



# **External Evaluation of the Indonesian Biodiversity Foundation (IBF) Project**

## **Yayasan Keanekaragaman Hayati**

### **Task Order under the Biodiversity & Sustainable Forestry IQC (BIOFOR)**

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## Executive Summary

The first five years following the establishment of any new institution are always challenging. The creation of KEHATI, a new type of Indonesian nongovernmental institution with a mandate to protect biodiversity, has been an unusually difficult task. It has required visionary leadership, continued dedication, and excellent managerial skills among KEHATI's board, its staff, and its donor supporters.

The mid-term evaluation team has concluded that KEHATI has made good progress in meeting the five-year objectives anticipated in the KEHATI-USAID cooperative agreement. These five-year benchmarks (Annex A) have been largely institutional and do not address what impact KEHATI's programs have had on biodiversity in Indonesia. We agree that the importance of this initial focus on institution building rather than on biodiversity is the correct way to evaluate the early years of a new biodiversity foundation with a permanent endowment.

In addition to meeting the cooperative agreement benchmarks, KEHATI is proving to be an excellent model as Indonesia's first nongovernmental foundation.

The evaluation team also concluded that KEHATI is performing well compared with other conservation trust funds around the world. We have rated KEHATI (and USAID) performance as good or excellent for all the major factors identified by a 1998 GEF evaluation of 12 conservation trust funds as "important for successful trust fund operations" (Annex B).<sup>1</sup>

Despite this admirable progress, KEHATI still faces many challenges. The evaluation team believes that the key areas in which KEHATI needs attention include

- ? Fundraising
- ? Improving staff skills and capacity while keeping operating costs at or below 20% to 25% of annual revenues
- ? Making improvements in the management and oversight of the KEHATI endowment
- ? Establishing a nimble but effective monitoring and evaluation system. This is essential for measuring KEHATI's overall impact and ensuring successful field projects throughout Indonesia. Clear indications of KEHATI success will also be needed to assist in fundraising.
- ? Ensuring that a board of trustees is constituted and structured in the best way to achieve KEHATI's objectives.

KEHATI has an important role to play in protecting Indonesia's extraordinary biodiversity while simultaneously encouraging appropriate levels of biodiversity utilization to provide income for

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<sup>1</sup> "GEF Evaluation of 12 Conservation Trust Funds," 1998. The KEHATI evaluation team leader participated in the GEF evaluation and was a co-author of the GEF report.

Indonesia's citizens. KEHATI's progress thus far demonstrates that it has the potential to become one of the world's most effective biodiversity foundations. The evaluation team hopes these suggestions will be helpful in achieving that potential.

# KEHATI Mid-Term Evaluation

## INTRODUCTION

This external evaluation of the Indonesia Biodiversity Foundation (KEHATI) Project was carried out in Indonesia January 10–27, 2000, at the request of USAID/Indonesia and the KEHATI board of trustees. The evaluation occurred approximately halfway through the 10-year period of the USAID–KEHATI Cooperative Agreement, which was signed on March 30, 1995. The scope of work (Annex F) for the five-member team that conducted the evaluation was collaboratively developed by USAID and KEHATI. This evaluation looks toward the future while it studies the past. The team was instructed to use information from the past five years to make constructive recommendations for KEHATI’s future as well as the continuing relationship between KEHATI and USAID/Indonesia.

## BACKGROUND

Indonesia is a “megadiversity country.” It is recognized as one of the world’s richest centers of biodiversity with diverse ecosystems, species, and genetic resources; however, in view of Indonesia’s rapid economic development, this extraordinary biological wealth is threatened by overexploitation and degradation of forests and coastal and marine areas.

Indonesia has actively pursued policies and programs to improve its biodiversity resources management and was one of the first countries to sign the International Convention on Biological Diversity, in 1992. That same year, Japan and the United States chose Indonesia as the first country in which they would provide joint assistance to better manage and conserve biodiversity resources.

USAID and key Indonesian biodiversity leaders and scientists then initiated a collaborative design process in 1993 that eventually led to the establishment of an independent Indonesian Biodiversity Foundation—Yayasan Keanekaragaman Hayati Indonesia (known as KEHATI). KEHATI was eventually established in Jakarta on January 12, 1994, as Indonesia’s first independent, self-sustaining biodiversity institution. KEHATI’s board of trustees comprise 23 distinguished private citizens. KEHATI’s goal is to promote the conservation and sustainable use of Indonesia’s biodiversity to support national development for current and future generations. KEHATI aims to promote biodiversity conservation through leadership, networking, and innovative grant-making programs. Its grants fund a variety of activities that are designed to catalyze and lead national, regional, and local biodiversity conservation and utilization programs.

In April 1995, KEHATI met USAID’s grant-worthiness requirements and a 10-year cooperative agreement was signed that provided KEHATI with a \$16.5 million initial endowment and \$2.5 million for initial grant-making and operational costs. The foundation endowment was provided in U.S. dollars and was invested in U.S. markets. The USAID endowment is intended to maintain its value in perpetuity while KEHATI uses a percentage of the investment income for its grant-making program and operating expenses.

The foundation is guided by a strategic plan and an annual work plan. Through 1997, KEHATI focused on strengthening its own institutional capacity and on building networks and collaboration with and between public, private, and community organizations and universities. KEHATI's grant program began with support in five geographic areas: *ex situ* conservation in Java, *in situ* conservation in East Kalimantan, ecotourism and biodiversity conservation in Bali and Nusa Tenggara Timur, and marine conservation in Jakarta Bay. The number of grants that were made gradually increased from 21 in 1996 to 232 in 1998. Most grants were small (between \$4,000 and \$20,000) and were for a one-year duration.

A second executive director was appointed in early 1997. Aided by an internal evaluation, the director led a process of developing a strategy that linked public awareness, capacity building, and conservation to provide more useful support to young nongovernmental organizations (NGOs), community-based organizations (CBOs), and other institutions. In 1997–98, Indonesia was rocked by a monetary crisis that was combined with high inflation and negative economic growth, major forest fires associated with the El Niño drought, and the fall of the longstanding New Order Regime and its eventual replacement with a democratically elected government. These crises had a significant effect on KEHATI: As unemployment and poverty increased, greater pressure was placed on Indonesia's natural resource and biodiversity base; as the political environment opened up, the number of new NGOs and CBOs increased, which led to an increasing demand for KEHATI grant funds; government resources evaporated and Indonesian organizations placed higher expectations on KEHATI funding; and a devaluation of the Rupiah by 40% increased the total amount of local currency generated each year by dollar-denominated endowment investments in the United States. The devaluation required rapid increases in KEHATI spending in order to meet U.S. spending requirements for tax-exempt organizations.

KEHATI's response was to make modifications to its program strategy. A new 1998–2002 strategic plan was approved that concentrates on six targeted ecological regions (“ecoregions”) for community-based conservation management and sustainable use activities. The plan's vision is the “establishment of a society and its constituent communities, duly empowered and capable of conserving biological diversity and utilizing biological resources in an equitable and sustainable manner for the achievement of the highest possible quality of life.” The new strategy focuses more on people and less on biodiversity species; more on resource utilization and less on conservation; more on carefully designed, multiyear regional programs, and less on providing grants for targets of opportunity.

The strategic plan allows grant-making for three types of activities: public awareness, capacity building/community empowerment, and biodiversity conservation and utilization. These are supported by a fourth program area for fundraising and institutional development. The program concept is to begin with public and community awareness, provide capacity building support to NGOs and CBOs, and eventually provide grants to the strengthened organizations for biodiversity utilization.

In early 1999, KEHATI adopted a decentralized approach to its program planning process and grant screening process. Regional Network Centers, which were initially funded with two KEHATI-funded

full-time staff members, are now being established in the four bioregions that include the six target ecoregions. Under the decentralized approach, Network Center personnel will work with key stakeholders in the bioregions to develop a multiyear plan and to achieve a common program objective through public awareness, capacity building, and conservation utilization.

KEHATI's endowment has grown from \$16.5 million to more than \$25 million and, at the same time, it has used more than \$1.6 million in endowment income to finance grants and operating expenses. The cooperative agreement anticipated that KEHATI would raise an additional \$6.5 million over 10 years as a matching contribution to increase the size of the endowment and to finance grant-making and operational costs. Thus far, approximately \$1.8 million has been contributed to program activities; however, none of these matching grants have been provided by the donors for the purpose of increasing the size of the endowment.

Most of the original 23 trustees continue to function as trustees. Seven members of the board comprise the executive committee, which is responsible for policy implementation. The executive committee meets almost monthly with the executive director and other KEHATI staff. Individual trustees also participate on an investment committee and on a grant-making committee.

KEHATI now has 23 staff members. The executive director is a nonactive member of the board of trustees and a former member of the executive committee. The annual budget was \$1.7 million in 1999 (the foundation's fiscal year is the calendar year) divided into three categories: programs (67%), program expenses (11%), and overhead costs (22%). Program expenses include staff travel, payment for consultants, program monitoring, seminars, and workshops.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **A. Strategic and National Context**

#### **Conclusions**

KEHATI is still in the process of defining itself, a process that has two components. The first is to determine what KEHATI should become in the context of its general mission and the social, political, and economic conditions that exist in Indonesia. This was the "drawing board" portion of the challenge, and has been completed. The second component is to see results through grants and responses from Indonesian society, and to then adapt its institutional strategy. It has made great progress on both counts, but it still has some way to go.

KEHATI and all other conservation NGOs must cope with the reality that the concept of *biological diversity* is not understood by the public. This poses a huge challenge for KEHATI to explain its program and activities to most of Indonesia's population. The main challenge KEHATI faces is not competition from other NGOs but to communicate its values and objectives and their importance to the future of Indonesia and the world.

KEHATI is viewed by Indonesians as an Indonesian institution and the only grant-making, nature conservation NGO in the country (with the possible exception of Dana Mitra Lingkungan; 1983). KEHATI is not viewed as an advocacy organization, policy think-tank, or information center.

Perceptions of KEHATI by foreign institutions vary. KEHATI is viewed by some donors as a USAID project and, for that reason, is possibly being neglected by them. At one time, the World Bank hoped to have KEHATI play the role of an implementing agency, not a grant-making foundation. International NGOs indicate that they are confused about KEHATI's role in the regions, perhaps because in its early stages, KEHATI sent out confusing messages about what it is willing to fund and not to fund. It should not be surprising that KEHATI is less understood in the regions than it is in Jakarta because its message has not been consistent and its early grants did not reflect a clear pattern or vision.

Because KEHATI is an endowed foundation and, with prudent investment management it will exist for a long time, KEHATI is potentially an unusually valuable resource for sustainable development. At present, KEHATI's most distinguishing characteristic is that it has a permanent endowment and, therefore, has the ability to take a long-term view. It also has the capability to make long-term commitments (e.g., 10 years) in building conservation values and practices.

KEHATI has provided advisory services to the Ministry of Environment in implementing Indonesia's National Biodiversity Plan. As the premier Indonesian institution committed to the protection of species, this role is potentially unique.

Because of its distinct focus on biological diversity, KEHATI has been asked to undertake many different activities. These range from providing information on biodiversity, to offering policy advice, to participating in international forums, and to implementing projects. These requests enable KEHATI to contribute to its growing reputation but they also represent a potential challenge.

The Indonesian Biodiversity Foundation may be the only recently established national biodiversity trust fund that is entirely independent of government.<sup>2</sup> Its independence, established at its origin, appears to give it a unique opportunity to participate in advancing the decentralization priorities of Indonesia's new national government.

## **Recommendations**

The trustees and senior management may wish to consider the following options.

1. Communicate a broad conservation vision centered on the protection and sustainable use of biological resources. Only through the protection of marine and terrestrial ecosystems will fauna and flora be maintained for future generations. The maintenance of biodiversity should remain the

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<sup>2</sup> KEHATI was originally designed to be independent of government to provide maximum flexibility for its activities. It operates within Indonesian laws and government officials are eligible to serve on KEHATI's board of trustees in their personal capacities, not as representatives of their government positions or ministries.

primary goal, but the means to accomplish this must focus on keeping *systems* intact, not just species. This broad definition of biodiversity is well stated in KEHATI's Articles of Association and its present Strategic Plan. Placing such a strategy into operation requires a strong focus on protecting ecosystems in order to protect a variety of biodiversity species *in situ*. Giving strong consideration to the protection of entire ecosystems will require a programmatic approach to the use of KEHATI grant funds (possibly through the regional centers) that in some cases may need to directly confront the major threats to biodiversity—human settlement and “development.” By engaging issues of this nature, KEHATI can play a leadership role in Indonesia’s development over the next 10 years.<sup>3</sup>

2. Recognize that national and regional economic and political decisions affect the maintenance of biological diversity more than anything else. Consider how, through grant-making activities, KEHATI can generate policy-relevant information and wisdom, which will contribute to maintaining Indonesia’s biotic wealth.
3. Do not place great emphasis on making KEHATI known through short-term public relations strategies. Consider building a solid, widespread public reputation for KEHATI over a period of five years through grants; sponsorship of popular and appealing radio, television, and movie shorts; and through workshops and seminars.
4. Developing strategic partnerships with NGOs, the scientific community, national and subnational governments, and private businesses. Choose partners who have outstanding reputations and carefully define the purposes of the partnerships and collaborations. Jointly fund endeavors with these KEHATI partners, co-sponsor workshops, collaborate on potential funding instruments such as debt swaps, and create public awareness strategies with large consumer products companies.
5. Understand that money is KEHATI’s principal asset, its second asset is its staff, and its third asset is its potential brokerage role between donors and NGOs, between NGOs and government, and between NGOs and the scientific and policy research communities. Treat grants as investments and seek leverage wherever possible. Focus on outcomes, not on outputs. Take a long-term view in measuring returns on KEHATI grants.

## **B. Governance**

*Building a strong, influential, cohesive board of directors that is representative of a conservation trust fund’s diverse constituencies, that can serve as an influential voice for biodiversity conservation, and that can provide strong, sound direction and oversight for the fund is perhaps the single most important element in a trust fund’s long-term viability and success. . . . Because*

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<sup>3</sup> The Consultative Group on Biological Diversity was established in the United States in 1987. It is composed of about 40 grant making foundations that are dedicated to the protection of biodiversity. Members include many of America’s best known foundations—Ford, Rockefeller, MacArthur, Pew, Packard, Hewlett, Kendall, etc. Since its early days, the Consultative Group has recognized that the most strategic approach to biodiversity conservation is to protect forest, coastal, and marine ecosystems. The group’s means are focused on broader strategies, its end result is the conservation of biological diversity.

*most funds are still relatively young, they have not experienced transitions in leaderships. [Leadership transition] is an area where continued attention is warranted. (GEF)*

The board of trustees has met once annually between 1995 and the end of 1999. Its ninth meeting was to have taken place in January 2000. The executive board met almost monthly in 1996, 7 times in 1997, at least 9 times in 1998, and 15 times in 1999 (through September 30). The executive board, which has seven members, is the principal policy-making body of the foundation. There is evidence that the board spent more time on KEHATI policy issues in 1999. The record also appears to indicate that a large majority of the trustees seldom participate in KEHATI's affairs.

