

The Synergos Institute

**Building an Endowment for Biodiversity  
Conservation in Indonesia**  
The Case of KEHATI

By Sarah Maxim, Ismid Hadad  
& Suzanty Sitorus

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## Purpose of the Study: Explorations in Endowments

### Introduction

Across Africa, Asia, and Latin America, citizen participation is a growing and vital force for social change. Through donations of time, energy, materials, and money, citizens – acting usually within the space called civil society – are reducing poverty and increasing equity in their communities. While organizations within civil society vary, locally managed organizations that successfully bridge divides between communities and resources (financial, intellectual, human, and other) are having a significant impact. These organizations are distinct from other non-governmental organizations (NGOs) because, as bridging organizations, they mobilize and facilitate the transfer of financial resources to NGOs and other more informal associations while also convening stakeholders around critical issues and building the capacity of civil society. Although the number of such bridging organizations remains small, they are nevertheless helping to support, strengthen, and sustain thousands of small and large civil society initiatives.

Consensus over the terminology for such organizations has not yet been reached, though they are often referred to as “foundations” or “community development foundations” in recognition of the role they have in common with foundations in the United States, Canada, and parts of Europe. In Southeast Asia, the term “civil society resource organization” – or CSRO – has also been used. The growing universe of such organizations in Asia is only beginning to be systematically studied.

With the support of the Sasakawa Peace Foundation, The Synergos Institute has had the opportunity to expand the field of understanding by publishing a series of three case studies that explore how foundations in Southeast Asia are working to attain financial sustainability. This case study presents the experience of the Indonesian Biodiversity Foundation (most commonly known by its Indonesian acronym, KEHATI) in endowment building.

## What Is an Endowment?

Simply expressed, an endowment is a collection of funds managed by an organization for the charitable purposes specified by that organization's governing body and donors. The funds are expected to remain intact either in perpetuity, for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose. It is most often expected that the endowment's purchasing power will grow over time and that it will provide regular earned income over the lifetime of the organization.

While the concept of an endowment embodied in this description may be most familiar to foundation executives in the United States, Canada, and parts of Europe, an increasing number of civil society leaders in Africa, Asia, and Latin America are now gaining direct experience in the creation, management, and growing of endowments.

In most contexts, endowments are perceived to bring great benefits to organizations by:

[P]roviding a secure base of resources which partially alleviates the need for raising core support, reduces dependence on specific funding sources and facilitates long-term financial planning. Organizationally, an endowment can create a sense of permanence that strengthens an institution and its stakeholders, enables increased attention to achieving long-range program objectives, and fosters programmatic flexibility in working towards these goals. (Gaberman 2001, p.1)

While endowments can offer these advantages, every organization needs to consider if an endowment is an appropriate strategy for meeting its financial needs and social mission. Raising an endowment may be too expensive for some organizations and also very time-consuming. The process requires significant attention and expertise that the organization may not have on its staff and board. When granted by an external agency, an endowment may have various regulations and rules associated with it to which the receiving organization needs to adhere, some of which may be difficult to follow over time. Moreover, an endowment may not meet the income generating expectations of the organization soon enough. While an endowment may provide financial protection, sluggish markets or countries with a weak culture of philanthropy may inhibit an endowment's growth potential. Furthermore, in some contexts it may be difficult to justify to potential donors that it is wise to save for tomorrow when there is so much need today.

## Learning From the Experiences of Other Organizations

The fact that endowments present significant opportunities as well as challenges makes experiences in creating and managing them critically important to understand further. Based on primary and secondary source documents and interviews with staff, this case study explores the experience of KEHATI. It tries to answer why the organization chose to create an

endowment and how it was created; how the endowment is invested and managed; the challenges the organization continues to address with its endowment; and the success factors that other organizations could potentially incorporate into their fundraising strategies.

The second study analyzes similar issues based on the experience of the Jaime V. Ongpin Foundation, Inc., an organization originally endowed through corporate profits. The third case study is on Dian Desa in Indonesia and explores that organization's earned income approach to building financial sustainability.

It is our hope that this case study will be used as a learning tool by other organizations in Indonesia and elsewhere in the world that are interested in learning more about the role of endowments in creating financial sustainability as well as specific opportunities and challenges associated with creating and growing an endowment. KEHATI is an interesting case that not only highlights the challenges of endowment building; it offers a perspective on civil society organizing in the wake of turbulent political and economic times in Indonesia.

Synergos gratefully acknowledges the financial support of the Sasakawa Peace Foundation and Sarah Maxim for conducting research and writing the initial draft of the case. Rustam Ibrahim was an important contributor to the background information on Indonesia in "Context of the Study." We would also like to sincerely acknowledge the significant time and inputs of the staff and Investment Committee of KEHATI in editing the study, particularly Ismid Hadad, Suzanty Sitorus, and Gustaaf A. Lumiu.

## **Context of the Study: Indonesia's Path Forward**

Rustam Ibrahim

### **A Time of Political and Economic Change**

Over the past several years, Indonesia has experienced drastic changes in its economic and political fields that have directly affected civil society's opportunity to bring about change in the country. In the economic sector, Indonesia has been enduring a very serious monetary and economic crisis that began in mid-1997. The crisis started with the dramatic fall of the rupiah's value against that of the US dollar, falling from Rp 2,250 per US \$1 to about Rp 10,500 per US \$1 at the end of 2001. It suffered a drop of more than 350 percent within a period of less than five years and, in early 2003, stands at about Rp 8,500 per US \$1.

The crisis had a very serious impact on the life of millions of Indonesians. Between 1996 and 2001, the number of Indonesians living below the poverty line increased from an already high figure of 22.5 million people, or 17 percent of the total population, to about 45 million people, some 25 percent of Indonesia's total population in 2001. Open unemployment reached 6.2 million people during the crisis; combined with the percentage of the population underemployed, approximately 35 million people were seeking work at the turn of the millennium.

In the political field, the fall in May 1998 of the military-backed New Order regime under Suharto marked a turning point in the country - one that began a transitional process toward democracy. The democratic government formed in 1999 began to restore basic freedoms of citizens, such as freedom of association, assembly, and expression.

### **Civil Society Takes Root**

Indonesian civil society has been a part of this transition process in many ways. Hundreds, even thousands, of new organizations have come into existence since 1998. Moreover, a significant number have been providing education on democracy and human rights. Others

have been asserting the right of citizens to participate in the decision-making process, to fight corruption, and to struggle for law enforcement. At the same time, Indonesian organizations have been providing food security, basic social services, job creation help, and other assistance in income generation for the urban and rural poor.

Like many other organizations, KEHATI was established as a *yayasan*, which literally translates into foundation in English. For many years, the legal requirements to establish a *yayasan* were minimal, requiring only a notarized document listing the founders, structure, and composition of the board, location, and assets. Recognizing the lack of accountability that laws permitted within *yayasan*, the Indonesian government drafted a new, stricter law governing *yayasan* operations. It was issued in 2001 and allows existing organizations to make adjustments within five years from the time of the act's issuance in order to meet these new standards of accountability.

