMSTANCES UNDER WHICH DRAWDOWNS OF PRINCIPAL ARE TO BE PERMITTED, SHOULD BE REVIEWED BY USAID PRIOR TO THE APPROVAL OF FUNDING FOR THE ENDOWMENT.

(H) TAX CONSEQUENCES. THE CREATION OR FUNDING OF ENDOWMENTS MAY TRIGGER A NUMBER OF TAX CONSEQUENCES -- IN THE U.S. (BOTH FEDERAL AND STATE) AS WELL AS IN THE HOST COUNTRY. OF COURSE, THE BENEFICIARY NGO HAS ULTIMATE RESPONSIBILITY FOR ASSESSING ITS TAX LIABILITIES. NEVERTHELESS, TAX ISSUES SHOULD BE THOROUGHLY EXPLORED PRIOR TO THE APPROVAL OF AN ENDOWMENT, SINCE THEY AFFECT FINANCIAL PROJECTIONS. A SEPARATE INFORMATION PACKAGE ON U.S. TAX ISSUES HAS BEEN PREPARED FOR INTERNAL GUIDANCE AND IS AVAILABLE FROM GC OR PPC. TWO OF THE MOST SALIENT POINTS, EXEMPT STATUS AND DEDUCTIBILITY OF CONTRIBUTIONS, ARE BRIEFLY DISCUSSED BELOW.

INCOME FROM INVESTMENTS IN THE U.S. WILL GENERALLY BE SUBJECT TO FEDERAL TAXES AND TAXED AT THE CORPORATE RATE UNLESS THE NGO HAS BEEN RECOGNIZED AS A CHARITABLE ORGANIZATION UNDER SECTION 501(C)(3) OF THE U.S. INTERNAL REVENUE CODE. (A SEPARATE EXEMPTION, UNRELATED TO 501(C)(3) STATUS, IS APPLICABLE TO INTEREST INCOME FROM U.S. BANK ACCOUNTS.) FOREIGN ORGANIZATIONS CAN ACQUIRE EXEMPT STATUS BY FILING FORM 1023. THE IRS GENERALLY TAKES A MINIMUM OF THREE MONTHS TO PROCESS THE APPLICATION. IN ITS REVIEW, THE IRS EMPHASIZES FINANCIAL MANAGEMENT CONTROLS AND ACCOUNTABILITY MEASURES, SO A THOROUGH ANALYSIS OF MANY OF THE ISSUES

ASSURE

501(C)(3) STATUS FOR THE ORGANIZATION. IN GENERAL, CONTRIBUTIONS BY A U.S. CITIZEN TO A FOREIGN ORGANIZATION ARE NOT TAX DEDUCTIBLE, NOR ARE CONTRIBUTIONS TO A U.S. ORGANIZATION THAT IS ACTING AS A MERE CONDUIT FOR FUNDS FOR A FOREIGN ORGANIZATION.

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THERE ARE CIRCUMSTANCES UNDER WHICH A U.S. ORGANIZATION CAN CHANNEL FUNDS TO A FOREIGN ORGANIZATION WITHOUT JEOPARDIZING THE DEDUCTIBILITY OF THE FUNDS, BUT THE RULES ARE FAIRLY COMPLEX AND NEED TO BE FOLLOWED CLOSELY.

. LEGAL-REGULATORY ENVIRONMENT. IN MANY DEVELOPING OUNTRIES, ENDOWMENTS ARE NOT A FAMILIAR FUNDING RRANGEMENT. THE HOST COUNTRY LAWS AND REGULATIONS MAY OT BE APPROPRIATE, THEREFORE, FOR ESTABLISHING NDOWMENTS, AT LEAST IN SOME FORMS. TO OVERCOME GAPS IN HE LAW, THE CHARTER OR BY-LAWS OF THE ORGANIZATIONS MAY AVE TO INCLUDE ITEMS NOT NORMALLY FOUND IN THESE OCUMENTS. BOCAL LEGAL COUNSEL SHOULD BE CONSULTED EARLY N THE PROCESS. MISSIONS SHOULD RECOGNIZE, HOWEVER, THAT F ENDOWMENTS ARE NOT COMMON IN A COUNTRY, EVEN FINDING OCAL COUNSEL WHO CAN PROVIDE RELIABLE ADVICE COULD BE ROBLEMATIC. THE MISSION MAY NEED TO CONTRACT OUTSIDE ONSULTANTS IN ORDER TO GAIN A FULL UNDERSTANDING OF THE OCAL LEGAL AND TAX ISSUES INVOLVED.