## **Conclusions**

Transitions from founding boards of directors to successive boards is reported to be especially difficult in Indonesia, and it is a challenge to recruit new board members. Reasons include lack of knowledge about biodiversity, the absence of an attractiveness in the field or topic, potential conflicts of interest, and concern over the public reputations of individuals who may otherwise be well-qualified for board roles. Policies that govern succession and recruitment of new trustees have not yet been established; the foundation's management has recognized that it needs to act on these matters and the issues have been discussed among executive board members, but a strategy has not yet been developed. KEHATI management has welcomed counsel on this.

Delegation of authority within KEHATI, particularly between the executive board and the executive director, which consequently affects the delegation of authority from the executive director to the KEHATI directors and managers, is a matter of concern to management.

The function of the board of trustees and the role of trustees have not been carefully defined. As a result, individual trustees may not know what is expected of them and the board's leadership may not be certain what services to request. In addition, some of the expertise that KEHATI needs for its operations is not adequately represented on the board of trustees. Investment management, marketing and media savvy, and marine sciences are good examples. Another is "local knowledge" in two of KEHATI's highest priority bioregions, Irian Jaya and Kalimantan.

KEHATI's founding board may not be in the best position to see KEHATI into the next phase of its activities. The country context and KEHATI's stage of institutional development have changed in the past five years. Thus, the current composition of the board of trustees may need to be changed if trustees are to play active roles in meeting KEHATI's operating needs.

The investment and grant-making committees of the board of trustees have not yet developed into mature, functioning bodies, and their roles and responsibilities are not fully understood.

KEHATI's board has not yet formally established a long-term goal for the endowment size, so the endowment's size itself has not become a part of the foundation's vision for program operations or for fundraising.

## Recommendations

1. The executive board should consider establishing policies for the board of trustees on the following issues:
  - ? Define the purpose, function, and role for trustees and executive board members for the next five years. Some of these may include political support, portfolio management, operational expertise for the grant-making program, linkages to industry, scientific expertise, fundraising capabilities, and special knowledge about priority bioregions.
  - ? Evaluate the composition of the board of trustees against the purposes, functions, and roles that have been identified.
  - ? Identify the types of skills and experience most needed for membership on the board of trustees.
  - ? Establish board policy for setting terms, staggering the terms of board members, and for encouraging trustees to withdraw from board membership before members complete their terms. Making way for others is a noble step. Former members can agree to be called upon to provide special assistance from time to time when their expertise is needed. They could be invited to participate in board annual meetings or be given special status, such as Founding Trustee.
  - ? Establish clear standards of performance for new board members so that KEHATI's expectations are made clear from the beginning of their terms. These standards could include commitments by members to give a certain number of hours to KEHATI each year, participation in a minimum number of board meetings, agreement to make one or more annual visits to KEHATI grantees in the priority bioregions, and promises to assist with fundraising.
  - ? Establish a strategy and timetable to recruit new board members.
  - ? Continue the process of self-evaluation and consider the idea of organizational workshops.
2. The number of plenary board meetings should be increased to two or four per year and set the dates for meetings a year in advance. The chairperson of the board can call other meetings as needed. The executive director, in consultation with the chairperson, should be responsible for preparing the preliminary agenda for all meetings.
3. The board should consider holding one plenary board meeting a year in one of the foundation's priority bioregions. This step serves the dual purpose of building KEHATI's reputation and giving members greater familiarity with KEHATI's program. Irian Jaya should be considered for the first

board meeting outside of Jakarta. In the future, the board chairperson may wish to consider holding a plenary meeting in one of the bioregions.

4. The grant-making committee should periodically make site visits to grantees in the field in order to get a first-hand view of the impact (and problems) of KEHATI grants. The investment committee should be reconstituted and should consider adopting the recommendations that appear in the financial management section of this report.
5. The executive board should review its delegation of authority at the beginning of each year. The executive director could initiate this review by submitting recommendations to the executive board.

### **C. Institution Building**

#### **Conclusions**

The Indonesian Biodiversity Foundation, which was established only five years ago, has now developed institutional capabilities. Viewed strictly as an institution-building endeavor, its progress has been substantial. The most important measures or indicators associated with institutional advances are noted here.

*Legal standing.* KEHATI was established on January 12, 1994, and registered in the state court on August 7, 1995. Its Articles of Association and by-laws were drafted by one of the nation's most highly regarded international lawyers and have served the foundation effectively. Only minor changes have been made to the original provisions during the first five years of KEHATI's operation.

*Program development.* KEHATI has defined its mission and created a set of programs that encompass regional priorities, program priorities, and the grant-making capacity to implement its programs. It has a clearly described program strategy.

*Financial management.* Systems have been developed to prepare budgets, maintain adequate financial records, manage disbursements, and produce financial reports. External audits have confirmed that a reasonably strong, if somewhat cumbersome, system of financial management is in place.

*Endowment management.* An increase in the endowment from the original \$16.5 million at the close of 1995 to nearly \$25 million and the close of 1999 indicates that the endowment is being reasonably well managed. However, another section of this report indicates weaknesses in portfolio management.

*Grant-making policies.* A full set of grant-making policies was established and amended in May 1999 in response to field realities. These policies effectively constitute grant guidelines for prospective grant seekers. The grant-making committee of the board of trustees has considered and approved these policies.

*Grant monitoring.* KEHATI has been slow to develop its own capacity to monitor grants but this is typical of nearly all foundations in which the highest priority occurs in the grant-making process.

Progress is being made through the requirement of quarterly reports from grantees and field visits by program staff.

*Personnel policies and management.* With help from external consultants, the Indonesian Biodiversity Foundation has adopted a full set of personnel standards that range from job classifications and descriptions to performance evaluations and benefit packages for employees. Staff recruitment occurs with the assistance of external consultants. Wide public searches have been employed. Results have often been unsatisfying but the efforts were intensive and well organized. KEHATI has faced various personnel problems since its founding; problems that have been directly addressed and resolved by the current executive director.

*Personnel.* Defining staff needs and recruiting to meet those needs has been difficult. This is partly the result of a limited understanding of the kinds of talent needed in foundation program officers and partly the result of a limited number of talented people applying for positions. It appears that except for a few key vacancies, the current KEHATI staff is dedicated and performing well. The position of executive director was previously held by two of Indonesia's leading biological scientists and is now occupied by a political-economist whose career in journalism, nonprofit management, and management consulting serves KEHATI well.

*Organizational structure.* Two external management-consulting reports (one each in 1995 and 1998) concluded that KEHATI's organizational structure was not adequate to meet the foundation's increasing demands. In 1999, KEHATI was restructured to resolve a large number of operational challenges that had been identified by the consultants.

*Communications.* Informal and formal policies have been developed for both internal and external communications. KEHATI appears to have the technology and human talent necessary to effectively communicate by electronic means. Recent developments have brought grantees into instantaneous, on-line communication with KEHATI program and administrative personnel.

*Reports/publications.* KEHATI now publishes a quarterly newsletter that features short articles of interest and that lists recent grants. It publishes an annual report and has issued a special report on its plan and programs for the period 1998–2002, both of which are printed in Indonesian and English. In addition, a website is being developed as another form of communicating with the public.

*Management information system.* In 1999, the foundation contracted with a firm to establish a new management information system and to provide appropriate training for its users. The project, completed before March 2000, will provide KEHATI with technology-based tools in managing its databases on grant-making, partners, library, and biodiversity issues. These will all be integrated with the newly established computer-based quality system in an effort to improve the reliability, efficiency, and effectiveness of KEHATI.

*Fundraising and endowment asset development.* Although it is expected to raise \$6.5 million on its own to supplement the \$16.5 million endowment provided by USAID, KEHATI has not yet developed

a strategy to raise these additional funds nor has it successfully recruited staff to develop this institutional component.

*Board of Trustees.* The individuals who comprise the 23-member board are distinguished national figures. The executive board, which is composed of seven trustees, handles decision-making between the annual meetings of the full board.<sup>4</sup> The executive board has been active in 1999 by meeting more than 15 times even though the trustee board has not been developed into a well-functioning unit. The performance of the investment and grant-making committees and other board development matters is covered in the section titled “Governance.”

*Facilities.* The foundation has had stable, rented office quarters for the last several years. It has expanded the space it occupies, which is functional and reasonably convenient for visitors.

*Institutional performance evaluations.* KEHATI commissioned an internal evaluation in February/March 1998 and an external evaluation in November/December 1998. The foundation’s development of new strategic directions and its restructuring in 1999 indicates that it has the capability to absorb and respond to recommendations for improved performance.

## **Recommendations**

The second five years on the institution-building agenda should be ones of consolidation, deepening of capabilities, and reinforcement of those institutional components that are not yet up to international standards. A key issue requiring increased attention during this period will be transition in board leadership and membership. The executive director has already taken several significant steps to address the institution-building challenges he inherited. We recommend that highest priority for institution building be given to the following issues.

1. High priority needs to be given over the next few years to developing strategies and procedures for transitions in leadership and the membership of the board of trustees. Managing transitions is often the biggest challenge for a board chairperson and, often, it is not given the attention it requires. KEHATI staff already know from their own experience that the position of executive director also requires priority attention—and planning!
2. To reach international foundation standards, KEHATI must continue to seek unique talents to fill senior program and administrative roles over the next five years. Priority should be given to
  - ? Program staff who possess unusually strong field-based networking capabilities and professional credibility,
  - ? Recruiting and developing additional financial management staff,
  - ? Developing the capabilities of program staff who will design and implement a focused grant-making program that has policy impact.

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<sup>4</sup> In the United States, the executive board would be called the Executive Committee of the board of trustees.

For the time being, the evaluation team recommends that high-level, talented people who are dedicated to fundraising and marketing be recruited through consulting services outside of KEHATI. It seems unlikely that these people can be recruited to become regular staff members. Further, we recommend that KEHATI's chief fundraiser, the executive director, be offered an opportunity to visit the United States this year to develop ideas, concepts, and contacts for fundraising.

3. In the areas of financial and endowment management, several actions should be taken to involve the board, the staff, and the investment managers. These are described in Section E of this report.
4. If the Network Centers located in priority bioregions continue to mature as key elements in KEHATI's grant-making strategy, KEHATI will need to design a strategy to decentralize more of its functions. Managing an increasingly decentralized program will require organizational adaptation.
5. New technology, which facilitates communication, information storage, and transfer, is changing rapidly. In the next five years KEHATI should aggressively adapt its administrative processes to new technological capabilities. Expertise can probably be secured through contracts with outside experts.
6. Over the next five years KEHATI will benefit from developing stronger international connections with a variety of institutions such as American, European, and Asian environmental foundations; major zoological and botanical institutions; and international development organizations. Global interest in Indonesia as a "megadiversity country" is likely to remain strong and KEHATI can benefit from this interest. Stronger international linkages could take the form of the appointment of more active non-Indonesian board members who can assist in fundraising and science.

## **D. Program Management**

### **Conclusions**

*Adequacy and results of the strategic planning process.* KEHATI's strategic planning process began with broad consultations to determine whether such a foundation should be established and what its proper role should be. This initial process was undertaken with the active leadership of many of the most well-known environmental and biodiversity leaders in Indonesia.

Like many young conservation trust funds throughout the world KEHATI has gone through several stages of strategic planning in an effort to focus its program strategy. From 1995 to 1997, KEHATI focused on strengthening its institutional capacity and on building networks and collaboration among public, private, and community organizations and universities at the national and local levels. Initial grants were provided in five geographical priority areas: *ex-situ* conservation in Java, *in-situ* conservation in East Kalimantan, ecotourism in Bali and Nusa Tenggara Timur, marine biodiversity conservation in Jakarta Bay, and local community participation and empowerment in Sumatra. KEHATI shifted its strategy in late 1998 after reviewing its programs and in response to an economic downturn, the fall of the "New Order Regime," major forest fires, and natural disasters associated with El Niño. The new

strategic plan for the period 1998–2002 envisioned several major changes: increased focus on empowering local communities; shifting from a project to an integrated program approach linking public awareness, capacity building, and conservation utilization; emphasis on biodiversity utilization and benefit-sharing; and a revised geographic focus on four bioregions (Java-Bali, Kalimantan, Irian-Papua, and Nusa Tenggara) where new network centers would be established. This strategic change focuses KEHATI's limited funds and staff time more on key biodiversity problems.

The program coordinating committee mentioned in the cooperative agreement has not been established. KEHATI staff believe it is not needed given their efforts to include a wide range of knowledgeable experts in the periodic strategic planning processes.

*Satisfaction with KEHATI's program niche.* KEHATI is known primarily as the first nongovernmental grant-making organization established in Indonesia (with government agreement). When it was created during the New Order Regime, this was a major accomplishment and required excellent negotiation skills from USAID staff, the project design team, and from KEHATI's Indonesian supporters.

KEHATI is widely recognized within Indonesia as the only Indonesian grant-making entity that focuses on biodiversity. Because it is such a unique organization and has an excellent reputation, KEHATI is being encouraged to broaden its mandate beyond making grants into direct advocacy, broad environmental planning, and project management of donor (World Bank) funds. Some academics criticize KEHATI for now focusing more on community-level grants and less on the application of science and technology to biodiversity. However, most of KEHATI's interlocutors seem to understand and agree with KEHATI's current strategy, which appears to fit the present political environment of increased decentralization and community participation. KEHATI's present strategic focus is clearly in line with the original objectives of its USAID cooperative agreement.

One program area that appears to have been neglected concerns innovative NGO or CBO projects that do not fall into KEHATI's program foci. For example, a good potential grant in Bali for anything other than ecotourism, or in Kalimantan for anything other than forestry, will apparently no longer be considered for funding. This becomes a problem primarily because no other Indonesian grant-making institutions provide small grants to CBOs and NGOs. Grantees who were interviewed by the evaluation team said that their other sources of funds were largely external NGOs or donors (e.g. the GEF small-grant program).

*Program results measurement and reporting.* KEHATI readily admits that it has not yet developed an effective system for measuring and reporting program impact. It has difficulty, therefore, explaining to the Indonesian public or to potential funding sources what its grant program and other activities have accomplished in the past five years. This is clearly reflected in KEHATI's quarterly reports to USAID, which include no analysis of program impact.

KEHATI is well aware of this shortcoming and is now developing monitoring and evaluation guidelines for its overall program and new strategy. However, KEHATI is still struggling to develop meaningful

indicators to measure overall program performance and is likely to need outside technical assistance to establish broad indicators of program success.