Although there are many different kinds of *yayasan* now operating in the country, most are quite small, with limited assets and little capacity to manage endowments. In fact, a high dependence on external sources for funding is one of the main challenges confronting local NGOs and funding organizations alike. Similar to the organizations that they assist, Indonesia's foundations obtain the greatest portion of their funds from foreign sources. A survey conducted of over 25 local funding organizations in Indonesia in 2000 indicates that 65 percent of their funds were obtained from overseas sources, namely official development assistance agencies, international foundations, and NGOs. Other funding sources were in the form of contracts with government agencies and consultancy services, but this portion of funds accounted for only 12 percent of revenues. Meanwhile, funding sources in the form of endowments and contributions from the private sector accounted for only 6 percent. The remaining 9 percent was from other sources, including public donations (Ibrahim 2001). The continuing decline of foreign aid promises to mount an even greater challenge to Indonesian organizations seeking to sustain themselves as well as their impact on critical societal issues.

Nevertheless, *yayasan* like KEHATI are playing a critical role in Indonesia. According to a survey conducted in 2000, some 25 indigenous foundations in the country disbursed about US \$8 million in grants and loans in that year alone (Ibrahim 2001). As this case study will illuminate, KEHATI's work underscores the value of developing indigenous organizations that reflect local needs and strategies but that can also provide the financial and capacity building means to strengthen civil society. Moreover, it exemplifies how a foundation can build permanent assets for addressing sustainable development.

# Building an Endowment for Biodiversity Conservation in Indonesia: The Case of Kehati

Sarah Maxim, Ismid Hadad  
& Suzanty Sitorus

1 The other two mega-diverse countries are Brazil and the Democratic Republic of Congo (formerly Zaire).

2 The ministry became the State Ministry for the Environment after Dr. Emil Salim ended his term as minister.

3 This international treaty was drawn up in 1992 to promote three goals: biodiversity conservation, sustainable use of the earth's biological resources, and the "fair and equitable" sharing of the benefits from the use of natural genetic materials. The treaty has 182 parties. See [www.biodiv.org](http://www.biodiv.org).

4 This situation has continued to the present day under the State Ministry for the Environment. For example, the ministry does not have direct supervision of the country's many natural parks and conservation areas; these areas are instead coordinated by a department in the Ministry of Forestry.

## Introduction

Indonesia is one of the world's three mega-diverse countries for the range and breadth of its biological resources.<sup>1</sup> In recent decades, however, this biodiversity has come under threat. Growth-oriented development policies have led to unsustainable pressures being placed on natural resources and a dramatic reduction in habitat areas for endangered species. Compounded problems of pollution, deforestation, erosion, and the disruption of watersheds are severely impacting the environment. Moreover, a history of corruption and inconsistency in the application of the rule of law have limited the government's ability to adhere to acceptable guidelines, or common principles, in the sustainable management of Indonesia's natural resources.

This marked decline in the quality of Indonesia's environment by the mid-1980s pushed the subject to the forefront of the agenda of the country's nascent community of non-governmental organizations (NGOs) as well as some government sectors, particularly the State Ministry of Population & the Environment.<sup>2</sup> Between 1983 and 1993, Dr. Emil Salim, a Berkeley-trained economist, directed this ministry. It was during his tenure as minister that Indonesia developed a strategic plan to promote biodiversity conservation, participated in the 1992 Rio Summit, and signed and ratified the International Convention on Biological Diversity.<sup>3</sup>

Although the State Ministry of Population & the Environment was an effective voice in calling for the country to pay more attention to sustainable development, its status as a state ministry meant it had little implementing or enforcement authority, and only a limited budget.<sup>4</sup> Local NGOs also lacked sufficient resources to spearhead the kind of initiatives that would have substantive impact in addressing the degradation of the natural environment.

<sup>5</sup> An amendment was made to the foundation's Articles of Association in August 1995, but otherwise the formal terms for establishing KEHATI remain as stated in 1994.

<sup>6</sup> The interest of USAID staff in endowments as a funding strategy, including descriptions of endowments funded by the agency in the 1980s and early 1990s, are covered in detail in Kathleen M. Horkan and Patricia L. Jordan's USAID working paper "Endowments as a Tool for Sustainable Development." The authors also note that new laws and guidelines issued in the early 1990s made it possible for USAID to set up dollar-based endowments using congressionally appropriated funds. Endowments established prior to 1990 could only be funded with local currency, and not with US dollars.

<sup>7</sup> While the US government's contribution ensured it met its commitment to the Tokyo Declaration, the US government also counted it as a contribution to the Global Environment Facility, a trust fund managed by the United Nations Development Programme, the United Nations Environment Programme, and the World Bank. The Facility provides grants and other funding for environmental programs in countries around the world. Under the Tokyo Declaration, Japanese government officials supported biodiversity conservation in Indonesia by adding funds to existing grants it was already making in Indonesia. Specifically, a national biodiversity research center and Indonesia's national

*(continues)*

## The Birth of a Foundation for Biodiversity Conservation

Amidst these developments, two contiguous events collided to give birth to KEHATI's endowment. First, a 1992 summit meeting in Tokyo between US President George H.W. Bush and Japanese Prime Minister Kiichi Miyazawa resulted in the governments of Japan and the United States agreeing to a common agenda for the environment with Indonesia selected as a pilot country. Called the "Tokyo Declaration," funds provided by the two countries were allocated to support the implementation of Indonesia's biodiversity strategy.

The second event occurred with Salim's departure from his post as minister in 1993. At this time, he established a plan for a national organization devoted to environmental sustainability. Yayasan Keanekaragaman Hayati Indonesia, abbreviated to KEHATI, was officially formed in January 1994 and came under the direction of a board of prominent Indonesians chaired by Salim.<sup>5</sup>

At the same time, officials of the US Agency for International Development (USAID) charged with following through on the US government's commitment under the Tokyo Declaration to support biodiversity conservation in Indonesia, decided to fund an endowment managed by an independent national Indonesian organization. Funds derived from interest earned on the endowment would be used for grantmaking activities focused on conservation objectives. While USAID officials believed in endowments as a means to generate long-term support for sustainable development, they also recognized the endowment's role in building financial sustainability within local organizations and empowering civil society. Other examples of environmental organizations supported by USAID-funded endowments during this same period include the Foundation for the Philippine Environment, established in 1992, and the Mexican Nature Conservation Fund (Fondo Mexicano para la Conservación de la Naturaleza), established in 1996.<sup>6</sup>

USAID officials determined that KEHATI was the organization best suited to manage the endowment in Indonesia. They believed that KEHATI would be able to command the requisite international profile because of its highly esteemed board, and that it would be the most appropriate organization to meet the criteria of the US government and Congress that would be disbursing the funds. The final terms for how the endowment would be transferred and managed were drawn up through the mechanism of a Cooperative Agreement, which covers a ten-year period from 1995 to 2005.<sup>7</sup> (See the back of this paper for a profile of KEHATI.)

