

# National Environmental Fund - Case Study Mexico

## Fondo Mexicano para la Conservación de la Naturaleza, A.C.

### 1 BACKGROUND

The idea for the FMCN had its origin at the June 1992 United Nations Conference on Environment and Development in Rio de Janeiro. During this summit, Kathryn S. Fuller, President of World Wildlife Fund-U.S. (WWF) met with Carlos Salinas de Gortari, then the President of Mexico. They agreed on the principle that biodiversity conservation in Mexico was a responsibility to be shared by both the U.S. and Mexico and that a permanent, autonomous organization was needed in Mexico to guarantee stable financing for conservation projects. By several measures, Mexico is one of the most biologically rich nations in the world. Mexico ranks first in reptilian diversity and second in mammalian diversity, worldwide. Close to 50% of Mexico's plants are endemic and it has 30% more bird species than the U.S. and Canada together (GEF, 1994). At the time, although Mexico had enacted legislation to expand its protected areas network and strengthen environmental management, a chronic shortage of funds severely hindered the implementation of these new conservation policies (USAID/GEF, 1995). In addition, the increasing number of environment and development groups that sprouted in the late 1980's/early 1990's, were finding it more and more difficult to gain access to conservation funding and maintain their activities (USAID/GEF, 1995). The FMCN is the private institution founded in response to these needs.

### 2 STEPS TO ESTABLISH THE FUND

To transform the idea of a trust fund into a reality, U.S. government agencies and philanthropic organizations contributed US\$475,000 over the course of two years to lay the groundwork. In late 1993, a 21-person consultative committee that included several of Mexico's leading conservationists was established to steer the project through the design phase. This committee was chaired by a widely respected Mexican businessman and philanthropist and coordinated by a WWF consultant. The design committee drafted the fund's preliminary guiding principles and in November 1993, these principles were vetted during a year-long extensive consultation process which included 16 meetings throughout Mexico with the participation of over 400 representatives from 249 conservation organizations.

One of the difficulties encountered during this consultative period was the simple act of contacting the conservation organizations operating in Mexico at the time. While there had been previous attempts to create a conservation directory, many of the addresses and phone numbers were outdated and the committee had to spend a lot of time just tracking down the people they wanted to invite to the consultations. This difficulty was a major impetus to the creation of the Mexican Conservation Directory discussed below. In spite of this complication, the design committee really made an effort to obtain input from virtually every recognized expert and organization within Mexico's conservation and development communities. The consensus that was built during this phase was crucial to developing the buy-in from key conservation and academic institutions in Mexico. The results of these meetings then shaped the initial programs that FMCN would support and the *modus operandi* of the institution.

From the start, the design committee made it clear that the fund would be dedicated to the conservation of biodiversity. This was especially important when negotiations with the Mexican Government were in progress since some government officials wanted to steer the Mexican donation more towards "brown" and urban issues (pollution, waste management, etc.), which were thought to be more appealing politically, rather than "green" issues. In the end, due to the committee's determination, strong support from the Minister of Environment at the time, and the major consensus achieved during the consultation process, the Mexican government agreed that its contribution would be directed towards biodiversity conservation (J. Rickards, FMCN, personal communication, October 24, 2001).

In January 1994, the FMCN was legally incorporated and in March, the first Board of Directors formed. Also in March, the Mexican government disbursed its first contribution to the endowment of US\$1 million. In October, the Executive Director was appointed and he hired a core team of three people. In addition to the contribution USAID made to the fund's endowment (see below), the agency contributed US\$500,000 for

institutional strengthening of the organization. World Wildlife Fund, The Nature Conservancy and Pronatura, A.C. (a local Mexican organization) were responsible for various aspects of institutional training (grant-making mechanisms, organizational management, etc.) for both FMCN and the local organizations that would likely apply for grants from FMCN.

Efforts to finalize the fund's capital endowment took another two years. Although the U.S. and Mexican governments had agreed in 1993 to endow the fund, and Mexico made its first contribution in 1994, it wasn't until 1996 that FMCN signed formal agreements with both governments to actually release the funds. The U.S. contribution was US\$19.5 million and the total Mexican contribution US\$10 million. Part of the delay in receipt of the funds was that the U.S. was not willing to commit its share of the endowment until a financial mechanism was designed ensuring that the Mexican government would contribute one-half the amount of the U.S. donation. At the end of 1995, an agreement was finally reached whereby Mexico's contributions would be paid out over a period of 6 years, with interest paid annually (U.S. Treasury Bonds 30-year rate) on the amount not yet contributed to the fund. This timed-payment plan eased the burden on the Mexican government, which in 1994 had gone through a severe economic crisis, making it difficult for the government to endow the fund upfront (J. Rickards, FMCN, personal communication, October 24, 2001). The early involvement of top-level government personnel in the consultative committee again proved fundamental in securing the political will when time came to capitalize the fund (Norris, 2000).