*Resource allocation in priority program areas.* In its initial strategy, KEHATI focused its grant resources primarily on networking, collaborative activities, and relatively simple biodiversity conservation projects. The second executive director believes that his greatest contribution to KEHATI was the gradual elaboration of an integrated program approach that begins with public awareness support, moves quickly to capacity building support, and results in an organization that can manage a complex conservation utilization grant. Given the early stage of biodiversity conservation in Indonesia and the youth of many NGOs and CBOs, focusing the bulk of grant resources on public awareness and capacity building has been appropriate. The bulk of grant resources continue to be allocated to capacity building. Over time, resource allocation for public awareness activities has gradually fallen (to a proposed 31% in 2000), while funding for conservation utilization is gradually increasing (to a proposed 26% in 2000).

KEHATI's present strategy of providing larger grants for longer-term conservation utilization activities is also appropriate given the longer-term commitment needed by grantees to bring these activities to a stage where results are evident. The three-year maximum duration of a conservation utilization grant is not likely to be long enough to bring about tangible and sustainable results. Therefore extensions for some of these grants may be necessary.

*Grant solicitation, review, and approval process.* Inevitably, KEHATI's grant solicitation, review, and approval processes have moved through several stages with gradual improvements in the efficiency and timeliness of grant making. The grant approval process, which has included outside specialists on review panels, appears to be professional, if not always speedy. Several observers indicated that the outside members of the grant review panels, at least in KEHATI's early days, tended to be strongly weighted toward academic specialists with not enough involvement by professionals who had field experience. KEHATI modestly revised its grant-making and grant review procedures in 1999 to fit its new strategy. It now appears that KEHATI's procedures are well understood by ever more applicants and the network center approach should provide additional transparency to the grant review and approval process.

KEHATI's grant procedures are not reported to be unduly burdensome and are believed to be less onerous and more transparent than other programs such as the GEF small grant procedures. In KEHATI's initial years, nearly 90% of proposals were either rejected or returned to applicants for revisions. By 1998–99, the proportion of grants that had acceptable quality had increased to 40%. KEHATI should be pleased that some Indonesian organizations that work in other sectors have modeled their grant-making procedures on KEHATI's example.

*Grant-making through network centers.* The strategy to manage KEHATI's program through its network center for each bioregion is regarded as a promising working model. The recruitment of network center coordinators from the NGO community was a participatory and open process and has

ensured that KEHATI's role is accepted. This in turn promotes positive synergy to achieve common goals among its bioregion partners.

Network centers have also reduced the burden on the KEHATI secretariat in assisting prospective proposal seekers as well as in its process of implementation, monitoring, evaluation, reporting, and further stages in program planning. By design, these network centers are equipped with the facilities and funding needed to promote interaction among stakeholders (i.e., local governments, universities, NGOs, and private organizations) that are concerned with biodiversity in the regions. The roles and responsibilities of the network centers are still evolving.

The new process shows promise, especially by encouraging participation and greater local empowerment. This regional approach can build on the initial experience of the USAID-funded Biodiversity Support Program (BSP) and is being closely watched by Conservation International and other environmental organizations that also see the value of decentralizing their grant design and approval processes. At this early stage, KEHATI's operating procedures and delegations of authority to the network centers are still being finalized.

*Who provides support to NGOs for grant preparation/implementation?* With the exception of organizations that are supported by elements of NRM II (e.g., EPIQ/PACT and BSP) or targeted training being offered by international environmental NGOs, KEHATI is reported to be the only organization that provides training in grant preparation to many other organizations. Most KEHATI support occurs through workshop training rather than hands-on guidance from KEHATI staff. However, some valuable on-the-job technical support in grant preparation and in implementation-stage problem-solving has been provided by the most experienced KEHATI program officers.

*Grant monitoring and evaluation procedures.* Until recently, KEHATI had not insisted on a common proposal format for its grantees and therefore did not provide them with a planning framework such as the "logical framework," which is used by many donors. The logical framework encourages grantees at the project-planning stage to think about how they monitor and evaluate their grants.

KEHATI's memorandums of understanding (MOUs) with grantees have stated that monitoring and evaluation is required, but until recently, KEHATI had not insisted that funding for these purposes be included as a specific line item in its grants. KEHATI's monitoring of grant performance has been largely performed through reading grantee reports. There have been only a modest (but growing) number of monitoring visits by KEHATI staff to field projects. KEHATI now hopes to monitor or evaluate each grant at least once a year. Grantees report that the indicators that they use for self-monitoring have been largely qualitative in nature, especially for public awareness and capacity building grants. KEHATI's MOUs have required a final report at project completion.

Several independent evaluations have been carried out using appropriately experienced field specialists. KEHATI's program staff is unlikely to have the time to conduct final grant evaluations themselves. A positive step is the allocation of funds for monitoring and evaluation activities to the network centers which, presumably, will hire outside specialists to perform external and participatory evaluations.

*Grant administration and grant reporting requirements.* Grantees note that KEHATI's reporting and administrative requirements are not excessively burdensome and are less onerous than those required by international donors. Nevertheless, many grantees do not submit reports without reminders from KEHATI. Grantees have, however, complained about a lack of flexibility both in adapting grants to field realities during the course of their projects and in being able to transfer funds between budget line items. Grantees also cite the absence of funds to hire technical experts to help on key issues. In addition, there is a perception that KEHATI focuses on controls rather than project results. Grantees point to difficulties in gaining approval for project extensions and mid-course alterations. The new procedures that are being projected for the network centers, which include an annual review of each grant, should give KEHATI the opportunity to have a more positive role in problem solving and to make necessary modifications in multiyear grants.

*Effective demand for future grants.* The demand for KEHATI grants is growing, as demonstrated by the increasing number of proposals it receives. KEHATI program staff report that the quality of grant proposals is gradually improving as potential grantees gain experience and training. This demand is probably also linked to the success of KEHATI's public awareness program and its more proactive approach to potential grantees, its positive reputation, a national environment that is increasingly open to NGOs and CBOs, and the absence of other sources of small grant financing for potential grantees. Most KEHATI grants have been between \$4,000 and \$20,000. KEHATI has gradually increased the size of multiorganizational grants to approximately \$125,000. The size of the capacity building program (\$7,000–\$14,000 per project) is seen as appropriate for the effectiveness of capacity building activities.

KEHATI has not carried out a June 1997 board of trustees recommendation to establish a small grants program for projects of less than \$1,000 and a grants-in-aide program. It appears that creating a small grants window at KEHATI would trigger significant demand.

A second gap appears to be the absence of a source of medium-sized funding to finance the expansion or replication of successful KEHATI pilot projects. The absence of such funding either through the government or through nongovernment sources raises a question about the long-term sustainability of successful projects that KEHATI has supported.

*Working with academic and research institutions.* Academic and research institutions have expected KEHATI to support their activities in science and technology development. In its initial years, KEHATI gave priority attention and support to these groups; however, the current strategy of decentralizing grant management to network centers and focusing more on strengthening civil society projects has reduced KEHATI's focus on academic groups (although some activities involving universities in local initiatives have also been carried out and small grants have been made to student associations). The deeper and more extensive roles of universities, not only in basic and applied research but also in providing the analysis required for policy advocacy, are still needed to understand the policy and political contexts of institutional networking in Indonesia.

One program approach for working with universities would be for KEHATI to support university-based research along with financing tuition fees and the master's and doctoral thesis research costs of graduate students who carry out applied research studies that match regional and local needs in KEHATI's priority ecoregions. This investment in Indonesian graduate students will encourage field-based applied research in biodiversity conservation and utilization. It would also have a long-term impact by increasing the number of professionals who have practical experience with field-based and community-based biodiversity issues. Because KEHATI's grant procedures do not allow grants to individuals, a program of this nature may involve grants to specific university departments for subsequent suballocation to worthy students based on clearly-established criteria.

*Policy projects.* KEHATI's partners expect KEHATI to have only a limited role in policy advocacy initiatives. KEHATI should facilitate policy advocacy through its grants to appropriate institutions at the national, regional, and local levels. Prominent trustees are assets for KEHATI to initiate policy dialogues at national and international levels with other NGOs.

*Initial impact in priority program areas.* Although KEHATI program officers can provide examples of successful projects, KEHATI has not yet made a serious effort to establish a monitoring and evaluation system that could help aggregate these examples and measure broad program effects in public awareness, capacity building, and conservation utilization. For its part, USAID has established performance indicators in the cooperative agreement that are institution-building indicators rather than indicators of biodiversity impact. These institution-building indicators are being achieved in an acceptable manner.

A review of grant files by the evaluation team indicates that most KEHATI-approved projects have been community-level pilot projects or grants to academic or scientific institutions. The community projects appear to be strong on participation, local control, and enthusiasm. They appear to be less strong in linking the community groups to the technical guidance they need to achieve sustainable impact (e.g., variety of seeds needed, planting and harvesting information, and especially processing and marketing guidance).

*Bioregional sharing of information.* KEHATI has effectively supported local initiatives by organizing seminars and workshops that share lessons learned and best practices among bioregions. Bioregional workshops on program planning, monitoring, and evaluation that include participation by local partners have encouraged individual partners to develop a broader programmatic context for their work. National seminars have encouraged public stakeholders to share their concerns about biodiversity.

## **Recommendations**

1. After several program strategy changes in past years, KEHATI needs a period of program stability.
2. Network centers are innovative and they have good potential. Their success will depend to a significant degree on the personnel who staff them and on clearly understood internal regulations on

delegation of authorities and responsibilities between KEHATI's Jakarta office and the regional centers.

3. KEHATI has the opportunity to provide greater leadership to nongovernmental sectors by establishing a clear monitoring and evaluation system for all its grants and for measuring its overall program performance (probably via the Log Frame system). The KEHATI program manager should take the lead in instituting a more consistent and effective monitoring and evaluation system.
4. KEHATI grants should be monitored and supported with the philosophy that the ultimate goal is to get results. This may require flexibility in control mechanisms (e.g. budgets, implementation schedules) because field projects, especially conservation utilization projects, must be planned and implemented with less than certainty.
5. Funding for technical support (i.e., applied science, processing and marketing) should be built into each grant (especially conservation utilization) or funded directly by KEHATI on an emergency basis.
6. Greater percentages of NGOs and experienced field personnel should be among the experts invited to participate on grant review panels.
7. KEHATI should continue its successes in horizontal sharing and learning between grantees in different bioregions.
8. KEHATI should provide grants to relevant research and policy institutions to formulate agendas and strategies for policy advocacy to better manage natural resources, especially biological resources.
9. The World Bank, USAID, other donors and the Government of Indonesia should consider the establishment of a medium-sized grant facility that would provide financing for "scaling up" successful small biodiversity and environment projects started with KEHATI (and other program) funding.

## **E. Public Awareness**

While many NGOs and foundations, particularly those that need private or corporate contributions, were implementing modern marketing strategies to offer their services and secure funding, KEHATI elected the traditional way of communicating with its stakeholders.

The dramatic changes in Indonesian politics, including the decentralization of government power, which will have a big effect on the success of KEHATI's future campaigns, require adjustments to its public awareness campaign. Successful and public relations strategies need to accommodate these sociopolitical aspects.

KEHATI's 1999–2001 master plan gives the perception that public relations are meant primarily for the mass media. This is not in concert with common practice. The plan also does not recognize that KEHATI's fundraising strategy needs to be integrated with its public relations strategy.

Activities such as workshops and fieldtrips focused on motivating third parties, especially the mass media, to be spokespersons for biodiversity have been limited in number. This is because of a lack of funds and difficulties in finding a host institution for a second media workshop.

The use of radio and television, mostly on a piecemeal basis, was not cost-effective because it failed to promote long-lasting awareness among stakeholders.

To assure that KEHATI-supported activities were promoted, the public relations manager pursued an inefficient and time-consuming way of collecting newsworthy programs.

Because there is an increasing need to include teaching about biodiversity in schools and to provide reference materials on biodiversity to the public, a growing number of stakeholders, especially NGOs and those in academia, are urging KEHATI to immediately take the lead in this matter.

## **Conclusions**

A social marketing strategy has not been used to promote biodiversity and KEHATI.

The new bioregion network centers are yet not involved in public awareness campaigns on specific biodiversity issues in their regions. Law 22/1999 and Law 25/1999, which encourage government decentralization and revenue sharing, are supposed to be implemented in the near future. They will require effective communication efforts with all stakeholders at regional levels to promote biodiversity issues and to support KEHATI fundraising efforts.

Public relations campaigns are not just the responsibility of the executive director and public relations manager, but of all KEHATI personnel, including trustees. Because KEHATI's fundraising success

depends on its public relations activities, it needs a senior staff person who has a good network of contacts is to assist KEHATI and the executive director in these activities.

KEHATI hasn't taken full advantage of the need of columnists and journalists for information on biodiversity. It should organize additional media workshops for columnists and journalists to promote and sustain public awareness.

The programs being produced with radio stations have not been enriched by focused messages on biodiversity. Television commercials and feature films are not only expensive to produce, they are also costly.

Public education efforts that promote the concept of biodiversity as part of the ecosystem have not been successful because the Ministry of National Education does not have resource persons who possess this knowledge. KEHATI's stakeholders need reference materials on biodiversity.

### **Recommendations**

1. Apply a social marketing strategy (similar to the family planning and National Immunization Week campaigns) to market biodiversity issues and promote KEHATI's image. Use an integrated marketing communications concept that combines advertising, public relations, and sales promotion.
2. Add into KEHATI's list of stakeholders leaders of political parties and religious groups; legislators; Level I and II (Pemda) government administrators, especially in all bioregion centers. Conduct public awareness campaigns jointly with each bioregion network center on key regional issues.
3. Encourage all trustees to become involved in public awareness and public relations activities to support biodiversity issues and to support KEHATI's image.
4. Conduct workshops and field trips on biodiversity issues and projects for Jakarta-based and regional journalists twice a year. Produce annually six articles on biodiversity by different Indonesian top columnists for free distribution to the mass media, especially to those outside Jakarta.
5. Produce a series of recorded tapes (10 to 20 minutes each featuring various biodiversity topics) for free distribution to radio stations. For cost efficiency, reduce the use of television commercials and specially produced feature films, but increase jointly produced reports on biodiversity topics with major television stations.
6. KEHATI staff should periodically meet to tabulate the results from public relations activities and to discuss ways to get the most effect from these activities.
7. Establish contact with the minister and other officials in the Ministry of National Education to recommend that biodiversity issues be included in the curriculum and provide educational modules for schools. Periodically produce various books on biodiversity that have been written by well-

known writers. These could be distributed free of charge to libraries and other audiences. Expedite implementation of the KEHATI website.

## **F. Capacity Building, Empowerment, and Networking**

### **Conclusions**

KEHATI has given grants to PANTAU NGOs (a group of 40 Indonesian NGOs that are concerned with the illegal trade of endangered animals) and the Jaringan Pendidikan Lingkungan (JPL)–Environmental Education Network (dozens of education institutions and NGO members). These networks perceive KEHATI as being helpful and clear in explaining its vision, mission, and requirements for grant making. These networks respect KEHATI as a funding agency and have linked KEHATI to grant-seeking organizations. KEHATI has also provided technical assistance to NGO networks for developing good proposals and project management, and for institutional strengthening to manage projects.