### Establishing the Endowment

Under the terms of the Cooperative Agreement with USAID, KEHATI received US \$16.5 million for its endowment to support grantmaking in the field of biodiversity conservation in Indonesia. USAID also pledged an additional US \$2.5 million to KEHATI to cover its operating costs for the first five years of the Cooperative Agreement (1995-2000) as well as any technical assistance or consultancies needed to help it establish effective operations at

(7 continued) parks received the additional grants. As the funds from the two governments were disbursed according to a strategic plan drawn up by the State Ministry for Population & the Environment, the funds' use reflected Indonesia's own priorities for its sustainable development.

the outset. The total grant was therefore equal to US \$19 million, with the terms of the agreement in effect for ten years, from 1995 to 2005. The Cooperative Agreement stipulates that KEHATI must raise an additional US \$6.5 million from its own sources. Of that amount, US \$4.7 million should be contributed to its endowment and the remaining amount, US \$1.8 million, should be contributed as cost-sharing for operational and program expenses (see Table 1). While the agreement leaves design of KEHATI's programmatic approach to KEHATI's board and staff, it states that the objectives are to be achieved through two main strategies: grantmaking first, and consultation, collaboration, and networking second.

**Table 1**  
KEHATI's Budget Outline, 1995-2005 (in US dollars)

	USAID	KEHATI
<b>Endowment</b>	16,500,000	4,700,000
<b>Operating costs</b>		
Salary	272,558	50,000
Operations	275,040	50,000
Technical assistance	445,500	0
Travel	239,869	0
Sub-total	1,232,967	100,000
<b>Program expenses</b>		
Program officers	12,000	0
Staff & trustee travel	7,700	90,000
Public information materials	111,075	0
Meetings & workshops	96,258	60,000
Sub-total	227,033	150,000
<b>Grantmaking support</b>	550,000	950,000
<b>Consultation &amp; networking</b>	265,000	600,000
<b>Evaluation &amp; audit</b>	225,000	0
<b>TOTAL</b>	<b>19,000,000</b>	<b>6,500,000</b>

Source: USAID Cooperative Agreement

In order to actually receive funds from USAID, KEHATI had to pass a review of grant-worthiness conducted by the agency and meet various requirements set out in the Cooperative Agreement, including developing an investment strategy for the funds. For example, all funds selected for investment have to be formally registered with the US Securities & Exchange Commission. This requirement is intended to safeguard the endowment but also means that the endowment is to be invested in the United States. KEHATI also chose to adopt USAID standards in many areas of its operations, particularly those for financial administration and personnel management.

In passing the grant-worthiness review, KEHATI was registered as a nonprofit and tax-exempt organization in the United States. This status means US corporations or other US-based entities that donate funds to KEHATI can receive tax benefits if filing in the United States.

### Establishing a Grantmaking Program

KEHATI's endowment has made possible the development of a strong grantmaking program and technical assistance fund, but each executive director has faced different challenges in developing the foundation and implementing its mandate. As stated earlier, KEHATI shifted its funding from research initiatives on biodiversity to community empowerment with an emphasis on bringing together community groups and NGOs to conserve and use local resources in a sustainable manner.

The changes in KEHATI's grantmaking have been due primarily to the need to adapt its mission to realities on the ground. Staff has had to redefine the concept of biodiversity conservation as well as clarify its meaning in the Indonesian context in order to make it more readily accessible to the public. Along with this has been an emphasis on generating greater public support for, and involvement in, general environmental issues. KEHATI's grantmaking now supports community-level programs, public education, and scientific research on biodiversity. These changes have also prompted necessary organizational restructuring.

The current executive director, Ismid Hadad, has initiated the most recent structural changes at KEHATI, including establishing regional network centers that link local communities with the organization (see Box). The network centers (usually staffed by a program officer and accountant selected by partner organizations in the region) reflect the decision of KEHATI officials to shift funding away from a project-based approach toward one more programmatic. They also make KEHATI's programs more efficient by channeling resources to targeted areas and issues.

Conservation, in Hadad's view, has to be approached from multiple angles in an integrated manner, and requires long-term planning, multi-stakeholder involvement, multi-year budgeting, and a strong role for community. This approach allows local organizations to focus on developing methods to address biodiversity conservation that are less driven by

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*Providing grants that generate long-range impact through community empowerment means that the endowment is being used efficiently to accomplish KEHATI's mission.*

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**Box**  
Regional Network  
Centers and  
Program Focus

<b>Java/Madura/Bali</b>	Alternative food crops, medicinal plants, community-based ecotourism
<b>Papua</b>	Community-based natural resource management
<b>East &amp; South Kalimantan</b>	Community-based management/co-management of natural resources

short-term considerations and more by a broader assessment of how conservation can be achieved simultaneously at the micro- and macro-levels. Providing grants that generate long-range impact through community empowerment means that the endowment is being used efficiently to accomplish KEHATI's mission.

KEHATI now actually receives many more proposals than it can fund. Although proposals are solicited in an open-ended way, since 1999 the organization has established review processes that winnow out those beyond its priority areas. Between 1995 and 2002, KEHATI distributed a total of US \$4,783,936 in grants (see Graph 1).

Grantmaking priorities for KEHATI include the following:

- Biodiversity awareness and income generation for communities living near Meru Betiri National Park, East Java.
- Community empowerment and natural resource conservation in the peat swamp ecosystem of Central Kalimantan.
- Promotion of sustainable use of natural resources and alternative income generation in villages adjoining Laiwanggi-Wanggameti National Park, Sumba, East Nusa Tenggara province.
- Capacity building and development of tuber plants as alternative food sources for communities in Yogyakarta province, Central Java.
- Development of traditional medicinal plants for local health practices in Sumenep District, Madura Island, East Java.
- Capacity building in the management of marine resources in the Padaido Islands, Papua province.
- Community management and alternative income generation in the Arfak Mountain Nature Reserve, Papua province.

