

Governance in response to institutional expansion at Fondo Acción

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Case Studies

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Fondo para la Acción Ambiental y la Niñez (Fondo Acción) is a foundation created in 2000 and based in Bogotá, Colombia. Over the last 13 years, Fondo Acción has evolved from managing one original fund to now managing more than 15 different accounts for a diverse set of clients. This case study focuses on the types of governance structures that have been created throughout Fondo Acción's expansion, the relation between these structures, and how Fondo Acción achieves a balanced repartition of roles and responsibilities between its different governance and executive bodies.

1.1 Context and challenge

Fondo Acción was created in 2000 through a debt-for-nature swap between the Government of Colombia (GOC) and the Government of the United States of America (USG). The original agreement created the Account of the Americas, with US\$41.6 million in funds, and Fondo Acción was founded as a private, non-profit foundation for the purpose of managing that account. Fondo Acción's mission in administrating the account was to generate significant and sustainable changes in Colombian society in two key thematic areas: 1) the conservation and sustainable use of biodiversity and ecosystem services; and 2) the protection and development of childhood.

For its first four years of operations, Fondo Acción directed its activities exclusively to the management of the Account of the Americas. In 2004, however, the Board of Directors at Fondo Acción amended the organisation's bylaws with the purpose of enabling the creation of new accounts with third party contributions and of diversifying its funding sources.

That same year Fondo Acción was chosen as administrator of the Tropical Forest Conservation Account. This subsidized debt-for-nature swap, with US\$10 million in funds, was created under the Tropical Forest Conservation Act (TFCA) with funding provided by The Nature Conservancy, the World Wildlife Foundation (WWF), Conservation International Colombia (CI) and the USG. Managing the TFCA Account included creating new governance structures within Fondo Acción, and the process proved both challenging and advantageous in that the expansion paved the way for the diversification of Fondo Acción's funding sources and client base and led to the creation of the endowment in the Americas Account.

Following acquisition of the TFCA Account, the Board of Fondo Acción approved the creation of the Malpelo Endowment in 2008, funded in partnership with the Global Conservation Fund (GCF) with a total of US\$5 million in funds. Since then, Fondo Acción has continued to diversify its client base with funding from sources such as the World Bank, the Walton Family Foundation, the MacArthur Foundation and several private companies with operations in Colombia.

As Fondo Acción expanded its role from managing the original Account of the Americas to being a foundation for multiple donors and diversified funding sources, the organisation created a number of governance tools and mechanisms that closely mirrored its expansion. Among these are the creation of different Board Subcommittees that serve to frame the objectives and operations of different accounts, accompanied by a clear set of procedures that define roles and responsibilities and ensure smooth communication across the different governance bodies.



1.2 Board structure and Subcommittees

Fondo Acción has established a governing structure characterized by a Board of Directors that works in conjunction with a variety of Subcommittees designed to address the different technical and thematic needs of the Fund's accounts. In addition to these, a TFCA Oversight Committee (TFCA/OC) was created to oversee the administration of the TFCA account. The different governance entities as well as their composition are illustrated in Figure 4.

Board of Directors/Council of the Account of the Americas

Arising from the original debt-for-nature swap that created Fondo Acción, the organisation's main governing body is its Board of Directors, or *Consejo Directivo*, which is also called the Council of the Account of the Americas. This Board consists of the following eight members: 1) the Director of the National Planning Department (DNP) or his/her delegate, in representation of the GOC; 2) the Minister of the Environment (MADS) or his/her delegate; 3) the Director of the USAID Colombia Mission or his/her delegate, in representation of the USG; and 4) Five independent experts from environmental and childhood NGOs, community development organisations, and academic and scientific organisations, in representation of these sectors of civil society. In this composition, NGOs represent a majority of seats on the Board.

Tropical Forest Conservation Act Oversight Committee

The Fondo Acción Board agreed to the creation of the TFCA/OC at the time of the account's creation in 2004. The TFCA/OC is therefore different and independent from the Council of the Americas and has five members. The TFCA/OC, as described in the following sections, exercises considerable autonomy over the TFCA Account. It is important to note that the USG representative sits on both the Board/Council of the Americas and on the TFCA/OC. The TFCA account also has its own Finance Subcommittee which contains, in addition to representatives from the parties participating in the debt-swap agreement as well as members of Fondo Acción's executive staff, an external financial advisor.