With investment earnings from this endowment (approximately US\$2.4 million per year), FMCN was able to issue its first annual call for proposals in April 1996, soliciting projects related to ecosystem and species conservation, sustainable use of natural resources and institutional strengthening. To date, through five open calls for proposals, FMCN has funded close to US\$8.5 million in support of 345 conservation projects (FMCN, 2001). Since 1996, FMCN has also disbursed approximately US\$9 million through their other programs (see the FMCN website for more detail: [www.fmcn.org](http://www.fmcn.org))

At the end of 1996, the National Council for Natural Protected Areas (CONANP), an advisory body to the Mexican government, agreed that FMCN should receive and administer a separate endowment of US\$16.5 million from the Global Environment Facility (GEF). The income from this endowment would support ten strategic natural protected areas in Mexico. The process of creating this sub-structure (the Fondo para Areas Naturales Protegidas - FANP) within FMCN was completed in mid-1997. After three years of successful operation and positive outside evaluations, FMCN recently received approval for the second phase of the FANP and will receive an additional US\$22.5 million of endowment resources from the World Bank/GEF for the inclusion of another 12 protected areas in the program.

### 3 FACTORS OF SUCCESS

With additional contributions from the Mexican government and a group of U.S. private philanthropic donors, FMCN's endowment has now reached US\$56 million and hopes to grow to US\$100 million by the end of 2006 (FMCN, 2001). Success, however, should not be measured solely by the amount of money a fund has raised. FMCN has proven its ability to accomplish other objectives as well, such as the efficient management of resources, the creation of transparent project selection and monitoring systems, the joint identification of conservation priorities and adherence to sound investment policies, all of which have been key to establishing FMCN's credibility.

Underlying the success of FMCN are certain beliefs in how a conservation organization should operate. These include the convictions that:

#### 3.1 All sectors of society have something to contribute to the conservation of biodiversity, engendering participative processes at all levels of fund administration

##### ***FMCN's General Assembly and Board of Directors***

Perhaps due to the initial broad-based consultations that were conducted during the design stage of the fund, FMCN today is governed by a cross-section of Mexican society as well as by representatives from the international conservation community. The Fund's General Assembly is the highest authority of the organization and is composed of 32 honorary members. This entity is responsible for, among other duties, approving the composition of the Board of Directors, the annual audited Financial Statements and adjusting the by-laws to the evolving operational needs of the institution.

The next level of authority is the Board of Directors, which includes 21 representatives from various sectors of society, including business, government and civil organizations. The Board is responsible for supervising the Executive Director's operation of the organization, including project selection and budget allocation. Most of FMCN's board members are individuals serving in a personal capacity (usually, the only government representative is the Minister of Environment), selected to reflect the needs of the fund and the diversity of its constituencies, not the sectors or institutions from which the board members came. This fact has also been important to the success of FMCN, as the fund has been perceived to be an independent body, not beholden to any one special interest (GEF, 1998).

A challenge FMCN has faced has been the inclusion of local community representatives in its Board and Committees. This is partly due to local politics and traditions but nevertheless, FMCN has tried to deal with this by inviting experts with known track records of working with communities in different regions to serve on its Board (J. Rickards, FMCN, personal communication, October 15, 2001).

The relatively large number of Assembly and Board members, combined with their varied backgrounds, provides FMCN with the skills and resources needed to oversee the complex assortment of fund activities and governance responsibilities. Because of this diversity of membership, FMCN can establish effective specialized technical committees that are linked directly to the day to day operations of the fund (GEF, 1998).

### ***National Protected Areas System***

FMCN has used its role as an important source of funding (through the FANP endowment) to encourage increased participation by stakeholders, including communities surrounding the protected areas, business owners, etc., in the formulation and implementation of management plans. Although not effectively engaged in all sites that FANP supports, community participation is noticeably greater since FMCN became involved in the protected areas program. This more participatory mode of park management has since been adopted for the entire national system, not just the ten areas in which FANP is involved (GEF, 1998). Central to this has been the good working relationships FMCN maintains with the Mexican government.