Wahana Lingkungan Hidup (WALHI), which is the secretariat for more than 300 Indonesian environmental NGOs, believes that KEHATI's role is also unique. WALHI views KEHATI as its partner in improving natural resources management efforts in general. WALHI expects KEHATI to play a role (especially advocacy) in a joint effort to promote the Natural Resource Management Act.

The Indonesian Center for Environmental Law (ICEL) asked for KEHATI participation (not necessarily funding) to support their efforts in educating environmental law enforcement officers at national and local levels. This idea has been supported by KEHATI staff members and by local authorities in Biak and Irian Jaya, where they believe that environmental law enforcement is weak. Any attempt to improve natural resource and biodiversity conservation is always faced with illegal and unsustainable exploitation challenges. Involvement through networking or other means can help KEHATI meet its ultimate goals.

NGOs that receive grants from KEHATI work primarily with their community partners. KEHATI does not have a strategy to empower CBOs; therefore, their relationship with KEHATI is usually dependent on an intermediary NGO. CBOs need to be empowered to formulate ideas to develop good proposals but they also need additional assistance to effectively manage projects that are aimed at achieving concrete results and outcomes.

Indirect community empowerment has been exercised by Rumsram, in Biak, through community mapping exercises for several villages. Rumsram has a resource person from West Kalimantan who has a great deal of experience in community mapping in West Kalimantan and other areas where the potential for conflict exists because of the potential wealth of natural resources. This community mapping investment to some villages on the Biak and Pedaido islands has been appreciated not only by the local community but also by the local authority, Camat. The local governments often use vague data because they are challenged by resource allocations. Community mapping as a means to improve the capacity of partners to identify and conserve biodiversity has been viewed by the local community as innovative and

useful. Other approaches using seminars and workshops are also useful for expanding lessons that have been learned.

In the past, KEHATI has received many poorly prepared proposals because grantee institutions are unready to manage projects and their personnel are inadequately trained. KEHATI's ability to empower grantees in remote areas was observed during a field visit. Implementation of the new regional strategy by network centers to pool their efforts and assistance has eased the burden on KEHATI's secretariat in giving direct assistance. This should improve KEHATI's grant-making performance in timeliness and meeting its overall objectives. Staff time that had been used to improve poor-quality proposals has been reduced and, thus, more of the program manager's time has been freed up for planning and mobilizing resources for strategic results.

Capacity building and conservation utilization programs have both been used to finance capacity building activities. It is sometimes unclear why a project with a biodiversity conservation title has been financed by the capacity building program.

Grantees report that much of the success of KEHATI's capacity building program can be attributed to the excellent work by an experienced and dedicated program manager. Even the conservation utilization program has benefited from his work through his support in organizing events and formulating agendas.

KEHATI's electronic mailing system has been used effectively among partners in all bioregions. The system is a relatively closed system between KEHATI and its partners. Both KEHATI's partners and its headquarters personnel have benefited from this active communication. Either party may request any information on the technical aspects of project activities and receive responses from any party that has an answer. The system was developed by a volunteer computer expert who lives in East Java. KEHATI should acquire this system and operate it internally at KEHATI. Some useful field experiences should also be shared with other electronic networks such as Forum Kerja Kehutanan Masyarakat (FKKM), which is maintained by the USAID-supported Natural Resources Management program secretariat. To a lesser extent, KEHATI's experiences should also be shared with other NGOs in different forums such as PANTAU, the Environmental Education network, JATAM (the mining advocacy network), and JKPP (the participatory mapping network).

## **Recommendations**

1. KEHATI should develop clear strategies for capacity building that aim to empower specific target groups for specific capacities. KEHATI's target groups are local community groups, CBOs, NGOs, research institutions with applied or policy research agendas, school teachers and students, university faculty members and students, and business and private sectors that address biological resource use and production. Special efforts should be given to increase the capacity of the target groups to develop and implement the entire range of biological resource utilization from identification, maintenance and conservation, acknowledgement, production, and marketing.

2. Exploiting biological resources through sustainable mass production has not been explored. This may require scientific and technological approaches for investments in applied research and development, patents, product process engineering, and product marketing. It also implies that broader partnerships with industry and commerce must be developed.
3. KEHATI should maintain and improve the network centers because they have gained recognition and have eased KEHATI's administrative burdens. KEHATI should share its authority with the centers in grant management and improve the capacity of the centers to manage future regional trust funds.
4. Capacity building courses should not be limited to proposal writing, project management, financial management, and monitoring and evaluation, but should also cover other technical aspects that KEHATI's partners feel that they need. Training and technical assistance in the economic use of biological resources is a growing demand and should be considered for NGOs, CBOs, and organizations that process and market scarce resources.
5. Lessons that have been learned through networking with KEHATI's partners should be applied to other networks such as PANTAU, the environmental education network, JATAM, and JKPP.

## **G. Endowment and Financial Management**

### **Conclusions**

The finance department is performing its role diligently and effectively. The total return objective that was established in the policy statement was easily achieved. The four-year annualized return was a healthy 13.7%, which surpassed the targeted annual objective of 5% plus the cost of investment management and the rate of inflation.

However, the limitation of any performance number is that it must be considered as an approximation. The old adage about real estate: "...you never know the true value of a property until you have cashed the check from the sale ..." also applies to values placed on publicly traded securities. The second major limitation is that the performance number applies only on the day of the last valuations. The performance number is only a snapshot of the portfolio on valuation day. The farther apart the calendar day is from the valuation day, the less relevant the performance number becomes.

The custodian contract with Chase Manhattan Bank ("Chase") provides no additional level of security. Furthermore, the process of withdrawing funds through Chase creates a time delay that lengthens the time required to redeem funds from the asset managers.

Chase as custodian provides a simple bookkeeping role; it provides no investment function. If KEHATI requires details about the quality of its investments, it must go directly to the investment advisor. For example, information on turnover (i.e., how often securities are brought or sold) would not be obtainable through Chase.

Section M.2(e) of the cooperative agreement, titled “Restrictions on the Use of Funds,” is unclear. The language used in drafting the section does not facilitate accuracy in determining annual amounts that can be withdrawn. One interpretation of the financial formula shows a marginal shortfall in the amount to be withdrawn.

The cooperative agreement provides a formula that is a percentage of a 12-quarter moving average of the fund’s market value. Although the 12-quarter moving average will smooth the peaks of the portfolio’s market value, there is no specified start time for the moving average.

Pine Grove Associates, the current investment advisor, omitted advice that several of the securities in the endowment portfolio do not fall within the investment policy guidelines. The following securities do not fall within the investment guidelines.

- ? Hotchkis & Wiley funds (low duration); Moodys (not rated); S&P (not rated). Section VIII of the policy statement requires that the fixed income investments be rated.
- ? Vanguard Index 500. Passively managed funds are permissible only under fixed income investments but not under equity investments (section VIII of the investment policy).
- ? Hotchkis & Wiley Balanced Portfolio has underperformed the customized index by a significant margin. From its inception to December 31, 1999, the balanced portfolio achieved a 37.59% return, whereas the customized index achieved an 88.36% return. The customized index consists of a fixed blend, 50% of the S&P 500 index, and 50% of the Lehman Intermediate Government/Corporate index. The customized index is designed to reduce billions of transactions to a single measure. They have become useful yardsticks against active management can be measured. If KEHATI invested in the same fixed blend at inception, its total return for that segment of the portfolio would have been 88.36%.

According to Table A of “Target Outputs Over the Life of Project” contained in the cooperative agreement, the total return of the asset managers is not consistent with market benchmarks in all cases, the finance committee is not meeting 10 times a year, \$6.6 million in investment income has been generated by the USAID endowment fund, and \$ 4.7 million in matching contributions have not been acquired.

The finance department is understaffed, given its responsibilities and the size of the endowment portfolio. There is no effective backup in case someone becomes ill.

The finance department is too centralized. Given the normal increase in the complexity of finance activities, an additional person is needed on staff. Furthermore, there is no segregation of duties associated with financial operations and control.

The current portfolio structure is oriented toward control and insufficiently toward financial analysis.

The finance department's primary contact is Chase Manhattan, which is the custodian. Given the size of the investment portfolio, the finance department should deal directly with the asset managers. The asset managers will provide detailed investment information on KEHATI's investments, which is not now available.

The following table indicates the performance of the asset managers against their respective indices:

	Return	Benchmark
Hotchkis & Wiley Balanced	37.59%	88.36%
Hotchkis & Wiley Low	24.79%	23.72%
Tiff U.S. Equity	114.69%	146.41%
Tiff International Equity	65.43%	67.96%
Tiff Emerging Markets	18.25%	6.76%
Vanguard Index 500	155.84%	155.62%

The results show that the Hotchkis & Wiley Balanced and the Tiff U.S. Equity assets are significantly underperforming against their benchmark. In dollar terms, the results would be as follows:

	Return	Benchmark
Hotchkis & Wiley Balanced	\$2,270,000	\$3,108,000
Tiff U.S. Equity	\$5,626,000	\$6,457,000

Performance evaluation should always be quantified in dollars. When the size of the portfolios is in millions of dollars, the variance is always significant, as it is in KEHATI's case.

### Recommendations

1. The goal of the rate of return in the policy guidelines should be amended to base total return goals on market-driven benchmarks as opposed to internal benchmarks. The market-driven benchmarks are typically index returns.
2. The Pine Grove Account Summary, dated December 31, 1999, shows that the portfolio grew by 67.12% since inception. However, the customized index grew by approximately 75%. The rate of return objective in the policy guidelines should be based on 75%, which is the more difficult benchmark. As an example, the amended language could be as follows: "Over a four-year moving average, the asset manager's performance, excluding fees, should exceed by at least 1% the performance of the customized index."
3. Asset allocation decisions (i.e., rebalancing between equity and fixed income securities and between asset classes), should be delegated to the asset manager.
4. Given the nature of the investments in the portfolio, there is an implicit requirement by KEHATI to transfer money from one fund to another, if the percentages allocated to each one vary too much.

The evaluation team recommends that this decision be delegated to the asset manager, who is more knowledgeable in this area. It is not appropriate to have this decision made by KEHATI staff who do not currently have the financial expertise to execute the transfer.

5. The asset manager, Hotchkis & Wiley, should cease to provide asset management services to KEHATI. This includes the low-duration fund as well as the balanced portfolio.
6. When fund managers significantly underperform their benchmarks, the institutional approach is to terminate their services immediately. This action should not be delayed.
7. The finance committee should meet four times a year. Some of the financial issues that should be addressed include the following:
  - ? Are the asset managers underperforming the benchmark? Five percent or more is significant.
  - ? Total return versus total benchmark return.
  - ? Is KEHATI planning to increase the withdrawal percentage from the portfolio? For example, an increase from 3% to 7% would require an adjustment to the asset allocation target contained in the policy guidelines.
  - ? Are the investments within the policy guidelines?
  - ? What are the short-term and long-term budgetary requirements?
8. Morgan Stanley would be an ideal asset manager to replace Hotchkis & Wiley. The proposal to act as asset manager and custodian is acceptable, if minor refinements are made. Additional information, control, and savings would be achieved if the relationship with the asset managers included custody. Morgan Stanley is acceptable because it is a high-quality organization, it has an office in Singapore, and it will provide market information on the investments. Furthermore, the evaluation team is requesting a segregated portfolio. This means that KEHATI will own the actual securities rather than units of a fund. We requested that Morgan Stanley act as its own custodian. This eliminates the need for the services of Chase Manhattan and provides a more fluid relationship with the asset managers.
9. Given the current size of the endowment portfolio, no more than two asset managers are required (an active manager and a passive manager; Vanguard).
10. KEHATI can obtain the same diversification in its portfolio by having a minimum of two asset managers and, given the size of the portfolio, very little benefit, if any, is obtained.
11. The finance department requires at least one additional person if it is to grow from a reporting environment to one of being proactive on financial issues. Given the size of the endowment portfolio, a qualified candidate can easily justify his or her salary through increased savings in managing KEHATI's financial activities. The evaluation team suggests that the additional person have a strong background in finance.

12. Signing authorities need to be strengthened in all cases for amounts greater than \$50,000. International standards require a greater segregation of duties for an endowment fund of this size. Withdrawals and disbursements should have at least one or two members of the finance committee.
13. The equity investments section in the investment policy guidelines should be amended to allow investments in passively managed equity index funds.
14. The Vanguard Index 500 has performed extremely well for KEHATI. Since its inception, the total return was an impressive 155.84%. The evaluation team strongly recommends index funds for both equity and fixed income.
15. To be consistent with international standards, financial statements should be finalized no later than 120 days from the end of the year.
16. Two years late, the 1998 financial statements have not yet been finalized. The evaluation team's understanding is that there is a disagreement over accounting policy on posting the investments. Given the modest size of the portfolio, the financial statements should be finalized on time, as is required by Article 12 of the by-laws.
17. The contract with Pine Grove Associates should not be renewed. If KEHATI decides to maintain the relationship, the contract should be amended to include all asset management-reporting issues contained in the cooperative agreement.
18. A letter in the file shows that KEHATI has been unhappy with Pine Grove for some time. Because they were fully aware of the policy guidelines but still omitted to advise KEHATI that certain investments did not fall within the guidelines, this is a serious error of omission.
19. Outside training for finance personnel should be an annual requirement.
20. Retain the services of a specialized consultant or firm (or recruit a permanent specialist) who can provide ongoing financial and asset management advice, including monitoring of asset managers, refinement of investment objectives and guidelines, and finalizing a contract with Morgan Stanley.

## **H. Fundraising**

“The Recipient agrees to provide a cost sharing equivalent to 25 percent of the total \$25,500,000 project cost (i.e., \$6.5 million) . . . The Recipient will undertake a fundraising program to meet these matching fund requirements.” (Cooperative agreement 497-0384-A-00-5011-00, p. 3).

Without having developed a program for pursuing additional financial resources during its first five years, KEHATI has greatly benefited from funding (\$2.5 million) and technical assistance provided during its initial phase directly from USAID and from USAID projects. This support was thoughtfully designed to

enable the foundation to begin its operations and grant-making without immediately tapping endowment funds.

During the 1994–99 period, KEHATI reported receiving support from a variety of sources and amounts:

Biodiversity Support Program	US\$182,900
Natural Resource Management Program	\$101,339
World Bank	\$150,000
Australian Government	\$200,000
Indonesian Ministries of Forestry and Finance, Institute of Sciences)	\$417,000
MacArthur Foundation	\$312,000
UNESCO	\$20,000
United Nations Environment Program	\$30,000
International Plant Genetic Resources Institute	\$15,000
UNDP	\$2,440
TOTAL	US\$1,430,679

No funding other than the \$16.5 million provided by USAID has been contributed to KEHATI's endowment since it was founded.