Technical and Programmatic Subcommittees

The Board at Fondo Acción has created several Subcommittees for the Account of the Americas that include a Finance Subcommittee, a Projects Subcommittee for the Environment, a Projects Subcommittee for Childhood and a Technical Subcommittee for the Malpelo Endowment. These committees include representatives from the specific funding agreement parties, members of Fondo Acción's Executive staff and expert NGO or civil society representatives for specific subjects.

For all other accounts that are managed by Fondo Acción there are Technical Subcommittees. These are usually composed with representatives from the client that has created an account at Fondo Acción, alongside different members from Fondo Acción's Executive Unit.

Board Composition

Fondo Acción maintains a majority presence of NGO and civil society representatives on the Board/Council of the Americas. Outside of establishing a clear Board composition, in the Fund's experience there are a number of important factors to consider when choosing Board members.

Boards, and in general governing bodies, benefit significantly from diversity. Bringing representatives from regions (not only from the capital city) may cost more than having centralised Boards, but in the end this is more advantageous. Regional representatives not only provide a more comprehensive view but also key contacts and new opportunities. Representatives from the private sector have also contributed fresh views and practices and are a healthy balance, in terms of risk management, to very risk adverse public sector representatives. Board rotation is an important element to consider, and having a relatively stable Board is as important as renewing it periodically.

Fondo Acción Board members are committed individuals from the public and private sector, and the TFCA/OC members are direct stakeholders in the TFCA program. Board members and TFCA/OC members at Fondo Acción are not remunerated. The Executive Unit covers the transportation costs and per diems of Board/OC members who live outside Bogotá as well as the costs related to Board/OC meetings and missions that take place outside of Bogotá.

Figure 4: Composition of the Board and various subcommittees at Fondo Acción



1.3 Division of roles and responsibilities

The different governing bodies at Fondo Acción are established with a clear delineation of roles and responsibilities. Figure 5 illustrates this division specifying key areas of Fund operations and which governing entities play a role in each. Importantly, the delineation of responsibility places strategic decision making, supervision and leadership in the highest levels of governance (Board of Directors/Council for the Americas Account, TFCA/OC). This is important because these representatives are not involved in micro-level management thus providing the Executive Unit with the necessary autonomy. The Executive Unit has a key role as liaison or connector between top governance and all subcommittees. The operation of the subcommittees, in turn, reduces the work load for the top governing bodies and contributes to efficient and effective decision making.

Roles and Responsibilities of the TFCA/OC

The TFCA/OC has full autonomy on the following areas related to the TFCA Account:

- Design and launch calls for proposals for the evaluation and selection of projects and organization that are eligible to request and receive TFCA grants;
- Select the proposals and authorise the grants to those organisations so that they will carry out the activities outlined in the TFCA;
- Adopt, by majority vote, the TFCA/OC operational internal rules, provided that the majority includes the affirmative votes of the duly designated representatives of both governments; and
- Oversee the implementation of the projects funded by donations and other agreements and determine if the programmed time tables and other implementation objectives are fulfilled.

Legal Framework

There are a number of legal documents that help define the relationship between Fondo Acción's Board and Executive Unit. Any changes to decision making procedures need to be approved by the Board. The documents governing this relationship are:

- the Fund's **bylaws**
- the **Operational Rules** adopted by the Board
- the provisions of the **Quality Control System**.

Figure 5: Delineation of Fondo Acción governance responsibilities

	Strategic Planning	Budget and Administration	Grant-Making	Financial Asset Management
Board of Directors	Approves 4 year Strategic Plan with strategic objectives and key performance indicators	Approves an operational budget and investment program for the Strategic Plan	Makes final decisions about grant-making (including annual grant for Malpelo)	Makes final decisions over the Americas Endowment (including the Malpelo Endowment)
Executive Director/Unit	Prepares proposals for the Strategic Plan and TFCA Investment Strategies	Prepares operational and investment budget proposals for all accounts. In charge of all administrative issues	Prepares Terms of Reference for all Calls for Proposals for all accounts	Prepares proposals for Financial/Asset Management
Specific Technical Subcommittees			Technical Subcommittee Malpelo Endowment Evaluates Malpelo Management Plan and annual grant request	Americas Accounts Finance Subcommittee Reviews proposals for financial/asset management and monitors financial performance
			Americas Account Environment & Childhood Subcommittees Evaluates proposals and makes recommendations to Board/Council of the Americas	
Other Technical Subcommittees	Provide inputs for Strategic Planning	Provide inputs for operational and investment budgets	Evaluate proposals and make recommendations to Board/Council of the Americas	
TFCA Oversight Committee	Approves 4 to 5 year Investment Strategies for the TFCA Account	Approves an operational budget and investment strategy for the TFCA Account	Makes final decisions over grant-making with TFCA Account funding	Makes final decisions over the TFCA Endowment
				TFCA Finance Subcommittee Reviews proposals for financial/asset management and monitors financial performance