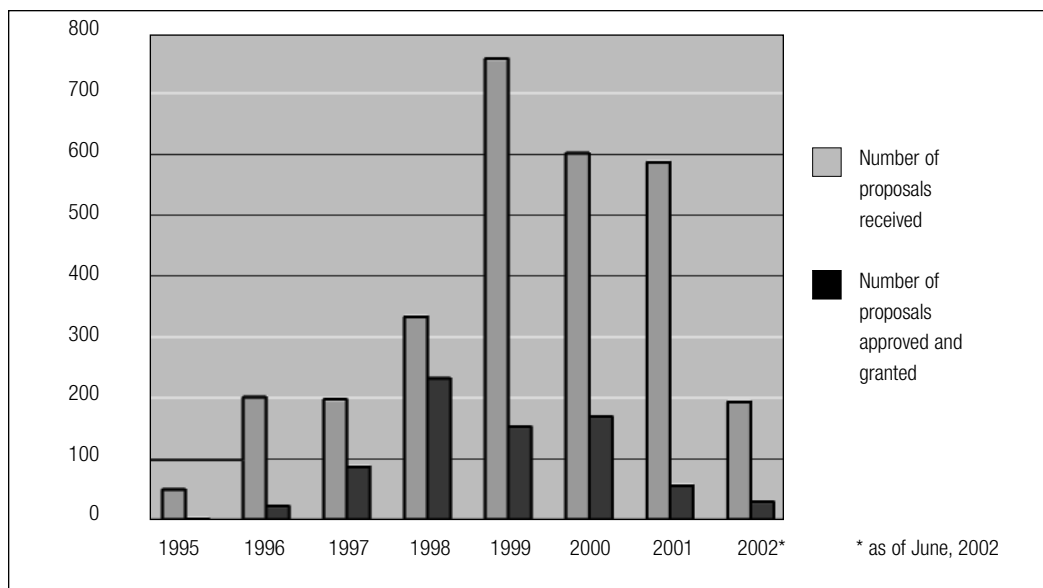
KEHATI also supports policy advocacy efforts that seek government recognition for communities' accomplishments in biodiversity conservation and the sustainable use of natural resources.

Some of KEHATI's resources are used to fund technical assistance and training for its grantees. For example, KEHATI strives to enhance the transparency of its grantees, including trying to ensure that its grants are managed appropriately. KEHATI also tries to improve its grantees' program management skills. It holds annual meetings with grantees in each of its regional network center areas and may meet more frequently with partners in smaller areas of network centers.

These capacity-building efforts are tied to KEHATI officials' concern to avoid creating a dependency among local groups on the organization's grants. The ultimate goal is for these community and NGO programs to become self-sustaining. KEHATI's emphasis on building

**Graph 1**

Proposals Received and Approved by KEHATI 1995-2002



sustainability derives also from its recognition that the endowment itself cannot provide for all existing and future needs.

## Managing the Endowment

### Investment Management Policy

The management of KEHATI's endowment fund portfolio is governed by a set of guidelines on investment policy, endorsed by the foundation's Board of Trustees and in accordance with its Cooperative Agreement with USAID. The guideline covers the objectives of long-term investment, rules on spending, rate of return goals, and asset allocation policies.

The two primary objectives guiding the management of the foundation's endowment fund are to preserve the real value of the assets over time and to provide a substantial, stable flow of income to finance the foundation's activities. Preservation of the real value of the assets will be achieved by maintaining an investment program that generates returns, net of all fees, which in real terms at least match the annual rate of spending.

As for spending, the investment policy stipulates that the average total rate of return goal be equal to a spending rate of five percent of the average market value of the total portfolio of the year, plus the cost of investment and rate of inflation. Total return is a measure of current yield plus capital appreciation. The policy also stipulates that spending will be a minimum of three percent and a maximum of five percent of a 12-quarter (three-year) moving average of the fund's market value, at least for the initial five years of the endowment.

KEHATI manages its asset allocation based on an assessment of long-term considerations, such as rate of return, volatility, diversification, inflation hedging, and investments in major asset categories, including stocks, bond, cash, and real estate. In order to maximize the likelihood of achieving the long-term investment objectives and its real rate of return goals, KEHATI sets long-term neutral asset allocation targets of 60 percent equities and 40 percent fixed income securities. In accordance with the Cooperative Agreement, the foundation invests exclusively in publicly traded securities offered by investment firms registered with the US Securities and Exchange Commission and denominated in US dollars. Private investments, including venture capital and real estate limited partnership investments, are prohibited.

Following a mid-term review of KEHATI in the year 2000 (conducted in compliance with the Cooperative Agreement), the foundation's investment policy underwent a few significant changes. Amended were the stipulations on rate of return, performance benchmarks, spending policies, and guidelines on equity investments. As a result of this amendment, target return rates are now a function of market-driven benchmarks. With regard to spending policy, the amendment stipulates that KEHATI may withdraw its fund up to 6.5 percent of a 13-quarter (three-year) moving average of the fund's market value for the initial five years of the endowment. If applied continuously, however, this stipulation would likely result in the gradual erosion of the real value of the endowment principal.

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*KEHATI's emphasis on building sustainability derives also from its recognition that the endowment itself cannot provide for all existing and future needs.*

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The original investment policy did not specifically regulate equity investment. In response to current and future trends in the market, the amendment included just one sentence on equity investment, as follows: “In order to achieve an appropriate amount of diversification, given the limited amount of funds to be invested in various equity investments, the foundation will consider purchasing unit shares in passively managed equity funds by an investment management firm registered with the Securities and Exchange Commission and denominated in US dollars.”

### **Governance and Fund Management Structure**

KEHATI’s reputation and performance as a credible and accountable organization has been augmented significantly by the efforts expended by its governing bodies. Until January 2003, KEHATI had a Board of Trustees, Executive Board, and three advisory committees. In compliance with the new law on foundations in Indonesia, the structure of KEHATI’s governance has been reformed to now consist of a Governing Board, Supervisory Board, and Executive Board. The three advisory committees remain as non-formal but essential elements of the organization, assisting the Executive Board in dealing with policy issues on grantmaking, investment, and resource mobilization.

KEHATI’s Governing Board is now composed of eight senior, including founding, members of the foundation. It is a policy making and supervisory body that is required to meet at least once a year but can meet more frequently at the request of five or more board members, or at the request of the Executive Board. Members of the Governing Board serve terms of six years, and these terms can be extended for an additional three years. The board members are drawn from diverse backgrounds and various sectors, including NGOs, business, and academia. A consistent emphasis has been made to elect those with professional reputations of the highest caliber and integrity (see Appendix 1: Board Structure of KEHATI, 2003-2008).

The Executive Board has a maximum of seven members and takes an active role in implementing policies formulated by the Governing Board. The Executive Board is required to meet at least three times a year, with a quorum of at least four members required at each meeting to make any formal decisions. Since its inception, however, the Executive Board has met monthly and is seen as an integral part of the organization’s management structure and decision-making processes. The Executive Board is responsible for appointing the organization’s Executive Director, who together with his/her full-time professional staff actually manages the day-to-day functioning of the organization.

The organization’s first Executive Director was Dr. Setijati D.Sastrapardja, a founding member of the Board of Trustees and one of Indonesia’s senior scientists in conservation biology. She completed her term in 1996 at which time Dr. Nengah Wirawan, a scientist with a background in applied ecology and botany filled the position. Dr. Wirawan completed his term in 1999 and Ismid Hadad then replaced him. Hadad remains the Executive Director at this time. In addition to being a founding member of KEHATI’s board, Hadad has an economics and environmental management background, was a pioneer of the NGO movement in Indonesia, and led two national management consulting firms previously.