'. OBLIGATION OF FUNDS

.. GRANT AGREEMENT. AS STATED ABOVE, OBLIGATION OF FUNDS ILL NORMALLY BE THROUGH A GRANT AGREEMENT. ALTHOUGH HERE ARE SUBSTANTIAL DIFFERENCES BETWEEN OUR NORMAL RANT-FUNDED ACTIVITIES AND ENDOWMENTS, WE ARE STILL RANTING THE FUNDS TO THE BENEFICIARY ORGANIZATION, AND MPOSING CERTAIN RESTRICTIONS ON THE USE OF THE FUNDS, ALL F WHICH MUST BE INCORPORATED INTO THE GRANT AGREEMENT, ITHER DIRECTLY OR BY REFERENCE. NEVERTHELESS, EVEN HOUGH THE GRANT AGREEMENT IS THE BASIC OBLIGATION OCUMENT, IT MUST BE MODIFIED SUBSTANTIALLY IN A MANNER IMILAR TO THE MODIFICATIONS WE MAKE TO GOVERNMENT-TO-OVERNMENT GRANT AGREEMENTS FOR CASH TRANSFERS. A MODEL GREEMENT WILL BE DEVELOPED IN THE NEAR FUTURE.

. USE OF FUNDS. THE GRANT AGREEMENT SHOULD STATE ANY ESTRICTIONS ON THE USE OF FUNDS, PARTICULARLY IF THE RGANIZATION IS NOT TO BE PERMITTED TO USE THE FUNDS FOR LL OF THE PURPOSES FOR WHICH IT HAS BEEN ORGANIZED, OR HICH ARE PERMITTED UNDER ITS CHARTER.

. RESTRICTIONS ON FUNDS. A NORMAL GRANT AGREEMENT ONTAINS A PANOPLY OF RESTRICTIONS ON THE USE OF THE UNDS, MOST OF WHICH ARE STATUTORILY IMPOSED. SINCE NDOWMENTS ARE CREATED IN ORDER TO PROVIDE THE ITH A STABLE SOURCE OF INCOME, THE PRIMARY URPOSE FOR WHICH THE FUNDS ARE TO BE USED IS ACCOMPLISHED

AT THE TIME THE ENDOWMENT IS FUNDED, ALTHOUGH WE MAY RETAIN A SUBSIDIARY INTEREST IN HOW THE FUNDS ARE LATER USED, AS WELL. AN ENDOWMENT IS THEREFORE SIMILAR TO A CASH TRANSFER, AND NORMAL STATUTORY RESTRICTIONS DO NOT APPLY AS A MATTER OF LAW. HOWEVER, WE HAVE DETERMINED THAT THE FOLLOWING RESTRICTIONS SHOULD BE APPLIED AS A MATTER OF POLICY:

1. SOURCE/ORIGIN. BECAUSE USAID OVERSIGHT OF ENDOWMENTS WILL BE SOMEWHAT LIMITED; THE ORGANIZATIONS RECEIVING ENDOWMENTS WILL OFTEN HAVE OTHER FUNDING SOURCES FOR THEIR OPERATIONS; SEPARATION OF WHICH FROM USAID FUNDING COULD BE EXTREMELY BURDENSOME; AND IN MOST CASES THE INCOME FROM THE USAID FUNDS WILL BE SPENT RATHER THAN THOSE FUNDS THEMSELVES, USAID WILL NOT IMPOSE ANY FLAT SOURCE/ORIGIN REQUIREMENTS. HOWEVER, BENEFICIARY ORGANIZATIONS SHOULD BE ENCOURAGED TO MAKE A GOOD FAITH EFFORT TO FOLLOW THE GENERAL PARAMETERS OF OUR SOURCE/ORIGIN RULES, RECOGNIZING THAT THE SOURCE OF THE FUNDS IS THE U.S. GOVERNMENT. THE GRANT AGREEMENT SHOULD CONTAIN A CLAUSE TO THIS EFFECT. COMPLIANCE WITH THIS GOOD FAITH EFFORT WILL NOT BE MONITORED. MISSIONS SHOULD BE AWARE THAT SOURCE/ORIGIN IS ALWAYS A SENSITIVE ISSUE, AND FAILURE OF THE ORGANIZATION TO MAKE SUCH A GOOD FAITH EFFORT COULD POSSIBLY JEOPARDIZE CONTINUATION OF OUR ENDOWMENT AUTHORITY.

