

Governance in complex settings: merging Environmental Funds

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Case Studies

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In 2012, two different environmental trust funds in Jamaica, both created through debt-for-nature swaps with the United States Government, began the process of consolidation into a single conservation trust fund with the hopes of improving the effectiveness and viability of both funds. This case study describes the experience of consolidating the Environmental Foundation of Jamaica (EFJ) with the Forest Conservation Fund (FCF), including the challenges arising within two different governance structures as well as the way the optimal structures from each fund were combined to form a new governance structure designed to ensure the performance and sustainability of the merged fund.

3.1 Context and challenge

Establishment of the two original funds

The Environmental Foundation of Jamaica (EFJ) was created in 1993 through an agreement between the Government of Jamaica (GoJ) and the United States Government (USG) as part of the latter's Enterprise of the Americas Initiative (EAI). The EAI included a debt-for-nature swap component, and EFJ was established to manage and administer funds resulting from the swap (see Box 1). EFJ's mission in managing the fund was two pronged: conserve Jamaica's natural resources and improve child survival and child development in Jamaica.

The Forest Conservation Fund (FCF), on the other hand, was created in 2004 through the Tropical Forest Conservation Act (TFCA), which was also a debt-for-nature swap between the USG and the GoJ. The FCF's mission was targeted to protecting Jamaica's natural resources and biodiversity specifically through forest conservation efforts. In the case of TFCA, fees for the debt swap were paid for by The Nature Conservancy (TNC), who thus became a party to the fund agreement. From the outset, negotiations between donors for the TFCA were complicated, and the final FCF was established with a relatively abnormal governance structure compared to other funds.

FCF/JPAT's distinctive governance arrangement

FCF's original set-up included 3 principle governance mechanisms: 1) an Oversight Committee was created and assigned responsibilities typical of Board functions for other conservation trust fund arrangements, such as directing grant making and internal reviews, 2) an additional legal entity called the Jamaica Protected Areas Trust (JPAT) was established to manage the receipt, investment, and expenditure of debt payments to the Fund, reportedly based on TNC's vision that JPAT could serve other advocacy functions for conservation in general in Jamaica, and 3) an arrangement with the existing EFJ to administer FCF operations via EFJ's existing staff.

FCF/JPAT began operations relatively smoothly, in part due to its clearly defined and targeted mission; nonetheless, several problems emerged relatively quickly and were documented in a 2010 independent evaluation of the Fund. The administrator agreement with EFJ deteriorated in the first year with concerns that EFJ staff did not focus sufficient attention on FCF/JPAT issues, and fund administrator responsibilities for FCF were thus assumed by JPAT. JPAT was able to fund an Executive Director position with a grant from TNC, but this arran-

Environmental Fund of Jamaica (EFJ)

- Created through the Enterprise of the Americas Initiative in 1991
- Operations began in 1993
- Parties included the US and Jamaica Governments
- Fund is managed and administered by one Board of Directors

Jamaica Protected Areas Trust (JPAT) and the Forest Conservation Fund (FCF)

- Created through the Tropical Forest Conservation Act (TFCA) in 2004
- Parties included the US and Jamaica Governments in addition to The Nature Conservancy
- FCF had its own Oversight Committee (OC) for the TFCA funds
- JPAT served as a trustee for FCF and had its own Board with a Secretariat for FCF management
- JPAT became the administrator for FCF when original agreements fell through

gement lasted only one year with JPAT never truly acquiring other funding for staff. The OC, on the other hand, had problems recruiting and retaining Members, and its composition was criticized as too variable and weighted in some respects towards government.

One of the largest challenges for FCF was that the division of roles and responsibilities between the OC and the JPAT Board were never clear, and each entity spent considerable effort merely to assert and clarify its own role. Overall, ambiguity in leadership and authority of the two Board structure created inefficiencies in terms of both time and money. According to the 2010 evaluation, these weaknesses were exacerbated by the Fund's bylaws and operation manuals which, while theoretically well grounded, were nonetheless incomplete in certain areas.

The 2010 evaluation resulted in the recommendation that FCF/JPAT undergo considerable structural change. Proposed solutions included combining JPAT and the OC into one entity, separating JPAT from the OC and ascribing FCF responsibility to the OC or transferring JPAT and OC authorities to the EFJ. Based on suggestions from USAID, the final solution chosen was a complete merger between JPAT/FCF and the existing EFJ. The goal of such a merger was to bring EFJ's management structure and leadership experience to the newer, developing FCF governance process, while augmenting the EFJ's existing funds and building on the process begun by the FCF for an endowment fund. The overall goal was to use the merger as an opportunity to create a sustainable Conservation Trust Fund for Jamaica. The "new" fund retains EFJ's name; however, it combines both funds' missions and includes a complete restructuring of the EFJ, JPAT and FCF Boards into a single entity (see Box 2 and Figure 6).