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*KEHATI’s reputation and performance as a credible and accountable organization has been augmented significantly by the efforts expended by its governing bodies.*

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KEHATI has three advisory committees currently, focused on investment, grantmaking, and resource mobilization. They provide policy advice and technical guidance to the Executive Board. The governance of these committees is regulated by the organization's by-laws. Each committee must consist of three or more members, of whom at least one must be a member of KEHATI's board (see Appendix 2 for committee lists).

The role of the investment committee has been instrumental in the management of KEHATI's endowment. Its main responsibilities are to: recommend investment policies and procedures or their amendments; oversee the performance of the asset managers and investment advisor; and monitor overall investment performance. The committee is required to meet at least four times a year and report to the foundation's Executive Board.

Since the beginning, KEHATI has attracted high-caliber professionals in finance, investment, and banking to its investment committee. Of the current five members, one is from the foundation's Governing Board. Apart from giving policy advice to the board, the investment committee also assists the Executive Director in financial management issues and in negotiations with asset managers and the investment advisor.

Based on committee's recommendations, the Executive Director (assisted by the finance department, especially the Finance Director and Finance Manager) seeks to exercise the highest standard of care and prudence with respect to their fiduciary responsibilities in managing the endowment investment. As assets are allocated in a globally diversified portfolio of equities and fixed income securities traded on public capital markets, however, the foundation employs professional asset managers, a custodian bank, and a reputable investment advisor.

The services of the investment advisor fall under six main categories:

- overall investment policy assistance to the Executive Director
- portfolio construction, including conducting an annual review of KEHATI's spending policies and asset allocations
- setting of investment objectives for asset managers and benchmarks for monitoring investment performance
- advising on the relationship with the custodian bank and asset managers, including KEHATI's contractual arrangement with its asset managers
- performance monitoring, including a monthly evaluation of investment results and asset allocations, and a quarterly overview of market trends
- and treasury administration, including the withdrawal of funds for programming and operations, maintenance of tax-free status with the IRS, and other investment administration matters as required.

## Endowment Performance

KEHATI's endowment is invested in an international portfolio of fixed income (bonds) and equity investments, with the asset mix policy set at 60 percent equities and 40 percent fixed income. KEHATI has engaged professional asset managers with high international regard,

including TIFF (The Investment Fund for Foundations); Vanguard, Hochkis & Wiley; and Morgan Stanley. During the first four years of its operation, KEHATI's investment, mostly in the US capital market, enjoyed relatively high rates of return. Since 1996, the four-year annualized return of KEHATI's endowment fund has been 13.7 percent. It surpassed the targeted annual objective of 6 percent plus the cost of investment management and the rate of inflation. This means that KEHATI's original endowment fund of US \$16.5 million in 1996 grew significantly, reaching close to US \$25 million in December 1999, after annual withdrawals of US \$2,225,000 for program operations.

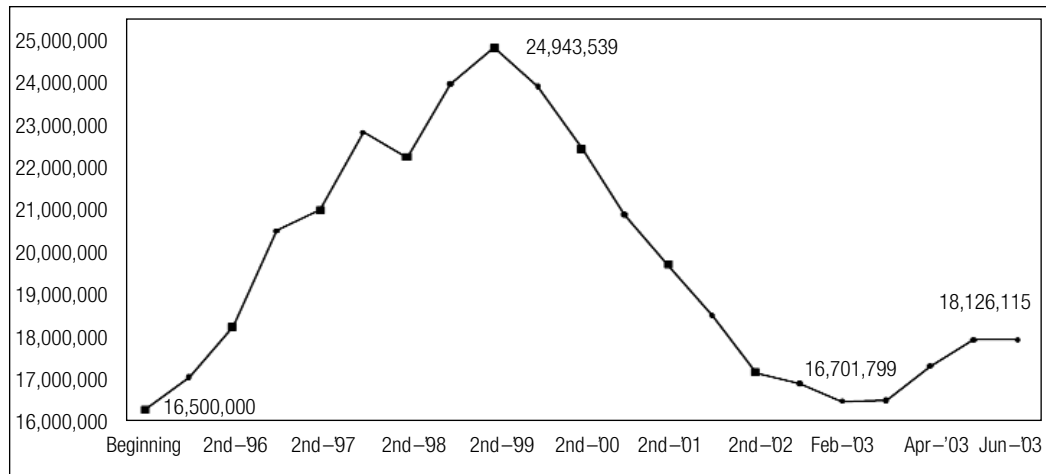
With the onset of the Asian financial crisis in late 1997, KEHATI's endowment also ballooned in rupiah terms because of the drastic collapse in the value of this currency against the US dollar. While the exchange rate when the fund was established in 1995 was approximately Rp. 2,300 per US \$1, this rate has been in a state of flux for the last few years, and even went over Rp 15,000 in 1998. By early 2003, it was trading at an approximate value of Rp. 8,500 per US \$1. This initial jump in value of the endowment in local currency in late 1997 meant that KEHATI was suddenly receiving many more rupiahs than it had been used to. Inflation quickly caught up with the exchange rate fluctuation, however, causing this sudden increase in rupiahs to be quickly swallowed up by concomitant increases in operating expenses.

Unfortunately, between 2000 and the present, KEHATI's portfolio has suffered in the weakening of US capital markets. After enjoying strong years of growth from 1995 to 1999, the equity asset class lost approximately US \$5,200,000 in market value from 2000 to the second semester of 2002. Current low interest rates of 2.5 to 3 percent on KEHATI's US investment portfolio are not favorable, especially against the Indonesian financial market, which has been generating yields of 15 to 18 percent interest rates. While investing in the Indonesian market could potentially result in larger returns for KEHATI, this is not allowed under the terms of the Cooperative Agreement (which stipulates that investment of the endowment capital and reinvestment of endowment income can only be through financial instruments offered in the US and through US-based financial intermediaries.)

As demonstrated in Graph 2 on the next page, while the overall value of KEHATI's portfolio hit a high of nearly US \$25 million in 1999, it declined to a value of US \$22,579,980 as of December 31, 2000 and then further dropped to a value of US \$17,361,725 as of December 31, 2002, far below the endowment's original market value. At the end of June 2003, after withdrawal and management fees, the market value of KEHATI's endowment fund stands at US \$18.5 million. The foundation needs to maintain this performance if it wants to capitalize on current market trends, which are indicating slow but significant improvement nonetheless.

Although the asset mix policy was set at 60 percent equities and 40 percent fixed income, due to the declining equity values asset allocation changes occurred. In 2000 the actual mix was 58 percent equities and 42 percent fixed income; in 2001, it was 55 percent equities and 45 percent fixed income; and in 2002, it was 51 percent equities and 49 percent fixed income. From 2003 and on, the asset mix allocation policy has included other alternative investments

**Graph 2**  
Endowment fund balance in rupiahs



such as preferred shares, Real Estate Investment Trusts (REITs), and short-term investments of fixed income in the domestic market.