## Conclusions

The following points reflect KEHATI's current fundraising efforts. The foundation's executive director has consciously chosen to defer fundraising activities and his predecessors did not develop the institutional capacity to generate new funds. Their priorities focused, appropriately, on designing KEHATI's program, building an institution, and placing it into operation.

- ? KEHATI has not yet developed a fundraising strategy or a plan to generate additional financial resources.
- ? The foundation's trustees have not considered setting a goal for the eventual size of the endowment.
- ? KEHATI staff and trustees have not engaged in fundraising, nor have they been informed how they can assist.
- ? To meet the \$6.5 million matching requirement that has been agreed to, KEHATI may have accepted funding and responsibilities that it was not prepared to execute. A case in point is the Ministry of Forestry funds that were provided as part of a loan from the World Bank.
- ? Promotional materials designed specifically to market KEHATI's program for fundraising purposes have not yet been produced. Such materials are important because it is

KEHATI's program—the performance of its grant-making program—that will likely be most influential in generating new funds. Some of KEHATI's current publications can be adapted to fundraising purposes.

## Recommendations

1. KEHATI should consider developing a fundraising strategy for the next five years. The strategy should be revised annually and include important personnel and budgetary matters. It would be sensible to complete the development of the strategy before KEHATI hires new personnel to help with fundraising. One step to consider would be designing a short training program for the executive director in the United States during which he could create a preliminary strategy design.
2. KEHATI should reconsider its current plan of recruiting new fundraising staff. It should keep in mind that the foundation's chief fundraiser will almost certainly be the executive director. It is unlikely that fundraising talent beyond the junior level can be found; it is unlikely that senior talented people, if they can be found, would prove to be a cost-effective appointment at this stage of Indonesia's philanthropic development.
3. In considering its fundraising policies, and as a part of its fundraising strategy, the trustees should decide on criteria for accepting funds from the Government of Indonesia and from private corporations. The board should also decide whether KEHATI should accept program funding to implement projects for foreign donors (e.g., World Bank). This policy can be reviewed each year.
4. An important part of developing a fundraising strategy lies in identifying potential sources of funding. This effort can be divided in to two categories, Indonesian sources and non-Indonesian sources.
5. Potential domestic sources of funding include:

Units of the Government of Indonesia—national, provincial, and Kabupaten. Although the national budget for 2000 shows that Indonesia is presently under considerable financial pressure, it is reasonable to assume that over the next five years KEHATI will be in a position to receive and regrant government funds to protect biological resources. Additional fundraising sources include the following:

- ? *Corporations.* As Indonesian businessmen and women gain freedom from past “philanthropy,” which has been described as protection money, new opportunities will arise for KEHATI to seek contributions. There is already evidence of corporations setting up new company foundations to support the environment (e.g., Aqua).<sup>5</sup>

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<sup>5</sup> In recent Indonesian history, corporate contributions have frequently been required (paksa) by powerful politicians as part of unfortunate normal business practices. It will likely take some time before the negative influence of this style of forced donations disappears, but there may be entirely different forms of participation by Indonesian corporations that have not been fully explored—especially mass marketing.

- ? *Mass marketing.* KEHATI should consider negotiating collaborative agreements with leading marketers of consumer products. For example, a sticker that says, *PROTECT NATURE'S WEALTH*, or *PROTECT INDONESIA'S NATURAL HERITAGE*, designed by KEHATI could be attached, for example, to every bottle of drinking water. KEHATI would get its message out to millions of people, good will would be generated for protecting important national assets; and, at the same time, KEHATI may derive an income of 1 to 10 rupiahs per item sold for its endowment. Such an approach could develop into a type of national campaign with CONOCO providing 100 rupiahs to KEHATI for every barrel of oil sold. KEHATI should realize that it has a wonderful “product” to promote: Indonesia’s natural wealth. It should also realize the tremendous income potential associated with the mass distribution of consumer products.<sup>6</sup>
- ? *Foreign Sources.* Potential foreign sources of funding include bilateral donors such as Australia, Canada, Germany, Japan, the Netherlands, and the United States; multilateral donors such as the World Bank, the Asian Development Bank, and the United Nations Development Programme; international foundations such as Ford, MacArthur, Packard, etc.; and multinational corporations that are involved in petroleum exploration and exploitation, mining, manufacturing, banking, and services.
1. Several potential new strategies are emerging, which if successful, could increase KEHATI’s funding. KEHATI should consider exploring the development of an Irian Jaya fund, a Kalimantan fund, or both to reinforce its bioregional priorities. One such fund could be dedicated to Irian Jaya (Papua) and the other to Kalimantan. The funds could be established within the current framework of KEHATI’s endowment management. Grant-making committees could be established to include majority representation from the bioregions involved and KEHATI could lead the fundraising effort to establish these funds. If the trustees wish to do so, they could dedicate portions of KEHATI’s current endowment to such funds as a way to encourage other contributors to donate funds. This could be done on a matching basis, which would provide incentives to other donors.<sup>7</sup>
  2. Other innovations are currently being discussed and may prove feasible, although they are complex. These include the concepts of trading debt for nature protection, in which the debt purchased could be national debt or private debt—either by foreign or domestic companies. KEHATI is currently involved in discussions about this type of option and it should continue those discussions, bearing in

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<sup>6</sup> The World Wildlife Fund expects to receive Rp. 200 for every phone card sold by a particular company. In working with business leaders who produce and market consumer products throughout Indonesia, KEHATI may discover possible collaborations that offer the prospect of two “wins” at the same time—public awareness gains and income gains. It is understood that some screening to qualify consumer products would be essential. Water, for example, is a natural product for a campaign; whereas cigarettes are not a sensible consumer product for such a campaign.

<sup>7</sup> For example, if the German government, the Dutch government, and possibly Freeport wished to support the conservation of biodiversity in Irian Jaya, KEHATI could initiate the negotiations by offering to allocate \$1 million or \$2 million to a KEHATI Irian Jaya account if the donors could match that amount. Thus, KEHATI could stimulate contributions through its own finances and reinforce its program priorities at the same time. In addition, KEHATI’s funding allocation could stimulate and facilitate private corporation contributions for biodiversity conservation without strings attached. Private corporations frequently prefer this option because it relieves them from the pressures of responding to specific requests from local organizations.

mind that it would need to seek outside assistance in negotiating the technical aspects of debt conversion.

3. Carbon sequestration strategies have emerged following the Kyoto climate change conference in 1997 and various efforts are underway to probe the possible financial aspects of this tactic. Because the scientific underpinnings of this approach to mitigate greenhouse gases are not yet firmly in place, KEHATI should not take a lead role in exploring this option at this time. Maintaining a dialogue on developments, however, will be useful.
4. To successfully raise additional funding, KEHATI must continue to develop its image as a leader in the conservation and sustainable use of Indonesia's extraordinary biological wealth. In the corporate world, this means developing a *brand name*. To market its grant-making program, to make effective contributions to environmental policy, and to raise money, KEHATI will want to become known as the leading Indonesian organization that stimulates effective, widespread initiatives in the broad field of nature conservation. The evaluation team suggests that during the next five years, KEHATI seek consulting assistance in developing a public image to reflect the work it is doing. This assistance can be tied directly into fundraising.

## **I. Cross-Cutting Issues**

### **a. Modifications Recommended to the Cooperative Agreement**

The cooperative agreement, which was signed March 30, 1995, was one of the first USAID agreements that financed a biodiversity or conservation endowment. The drafters of the agreement should be congratulated on their pioneering initiative. Since the agreement was finalized, USAID and other donors have developed a great deal more experience in financing endowments and conservation trust funds. Also, in the five years after the agreement, KEHATI has grown enormously as a competent, Indonesian institution, and the environment in which the foundation operates has changed (i.e., a major currency devaluation occurred, a new government has been elected, and there is increasing decentralization). The program strategy described in great detail in 1995 has been modified by KEHATI to meet these and other new realities.

Both the USAID mission and KEHATI agree that several articles of the cooperative agreement, especially the attachments and program description, are now out of date and either need to be revised or clarified. A member of the evaluation team (who had been a USAID employee and is knowledgeable about USAID regulations) met with both USAID and KEHATI to review the changes they desire. Based on these discussions, several changes and clarifications that appear to be agreeable to both parties of the cooperative agreement are recommended.

Clarification of terms used in the cooperative agreement:

- a) "USAID funds": \$19 million provided under the program; \$16.5 million for the endowment and \$2.5 million for program support. These funds have all been disbursed by USAID. KEHATI has not yet spent approximately \$500,000 in program support.

- b) “Non-USAID funds” and “Federal funds” (section M.1): These terms refer to income invested from the USAID endowment of \$16.5 million.
- c) “Funds from nonfederal sources”: This refers to cost sharing or matching funds.

#### 1. Attachment 1

- a) Section A: The program description should be revised to bring it up to date.
- b) Section C.2: See “Clarification of terms” (above) to clarify the language in this section. No specific changes are recommended.
- c) Section D.2 (budget): The projected use of USAID program support funds is out of date and funding should be reallocated to reflect that some line item changes will be greater than the 15% shifts allowed without USAID approval. For example, KEHATI is unlikely to use \$445,000 in technical assistance funds or \$225,000 in evaluation and audit funds. In addition, KEHATI should submit a revised budget for USAID approval that indicates how it has used and plans to use the \$2.5 million provided in program support. The recipient contribution should also be revised to reflect the use of matching funds received to date and anticipated in the future.
- d) Section E, paragraph 1: Revise the first sentence to read: “The recipient agrees to provide a cost sharing *either in cash or in kind* equivalent to 25 percent.” The second sentence indicates how the matching funds should be allocated with the majority of the \$6.5 million matching funds (\$4.7 million) allocated to increasing the endowment capital. Since 1995, KEHATI’s experience and that of all other conservation trust funds has been that donors prefer to provide matching funds for specific project activities rather than for increasing the size of an endowment. Therefore, the evaluation team recommends that this second sentence be deleted.
- e) Section G.4, Environmental Impact: This section directly applies to the use of the \$2.5 million in program support funds; however, its intent should be interpreted to strongly encourage KEHATI to include Indonesian environmental impact assessment requirements as part of its grant review procedures.
- f) Section H, USAID Substantial Involvement:
 

As indicated in USAID’s Policy Determination (PD)-20, the basis for USAID awarding an endowment (and not a “grant”) is that normal statutory restrictions need not apply because the purpose of USAID assistance is accomplished at the time the endowment is granted. If USAID maintains too high a level of involvement, this logic will be undermined, which suggests that a grant agreement was the more appropriate mechanism.

  - 1) Review and approval of statements of work for subcontracts and subagreements . . . financed by USAID funds (e.g., the \$2.5 million). The application of this clause to small subcontracts and agreements seems unnecessarily intrusive. It is recommended that this be revised to add the phrase “subcontracts and subagreements *over \$100,000 . . .*”
  - 2) The phrase “Concur on all . . . staff appointments financed by USAID funds” is also broad and overly intrusive. It is recommended that this be revised to “concur on all appointments for the executive director . . .”

- 3) This paragraph requires USAID to concur with any changes to a host of KEHATI documents. Because the phrase appears to apply to the full period of the cooperative agreement, it should be limited to the most critical documents. It is recommend that this be revised to “Concur on any change in the recipient’s investment policy statement and guidelines, conflict of interest policy, and the investment management agreement(s) for the USAID endowment funds for the period of the cooperative agreement.”
- i) Section I, Indirect Cost Rates: This section has been confusing to KEHATI staff and auditors because the term *indirect costs* does not readily apply to KEHATI. It also appears to conflict with the project budget (Section D.2) that allocates funds for KEHATI’s “general operations.” It is recommended that this section be deleted.
- j) Section K, Authorized Geographic Codes: The language in this paragraph is confusing and it is unclear whether Code 935 source/origin requirements are meant to apply to “using endowment income” because the endowment income is, by definition, “non-USAID funds.” The evaluation team recommends that the second sentence be revised to read “Code 935 source, origin, and nationality of goods and services requirements apply for the use of USAID funds (\$19 million) provided under this agreement.” USAID should also provide KEHATI with an updated list of Code 935–eligible countries because KEHATI is unsure whether either China or Taiwan are eligible countries.
- k) Section M.2(d), Eligible Uses of Endowment Income: The language in this section has confused KEHATI. It is inclusive language that details how the endowment income may be used. KEHATI (and the evaluation team) are not sure what has been left out because it appears that everything KEHATI does (its program activity expenses, general administrative support costs, endowment fund expenses, and reinvestments in the endowment fund) are all included as eligible uses. The evaluation team recommends that USAID clarify whether any of its normal budgetary categories are eligible uses for endowment income.
- l) Section M.3, Changes in Organizational Structure: The final phrase in this section needs clarification. It states that KEHATI will promptly notify USAID of . . . any planned change in organizational structure such as a merger.” Because organizational structure changes may occur frequently and sometimes be relatively inconsequential, the evaluation team recommends that the final phrase be interpreted to not apply to internal modifications in KEHATI’s organizational structure and that it should apply to structural changes that involve additional parties, such as those that occur during a merger.
- m) Section M.4(f), Continuing Requirements: This requires KEHATI to maintain separate accounts for endowment and endowment income in perpetuity. This has been a significant burden for KEHATI and its investment fund managers. It seems to be unnecessary because KEHATI is not allowed [in section M.5(b)] to invade endowment principal and, therefore, the \$16.5 million USAID endowment must remain intact. Separate accounts for endowment principal and endowment income are not required under PD-20.
- n) Section N (a and b), Program Income: The language in this section has been reluctantly interpreted by KEHATI to mean that income generated by a grantee (e.g., from the sale of traditional beans or the sale of traditional medicines) must be returned to KEHATI and added to KEHATI’s funds to be made available for new grants. Grantees have been

- unhappy with this interpretation because it keeps them from using generated income to become self-sustaining. USAID and the evaluation team believe that a closer reading of the language indicates that the term “recipient” in paragraph (b) refers to the grantee and not to KEHATI, and that the intent is for the grantee to use income to further the same program objectives that the KEHATI grant is furthering. This interpretation is consistent with USAID’s desire to encourage the long-run viability of NGOs and CBOs and is consistent with USAID regulations.
- o) Sections O and O2, Standard Provisions and Optional Standard Provisions: USAID should clarify that these provisions apply to KEHATI as a “non-U.S. nongovernmental grantee,” and that they apply to the use of USAID funds (the \$19 million). They are not meant to be passed on as requirements to KEHATI’s grantees that are being funded by non-USAID funds (i.e., endowment income).
2. Attachment 2: Program Description
- a) The definition of “The Program” for purposes of determining whether funds received by KEHATI are “matching funds”: The evaluation team recommends that the definition of “The Program” be accepted as the definition of the recipient’s program as found in the first paragraph of Section II of Attachment 2: “The Recipient’s goal is to promote the sustainable use of Indonesia’s biological diversity in support of national development for current and future generations. Thus, the Recipient aims to promote biodiversity conservation through its leadership, networking, and innovative grant making program.”
  - b) Many of the sections of the program description are outdated. The evaluation team recommends that KEHATI prepare and submit for USAID’s approval an amended program description for use in the second five years of the cooperative agreement.
3. Attachment 3: Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees. Section 3(a), Refunds: This provision, dated June 1993, states that interest earnings of more than \$250 must be remitted to USAID. This applies to USAID funds managed by KEHATI. The \$250 limit is outdated and probably has been raised. We recommend that USAID advise KEHATI whether this limit in interest retained from bank holdings of USAID funds (only) is still valid.