1.4 Key governance tools and procedures

As mentioned above, the division of roles and responsibilities within a fund must be accompanied by defined tools and procedures that generate cohesion and clarity across different governing bodies, and Fondo Acción adheres to a fixed set of procedures for establishing communication and alignment between its different governance bodies.

Executive Leadership

Undoubtedly the main task of an Executive Director is garnering the necessary confidence and support from the Board. The main specific qualities for this are:

- **Communication:** Proposals, plans, strategies, problems and challenges must be clearly conveyed.
- **Negotiation skills:** Boards, Committees and other governing bodies prefer to reach consensus rather than having to take a vote. Executives have to come up with options and alternatives and have to identify common ground in order to facilitate agreements.
- **Accountability:** The Executive Director and Unit have to be readily accountable for the organisation's performance. Defining and agreeing with the Board on performance metrics (such as Key Performance Indicators, standardized reports, etc.) is a key aspect. Another very important record is the Aide Memoires or Minutes of Board

Established communication channels

Communication channels are an important part of the way governance bodies interact with each other. Maintaining a smooth working relationship between the Board and the Executive involves having direct and open communication channels, taking Board members to the field so they can witness the results of their decisions and providing the Board with the possibility of voicing their observations and opinions about the performance of the Executive Unit.

There are five principle communication channels in place at Fondo Acción to enable a fluid interaction between the Fund's Board, Executive Unit and staff.

- **Board meetings and Subcommittee meetings**
- **Reports**
- **Workshops**, particularly for **Strategic Plans**
- **Direct communication** between the Board and the Executive Unit
- A specific process for responding to and treating queries, complaints and claims. This process is described in a section of the **Quality Manual** (Quality Control System, International Quality Norm ISO 9001 2008).

Board Meetings

Interaction between the Board and the Executive Unit normally takes place during Board meetings. There are at least six ordinary Board meetings every year, and the agenda usually covers the following topics:

- Approval of Aide Memoire / Minutes from the previous meeting
- Progress report on pending tasks
- Progress Report on the current Strategic Plan
- Administrative issues
- Miscellaneous

The March session is special because the Executive presents an Annual Performance Report on the implementation of the Strategic Plan as well as the Financial Audits and Balances.

During the October session of the last year of the Strategic Plan, the Executive and the Board hold a Strategic Planning Workshop. This workshop and session are held outside of the capital city, in a special setting where all Board members are able to dedicate themselves fully to the planning exercise.

Strategic Planning Process

Fondo Acción designs its strategy every four years using the Balanced Scorecard methodology. Strategic planning is done according to a procedure included in Fondo Acción's Quality Control System (International Quality Norm ISO 9001-2008). The process describes how and when strategic planning is carried out in Fondo Acción, identifies the responsibilities of the Board and the Executive and defines the procedures and instruments to monitor performance and to update the strategy. The Strategic Plan is a guide for key areas such as fundraising, communications, marketing, branding, grant making, financial sustainability, impact investing and management of intangible assets. During the fourth and final year of the Strategic Plan, the Board and Executive meet to review the strategy and to prepare the new Plan for the following four-year period.

Internal Review Procedures

The internal review procedure used to strengthen the relationship between the Board and the Executive Unit is the **Annual Performance Report**. The Report is presented to the Board during the first quarter and is structured along the Objectives and Key Performance Indicators of the four-year Strategic Plan. This allows the Board and Executive to review progress and assess performance in the implementation of the organisation's strategy.