### Strategies for the Future

The compounded effect of unpredictable capital market volatility and the adoption of a new strategic plan within KEHATI (for 2002 to 2007) resulted in significant changes to the investment perspective and strategy of the foundation. During the period in which USAID funds supported KEHATI's operations, the endowment only needed to cover program costs. The additional funds for operations therefore afforded the organization some breathing room during which time it concentrated on developing its administrative systems and programming strategies. The corresponding end of this grant with the slump in value of the endowment in 2000, however, forced KEHATI to maximize the use of funds available for operating costs through efficiency measures, including scaling back expansion plans for regional network centers and new grants. KEHATI was thus reminded that while the endowment offers the means to support innovative efforts to meet its objectives, the funds derived from the endowment are not always constant or consistent.

A challenge for KEHATI is thus to adopt a new more diversified investment strategy that includes attracting funds to its endowment, building its long-term fundraising capacity, and therefore diminishing its reliance on USAID funds. KEHATI has already been successful in attracting funding from other donors for its programs. In the past two years, the organization has successfully raised additional funds (outside of its endowment) of US \$2.1 million, thereby increasing to about 60 percent the proportion of programs being funded by non-endowment funds. Like other foundations, especially in developing countries where immediate needs are so great, it has been a struggle to get donors to contribute to the endowment fund.

While a priority for KEHATI's fundraising strategy is to fulfill the terms of its Cooperative Agreement, KEHATI's Resource Mobilization Committee has also adopted the following strategies to ensure adequacy and sustainability of resources for KEHATI's programs and operations between 2002 and 2007:

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*A challenge for KEHATI is to adopt a new more diversified investment strategy that includes attracting funds to its endowment, building its long-term fundraising capacity, and therefore diminishing its reliance on USAID funds.*

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- diversification of its donor base
- development of alternative and innovative funding mechanisms and instruments
- development of a program to engage the private sector (for which KEHATI has an internal policy advising how to select corporations and actively engage with them as partners)
- management of the endowment fund and its investments more effectively (such as by changing the investment advisor and reviewing the range of investment options available to the organization)
- development of non-grant instruments to support communities and adoption of a social entrepreneurship approach to program planning and implementation
- promotion of earned income amongst its beneficiaries through the sale of goods or services, program-related investments, and establishment of businesses related to KEHATI's mission.

In recent months, KEHATI's management has been particularly interested in promoting a debt-for-nature swap on behalf of the Indonesian government with the resulting funds possibly being allocated to either a trust that would be managed by KEHATI (such as has occurred in the Philippines already) or to KEHATI's existing endowment fund.

KEHATI is also currently exploring the potential of a "green mutual fund." Apart from being a future revenue-making mechanism for KEHATI, the fund would give businesses an incentive to act more environmentally responsible.

KEHATI has also recognized the need to create an enabling fiscal environment in Indonesia that can encourage charitable giving from individuals and the private sector. Currently, a culture of philanthropy exists largely only within Muslim traditions of giving; this rarely extends to organizations such as KEHATI. Nothing within the tax framework acts as an incentive for companies to provide donations to charitable organizations. While KEHATI does not pay taxes in Indonesia by virtue of a special dispensation secured from the Ministry of Finance (which will be renegotiated in the coming years), it cannot provide charitable tax deductions to Indonesian donors.

## Lessons Learned

An environmental or conservation trust fund in the form of an endowment is not simply a financial mechanism. Such a fund must be viewed as a strategic institution that has several roles to play, in addition to generating and channeling funds. To succeed in building organizational financial sustainability, endowment funds require more than strong financial management systems and skills. They need governance structures, committed board members, dedicated and competent staff, strategic policies, and technical support that enable the funds to meet long-term goals.

From KEHATI's experience with its endowment, one can extract the following lessons:

**Lesson: Establishing an endowment also requires a justification for its existence**

Donor agencies generally prefer to support programs or projects rather than give to an endowment fund. Therefore, an organization's staff and board must present a strong case that they face extraordinary problems or challenges that cannot be solved by conventional project funding. In the case of KEHATI, the foundation's founders were able to convince USAID that Indonesia is one of three mega-diverse countries in the world and therefore one of the richest centers of biological resources on the globe, but is increasingly threatened by powerful external factors such as over-exploitation. The gravity of this context clearly underscored the need for large and sustainable resources to meet such a long-term challenge.

**Lesson: Establishing an endowment with bilateral assistance has associated restrictions and rules**

Organizations endowed initially by foreign donors are likely to be subject to several restrictions. While the adoption of donor-mandated, or donor-guided, investment policies and procedures and financial administration and human resource standards can be burdensome, they can also help a new organization begin to function quickly and well. This can be particularly helpful in an environment where transparent and accountable institutions have not been the norm.

**Lesson: A knowledgeable, engaged Board of Trustees is critical for effective endowment management**

The Board of Trustees or its Executive Board must understand the organization's mission, have the time to devote to overseeing its vision, and be able to contribute positively and actively to the management of the endowment.

In KEHATI's case, it was particularly important to have a committed core group of founders on its Executive Board. This group was able to oversee the extensive negotiations required to implement the establishment of the endowment and then be actively involved in ensuring that the organization began functioning fast and well.

More recently, KEHATI has found it useful to have external advice channeled through the medium of committees established by the Executive Board. It has been particularly useful to have an active and informed Investment Committee to attend to endowment growth and assess the range of investment vehicles that the organization might benefit from.

**Lesson: Having endowment management skills among staff can be very beneficial**

An organization supported by an endowment requires staff with skills in endowment management, including an understanding of security markets, market trends, and investment options. This allows the organization to respond appropriately to investment advice, including noting when such advice is not timely or useful.

The novelty of endowment management in many countries means that local capacity and expertise may be lacking. Specific attention to such weaknesses can be prepared for at the outset of the organization's life by providing targeted technical assistance, using experienced consultants for specific tasks, or arranging for mentoring.

The unique circumstances of establishing an organization with funds from a foreign donor also means that it may be important for some of its staff to have prior experience with

bilateral funding agencies and an understanding of these agencies' policies and requirements in terms of grantmaking and organizational management.

**Lesson: An endowment is only as strong as its investment policy**

While an endowment can play a significant role in stabilizing annual funding, an investment policy that encourages the growth and strengthening of the endowment at the same time is an absolute necessity. The fund's investment strategy must be appropriately broad in its portfolio mix and be able to access strong markets, whether they are domestic or international.