## **3.2 A CTF cannot operate in isolation nor single-handedly address all challenges - It must nurture linkages with a wide variety of conservation stakeholders**

### ***National and International Policy Makers***

Until the late-1990's, Mexico's efforts at national environmental planning had not produced clear guidelines or priorities for action (FMCN, 2001). FMCN's experience with its first call for proposals reinforced the need for a national process of conservation priority-setting. When CONABIO (the National Commission for the Knowledge and Use of Biodiversity) was assigned the task of developing a biodiversity country diagnosis and a national strategy for the conservation of biodiversity, FMCN provided partial financial support for and participated actively in this process. One of the results of this process was the identification of 155 priority areas, which the fund now uses as one level of determinants in its calls for proposals. FMCN continues to collaborate with CONABIO, which also administers a grant program, to ensure that their activities are complementary and to share information on the performance of grant applicants.

The fund still works closely with USAID and in 1999, received US\$5.7 million of USAID funds to implement the Wildfire Prevention and Restoration Program (WPRP). Activities under this program include the installation of a satellite detection system for forest fires covering all of Mexico, and the promotion of local community and NGO participation in wildfire prevention and restoration. The program covers 9 priority Natural Protected Areas and two strategic regions badly affected by the 1998 wildfires. FMCN has also developed linkages with the GEF small grants program, which supports community-based conservation projects in Mexico's Yucatan Peninsula, where 4 of the FANP and 2 of the WPRP areas are located. Linkages among these types of programs help foster synergies, leading to less duplication of effort and increased information exchange among implementing organizations (FMCN, 2001).

From the start, FMCN has had the support of the Mexican government, demonstrated by its commitment of funding and participation on the Board of Directors. FMCN has also been able to promote the continuity of the official conservation agenda during the last three government transitions (these take place every six years) (Norris, 2000).

### ***Organizations Capable of Providing Capacity-Building***

After reviewing the applications received in response to FMCN's first call for proposals, it became clear that there were many organizations that needed training in proposal writing and project design. Rather than build

up its own staff to do this type of capacity building (thereby increasing the fund's operating costs), FMCN instead funded other better-equipped organizations to assist NGOs and community groups set their own priorities and objectives for conservation investments. FMCN continues to set aside a portion of its grant funds to cover the costs of training through Mexican organizations that specialize in this field (Norris, 2000).

After promoting and supporting institutional strengthening since 1996 through workshops and specific grants, in 2000, FMCN formed the Mexico Conservation Learning Network. This effort, which was officially launched in September 2001, is a collaborative venture with Private Agencies Collaborating Together (PACT) and The Nature Conservancy, designed to strengthen the capacities of conservation organizations.

#### **Grantees, NGOs and other Conservation Trust Funds**

One important goal for FMCN is facilitating exchange of information and experience among its grantees and other organizations. To this end, it has created what it calls "Learning Communities" comprised of grantees from its annual competition, those involved in the management of the 10 protected areas supported by FANP, and the NGOs involved in the WPRP.

Based on its own experience trying to get in touch with organizations during the consultation phase, FMCN realized there was a need to improve communication among the conservation community working in Mexico. In response, FMCN, in collaboration with CONABIO and the British Council in Mexico, developed the Mexican Conservation Directory. This Directory, which hopes to serve as the single repository of information on groups working in the conservation field in Mexico, is updated and published annually (free of charge to those organizations listed in the Directory) and is also available from the FMCN website.

Finally, FMCN was a leading force behind the establishment of the Network of Latin American and Caribbean Environmental Funds (RedLAC) and its Executive Director currently chairs RedLAC's Executive Committee.

#### **Financial Expertise**

Although FMCN's board members include those with considerable financial expertise, in 1999, board members and staff recognized the value of professional counsel and hired an independent financial expert to help supervise the asset managers. This advisor also oversees the investment of all of FMCN's endowment and sinking funds and adjusts the investment strategy the fund follows. A major restructuring of its portfolios to a very conservative financial strategy (85% fixed income, 15% equities) at the end of 2000 and beginning of 2001 proved to be very timely.

### **3.3 An organization must constantly engage in self-reflection to learn from experience – monitoring and evaluation must be built into the design of projects in order for them to succeed**

#### **Strategic Planning**

FMCN, from the start, has periodically reviewed its mission, objectives and indicators to respond to the organization's growth and to changes in the conservation setting in Mexico. The fund has not shied from substantial challenges or change based on the results of these planning processes. In fact, FMCN has recently completed a strategic plan for the years 2001-2006 and as a result of this process, which included board members, staff, grantees and representatives from conservation-oriented institutions in Mexico, it has changed its mission statement. What was once: "Conserve the biodiversity of Mexico and ensure the sustainable use of its natural resources, through the promotion of strategic actions and medium- to long-term financial support" is now "Conserve Mexico's extraordinary biodiversity through economic support and strategic management" (FMCN, 2001). Because FMCN was capitalized sufficiently from the start, the staff has not had the day-to-day financial worries that plague many other trust funds. They have been able to invest in meaningful strategic planning and, unlike other funds, have set clear priorities and have stuck by them (Norris, 2001, personal email).