The second internal review procedure has to do with a process that has been designed for responding to and treating queries, complaints and claims. The process is described in a section of the Quality Manual (Quality Control System, ISO 9001 2008) and involves two activities:

- The Executive Unit carries out a survey with a random sample of organisations that have participated in calls for proposals opened by Fondo Acción and/or that have been selected as grant recipients and are currently implementing projects. The results are presented annually to the Board.
- Board and TFCA/OC members answer an annual survey about the Executive Unit and grade the Unit's performance on the following aspects:
 - Compliance with planning objectives
 - Reasonable use of resources
 - Adequate and timely response to problems, challenges and opportunities
 - Innovation
 - Information and communication channels with the Board
 - Skills and competences in the Executive Unit
 - Team work
 - Accountability

1.5 Conflict resolution

Governance tools and procedures can serve to resolve conflicts or disagreements that might arise between different governing bodies. The following are examples of how Fondo Acción's governance arrangements assist in resolving these disagreements.

Moderation between the Executive Unit and Board of Directors

Normally, when a proposal or initiative presented by the Executive to the Board is not accepted there are two useful mechanisms to deal with the issue:

- **Using a Subcommittee:** the Executive suggests the use of an existing Subcommittee (Finance, Projects) to deal with the specific disagreements, comments and suggestions formulated by the Board;
- **Creating a Task Force:** the Executive suggests the creation of a special Task Force, ideally with the participation of a representative from the Board.

Both mechanisms enhance moderation and are useful for conflict resolution because:

- Useless discussions are avoided;
- Decision making is postponed until either the Subcommittee or the Task Force deal adequately with the issue;
- The search for a solution or a compromise is carried out jointly by the Executive and the Board's representatives in either the Subcommittee or the Task Force.

Finally, it is the duty of the Executive Director and Unit to be transparent about everything. Providing inaccurate or untimely information erodes confidence. Confidentiality about Board decision-making and discussions is another facet of this issue.

Achieving alignment between Board Members and the Fund

One of the best opportunities for achieving alignment between Board members and the Fund's objectives is through the Strategic Planning Process. Engaging Board members in the planning process for long-term goals can help curtail any specific, short-term interests the Board members may have and orient Board members towards the Fund's objectives. This is also an important tool for avoiding potential conflict of interest problems.

Relationship between the Board of Directors/Council of the Americas Account and the TFCA/OC

The TFCA/OC is important because it exercises autonomous authority over most of the key elements to the TFCA Accounts; and yet, the TFCA Program is one of more than 20 accounts and programs currently managed by Fondo Acción. The division of responsibilities between the Board and the TFCA/OC is based on granting the TFCA/OC authority over the TFCA Account only, and a guarantee that the TFCA/OC accepts and values the existence of the Quality Control System. It has no say about policies adopted by the Fund's Board (for example hiring practices, partnerships, accounting, etc.).

Despite the clear division, at times having two different Board-like entities has presented challenges. For instance, the Fondo Acción Board engages in a Strategic Planning Process mentioned above, and yet, the TFCA/OC decided that it also needed to have its own Strategic Plan. As a compromise, the Executive Unit agreed to carry out a separate strategic planning exercise with the TFCA/OC, and the TFCA/OC, in turn, accepted the use of the Balanced Scorecard method already in place for creating the plan.

At times, Fondo Acción has needed to reform its bylaws, which were restructured in 2004 to accommodate the existence and operation of the autonomous TFCA/OC. At three different times since then, the Executive Unit has presented draft reforms to the TFCA/OC with the purpose of informing this governance body and of explaining that the reforms did not affect its autonomy in relation to the Board. All reforms were approved and carried out on this basis.

1.6 Lessons learned

Throughout its expansion, Fondo Acción has arrived at a number of governance practices that facilitate the Fund's operations. Board entities need to be created in a way that allows a Board of Directors to focus on strategic and management aspects of governance while allowing specific Subcommittees, which potentially draw on non-Board members, to contribute to management decisions by developing programmatic and technical recommendations.

An important element to Fondo Acción's governance structure is the tools and communication channels that achieve not only efficient but also cohesive alignment between the Fund's different governing bodies. An Executive Director has a clear role to play in this process through, not only handling the day-to-day management aspects of the Fund, but also through facilitating communication between subcommittees and the Board of Directors.

Interaction between the Board of Directors, the different Subcommittees and the Executive is moderated by a series of legal guidelines, communications procedures and internal planning and review processes. Organisational bylaws, operations manuals and quality control systems structure the roles, responsibility and relationship between different governing entities at Fondo Acción while regular Board meetings, Annual Reports and Planning Workshops establish cohesion and continuity across the different governing entities in working towards the Fund's long-term goals.



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