2. FAMILY PLANNING ACTIVITIES. NONE OF THE FUNDS MADE AVAILABLE THROUGH AN ENDOWMENT, INCLUDING INVESTMENT INCOME, MAY BE USED --

(1) TO COERCE ANY PERSON TO PRACTICE ABORTION; OR

(2) TO PAY FOR THE PERFORMANCE OF INVOLUNTARY STERILIZATIONS OR TO COERCE OR PROVIDE ANY FINANCIAL INCENTIVE TO ANY PERSON TO UNDERGO STERILIZATION.

D. CONDITIONS PRECEDENT. THE GRANT AGREEMENT SHOULD STATE THAT, PRIOR TO THE DISBURSEMENT OF FUNDS, THE FOLLOWING MUST BE REVIEWED AND APPROVED BY THE MISSION:

1. THE FINANCIAL PLAN, WHICH INCLUDES A REALISTIC PROJECTION OF INCOME FROM THE ENDOWMENT; AND

2. THE ARRANGEMENTS FOR MANAGEMENT OF THE ENDOWMENT FUND, WHICH SHOULD INCLUDE AN EXECUTED TRUST AGREEMENT OR FINANCIAL MANAGEMENT CONTRACT IF THEY ARE TO BE USED, OR FORMATION OF A FINANCE COMMITTEE.

E. COVENANTS. THE GRANT AGREEMENT SHOULD INCLUDE THE FOLLOWING COVENANTS:

1. A COVENANT THAT THE TRUST AGREEMENT, FINANCE COMMITTEE, OR FINANCIAL MANAGEMENT CONTRACT CANNOT BE F USAID OVERSIGHT WITHOUT THE APPROVAL OF USAID; AND

2. A COVENANT REQUIRING THAT IF EITHER THE NGO OR THE

ENDOWMENT ARE DISSOLVED AT ANY TIME (EVEN AFTER THE PERIOD OF USAID OVERSIGHT), ANY FUNDS REMAINING IN THE ENDOWMENT MUST BE RETURNED TO THE U.S. TREASURY AS MISCELLANEOUS RECEIPTS, UNLESS USAID AGREES OTHERWISE.

F. MONITORING BY USAID. THE GRANT AGREEMENT SHOULD ESTABLISH THE PERIOD OF USAID OVERSIGHT, AND THE LEVEL OF MONITORING THAT WILL BE PERFORMED DURING THAT PERIOD. IN GENERAL, THE ENDOWMENT AND USE OF FUNDS SHOULD BE MONITORED FOR A MINIMUM OF FIVE YEARS AND A MAXIMUM OF TEN. FURTHER DETAILS ON MONITORING ARE INCLUDED BELOW.

G. TERMINATION. THE GRANT AGREEMENT SHOULD INCLUDE THE NORMAL RIGHTS TO TERMINATE AT USAIDIS OPTION IF FUNDS ARE IMPROPERLY USED, TO APPLY DURING THE PERIOD OF USAID OVERSIGHT. ADDITIONALLY, THE GRANT AGREEMENT SHOULD SPECIFY THAT FAILURE TO PROVIDE A SCHEDULED AUDIT REPORT TO USAID, OR SERIOUS ADVERSE AUDIT FINDINGS, WILL CONSTITUTE DEFAULT UNDER THE AGREEMENT AND CAN BE CONSIDERED GROUNDS FOR TERMINATION. THE GRANT AGREEMENT SHOULD ALSO PROVIDE THAT IF THE GRANT IS TERMINATED, ANY FUNDS REMAINING IN THE ENDOWMENT MUST BE REFUNDED TO USAID.