The 'new' Environmental Foundation of Jamaica (EFJ)

Mission: "To be a major funder of environmental protection and child survival initiatives in the interest of sustainable development."

Vision: "To be the regional leader in funding and influencing policy for environmental management & conservation, as well as child survival and development."

3.2 EFJ's new governance structure

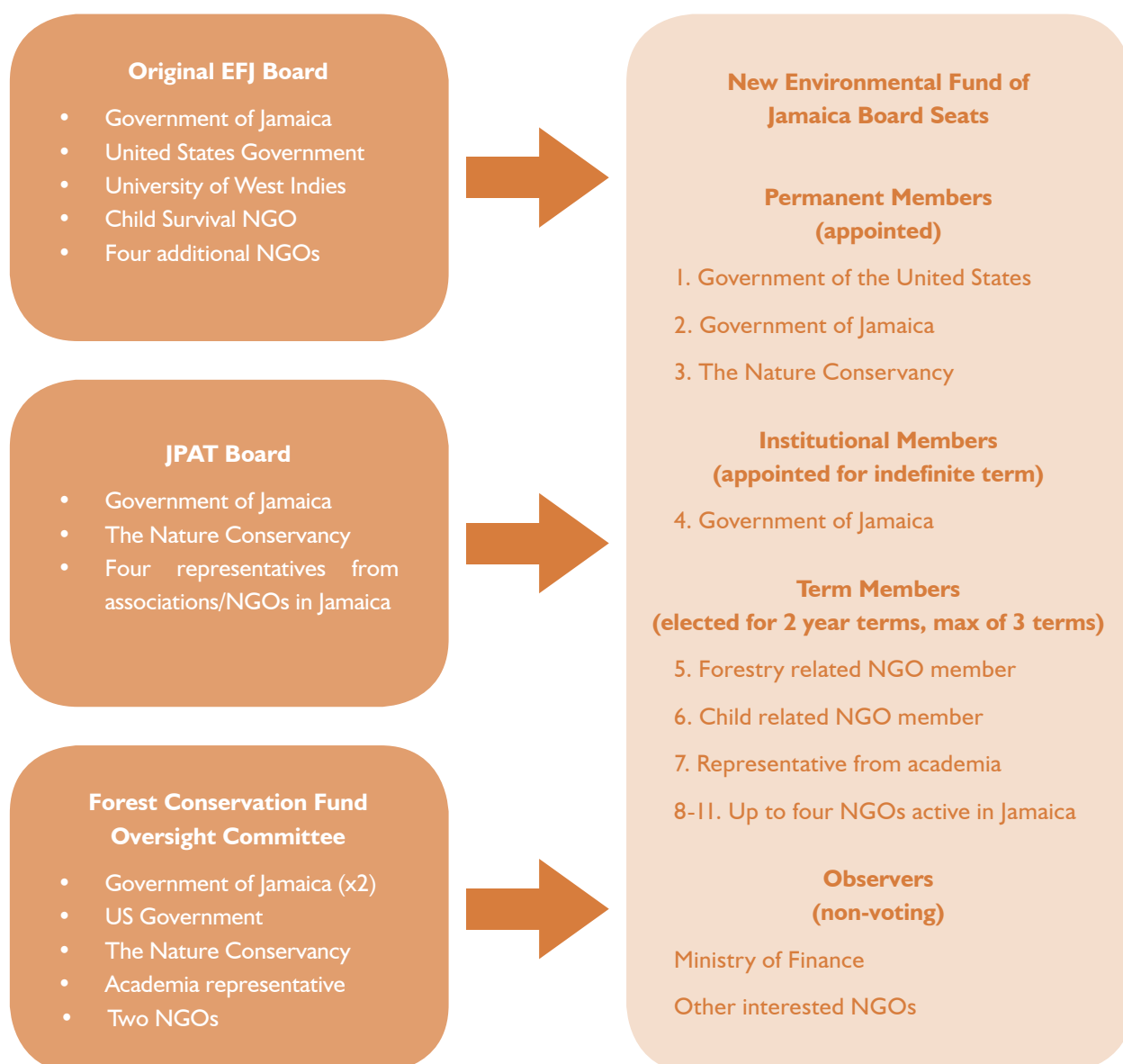
Representatives and stakeholders from the former funds (including several members of the GOJ, the USG, TNC and selected Board Members from the original 3 entities) discussed the merger and agreed upon a new Board of Directors for the consolidated EFJ. These parties also created an Inception Board that will orient the fund through its first 2 years and transition gradually into the established rotation for the new Board.

The new Board composition has been created by drawing on the strengths and weaknesses of each of the original funds. A single Board will administer the newly reconstituted fund, and the new Board includes a larger number of seats with a clear NGO majority presence. It is divided into three types of Board members of which the 3 original signatories to the debt-swap agreements retain permanent seats, the GOJ retains one indefinite seat, and the remaining 7 seats will be filled by a variety of NGO representatives. There are clear stipulations that Board members shall include one forestry NGO, one child support NGO and members with experience in law and finance to ensure sufficient internal know-how for fund management decisions. The Chair of the Board will be an NGO selected from amongst the Board Members.