**Lesson: Ongoing fundraising is critical to help build sustainability**

It is important to have a comprehensive and effective fundraising program to ensure that the endowment continues to grow and in order to secure the sustainability of the organization. And it is never too early to put the fundraising plan in place. Fundraising should anticipate whether local conditions support philanthropic donations to the endowment or whether funding will have to be secured mainly from other sources, such as foreign donors, and plan accordingly as early as possible. In KEHATI's case, a systematic fundraising drive began rather late because in the first four years the foundation had a limited absorptive capacity and more annual funds than it needed. In addition, KEHATI was (and continues to be in many ways) up against a domestic scene in which philanthropy for environmental causes is very limited. At the same time, foreign donors have not been very interested in contributing to the endowment (although they have been willing to support KEHATI programs). Regardless, gradually building an innovative fundraising plan therefore ensures the endowment continues to be a viable source of long-term grantmaking support.

**Lesson: Changes should be anticipated as the organization matures and evolves**

It is expected that an organization will change over time. Senior staff and board should anticipate re-adjustments, including those on how the endowment is invested and applied. Although the early years of an organization's life will undoubtedly emphasize organizational development and refinement of the mission, new concerns will emerge as it matures. This evolution is not something to avoid, but can instead be a fruitful and positive experience if anticipated.

**Lesson: An endowment's purpose needs to be rooted in realities of the local context**

Organizations established with support from foreign aid agencies can retain an aura of being a bilateral development project instead of a homegrown organization. These organizations need to therefore ensure that their programs reflect local needs, as KEHATI has done through its grantmaking at the grassroots level and regional network centers. In part, achieving this means communicating the right message to the general public and private sector. KEHATI has found that the concept of biodiversity has been a difficult sell, either because the term is unfamiliar to most or because it seems to refer to complex processes that are not felt to have much direct impact on peoples' lives. KEHATI's program work on community empowerment has been part of its strategy to draw out the explicit links between human

actions and the environment in a way that is easier to communicate to people. Indeed, if an organization's mission is perceived as relevant, it generates goodwill locally and nationally, thereby laying a strong base for local fundraising and endowment growth.

## **Conclusion**

While this case study of KEHATI demonstrates the importance of not seeing an endowment as a panacea to all fundraising needs, it also exemplifies the very positive assets an endowment affords. Endowments provide organizations with time and flexibility, during which period the staff can develop its programs and mission while maintaining attention to ongoing fundraising and endowment management. More importantly, donor-driven program funding can be put aside in favor of grantmaking and programming that is thoroughly grounded in the genuine needs and requirements of communities.

Although KEHATI's future depends in part on growing its endowment successfully, its record of managing both its programs and investments places the organization in a strong position from where it can succeed at this task and continue to make a positive impact on public awareness and community empowerment for biodiversity conservation in Indonesia.

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Personal interview with Ismid Hadad, Executive Director, Indonesian Biodiversity Foundation, November 2001.

Personal interview with Gustaaf Lumiu, Director of Finance and Administration, Indonesian Biodiversity Foundation, February 2002.

Personal interview with Anida Haryatmo, Program Director; Julia Kalmirah and Cliff Marlessy, senior program staff, Indonesian Biodiversity Foundation, February 2002.

Personal interview with Wouter Sahanaya, USAID/Jakarta, March 2002.

Telephone interview with Jerry Bisson, USAID/Manila, March 2002.

E-mail interview with Dave Heesen, USAID/New Delhi, April 2002.

## Appendix 1: Board Structure of KEHATI, 2003-2008

### Governing Board

Koesnadi Hardjosoemantri, Chair  
Professor Emeritus, Faculty of Law, University of Gadjah Mada, Yogyakarta, Central Java

Emil Salim  
Professor Emeritus, Faculty of Economics, University of Indonesia; former Minister of the Environment, Government of Indonesia, Jakarta

A.R. Ramly  
Honorary Chairman of PT Astra International Tbk (Automotive Industry, plantation), Jakarta

Didin Sastrapradja  
Former Deputy Chairman of Indonesian Institute of Sciences (LIPI) and Member of Parliament of Republic of Indonesia, Jakarta.

Martha Tilaar  
President Director of PT Martina Berto (Cosmetics and Herbal Medicine Industry), Jakarta

Jaya Suprana  
President Director of PT Jamu Jago (Herbal Medicine Industry), Semarang, Central Java

Sardono W. Kusumo  
Cultural Leader, Dance Choreographer, Solo, Central Java

Arthur J. Hanson  
Distinguished Fellow and Senior Scientist, International Institute of Sustainable Development, Ottawa, Canada

## **Supervisory Board**

Anton Soedjarwo, Chair

Executive Director of Dian Desa Foundation (NGO), Yogyakarta, Central Java

Gunarni Soeworo

Vice President Commissioner of Niaga Bank, Jakarta

Boenjamin Setiawan

President, Director of PT Kalbe Farma (Pharmaceutical Company), Jakarta

Sitanala Arsyad

Executive Director of SEAMEO BIOTROP (South East Asian Regional Centre for Tropical Biology), Bogor, West Java

## **Executive Board**

Erna Witoelar

Chair, Chairperson of the Executive Board of Partnership for Governance Reform in Indonesia; former Minister of Settlement & Regional Infrastructure, Government of Indonesia

Mas Ahmad Santosa

Senior Researcher of the Indonesian Center for Environmental Law (NGO), Jakarta

Pratiwi Sudarmono

Chairperson of Institute of Community Development of University of Indonesia, Jakarta

Francis X. Wahono

Executive Director of Cindelaras Foundation (NGO), Yogyakarta

Amanda Katili-Niode

Executive Director of Sharifa Foundation (NGO), Jakarta

Hariadi Kartodihardjo

Lecturer of Faculty of Forestry of Bogor Agricultural University, Bogor, West Java

Jacobus J. Wenno

Field Office Leader, Coastal & Marine Project, Balikpapan, East Kalimantan

## Appendix 2: KEHATI Committees

### Grantmaking Committee

Mubariq Ahmad, Chair  
Executive Director, WWF Indonesia, Jakarta

Hariadi Kartodihardjo  
Lecturer, Faculty of Forestry of Bogor Agricultural University

Bayu Krisnamurthi  
Director, Center for Development Studies of Bogor Agricultural Institute, West Java

J.J. Wenno  
Field Office Leader, Coastal & Marine Project, Balikpapan, East Kalimantan

Abdi Suryaningati  
Deputy Director, YAPPIKA (NGO)

Kuswata Kartawinata  
Senior Advisor, Man and Biosphere Program at UNESCO Indonesia Office

Dwi Astuti  
Director, Bina Desa (NGO)

### Investment Committee

Boenjamin Setiawan  
President Director, PT Kalbe Farma (Pharmaceutical industry)

Okkie Monterie

Investment banker, capital market practitioner

Robby Djohan

Former President Director of Mandiri Bank, Niaga Bank, and Garuda Indonesia

Edwin Gerungan

Investment banker, former chief of Indonesian Banking Restructuring Agency

Kartini Mulyadi Notary and law practitioner

### **Resource Mobilization Committee**

Gunarni Soeworo

Vice President Commissioner, Niaga Bank

Abdulgani

Finance expert, former President Director of Garuda Indonesia and Bank Duta

Miranti Abidin

President Director, Fortune PR (public relations company)

A.A. Pranatadjaja

Director, PT Unilever Indonesia Indonesia

Risa Bhinekawati

Chief Operating Officer, Partnership for Governance Reform in Indonesia

Francis X. Wahono

Executive Director, Cindelas Foundation, Yogyakarta

## A Profile of KEHATI The Indonesian Biodiversity Foundation

In January 1994, a group of prominent Indonesians founded Yayasan Keanekaragaman Hayati Indonesia (KEHATI), translated in English to mean the Indonesian Biodiversity Foundation. KEHATI's mission is to promote the conservation of biological diversity in the country. KEHATI was established with an initial endowment of US \$16.5 million, provided as a grant by the United States Agency for International Development (USAID). This endowment was set up under terms outlined through a Cooperative Agreement between KEHATI and USAID to be in effect for a period of ten years, from 1995 to 2005.