## **b. Suggestions for Future Technical Assistance**

KEHATI would benefit from three areas of short-term technical assistance (STTA) during the remaining years of the 10-year cooperative agreement with USAID. Ideally, these would be financed from the remaining program support funds (approximately \$600,000) in the \$2.5 million originally provided by USAID.<sup>8</sup>

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<sup>8</sup> The team was advised that the USAID mission is unclear whether the full \$2.5 million (already obligated) can be used for short-term technical assistance through USAID mechanisms such as indefinite quantity contracts, grants, or other contracts. The \$600,000 remaining has not yet been transferred to KEHATI as an advance or reimbursement. In this team’s experience, joint USAID-KEHATI written agreement should be sufficient to allow USAID to subobligate some of these funds through USAID mechanisms. This would save KEHATI from the laborious processes required by USAID to advertise and carry out international competition for short-term technical assistance.

*Fundraising.* KEHATI is still in the initial phase of establishing a comprehensive fundraising strategy and program. This is not surprising in light of its other initial priorities and it mirrors the experience of other conservation trust funds.<sup>9</sup> KEHATI will not have the financial resources to hire a full-time or part-time fundraising specialist at a competitive salary level. Technical or consultant assistance is preferable. This assistance is internationally available and is likely to be available in Indonesia. An international specialist would be particularly valuable in aiding KEHATI to define a realistic strategy for fundraising outside of Indonesia.

*Endowment management.* KEHATI has limited staff and board experience in managing a sizeable, internationally invested endowment. As was discussed earlier, periodic—probably annual—assistance from an international endowment specialist would be useful for reviewing the investment performance and for reviewing and commenting on proposals in changes to KEHATI’s endowment portfolio or its endowment management structure. This assistance could be provided through a one-week visit to Jakarta, but possibly could be accomplished through e-mail correspondence.

*Monitoring and evaluation.* KEHATI is struggling to establish a meaningful monitoring and evaluation system that can measure whether KEHATI is achieving its organizational program objectives. A host of environment and conservation organizations have struggled with this same issue over the past five years as “results” and “impact” have become more important to international and private donors. Establishing an organization-wide monitoring and evaluation system that staff will use and choosing indicators to measure success are difficult tasks. Rather than recreate an entirely new monitoring and evaluation mechanism for KEHATI, the organization would benefit from short-term technical assistance provided by an international specialist who has worked primarily with environmental organizations.

The International Program Group (IPG) was established three years ago with funding from the United Nations Development Programme. IPG’s objective is to encourage and facilitate the sharing of “best practices” and other information among conservation trust funds throughout the world. The organization usually holds at least one global or regional meeting each year. IPG meetings normally focus on a topic of key interest to its members, such as fundraising, endowment management, or governance structures. Members share their experiences and best practices at these meetings, normally with the assistance of a professional facilitator and the presence of international specialists. KEHATI’s active participation in IPG meetings and virtual communications would benefit KEHATI and would enrich other participating organizations.

## **SUMMARY OF KEY RECOMMENDATIONS**

### **Strategic and National Context**

KEHATI should define its operational biological resources strategy in more general terms rather than in narrow terms of biodiversity. Its *goal* should be the protection of biodiversity; its primary *means* should

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<sup>9</sup> GEF Evaluation of 12 Conservation Trust Funds", 1998.

be the management and protection of biological resources through well-functioning and dynamic marine and terrestrial ecosystems.

As a part of its grant-making program, KEHATI should consider how it can best generate policy-relevant information and wisdom that would result in maintaining Indonesia's biotic wealth. Economic, social, legal, and land policies should be included.

KEHATI's three greatest assets are its enduring financial assets (money), its staff, and its role as a broker between donors and grant recipients; between the Indonesian government and grant recipients; and between NGOs and the scientific and policy analysis communities.

### **Governance**

Trustees should consider defining the purpose, function, and role for the board of trustees and the executive board for the next five years.

Trustees should consider establishing terms for board members. Members who wish to do so should gracefully withdraw from membership. They could agree to be called on for future service if they are needed.

The executive board should consider establishing standards for board membership. These standards could include the number of days a year they will commit to KEHATI, their commitment to participating in KEHATI board and executive meetings, and their commitment to making site visits to KEHATI-supported field programs.

The executive board should consider establishing a strategy, policy, and timetable for recruiting new board members.

Trustees should consider holding one board meeting each year in one of its priority bioregions. Irian Jaya or Kalimantan are leading site candidates.

### **Institution Building**

KEHATI should continue to search for high-level talent in the following areas:

- a) Program staff who have strong, field-based networking talent and experience;
- b) Additional financial management staff;
- c) Program staff who are capable of designing and implementing a focused grant-making program that has policy impact.

KEHATI should seek assistance for fundraising and marketing efforts *outside* of KEHATI. It should not seek to appoint senior staff to carry out these functions in the foreseeable future.

Steps should be taken to involve trustees to a greater degree in investment management, especially the endowment management committee.

In the next five years KEHATI should aggressively adapt its administrative processes to new technological capabilities.

### **Program Management**

After having made several modifications to its program strategy in past years, KEHATI now needs a period of program stability. It should try to avoid making additional modifications to its present strategy for at least three years.

The success of the network centers will depend primarily on the quality of senior program staff at the centers and at KEHATI's Jakarta office. Experienced, respected, and field-oriented personnel will be needed.

KEHATI should establish a clear monitoring and evaluation system for all its grants and for measuring KEHATI's own overall program performance.

KEHATI grants should be monitored and supported with the philosophy that "outcomes" or "results" are the ultimate objective. This will require increasing flexibility in "control mechanisms." KEHATI should expect a significant failure rate if it finances projects that are distinctly innovative.

Most grantees need more technical support, especially in linking applied science and marketing skills to grant activities. This technical support should be financed either by including adequate funding in grants or from a special KEHATI technical support fund.

The World Bank, USAID, other donors and the Government of Indonesia should consider establishing a medium-size grant facility to finance projects that "scale up" or expand the impact of successful small-scale biodiversity and environment projects that have been supported by KEHATI (and other programs).

### **Public Awareness and Communications**

Apply a social marketing strategy (similar to the family planning and National Immunization Week campaigns) to market biodiversity issues and to promote KEHATI's image. Use an integrated marketing communications concept that combines advertising, public relations, and sales promotion.

Add into KEHATI's list of stakeholders leaders of political parties and religious groups, legislators, and Level I and II (Pemda) government administrators, especially in all bioregion centers. Conduct public awareness campaigns jointly with each bioregion network center on key regional issues.

Encourage all trustees to become involved in public awareness and public relations activities to support biodiversity issues and to support KEHATI's image.

Conduct workshops and field trips on biodiversity issues and projects for Jakarta-based and regional journalists twice a year. Produce annually six articles on biodiversity by different Indonesian top columnists for free distribution to the mass media, especially to those outside Jakarta.

### **Capacity Building**

KEHATI should develop clearer capacity building strategies targeted to empower specific groups for specific capacities. A positive example is the training being provided for local community mapping skills.

KEHATI should make special efforts to increase the capacity of target groups, such as local communities, in developing and implementing the entire range of biological resource utilization skills (identification, conservation, production, and marketing).

KEHATI should maintain and improve its network centers because they are gaining recognition and can ease KEHATI's administrative burden. Improvements should be focused on sharing authority in grant management and the network center's potential future role for managing regional trust funds.

Lessons that have been learned from networking activities among KEHATI's partners should be shared with other relevant networks such as PANTAU, the Environmental Education network, JATAM, and JKPP.

### **Endowment and Financial Management**

The rate of return goal in policy guidelines should be amended to base total return goals on market-driven benchmarks as opposed to internal benchmarks. The market-driven benchmarks are typically index returns.

Asset allocation decisions (i.e., rebalancing between equity and fixed income securities and between asset classes) should be delegated to the asset manager.

The asset manager, Hotchkis & Wiley, should cease to provide asset management services to KEHATI. This includes the low-duration fund as well as the balanced portfolio.

The finance committee should meet four times a year. Some of the financial issues that should be addressed include whether the asset managers are performing under the benchmark (5% or more is significant), total return versus total benchmark return, and whether KEHATI is planning to increase the withdrawal percentage from the portfolio. For example, an increase from 3% to 7% would require an adjustment to the asset allocation target contained in the policy guidelines, whereas an increase to 6% would require no adjustment. Additional issues that need to be addressed include whether the investments are within the policy guidelines and what the short-term and long-term budgetary requirements are.

Morgan Stanley would be an ideal asset manager to replace Hotchkis & Wiley. The proposal to act as asset manager and custodian is acceptable, subject to minor refinements. Additional information, control, and savings would be achieved if the relationship with the asset managers included custody.

No more than two asset managers are required, an active manager and a passive manager (Vanguard).

The finance department requires at least one additional person if its responsibility is to grow from simple reporting to one of being financially proactive. A qualified candidate could easily justify his or her salary through the increased savings in managing KEHATI's financial activities.

Signing authorities need to be strengthened in all cases for amounts greater than \$50,000. International standards require a greater segregation of duties for an endowment fund this large. Withdrawals and disbursements should have at least one or two members of the finance committee.

The equity investments section in the *investment policy guidelines* should be amended to allow investments in passively managed equity index funds.

To be consistent with international standards, financial statements should be finalized no later than 120 days from the end of the year.

The contract with Pine Grove Associates should not be renewed. If KEHATI decides to maintain the relationship the contract should be amended to include all asset management reporting issues contained in the cooperative agreement.

## Fundraising

KEHATI should develop a comprehensive strategy for fundraising for the next five years.

KEHATI's board should decide criteria for accepting funds from the Government of Indonesia and from private corporations and individuals.

As a part of its strategy, KEHATI should identify potential Indonesian and non-Indonesian sources of funding. Indonesian sources could include national, provincial, and kabupaten levels of government, corporations, and mass marketing schemes. Non-Indonesian sources could include bilateral donors such as Australia, Canada, Germany, Japan, the Netherlands, and the United States; multilateral donors such as the World Bank, the Asian Development Bank, and the United Nations Development Programme; international foundations, and multinational corporations.

KEHATI should seriously explore developing a fund for Irian Jaya, Kalimantan, or both to reinforce its biological priorities. Portions of KEHATI's current endowment could be used as incentives to attract other endowment funding for such bioregional funds.

KEHATI should continue developing its image as a leader in conservation and sustainable resource use.

Outside training for finance personnel should be an annual requirement.

KEHATI should formally request that USAID/Indonesia amend the cooperative agreement to include all or part of the modifications recommended in the section titled "Cross-Cutting Issues."

KEHATI should request that USAID provide short-term technical assistance, at appropriate times, for fundraising, endowment management, and monitoring and evaluation activities.

## ANNEX A

### Achievement of Cooperative Agreement Five-Year Benchmarks: Target Output for Year 5

Project Component	Project Outputs	
	Projected Year 5	Actual Year 5
Foundation Governance	4 annual reports 2 internal evaluations 2 independent evaluations  4 independent audits  5 Board of Trustee Management 20 Executive Board Management  US \$ 325,000 raised for operating cost as matching funds  \$ 400,000 raised for program grants and cost as matching funds	4 annual reports 1 internal evaluation 2 independent evaluations  4 independent audits  8 Trustee meetings ? 30 Executive Board meetings  Total of \$650,000 raised to date
Endowment Management	10 Investment committee meetings  Portfolio performance evaluation to determine if total return is consistent with market benchmarks  \$6.6 million gross investment income generated by USAID endowment fund  \$ 4.7 million raised in matching contributions for the endowment	Very few  Infrequent  \$8.9 million generated  No endowment funds raised
Grantmaking Program	\$ 2.05 million in grants awarded from endowment  Total of at least 75 grants  10 regional consultations  4 requests for proposals issued	Approximately \$2.6 million granted  484 grants made  Yes  Yes  Yes
Networking	30 meetings/workshops  18 newsletters issued	Yes  <b>No</b>

## ANNEX B

### Factors Important for Successful Trust Fund Operations

Items	Excellent	Good	Fair	Poor
1. Clear and measurable goals and objectives. A “learning organization” mentality and environment, oriented towards results and achieving objectives, and flexibility to make adjustment in objectives or approach based on feedback and experience.		✍		
<b>2. A governance structure with appropriate checks and balances, conflict of interest provisions, and succession procedures. “Ownership” of fund by its board and governing bodies, indicated by members’ commitment of time, engagement in policy and leadership, and building support of the fund with varied constituencies</b>		✍		
3. Linkage between the trust fund and the leadership of any national biodiversity strategy or environmental action plan.	✍			
4. Ability to attract dedicated, competent staff, particularly a strong executive director. Harmonious and productive board-staff relationships		✍		
5. Basic technical and other capabilities that permit the fund to become respected and independent actor in the community. Access to, and constructive use of, training, mentoring, and technical assistance programs to build capacity.		✍		
6. Constructive relationships with relevant government agencies, with intermediary organizations that provide services to grantees, and with other organization in the community. The fund should avoid becoming and executing agencies itself		✍		
7. Financial / administrative discipline combined with program flexibility and transparency; and procedures that support this and are consistently applied.		✍		
8. Mechanisms for continuing to involve a wide range of stakeholders in the fund’s programs and direction. Enough clear vision and leadership to avoid program fragmentation and being pulled in many directions.	✍			
9. Asset management competitively selected; diversified portfolio of investment; financial expert to provide regular reporting; and oversight by fund boards comparing actual performance to benchmark.		✍		
10. A supportive nurturing donor agency task manager (project officer) able to bringing the resources and expertise needed.	✍			

## ANNEX C

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### Methodology

The team gathered information for this evaluation primarily from two sources: a) reading important documents and b) interviewing key informants.

The team reviewed all key USAID project documents, KEHATI institutional guidelines, all of KEHATI's quarterly reports submitted to USAID, reports from investment managers, minutes of meetings of KEHATI's board of trustees, a sampling of grant proposals submitted to KEHATI, and other documents that are relevant to biodiversity in Indonesia.

The team conducted a broad set of interviews in Jakarta and on field trips that were structured to ensure that the widest possible sampling of knowledgeable informants from all elements of the KEHATI program were heard from. Team members met with the chairman and five other trustees, practically every member of the KEHATI staff, USAID officers, representatives of other USAID-funded projects, and other donor representatives. After five days of reviewing documents and conducting key interviews in Jakarta, the team divided into two smaller teams and visited a broad sample of KEHATI-funded projects in four regions: Central Java, Bali, Papua (formerly Irian Jaya) and West Java. The small teams held roundtable discussions with most, if not all, of the grantees in the region, and then conducted field visits to one or two operational sites.