VI. MONITORING AND OVERSIGHT

A. MONITORING BY USAID. THE DEGREE OF MONITORING BY USAID THAT IS DESIRABLE AND FEASIBLE WILL BE INFLUENCED TO SOME DEGREE BY THE SPECIFIC CIRCUMSTANCES SURROUNDING THE ENDOWMENT. IF THE ORGANIZATION HAS A GOOD TRACK RECORD, AND WE ARE FUNDING THE ENDOWMENT AS PART OF A DECISION TO TERMINATE DIRECT USAID ACTIVITIES IN THE COUNTRY, LIMITED OVERSIGHT BY USAID MIGHT BE ALL THAT IS NEEDED OR EVEN FEASIBLE. ON THE OTHER HAND, IF THE ORGANIZATION IS NEW AND WE ARE MAINTAINING A PRESENCE IN THE COUNTRY, MORE OVERSIGHT FOR A LONGER PERIOD OF TIME MIGHT BE APPROPRIATE.

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IN ANY CASE, THE OVERSIGHT THAT IS PERMITTED WILL BE LIMITED TO SOME DEGREE BY THE NATURE OF THE TRANSACTION.

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IN ARRIVING AT THE LEGAL DETERMINATION THAT NORMAL STATUTORY RESTRICTIONS—NEED NOT BE APPLIED TO THE FUNDING OF AN ENDOWMENT, WE ARE RELYING ON THE RATIONALE THAT THE OF THE ASSISTANCE IS ACHIEVED AT THE TIME THE ENDOWMENT IS FUNDED IF USAID MAINTAINS TOO HIGH A LEVEL OF INVOLVEMENT IN THE SUBSEQUENT PROJECT ACTIVITIES, THIS LOGIC WILL BE UNDERMINED, ANB IT COULD BE CONCLUDED THAT A NORMAL GRANT AGREEMENT WAS THE MORE APPROPRIATE ASSISTANCE VEHICLE. NO CLEAR LINE CAN BE DRAWN BETWEEN WHAT IS THE RIGHT LEVEL OF INVOLVEMENT AND OVERSIGHT AND WHAT IS TOO MUCH. HOWEVER, THE FOLLOWING EXAMPLES CAN BE USED AS A GUIDE:

1. THE PARTICIPATION OF A USAID EMPLOYEE ON THE BOARD OF DIRECTORS OF THE ORGANIZATION OR THE TRUST (IF THE TRUSTEE ALSO HAS SOME SUBSTANTIVE OVERSIGHT ROLE IN ADDITION TO HAVING RESPONSIBILITY FOR THE FUNDS) IS PERMISSIBLE ONLY IF IT IS IN AN EX-OFFICIO (I.E., OFFICIALLY REPRESENTING USAID) NON-VOTING CAPACITY.

2. REQUIRING THAT USAID APPROVE THE FIRST BOARD OF DIRECTORS IS PERMISSIBLE, BUT APPROVING REPLACEMENTS AFTER THAT IS NOT. (THE BY-LAWS SHOULD BUILD IN A REPLACEMENT MECHANISM WHICH GIVES USAID CONFIDENCE THAT THE REPLACEMENTS WILL BE ACCEPTABLE WITHOUT USAID OVERSIGHT.)

3. RETAINING THE RIGHT TO APPROVE SUBGRANTS MADE BY THE NGO IS NOT PERMISSIBLE.

4. REQUIRING SUBMISSION OF THE NGO'S ANNUAL REPORT, OR AN ANNUAL REPORT SPECIFICALLY PREPARED FOR USAID, IS PERMISSIBLE AND USUALLY DESIRABLE.

B. MONITORING AFTER THE PERIOD OF USAID OVERSIGHT. MISSIONS AND BUREAUS FINANCING ENDOWMENTS ALSO NEED TO ASSURE THEMSELVES THAT ADEQUATE ARRANGEMENTS ARE IN PLACE TO ENSURE MONITORING OF THE ENDOWMENT BY OTHERS (E.G., THROUGH PUBLICATION OF ANNUAL REPORTS AND AUDITS AND DISTRIBUTION TO THE BROAD NGO COMMUNITY) AFTER THE PERIOD OF USAID OVERSIGHT ENDS. APPROPRIATE PROVISIONS SHOULD BE INCLUDED IN THE GRANT AGREEMENT AND/OR TRUST AGREEMENT. THIS ISSUE SHOULD BE EXPLICITLY ADDRESSED DURING PROJECT DESIGN AND APPROVAL.