As outlined in its Articles of Association and Bylaws 1995, KEHATI's objectives are to:

- strive for the conservation of natural resources including the biodiversity thereof comprising among others the diversity of ecosystems, species and genetics, whether nationally, regionally and internationally.
- strive for the emergence of policies, programs and efforts for the conservation, utilization, management, study and development of biological resources [and their diversity in Indonesia].
- initiate and promote national, regional and international cooperation among non-governmental organizations, scientific, research and educational institutions, the business community and governmental agencies to achieve the purposes and objectives of the Foundation.
- foster and improve the capabilities of society and its institutions to play an active role in efforts for the conservation and utilization of biodiversity in a fair, equitable and sustainable manner.
- provide contributions to charitable, educational and other scientific organizations that have the same or similar purposes and objectives as the Foundation.

For more information, visit [www.kehati.or.id](http://www.kehati.or.id).

## Author Biographies

### **Sarah Maxim**

Sarah Maxim graduated from Yale University with a BA in Southeast Asian Studies in 1982. She completed her graduate work at Cornell University, where her PhD was in the field of Southeast Asian History, with a minor in comparative politics focusing on Indonesia. Between 1992 and 2003, she lived in Indonesia. For several years during this time she worked as a program director and consultant for Indonesian and international civil society organizations focused on environmental and democratization issues. In 2003, she became Vice-Chair of the Center for Southeast Asian Studies at University of California-Berkeley. She is fluent in English and Indonesian.

### **Ismid Hadad**

Ismid Hadad is the Executive Director of KEHATI, the Indonesian Biodiversity Foundation, and a founding member of the organization. He currently serves on the Executive Board of the Indonesian Eco-labeling Institute, the Indonesian Foundation for Sustainable Development, and the Indonesian Institute for Energy Economics, three of the leading environmental and developmental NGOs in Indonesia. He also serves as chair of the national steering committee for the international Leadership in Environment and Development (LEAD) Indonesia Program. Mr. Hadad is a Synergos Senior Fellow.

Mr. Hadad is an economist and institutional development expert with over 25 years of professional experience in the areas of governance, social communication, capacity building, and environmental management. Before working with environmental NGOs he spent 16 years in the private sector where he was President and Managing Director of two leading private consulting companies in Indonesia providing policy advice and expert consultancy services to private corporations, government agencies, and international donor & development institutions. He was among the leaders in the first generation of development-oriented NGOs in Indonesia in the early 1970s.

Mr. Hadad holds a BA in Economics from Christian University of Indonesia in Jakarta and an MPA from the John F. Kennedy School of Government at Harvard University. He is a Fellow of the Woodrow Wilson School of Public and International Affairs at Princeton University and has received professional training at the Institute of Journalism in Berlin, the

East West Center in Hawaii, and through the Eisenhower Exchange Fellowship Program in Philadelphia.

### **Suzanty Sitorus**

Suzanty Sitorus, has been with KEHATI since 1998 working mainly in the areas of public awareness, public relations, and recently on the mobilization of resources both from domestic and international sources. She has an MA in Mass Communication/Journalism from Charles Sturt University, Australia and currently is pursuing an M.Phil/Ph.D degree from the School of Development Studies, University of East Anglia, Norwich, UK.

### **Rustam Ibrahim**

Rustam Ibrahim started his career in the nonprofit sector at Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial (LP3ES – Institute for Economic and Social Research, Education, and Information) in Jakarta, Indonesia in 1976 as an editorial staff of Prisma, a journal of social and economic affairs published by LP3ES. He then held various positions in the organization including Executive Director (1993 to 1999), Senior Advisor (1999 to 2000), and Senior Research Associate (2000 to now). He also acts as an independent consultant.

He is one of the founders of the Center for the Study of Democracy, housed in LP3ES, and YAPPIKA (Yayasan Pengembangan Partisipasi, Inisiatif dan Kemitraan Masyarakat Indonesia). From 1998 to the present, he has been Board Chairman.

Rustam is a prolific writer and editor on the growing civil society sector in Indonesia. Publications include: *The Indonesian NGO Agenda Towards the Year 2000* (1994), *The New Order Political Format: Reconsidered* (1997), *Strategy to Build Civil Society* (1999), *The Directory of Civil Society Resource Organizations in Indonesia* (2000). He has also written several articles for Indonesian newspapers on the subjects of democracy and civil society. As a consultant, he has conducted evaluations, case studies, and facilitated public consultations for the World Bank and the Department for International Development of the United Kingdom.

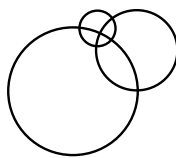
He holds a degree in Political Science and acquired his postgraduate diploma on Rural Policy from the Institute of Social Studies in The Hague, Netherlands (1984).

## About Synergos

The Synergos Institute is an independent New York-based nonprofit organization founded in 1986 to develop effective, sustainable and locally-rooted solutions to poverty. Synergos and its partners mobilize resources and bridge social and economic divides to reduce poverty and increase equity around the world.

Our goals are to:

- strengthen the capacities of grantmaking institutions in Africa, Asia and Latin America to mobilize resources and build collaboration to reduce poverty and increase equity in their countries
- strengthen the capacities of leading philanthropists from around the world to deepen the effectiveness of their social investments and to forge partnerships to leverage their impact
- build effective collaboration and partnerships across social, economic and institutional divides by advancing the development and application of collaborative leadership and bridging dialogue processes.



### Synergos

The Synergos Institute  
Main Office  
9 East 69<sup>th</sup> Street  
New York, NY 10021 USA  
Tel +1 (212) 517-4900  
Fax +1 (212) 517-4815  
synergos@synergos.org  
www.synergos.org

Southeast Asia Regional Office  
Rm. 207 - Center for Social Policy & Public Affairs  
Social Development Complex  
Quezon City 1108  
The Philippines  
Tel +63 (2) 426-6001 local 4647  
Fax +63 (2) (+632) 426-5999  
gvelasco@synergos.org