#### **Continual Focussing of Grant Programs**

No matter how large an endowment, a trust fund will never be able to support all possible projects to conserve and sustainably use biodiversity. So that a fund does not spread its available resources too thinly, thereby failing to achieve any significant impact, successful funds have learned to strategize and target their grant programs to have an identified impact (Bayon, et al, 1999). FMCN has learned from each year's experience with its call for proposals and has modified its requirements and actions, accordingly.

In response to FMCN's first call for proposals in 1996, the fund received more than twice as many proposals from academic institutions as from NGOs and community groups, which was not the ratio of applicants the fund wanted. To change this balance, the second call focused on field-level activities and looked for linkages to the conservation priorities established during the CONABIO-led process mentioned earlier. In 1998, the third call for proposals reflected an even greater linkage to national conservation priorities, FMCN's 1998-2000 strategic plan and feedback from the first two cycles. In 1999 and 2000, the Conservation Program further focussed the grants competition by adopting three main lines of support: 1) protection of sensible, biologically rich and unique ecosystems and populations of species; 2) sustainable use of natural resources; and 3) restoration of degraded areas. Although these categories still hold, they might be modified in the future as a result of FMCN's new strategic plan. And finally, all conservation projects must be in areas identified as high priorities by CONABIO or involve species listed as endangered by CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) or the Mexican government.

### **Monitoring and Evaluation**

The "Logical Framework" methodology is used extensively by FMCN both at the overall program level as well as at the project level. At the program level, FMCN identifies impacts and indicators for its grant portfolio as a whole and for its protected area program (GEF, 1999a). For the latter, FMCN works with national protected area system staff and each park's manager to develop a logical framework of inputs, outputs, purposes, and goals which is used as the basis for annual work plans and to determine the best use of funds allocated to each park. Area managers report three times a year to FANP and the national system headquarters on achievement of milestones in those frameworks. Funds are released when the reports are approved. The financial management and reporting systems in the 10 FANP areas are being adopted more broadly throughout the national system. In addition, in 1999 and 2000, FMCN's Conservation Program promoted a series of workshops for local NGOs and community groups on logical framework, project design, indicator design and use, monitoring and evaluation. As a result, several NGOs have seen a greater number of their proposals selected for support, not only by FMCN, but by other foundations as well. These workshops were specially aimed towards the smallest or weakest NGOs in various regions.

One of FMCN's difficulties has been how to best help grantees set indicators and collect useful data in order to reach conclusions about FMCN impact in the field. In response, FMCN has developed, with support from external consultants, experimental software for project monitoring and indicator construction and interpretation. The system, called SIEVI (Sistema de Evaluacion e Indicadores), is still in an internal experimental phase but the plan is to develop a friendly version for local NGOs to collect field data and feed the system in coordination with FMCN.

The policies followed and actions taken by the staff and Board of FMCN are responsible, in large part, for the institution's achievements. However, there are external factors that have also contributed to its success.

## **4 EXTERNAL FACTORS**

### **4.1 Favorable International and National Political Climates**

The trust fund was first discussed in 1992 as a vehicle of cooperation between the North American countries. NAFTA, which was very much in the news in the early 1990's (NAFTA became effective on January 1, 1994), provided a good opportunity to discuss and implement this type of regional cooperation. By endowing a Mexican trust fund, the U.S. government was also able to demonstrate that it was not just focussing on trade, but on the environmental responsibilities the two countries shared.

In addition, as mentioned above, the idea for the trust fund emerged, in part, from the Mexican president himself, who continued to support the idea, as did Mexican business leaders.

### **4.2 Capable Leadership**

FMCN has had the good fortune, since its inception, to have extremely capable leadership, not only in its Executive Director and staff, but also on its Board of Directors, Technical Advisory Committees and General Assembly. In addition, the membership of the design committee turned out to be a crucial factor in FMCN's successful development. Most of the people from the committee, because of their involvement early on, have a strong feeling of ownership of the fund and have served as important allies over the years from their

various positions within government, other foundations and national NGOs (J. Rickards, FMCN, personal communication, October 24, 2001).