C. AUDITS. AN ANNUAL AUDIT DURING THE PERIOD OF USAID OVERSIGHT, FOLLOWING THE NORMAL A-133 AUDIT PROCEDURES, IS REQUIRED IN ALL CASES. THE REPORT SHOULD COVER BOTH THE

AGREEMENT SHOULD SPECIFY THAT FAILURE TO PROVIDE A SCHEDULED AUDIT REPORT TO USAID, OR SERIOUS ADVERSE AUDIT FINDINGS, WILL CONSTITUTE DEFAULT UNDER THE AGREEMENT AND BE CONSIDERED GROUNDS FOR TERMINATION OF THE AGREEMENT AND REFUND OF THE FUNDS REMAINING IN THE ENDOWMENT. ADDITIONALLY, THE ENDOWMENT SHOULD BE INCLUDED IN THE UDIT UNIVERSE, IN ACCORDANCE WITH AUDIT MANAGEMENT RESOLUTION PROGRAM, IN ORDER TO ENSURE THAT IT IS TRACKED AND MONITORED, EVEN THOUGH THERE WILL NOT BE ANY DISBURSEMENTS FROM USAID DURING MOST OF THE OVERSIGHT YEARS.

VII. MULTI-DONOR ENDOWMENTS

ENDOWMENTS INVOLVING MORE THAN ONE DONOR MAY REQUIRE SOME DEVIATIONS FROM THE ABOVE GUIDANCE. IN SUCH CASES, SPECIFIC ADDITIONAL GUIDANCE SHOULD BE SOUGHT FROM PPC AND GC.

VIII. CONSULTATIONS

ENDOWMENTS CAN INVOLVE VERY COMPLEX STRUCTURES AND AGREEMENTS, AND MAY BE AFFECTED BY BOTH LOCAL AND U.S. LAWS AND TAX REGULATIONS. IF THE AMOUNTS INVOLVED ARE LARGE, THE POTENTIAL FOR ABUSE OR MISUSE OF FUNDS INCREASES, PARTICULARLY SINCE MANY OF THE NORMAL USAID CONTROLS CANNOT BE APPLIED. ADDITIONALLY, THE STAFF RESOURCES NEEDED TO ESTABLISH AN ENDOWMENT MAY BE GREATER THAN ANTICIPATED. ALTHOUGH USAID HAS GAINED A CONSIDERABLE AMOUNT OF EXPERIENCE WITH LOCAL CURRENCY ENDOWMENTS, WE DO NOT HAVE EXTENSIVE EXPERIENCE CREATING ENDOWMENTS WITH APPROPRIATED DOLLARS. FURTHERMORE, DOLLAR ENDOWMENTS ARE LIKELY TO BE SUBJECT TO A HIGHER LEVEL OF SCRUTINY BY CONGRESS AND OTHER OUTSIDE ORGANIZATIONS THAN THAT WHICH IS GIVEN TO LOCAL CURRENCY ENDOWMENTS. IT IS THEREFORE ADVISABLE FOR A MISSION OR BUREAU THAT IS CONTEMPLATING FUNDING AN ENDOWMENT TO SEEK APPROPRIATE ADVICE FROM LOCAL AND U.S. LEGAL COUNSEL, AS WELL AS PPC AND GC, AS THE FIRST STEP IN THE PROCESS.
CHRISTOPHER
BT
#1880

IT SHOULD BE DONE, END QUOTE. THE ASIA BUREAU PLANS TO RAISE THIS ISSUE AGAIN IN ITS RECLAMA DUE ON OCTOBER 20. WE WILL KEEP YOU INFORMED, AND WILL NOTIFY YOU ASAP AS TO HOW/WHETHER THIS ACTIVITY WILL BE FUNDED.

3. THE BUREAU CONDUCTED ITS REVIEW OF THE IBCP PID ON AUGUST 10, 1993. THE REVIEW WAS CHAIRED BY ASIA/DR, PHYLLIS FORBES. OFFICES REPRESENTED INCLUDED ASIA (EA, FPM, AND DR/TR/PD) GC/ASIA, R&D/ENR, D/POL, POL/IDP AND STATE/EAP/J. USAID/JAKARTA WAS REPRESENTED BY JERRY BISSON WHO PROVIDED AN EXCELLENT OVERVIEW OF THE USD 60 MILLION, INDONESIAN-JAPANESE-AMERICAN BIODIVERSITY CONSERVATION PROGRAM WHICH SUPPORTS IMPLEMENTATION OF THE INDONESIAN BIODIVERSITY ACTION PLAN.