The Board will be responsible for awarding all grants, and each Director will be allowed to vote on all grant decisions. The EFJ procedures for recusal will be retained in the case of potential conflicts of interest. It is also expected that Board Committees will be created, for instance a Grants Committee may be established with both Board members and non-members to analyze and make recommendations on grant awards. An Executive

Committee and Finance and Investment Committee may also be created to support the Board in operational decisions. Finally, the Board can create additional seats and new voting procedures in the case that new funds are acquired from additional donors.

Figure 6: Consolidation of three different Board entities into one



3.3 Management and strategic direction

A Strategic Plan for 2013-2015 has been developed and approved and includes a number of priorities that follow recommendations from the 2010 JPAT/FCF evaluation. The plan consists of three overarching goals for the new fund: 1) Fundraising to ensure the longevity and sustainability of the organization; 2) Capacity Building that helps grantees overcome weaknesses to ensure the success of their and the Fund's goals; and 3) Improving Operational Efficiency specifically by reviewing and consolidating the various operational documents for the new fund. Many of the responsibilities within the Strategy Plan are assigned to the Board of Directors, and a clear division of roles between the Executive Body and the Board of Directors is being established (see Table 1).

Table 1: Overview of fund strategies from the 2013-2015 Strategic Plan

Strategy	Governance responsibility	Example of tasks
1) Fundraising	Primarily the Board of Directors with some involvement from the Executive and Senior Staff	<ul style="list-style-type: none"> • Securing new funding • Maintaining financial prudence • Measuring, evaluating and communicating impacts to potential donors • Updating Endowment Trust Agreements
2) Grant-making and Capacity Building	Primarily the Executive and Senior Staff	<ul style="list-style-type: none"> • Use of the Institutional Self Assessment tool for Capacity Development • Facilitating mentoring between grantees and between EFJ and grantees • Providing direct support to grantees with weaknesses • Assisting grantees in awareness building activities
3) Operational Efficiency	Primarily the Board of Directors with some involvement from the Secretariat and Executive	<ul style="list-style-type: none"> • Draw on the strengths of EFJ and JPAT/FCF to create a consolidated operational policy for the Fund • Review and establish a M&E process for reporting on the Fund's impact • Review sub-committees and membership • Refine grant-making procedures • Brand and communicate the work of EFJ to interested stakeholders

3.4 Current successes and challenges

There have been a number of successes and challenges witnessed in the merger process at EFJ thus far. Firstly, both funds stood to benefit from the merger since EFJ had reduced endowment funds but a longer management history, and FCF/JPAT was still developing in terms of grant-making but had funding and an endowment. Evaluators noted that, for a country the size of Jamaica, having two separate trust funds was potentially unnecessary. The merger allows FCF/JPAT to benefit from EFJ's more robust experience in administering a conservation trust fund, such as EFJ's more formalized reporting procedures and experience managing potential conflicts of interest, while allowing EFJ to benefit from FCF/JPAT's under-deployed funds and alternative grant processes.

The newly structured Board of Directors, in particular, has been designed to respond directly to specific weaknesses observed in the original FCF/JPAT fund arrangement. Particular interest has been paid to ensuring that Board members and roles are clearly defined, that the Board includes a sufficiently large range of experience and interests and that Board members comprise a majority NGO presence. The procedural inefficiencies characterizing the original FCF/JPAT governance structure have been avoided in the new Board.

There were difficulties associated with the merger as well. Firstly, establishing a new legal framework for the fund that satisfies the requirements of the different parties involved at the USG, the GOJ and existing organizational representatives has been long, and the length of this process has, at times, discouraged both the Board and staff. Grant-making during this time has been nearly halted, and certain partnerships have been jeopardized.

Nevertheless, EFJ executive staff note that the merger has created a dialogue and reflection for both funds that has been particularly useful, and the results of these discussions leave the "new" EFJ well poised to continue grant-making and approach potential new donors.

3.5 Lessons learned

The experience of FCF/JPAT and EFJ illustrates the importance of conceiving a governance structure that responds to the wishes of different donors and parties while retaining an advantageous balance between governance complexity and efficiency. Despite strong commitment and dedication to the Fund on the part of JPAT and FCF Board Members and staff, the lack of procedural clarity hampered the Fund's growth and operations. Not securing a consistent operational funding source for JPAT staff additionally contributed to these weaknesses.

The merger of the two funds, however, shows that significant structural change, while complex, is a potentially necessary process for resolving governance and management weaknesses to ensure coherence and sustainability in the future. The "new" EFJ has a well defined Board of Directors that is already engaged in a Strategic Planning processes with clearly defined roles and responsibilities for allowing the Fund to move forward.