The team then returned to Jakarta to jointly synthesize and triangulate the information received, and to determine what additional interviews were needed to fill information gaps and to verify key pieces of information. Once these interviews were completed and other documents had been reviewed, the team jointly agreed to some primary conclusions and recommendations. These were provided to KEHATI trustees and to USAID and the KEHATI executive director before an annual board meeting that had been scheduled for January 27, 2000, at which the team members each presented their key recommendations and responded to questions. Each team member then finalized and submitted his report to the team leader and to Chemonics International, Inc. The team leader prepared the final report with editorial assistance from Chemonics.

## **ANNEX D**

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### List of Persons Contacted

#### **KEHATI**

Prof. Dr. Emil Salim, chairperson of the board of trustees

Prof. Dr. Koesnadi Hardjasoemantri, vice chairperson of the board of trustees

Mr. Ismid Hadad, executive director, 2000–2003

Dr. Setijati Sastrapradja, member of board of trustees and secretary to the executive board

Mr. Sardono W. Kusumo, member of board of trustees

Mr. Anton Soedjarwo, member of board of trustees

Mr. Nono Anwar Makarim, member of board of trustees

Mr. Gedong Bagus Oka, member of board of trustees

KEHATI staff (directors and managers)

#### **KEHATI's Partners**

Mr. Agus Purnomo, Executive Director of WWF Indonesia

Dr. Nengah Wirawan, Director of WWF Indonesia-Sundaland Bioregion (former executive director of KEHATI)

Mr. Adhi Rachman Hariyadi, WWF

Dr. Anugerah Pekerti, international board member, World Vision

Ms. Kathleen Shurcliff, team leader, BSP—NGO Strengthening, KEMALA

Mr. Arief Wicaksono, NGO Strengthening, KEMALA

Mr. Jeff Campbell, program officer, Ford Foundation (Jakarta)

Ms. Mary Zurbrucken, representative, Ford Foundation (Jakarta)

Mr. Hans Antlov, program officer, Ford Foundation (Jakarta)

Mr. Bondan Winarno, Executive Director of Yayasan Pusaka Alam Nusantara

Mr. Kim de Ridder, Executive Director of The Nature Conservancy-Indonesia

Dr. Yatna Supriyatna, National Director of Conservation International-Indonesia

Ms. Longgena Ginting, WALHI

Nurhidayati, WALHI

Dr. Herman Haeruman BAPPENAS, National Development Planning Agency

Ms. Asmeen Khan, The World Bank

Mr. Ben Fisher, country program coordinator, The World Bank

Mr. Thomas Walton, senior environmental specialist, The World Bank

Mr. Stephen Mink, country sector coordinator, rural development, The World Bank

Dr. Kuswata Kartawinata, Center for International Forestry Research

Mr. Achmad Santosa, Executive Director of Indonesian Center for Environmental Law (ICEL)

Dr. Ani Mardiasuti, Head of Forest Resource Conservation Department, Bogor Agricultural University

Dr. Darmawan Lismanto, biologist, member of Yayasan Titian, member of Wildlife Trade Monitoring Network (Jaringan PANTAU)

**KEHATI's Partners (Outside Jakarta)**

Widada BW, MBA, board of trustees of GITA PERTIWI

Rossana Dewi, GITA PERTIWI program director

Eko Sulistyono, GITA PERTIWI program director

Dr. Mansour Fakih, Executive Director of INSIST

Dr. P.M. Laksono, member of INSIST

Miftah, INSIST program manager

Nita, INSIST assistant program manager

Eko Teguh P., Chairperson of KAPPALA

Arimbi, Director of KKPA (Kelompok Kerja Pemberdayaan Agrotani)

Ardiyati, KKPA project leader

Suratman, Director of Ngudi Waras

Suarnatha, Network Center manager for Jawa-Bali Region

Yuyun Ilham, Executive Director of Yayasan WISNU

I.B. Yoga Atmaja, WISNU program manager

I. B. Putu Bintana, Desa Belok Sidan dan Pelaga program leader

I.G. Puriartha, Director of Manikaya Kauci

Denik Puriarti, Manikaya Kauci staff member

Mangku Widjaja, LKMD Desa Tenganan staff member

Nyoman, Desa Tenganan local guide

Surati, local facilitator in Wonogiri Area

Sukatmi, local facilitator in Wonogiri Area

Sukiyem, local facilitator in Wonogiri Area

Nunik, Gita Pertiwi project manager

Suetha, CBO Desa Sibetan member

Supartha, Kepala Dusun, Desa Sibetan

Nyoto Santosa, LPP mangrove

Dharmawan, PANTAU

Mr. Fun Godfridus, Camat Kiak Timur

Mr Jeffry Marien, Executive Director, Rumsram

Mr. Isack MataRihi, Rumsram

Ms. Salomi Mauboy, Rumsram

Mr. Rumabar, Ketua Dewan Adat Pedaido Atas

Mr. Martinus Howaii, Sekwilda Biak

Prof. Oei Ban Liang, PAU-ITB

Prof. Syamsul A. Arifin, Jurusan Kimia ITB

CHEMONICS INTERNATIONAL INC.

Mr. Asep, Yayasan Ciung Wanara

Yayasan Pribumi Lestari

Yayasan Knoservasi Nusantara (KONUS)

## ANNEX E

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### Documents for External Evaluation

1. Articles of Association and By-laws of KEHATI
2. Memorandum of Understanding between the Government of the Republic of Indonesia as represented by the State Minister of Environment and The Government of the United States of America as represented by USAID.
3. USAID KEHATI Cooperative Agreement 497-0384-A-00-5011-00 (Indonesian Biodiversity Foundation Project)
4. Investment Policy Statement for USAID Endowment Assets
5. Financial Policies and Procedures Manual
6. Personnel Policy
7. Grant-Making Policy and Procedures
8. Investment Policy Guidelines
9. Fundraising Strategy
10. Conflict of Interests Statement
11. Strategic Plan KEHATI 1998–2003
12. Master Plan: Strategy, Programs, and Organization of KEHATI 1999–2001
13. Technical Guidelines for Proposal Assessment of KEHATI (Petunjuk Tehnis PENILAIAN USULAN KEGIATAN Yayasan KEHATI)
14. Implementation Guidelines for KEHATI Grant-Making 1999–2001 (Petunjuk Pelaksanaan PEMBERIAN DANA HIBAH Yayasan KEHATI tahun 1999–2001).
15. KEHATI Annual Report, 1995
16. KEHATI Annual Report, 1996
17. KEHATI Annual Report, 1997
18. Financial Audit of KEHATI 1995
19. Financial Audit of KEHATI 1996
20. Financial Audit of KEHATI 1997
21. Financial Audit of KEHATI 1998
22. Minutes of Plenary Meeting 1994–1999
23. Minutes of Executive Board Meeting 1995–1999
24. Budget Plan, Balance Sheet, and Financial Report 1995–1998
25. Endowment Fund Report from Pine Grove Consultants and Consultants for International Revenue Services
26. Internal Evaluation Report of KEHATI 1995–1997 and Organization Analysis Report of KEHATI, November 1998

## **ANNEX F**

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# Statement of Work for External Evaluation of the Indonesian Biodiversity Foundation (IBF) Project Yayasan Keanekaragaman Hayati

## **ARTICLE I: TITLE, INTRODUCTION, SUMMARY AND BACKGROUND**

### **A. Title**

The project title is The Indonesian Biodiversity Foundation (IBF). Cooperative Agreement No. 497 - 0384 - A - 00 - 5011 - 00

### **B. Introduction**

This contract is designed to acquire the services of five individuals to do an evaluation of the four years work of the Indonesian Biodiversity Foundation or Yayasan KEHATI and to provide recommendation of management improvement. The team must prepare a final report which meets the specification identified in Article IV below.

### **C. Summary**

Yayasan KEHATI and USAID signed a \$25-5 million Cooperative Agreement in April 1995, under which USAID provided a \$16.5 million endowment and \$2.5 million for initial grantmaking and operational costs. The effective date of the cooperative agreement is March 30, 1995 and the estimated completion date is March 29, 2005. Funds provided in the cooperative agreement should be expended by March 29, 2000. They are now in their fourth year of project implementation. Initial programs identified in the Cooperative Agreement have now been changed due to the current condition in Indonesia. A new strategy and programs have been adopted because Indonesia has been affected by severe economic and political crisis. New approaches based on new paradigms to meet the -new challenges of the third millennium were taken place. An evaluation should actually be conducted during the third year of implementation and we will do it early next year

### **D. Background**

It started with the signing of the Tokyo Declaration in January 1992 where tile United States and Japan have sought to strengthen their cooperation in protecting the global environment by helping developing countries to manage and conserve their natural resources. The two countries have chosen Indonesia as the first site for their joint effort because of the country's vast biological resources as well as the Indonesian Government's demonstrated commitment to conserving biological diversity.

Since July 1992, USAID Officials together with members of the Indonesian Biodiversity working group have discussed the need to establish a foundation with a large and diverse group of individuals and

organizations concerned with conserving Indonesia's unique and valuable biological resources. This type of private philanthropic foundation will have a Board of Trustees who oversees the distribution of income from an endowment. Individual Trustees come strictly from the private sector and do not necessarily represent major constituencies. This resulted in the establishment of the Yayasan Keanekaragaman Hayati (Yayasan KEHATI) or the Indonesian Biodiversity Foundation on January 12, 1994. Yayasan KEHATI opened its Jakarta office in July 1994. The Board of Trustees of this Yayasan (foundation) is composed entirely of distinguished private citizens and has a lean and professional staff, consisting of an Executive Director, Program Coordinator, Finance Manager and support staff.

The years between 1994 and 1996 were the years of setting up legal and institutional framework of the foundation.

In April 1995, Yayasan KEHATI and USAID signed a \$25.5 million Cooperative Agreement, under which USAID provided a \$16.5 million endowment and \$2.5 million for initial grantmaking and operational costs. Over a 10 years period, Yayasan KEHATI intends to provide at least \$6.5 million for matching contributions to the endowment, grantmaking and operating costs.

In the meantime (starting in early 1995) Japan and Indonesia were collaborating on the development of the Biodiversity Conservation Project. The project planned to develop a Zoological Collection Building with a Biodiversity Information Center at Cibinong, headquarters and research station for the Gunung Halimun National Park and a Nature Conservation information Center. The project completed in 1998.

Yayasan KEHATI established various implementing policies and guidelines for example Investment Policy Guidelines, Investment Policy Statement for USAID Endowment Assets, Grantmaking Policies and Procedures, Financial and Accounting Policy, Fund Raising Strategy, Personnel Policy, etc. for management purposes.

The Yayasan KEHATI's goal is to promote the sustainable use of Indonesia's biological biodiversity in support of national development for current and future generations. Thus, KEHATI aims to promote biodiversity conservation through leadership, networking and innovative grantmaking programs. The Foundation is meant to be an independent, self-sustained, non-profit, grantmaking institution whose grants will fund a variety of activities designed to catalyze and lead national, regional and local biodiversity conservation programs.

Under the management of the first Executive Director from 1995 through 1997, Yayasan KEHATI activities focused on three major objectives:

- ? Promoting policies relevant to biodiversity conservation and use
- ? Networking among Non-Government Organizations, research and educational institutions, governmental agencies and the business community to exchange information related to the sustainable use of biodiversity

- ? Fostering and improving the capabilities of society and its institutions to play an active role in conserving and using biodiversity in a fair, equitable and sustainable manner. Yayasan KEHATI intends to develop relationships with well established international foundations to build its institutional capability

Yayasan KEHATI will achieve its three objectives through three main programs: 1) grantmaking; 2) consultations, collaborations, and networking; and 3) public information.

In order to establish KEHATI's institutional capability as an independent; Professional institution of international standard which can be sustained over decades, three primary management components were introduced: 1) governance and administration; 2) endowment management; and 3) fund raising.

To achieve these objectives, programs were formulated, partners and target groups were identified and national and international networking took place. In the first two years of its grantmaking program, the Yayasan KEHATI only focused on five geographical areas with different thematic orientations. They are: 1) East Kalimantan; 2) Java; 3) Gunung Leuser and Kerinci Seblat, Sumatera; 4) Bali, Lombok, Nusa Tenggara Timur; and 5) Pulau Seribu at the Jakarta Bay.

A new Executive Director was appointed for the second two years of KEHATI management in early 1997. His responsibilities were among others: 1) to adjust the program and to improve tile management of KEHATI while Indonesia is severely bit by the economic and political crisis; 2) to conduct an internal evaluation of Yayasan KEHATI performance as required under the KEHATI-USAID Cooperative Agreement; mid 3) to conduct a financial audit. During his tenure (1997-1999), geographic and program reorientation took place. All programs such as networking, collaboration and consultation, and public information are within the grantmaking program. The five geographical areas were not suitable for the purpose of having new oriented programs. Starting in late 1998, Yayasan KEHATI conducted a strategy planning review and the result of it was the reformulation of KEHATI's strategies and programs. For program purposes, Indonesia is divided into seven bio-regions, Sumatera, Kalimantan, Java-Bali, Nusa Tenggara I Islands, Sulawesi, Maluku and Irian Jaya, whereby for the year 1999 - 2002 KEHATI will only focus on four bio-regions namely Kalimantan, Java-Bali, Irian Jaya and Nusa Tenggara. 'Four key programs were proposed- 1) Public Awareness; 2) Capacity Building/Community Empowerment; 3) Conservation and Utilization of Biodiversity; and 4) Fund-raising and Institutional Development. In the first quarter of 1999, the new program strategy was completed- But this new approach requires restructuring of organization and revitalization of staff.

The second quarter of 1999 is the era of reformation of the Yayasan KEHATI. The new approach adopted is based on new paradigms to meet the new challenges of the third millennium. A new vision and mission has been formulated. As quoted from KEHATI's Strategy Plan and Programs for year 1998 - 2002, KEHATI's four new objectives were: 1) establishment of community groups that have better understanding and awareness of the importance of biodiversity for the survival of humankind on this planet; 2) development of cooperative networking and empowerment of stakeholders in dealing with biodiversity conservation in the country and abroad, 3) the accumulation of funds to enhance institutional capability and performance in producing legal framework and regulatory instruments: laws,

regulation, policies, systems and procedures that are supportive to sustaining biodiversity resources of Indonesia; and 4) implementation of financial assistance, technical assistance, education and consultancies to foster conservation and sustainable utilization of biodiversity.

To achieve these objectives, better staff and a new organization structure are needed. A new Executive Director to implement the new program approach is than appointed and a new organization structure is implemented. Implementation will be more programmatic oriented rather than project oriented with the purpose of strengthening of partner's capacity in program implementation. The program will work with multi-stakeholders so that coordination and interaction between Programs will take place. Under the new strategy, KEHATI will first work in six eco-regions within four bio-regions in Java-Bali, Kalimantan, Nusa Tenggara and Irian Jaya. A work plan for the period of 1999-2001 was established.