4. THE BUREAU COMMENDS USAID/JAKARTA ON ITS CREATIVE PROPOSAL FOR THE A.I.D. COMPONENT OF THE PROGRAM; I.E., ENABLING THE NGO COMMUNITY IN INDONESIA TO ASSUME A PARTNERHSIP ROLE WITH THE GOVERNMENT OF INDONESIA (GOI) TO MONITOR AND PROTECT BIOLOGICALLY DIVERSE HABITATS; AND TO ENSURE A POLICY ENVIRONMENT THAT FOSTERS BIODIVERSITY CONSERVATION. WE AGREE THAT THIS CAN BE FACILITATED BY ESTABLISHING THE INDONESIAN FOUNDATION FOR BIODIVERSITY CONSERVATION AS AN INTERNATIONALLY RECOGNIZED NGO CAPABLE OF STIMULATING JOINT EFFORTS OF GOVERNMENT INSTITUTIONS, UNIVERSITIES, NGOS, INDIVIDUALS AND INTERNATIONAL DONORS.

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6. DESIGN ISSUES. THE BUREAU OFFERS THE FOLLOWING GUIDANCE ON ISSUES CONCERNING THE CREATION, OPERATION AND ENDOWMENT OF THE BIODIVERSITY FOUNDATION.

(A) ESTABLISHING AN INDEPENDENT FOUNDATION

THE PID PROPOSES THAT THE FOUNDATION BE INDEPENDENT AND SELF-GOVERNING; BUT, WITH STRONG SUPPORT FROM AND LINKAGES TO THE GOI. THERE IS CONCERN THAT THE FOUNDATION MAY NOT BE ABLE TO ESTABLISH AND PRESERVE ITS NON-GOVERNMENTAL CHARACTER. TO ENSURE STABLE MANAGEMENT AND GOVERNANCE OF THE FOUNDATION AND LIMIT CONTROL BY ANY GOVERNMENT, THE MISSION SHOULD WORK WITH THE FOUNDERS GROUP TO REACH

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INFO: ECON-1 DCM-0 CHRON-0

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TO RUEHJA/AMEMBASSY JAKARTA PRIORITY 4350
INFO RUEHKO/AMEMBASSY TOKYO 8093
BT
UNCLAS SECTION 01 OF 02 STATE 316766

AIDAC TOKYO FOR PAUL WHITE, JAKARTA FOR C. WEDEN

E.O. 12356: N/A
TAGS:
SUBJECT: INDONESIA BIODIVERSITY CONSERVATION PID
-- (497-0384)

REF: (A) JAKARTA 06848, (B) STATE 1184535, (C) WEDEN/LAUDATO TELECON OF OCT. 8, 1993, AND (D) JAKARTA 10761

1. THIS CABLE CONSTITUTES AA/ASIA APPROVAL OF THE PROJECT IDENTIFICATION DOCUMENT (PID) FOR THE INDONESIA BIODIVERSITY CONSERVATION PROJECT (IBCP), AND DELEGATES AUTHORITY TO THE DIRECTOR, USAID/JAKARTA, TO CONTINUE PROJECT DEVELOPMENT. DELEGATION OF AUTHORITY IS ALSO GIVEN TO THE DIRECTOR TO AUTHORIZE THE PROJECT IN THE FIELD, PENDING NOTIFICATION OF AVAILABILITY OF FUNDS. AS INDICATED IN REF C, AGENCY-WIDE BUDGET DELIBERATIONS ARE IN PROCESS AND WILL NEED TO BE COMPLETED BEFORE FUNDING FOR THE PROJECT CAN BE FINALIZED.

2. IT IS IMPORTANT TO NOTE THAT THE AGENCY'S FY 94 OVERALL BUDGET LEVEL IS 75 PERCENT OF ITS ORIGINAL REQUEST. THE BUREAU DID NOT BUDGET FOR THE IBCP IN FY 94 BECAUSE OF OUR UNDERSTANDING THAT ADDITIONAL FUNDS WOULD BE PROVIDED FOR THIS ACTIVITY. THE SOURCE AND LEVEL OF FUNDING, AS WELL AS THE POSSIBILITY OF INCREMENTAL FUNDING, FOR IBCP ARE ISSUES PUT BEFORE THE

ADMINISTRATOR'S BUDGET REVIEW.