Yayasan KEHATI is currently in its fourth year of its Cooperative Agreement with USAID/Indonesia.

Extensive documentation is available on project design and implementation progress, including: Project Paper with Annexes, annual reports, quarterly progress report, work plans, strategic plans, grantmaking policy and procedures, and various other reports,

## **ARTICLE II: OBJECTIVE**

To evaluate the implementation progress of Yayasan KEHATI in accomplishing intended objectives for the period of April 1995 through December 1999 and assess whether modification should be made to the new strategy plan and work plan including implementation approaches that is now taken place. In addition the evaluation will also provide USAID and KEHATI with recommendation on improvement of the Cooperative Agreement.

## **ARTICLE III: STATEMENT OF WORK**

The team of five members is expected to begin work in Jakarta o/a January 10, 2000. The data collection phase of the team's work in Indonesia is expected to take about 10 days (from January 10-19) and would entail travel out to at least two provincial capital for about 4 days (from January 20-23). The team will -work on the draft report from January 24 through 26 and is expected to present their findings and recommendation on January 27 at the KEHATI Board of Trustees meeting. The team will leave the country on January 28, 2000. The team leader is responsible to finalize the report and he/she would then require up to 4 additional workdays in early February to complete writing a final report, which meets the specifications identified below. Allowing for travel time and postage the final report should be received by USAID/Jakarta no later than February 21, 2000.

The Evaluation Team or "Team" for the study will undertake the following tasks:

### **A. Review Background Information, Meet Key Contact and Visit Field Sites**

The Team will review background reports provided by USAID and KEHATI and meet with members of the Board of the Yayasan KEHATI and key officials (including but not limited to the following

organizations-Ministry of Environment, Ministry of Forestry, Bappenas, USAID, Japan Embassy Officials, other Donor organizations like World Bank, JICA, UNDP, UNICEF, UNEP and USAID, MacArthur Foundation, Biodiversity Support Program, Indonesian Institute of Sciences, Universities, NGOs and private sector firms involved in biodiversity conservation project activities) in order to understand the project design, approach, initial progress and implementation challenges. Member of the team will also visit some sites with ongoing biodiversity conservation activities funded by KEHATI. These are in the five geographic areas: 1) Java (West, Central and East); 2) East Kalimantan; 3) Sumatera (Kerinci Seblat); 4) Bali-Nusa Tenggara Barat-Nusa Tenggara Timur; and 5) Pulau Scribu (Jakarta Bay).

## **B. Assess Key Issues**

The Team will review the key issues to be assessed during the evaluation and may suggest new issues or modifications for KEHATI and USAID consideration. The Executive Director of KEHATI and the USAID Project Manager must approve in writing, any changes or addition to the scope of work. Key evaluation issues include the following:

### **B1. Achievement of Purpose and Output**

To what extent has the KEHATI achieved the purpose outputs specified in the program description and/or the annual work plans during the first four years-before a new strategy plan and implementation approach were implemented? Are the target outputs over life of project (presented in Annex 2 of the Cooperative Agreement) been met and if it doesn't, will it be reached using the new implementation approaches. As the strategy plan for 1998-2002 has recently been developed and new implementation approaches been formulated, should the program description of the Cooperative Agreement be modified to reflect a more current assessment of what can be accomplished by the KEHATI?

### **B2. Strategic Planning**

Does the KEHATI program objectives described in the Cooperative Agreement match to the current objectives stipulated in the Strategic Plan for 1998-2002? Is KEHATI's strategic planning sufficiently translated into operational activities through a result framework showing intermediate results and type of activities or other planning tools that link program objectives and targets and expected status of the end of the Cooperative Agreement as well as in the annual work plan(s)? Are the current approaches now being taken by KEHATI for strategic planning adequate and manageable? And if not, what would be the best approaches to improve program implementation? What parts of the Cooperative Agreement need to be changed to respond to the current shift of management that has been taken place by KEHATI due to the severe economic and political crisis in Indonesia and the adoption of new programs?

### **B3. General Management**

a) To what extent has the Program Coordinating Committee described in the Cooperative Agreement played its function as Coordinator in this program? Is it critical for the program for not having a

Committee? Should the committee be removed and who should replace the function of the PCC? With the complexity of the program, can this program be implemented without a coordinating body? If yes, what would be the role of USAID? What additional substantial involvement of USAID needs to be added in the Cooperative Agreement so that USAID can be more of assistance to KEHATI?

b) To what extent has the Executive Board delegated its authority to the Executive Director and professional staff in order to smoothly implement the program with minimal intervention from the Board. Should the current delegation of authority now being delegated to the Executive Director and professional staff be modified so that KEHATI can more effectively manage the program? If so, can the evaluation team suggest what authorities need to be delegated to the Executive Director and professional staff?

c) To what extent has KEHATI engaged its committees (Grant-making Investment Committees) in recommending policies, in evaluating the effectiveness of its procedures, and in monitoring its program perform. Should the role of the Committees be improved or reduced?

d) With the complexity of the program, is the current professional staff composition adequate to manage the program? How well has KEHATI engaged the services of consultant; (foreign and local experts) to perform specialized tasks such as designing effective internal management systems, project programming, reporting and editing or other activities that KEHATI has had limited staff and/or little experience in? Should KEHATI be using services of consultants differently? How much a year should KEHATI set-aside funds for consultant purposes?

As KEHATI has adopted four key programs (Public Awareness, Capacity Building and Empowerment, Conservation and Utilization of Biodiversity and Fundraising, and Institutional Development) and will have network centers that work with multi-stakeholders, can the evaluation team suggest ways to improve the performance of current staff of KEHATI and partners? What guidance can the evaluation team provide in identifying priority of technical assistance and training needs from now to five years ahead? To what extent has KEHATI conducted training (or send out for training) of its professional and semi-professional staff and partners in order that they can more effectively manage the program?

f) Some grantmaking will also be conducted through network centers. What effective selection and approval procedures need to be adopted so that KEHATI will have a more efficient and effective and transparent grantmaking procedures? What changes should be done in the current Grantmaking Policies?

g) Is KEHATI sufficiently monitoring and measuring progress in its and its grantees institutional development? The USAID NRM Program is using a formal “Institutional Development Framework” for this purpose. Should KEHATI also use a tool like this to assess progress by itself and its grantees?

h) In the early stage of implementation, KEHATI has established a key implementation schedule as a tool to monitor its implementation progress, however, during that stage KEHATI ran through some difficulties in managing its program and couldn't meet its progress schedule- To what extent has

KEHATI modified it-, key implementation schedule as stipulated in the Cooperative Agreement? Can the evaluation team suggest how that schedule should be further modified, or if a new tool is preferable?

i) Until its fourth year of operation, what have been achieved by KEHATI in governance and administration, endowment management grantmaking program and networking? Should the target outputs over the life of project (5 years) as described in the Cooperative Agreement be modified?

j) To what extent has the Executive Board completed its tasks in 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, and assuring compliance with USAID requirements. And also in identifying and obtaining other financial resources, establishing major program priorities, establishing project monitoring and evaluation methodologies, establishing workplans and results frameworks, and in developing grantmaking and investment policies? How might the Executive Board improve its management and oversight functions?

k) What will be the exact role of the Board of Trustees? Can the evaluation team suggest ways to improve the role and responsibilities of the Board of Trustees?

l) KEHATI has adopted a new implementation approach and therefore KEHATI has restructured its organization structure. Network centers are planned to be created in the current selected bio-regions. In what areas technical assistance are needed to smoothly implement KEHATI's program? What are the highest priority areas for assistance?

m) Has KEHATI and its grantees developed their indicators to measure their implementation performance in conserving biological diversity? And if they haven't what would be the team recommendation?

n) The "cost sharing" section of the Cooperative Agreement requires KEHATI, over 10 years, to generate the equivalent of \$6.5 million in additional program resources. The section also specifies how this amount is to be allocated into KEHATI's endowment (\$4.7 million), grant making program support (\$950,000), operations and other cost (\$850,000). In view of current Indonesia's financial and economic crisis, raising \$6.5 million in counterpart resources will require much more effort than originally anticipated and also demand more innovative approaches (e.g. debt for nature swaps, pursuing Clean Development Mechanism opportunities, etc.). Does language in the Cooperative Agreement provide the flexibility to pursue these opportunities or, in fact is KEHATI unduly constrained by language in the Cooperative Agreement? If so, how should this requirement be modified?

#### **B4. Financial**

a) KEHATI has conducted a financial audit. However, if KEHATI is to be recognized as an international grantmaking foundation, to what extent has the Foundation exercised its financial management in line with international standards? Should it not be the case, what approaches need to be taken to rectify the financial management system?

b) As agreed in the Cooperative Agreement, KEHATI needs to spend at least 3% and not more than 5% of the total market value of the endowment funds each year for the first five years. This is also a requirement to maintain tax free status in the U.S. Has KEHATI meet that requirement and spend it in accordance with the requirement set forth in the Cooperative Agreement? Is there a problem in how it was spent? To what extent has KEHATI met the requirements to maintain tax free status in the U.S. and what actions, if any, are recommended to help ensure KEHATI can maintain U.S. tax free status.

c) For some technical reasons, KEHATI plans to change its current investment advisor, Pine Grove Associate Inc. to Morgan Stanley Dean Witter (MSDW), a U.S. company having an office base in Singapore for better oversight of endowment funds. Negotiation is still underway. What factors need to be considered to evaluate the different roles between fund managers, the custodian bank and the investment advisor? What would be the team recommendation to improve the investment performance of KEHATI?

d) KEHATI has been undertaking fundraising activities to generate matching funds and enhance the KEHATI's grantmaking program. Some other donors (including the government) provide funds and request KEHATI to conduct their programs with a specific objective. Sometime the objectives do not fit with KEHATI's own program objectives. How should this kind of a case be handled by KEHATI?

#### **B5. Grantmaking, Networking, and Public Information (for the first three-four years)**

a) During the initial years of operation, KEHATI's networking, public information and grantmaking focus on three program priorities: 1) building constituencies for sustaining biodiversity, 2) identify and analyzing policy priorities, and 3) strengthening community-based nature conservation activities. To what extent has KEHATI done these priorities? Building the capacity of the KEHATI foundation requires a national framework for collaboration and networking. Has this been done? What are the constraints or disadvantages if this has not been implemented by KEHATI yet?

b) What are the problems of KEHATI in establishing an annual grantmaking field monitoring schedule for their monitoring staff and USAID to monitor performance progress of grantees activities to measure progress against specified outputs? Has KEHATI developed a field monitoring methodology for various types of projects (e.g. research, ex-situ or in-situ conservation) and if not, what are the constraints for not having one?

c) As the number of grants increases overtime, is the current composition of staff for the financial management of program activities adequate?

d) How is KEHATI handling it primary function as a grantmaking foundation (donor agency)? Is the current function adequate? Is KEHATI too much involved in micro-managing grantees in program implementation? What long-term grantmaking management approaches will KEHATI use so that program management will not be a burden for KEHATI?

e) The grantmaking selection and approval process through network centers has now been adopted. Is the grantmaking process adequate? What are the current constraints in approving proposals and is there

another way to speed up the process so that funding can be disbursed quickly to the recipients? Are the criteria now being used for the selection or proposal adequate? Or is there a problem with the composition of the selection team in providing approval to proposals? How many administrative layers do proposals have to pass through before they are approved? Are decisions about selection of individual grants made in a transparent and consistent manner? If these should be improved how should it be modified? In the early years, most proposals submitted to KEHATI were not well written. Nowadays proposal writing training was provided but not well scheduled annually. If training should be conducted to NGOs, how and when should it be programmed in the grantmaking process cycle?

f) Not all of the local NGOs in Indonesia know about KEHATI. To introduce KEHATI's objectives and activities to a wider audience, KEHATI has done some public relation activities. But are there any other approaches that are more effective in promoting KEHATI's vision and mission and implementation approaches to other local non-government and community organizations in Indonesia? If so, could the team recommend new approaches?

g) To what extent has KEHATI implemented its public awareness program on biodiversity conservation? KEHATI is seeking for innovative programs but what kind of cost-effective public awareness program can be implemented?

h) Increasingly KEHATI sees itself as an "enabling" organization. Beyond providing grants and technical assistance this appears to require KEHATI to become more involved in issues of government policy and regulatory frameworks. What constraints KEHATI will encounter from playing a more active role in advocacy? How should KEHATI prepare itself for and undertake advocacy activities? How would this best be interacted with other aspects of its current and future program?

i) As Indonesia is facing the economic crisis, should KEHATI sees the role of sustainable agriculture in the conservation of biodiversity since agriculture will be a priority in the economic development of Indonesia? Should the current program planning for the next five year be adjusted?

## **B6. Policies**

a) As KEHATI receives funds from other donors to implement activities, to what extent has KEHATI established policies for accepting or not accepting other donor funds if they are not consistent with KEHATI's strategic plans? When receiving other donor's funds to implement donor's programs, to what extent has KEHATI established it's operating costs policies when most of KEHATI operating funds come from USAID?

b) KEHATI supports the implementation of Indonesia's National Strategy for Biodiversity Management (1993) and the Biodiversity Action Plan for Indonesia (1992). The Government of Indonesia is not implementing the recommended actions stipulated in the national strategy and action plan for Indonesia. In implementing KEHATI's mandate, should KEHATI respond to the actions said in the two documents mentioned above? What are the implications in program strategy if KEHATI is not responding to the action plan?

## **B7. Common-Agenda**

Under the Tokyo declaration in 1992 Indonesia was chosen as the first country to receive financial support from the US and Japan Government to implement biodiversity conservation programs. The Governments of Indonesia, U.S. and Japan are implementing a \$60 million program to conserve Indonesia's unique and valuable biological diversity. The U.S. contributes \$19 million through support for the Indonesia Biodiversity Foundation or KEHATI, an independent grantmaking organization with an endowment that has grown from \$16.5 million in 1996 to over \$24 million today. The Government of Japan provides about \$20 million for the development of the Biological Life Science facility, nature conservation/environment education center and the management of the Gunung Halimun National park. The Government of Indonesia provides operating funds and counterparts primarily for the Japanese-funded activities. A joint steering committee oversees implementation and promotes opportunities for collaboration. Currently these two programs are running by its own and there are no connections whatsoever in its subprogram component. Is there a need to conduct a program that is implemented collaboratively between the three governments? If so, what would the team recommend?

## **C. Prepare Draft Report and Brief Members of the Board of Trustees of KEHATI and USAID**

The Team will prepare draft report and brief members of the Executive Board of Trustees of KEHATI and USAID officials on evaluation findings and recommendations. The team will record comments and suggestions by KEHATI members of Board of Trustees and USAID officials and others provided during briefings and incorporate them into the evaluation report as appropriate. The team will hold orientation briefings followed by presentation of draft findings for key project participants in each geographic area.