WE HAVE BEEN INFORMED THAT THE FOLLOWING BUDGET DECISION WAS MADE AT THIS REVIEW: QUOTE, THE USD 6 MILLION IN FY 94 REQUIRED FOR THIS CENTER MAY BE FUNDED FROM THE DA BUDGET OF THE ASIA AND NEAR EAST BUREAU IF THE BUREAU DETERMINES

USAID ROUTING		
TO	ACT	INFO
DIR		✓
DD		✓
EFSO		
LA		
PPS		✓
EXO		
CM		
FIN		✓
FMD		
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AEE	✓	
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HRDMP		
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4. THE BUREAU COMMENDS USAID/JAKARTA ON ITS CREATIVE PROPOSAL FOR THE A.I.D. COMPONENT OF THE PROGRAM; I.E., ENABLING THE NGO COMMUNITY IN INDONESIA TO ASSUME A PARTNERHSIP ROLE WITH THE GOVERNMENT OF INDONESIA (GOI) TO MONITOR AND PROTECT BIOLOGICALLY DIVERSE HABITATS; AND TO ENSURE A POLICY ENVIRONMENT THAT FOSTERS BIODIVERSITY CONSERVATION. WE AGREE THAT THIS CAN BE FACILITATED BY ESTABLISHING THE INDONESIAN FOUNDATION FOR BIODIVERSITY CONSERVATION AS AN INTERNATIONALLY RECOGNIZED NGO CAPABLE OF STIMULATING JOINT EFFORTS OF GOVERNMENT INSTITUTIONS, UNIVERSITIES, NGOS, INDIVIDUALS AND INTERNATIONAL DONORS.

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THE PID PROPOSES THAT THE FOUNDATION BE INDEPENDENT AND SELF-GOVERNING; BUT, WITH STRONG SUPPORT FROM AND LINKAGES TO THE GOI. THERE IS CONCERN THAT THE FOUNDATION MAY NOT BE ABLE TO ESTABLISH AND PRESERVE ITS NON-GOVERNMENTAL CHARACTER. TO ENSURE STABLE MANAGEMENT AND GOVERNANCE OF THE FOUNDATION AND LIMIT CONTROL BY ANY GOVERNMENT, THE MISSION SHOULD WORK WITH THE FOUNDERS GROUP TO REACH

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AGREEMENT ON REQUIREMENTS FOR FOUNDATION STRUCTURE (INCLUDING BOARDS, BOARD COMPOSITION AND BOARD-MEMBER SELECTION CRITERIA), BY-LAWS, AND OPERATING PROCEDURES. CONCURRENTLY, USAID/JAKARTA SHOULD WORK WITH THE GOI TO ENSURE THAT THE LEGAL AND REGULATORY ENVIRONMENT IN

INDONESIA BEST SUPPORTS THE EXISTENCE OF THE FOUNDATION. THESE ARRANGEMENTS -- AND OTHERS NECESSARY TO ESTABLISHING THE FOUNDATION AS A WELL-FUNCTIONING, PRIVATE, LEGAL ENTITY -- NEED TO BE COMPLETE BEFORE FUNDS FOR THE ENDOWMENT ARE GRANTED.

(B) JUSTIFICATION FOR AN ENDOWMENT

THE PID DOES NOT PROVIDE A CLEAR JUSTIFICATION FOR USING THE ENDOWMENT MECHANISM INSTEAD OF ALTERNATIVES SUCH AS TECHNICAL ASSISTANCE OR AN OPERATIONAL SUPPORT GRANT TO HELP MAKE THE FOUNDATION SUSTAINABLE. THE MISSION SHOULD INCLUDE SUCH A JUSTIFICATION IN THE PROJECT PAPER; I.E., DEMONSTRATE THAT DEVELOPMENT INVESTMENT RETURN IS GREATER IF A.I.D. ENDOWS THE FOUNDATION.

(C) BUSINESS AND FINANCIAL PLAN FOR THE FOUNDATION

THE ENDOWMENT MANAGEMENT STRATEGY WILL DETERMINE WHETHER A.I.D.'S CONTRIBUTION OF USD 15 MILLION IS ADEQUATE TO COVER THE COSTS OF SUSTAINING THE FOUNDATION'S OPERATIONS AND PROGRAMS DURING THE FIVE-YEAR PROJECT PERIOD AND BEYOND. THE MISSION PLANS TO CONDUCT ADDITIONAL FINANCIAL ANALYSES AND TO CONSTRUCT A FINANCIAL PLAN FOR THE FOUNDATION AS DESIGN CONTINUES. WE SUGGEST THAT PART OF THIS WORK INCLUDE A PLAN WHICH PROVIDES COST AND EARNINGS PROJECTIONS FOR A 10-YEAR PERIOD. THE FOUNDERS GROUP SHOULD IDENTIFY POTENTIAL SOURCES OF INTERNAL INDONESIAN AS WELL AS INTERNATIONAL FINANCING, DEVELOPING A GROWTH STRATEGY WHICH PERMITS THE FOUNDATION TO FINANCE ITS OPERATIONS AND PROGRAMS INCREASINGLY FROM OTHER SOURCES OVER TIME.

(D) ENDOWMENT PROCEDURES

USAID/JAKARTA PROPOSES THAT THE FOUNDATION IMPLEMENT A

FEW, HIGH-QUALITY, PILOT ACTIVITIES EARLY IN ITS FORMATIVE STAGE; THUS, GAINING CREDIBILITY FROM WHICH TO FORGE ITS LEADERSHIP ROLE IN BIODIVERSITY. THESE ACTIVITIES WILL NEED TO BE SUCCESSFUL IF THE FOUNDATION IS TO ESTABLISH A TRACK RECORD THAT JUSTIFIES PROVISION OF AN ENDOWMENT. WE ARE CONCERNED THAT THE PID DID NOT DISCUSS HOW DECISIONS WILL BE MADE ABOUT WHAT THE FOUNDATION FUNDS; I.E., WHAT PROCEDURES AND TECHNICAL CRITERIA WILL BE USED TO EVALUATE GRANT PROPOSALS, AND TO AWARD GRANTS. THESE

PROCEDURES AND CRITERIA SHOULD BE DEVELOPED CONCURRENTLY WITH PREVIOUSLY OUTLINED WORK ON FOUNDATION STRUCTURE, OPERATIONS AND MANAGEMENT.

(E) U. S. AND JAPANESE PARTICIPATION IN THE FOUNDATION

THE PID DID NOT INDICATE HOW THE UNITED STATES AND JAPAN WILL PARTICIPATE IN THE FOUNDATION ON THE BOARD OF DIRECTORS (OR TRUSTEES). IN DISCUSSIONS AT THE PID REVIEW, JERRY BISSON INDICATED THAT THE MISSION DOES NOT PLAN EX OFFICIO PARTICIPATION ON THE BOARD OF DIRECTORS; BUT, THAT AMERICAN PARTICIPATION PROBABLY WOULD COME FROM THE NGO COMMUNITY. WE SUPPORT THIS APPROACH; HOWEVER, IF A.I.D. EMPLOYEES PARTICIPATE ON THE BOARD OF DIRECTORS IN AN EX OFFICIO CAPACITY, IT SHOULD BE ON A NON-VOTING BASIS. THIS WOULD ALLOW A.I.D. A SEAT AT THE TABLE, WHILE PERMITTING A.I.D. TO MAINTAIN AN ARMS-LENGTH RELATIONSHIP WITH ITS GRANTEE.

7. USAID'S REQUEST FOR ADDITIONAL GUIDANCE ON ENDOWMENTS. REF (D) RAISES IMPORTANT QUESTIONS REGARDING DRAFT ENDOWMENT GUIDELINES AS THEY RELATE TO LOCAL CURRENCY; INVESTMENT OF ENDOWMENT FUNDS; REQUIREMENTS FOR AWARDING ENDOWMENTS TO NGOS; AND RULES GOVERNING A.I.D.'S OVERSIGHT AND MONITORING OF AN ENDOWMENT. WE WILL INCLUDE THESE ISSUES IN THE BUREAU'S RECOMMENDATIONS FOR REVISIONS TO THE GUIDELINES. AS AGENCY POLICY REGARDING ENDOWMENTS EVOLVES, USAID/JAKARTA WILL BE PROVIDED WITH SUPPLEMENTAL GUIDANCE.
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J. COOPERATION WITH OTHER DONORS IN BIODIVERSITY CONSERVATION

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