## 5 WHAT COULD HAVE BEEN DONE DIFFERENTLY

Although numerous evaluations of the fund have found little to criticize, there are things that Lorenzo Rosenzweig, Executive Director of the fund since its inception, would have done differently (L. Rosenzweig, FMCN, personal communication, October 27, 2001). These include:

- **Consider more carefully whether the benefits provided by asset managers outweigh the costs.** The selection of FMCN's three asset managers took a large amount of time and money and these managers were initially given discretionary power to decide on the best financial strategy for the fund, following the investment guidelines of the fund's major donors, such as USAID and the World Bank/GEF. In hindsight, Lorenzo does not feel that the results garnered by the managers from 1996 to 2000, were worth their cost (a total of approximately US\$250,000 - 300,000 per year). The fund has since altered its relationship with its asset managers so that they do not have the power to decide what and when to buy. They now make transactions only at the direction of the fund, which, in turn, is guided by its Board Finance Committee and its independent financial advisor, based in Mexico.
- **Make sure that the fund's income from its investment strategy covers the fixed costs of the fund.** FMCN has just recently adjusted its portfolio so that the fixed income portion of investments provides the money necessary to cover the budgets of its conservation programs, which should not be subjected to short-term risk and potential shortfall. The variable income portion (15-20% in equities) produces resources over the long term to maintain the real value of the endowment.
- **Work from the beginning to raise non-earmarked endowment funds** that are sufficient to cover the basic operative and administrative costs of the core staff of FMCN. In this way, accounting and cost-sharing between programs are easier and more money can be directed to field activities. Even though FMCN has been very successful in raising its endowment, all of the funds are earmarked for specific programs and there is not enough "general" money to cover overhead in an ample way that allows for a permanent capacity building process of the core staff.
- **Establish an internal communication strategy early on.** When the staff of FMCN was only 4 -5 people, they didn't feel such a strategy was necessary. However, they are now 24 employees and with more than 10 donors and programs, communication is vital. Something else that was not attended to from the start was the creation of a good staff evaluation and motivation mechanism (the lack thereof, however, has not hindered results due to the high level of staff commitment and capacity). Although it has taken more than a year to do so, the fund has now developed, through a participatory process, a system for performance evaluations (and concurrent bonuses) that will be applied for the first time in December 2001.
- **Consider carefully the implications involved in how often the board of directors rotates.** FMCN agreed, in response to requests by donors to ensure transparency and democratic transitions, that its board would change members every six years. However, in countries where there are not large numbers of qualified people to serve in such capacities, losing effective members takes its toll on the strategic capabilities of an organization. FMCN has made some adjustments to its Board Renewal Policy to work within these restrictions while still retaining the talent of its Board.

A trust fund, though, must carefully consider the situation in its own country and the talents of its own staff and board before unilaterally implementing what FMCN's Executive Director would have done differently.

## 6 CONCLUSION

According to Bayon, et al., "funds that made the biggest mark on conservation and sustainable development in their countries did so because they became more than just financial mechanisms. They often played roles in building institutional capacity and private-public partnerships, developing agile management approaches, nurturing community groups becoming involved in environmental activities for the first time and contributing to the articulation of environmental priorities and strategies."

By all measures, FMCN has fulfilled the roles articulated by Bayon, et al. and due to external factors and, more importantly, the organizational beliefs that underlie fund activities, FMCN has gained credibility with the Mexican government, national and international NGOs, donors and local communities. It is well-positioned to make a significant impact on the conservation and sustainable use of biological diversity in Mexico for the foreseeable future.

## 7 TIMELINE

- June 1992 - Salinas and Fuller, WWF, hold discussion on trust fund at Earth Summit.
- Late 1993 - Consultative committee is formed and year-long consultations begin across country. Discussions also begin with governments of Mexico and the U.S. about their contributions to the endowment.
- January 1994 - FMCN is legally incorporated.
- March 1994 - First meeting of the Board of Directors. FMCN also receives first payment from the Government of Mexico (equivalent to US\$ 1 million).
- October 1994 - Executive Director and staff hired.
- January 1995 - FMCN moves into its own offices.
- June 1995 - First meeting of FMCN's General Assembly.
- April 1996 - Endowments from USAID and Govt. of Mexico finalized. First call for proposals issued.
- April 1997 - Second call for proposals issued.
- July 1997 - FANP formalized under auspices of FMCN.
- December 1997 - Executive Director of FMCN named President of the Design Committee for the Red de Fondos Ambientales Nacionales de America Latina y el Caribe (RedLAC)
- March 1998 - Third call for proposals issued.
- September 1998 - Agreement reached with USAID and SEMARNAP on forest fire prevention program.
- March 1999 - Fourth call for proposals issued.
- October 1999 - RedLAC formally incorporated.
- March 2000 - Fifth call for proposals issued.
- October 2000 - Sixth and final payment received from the government of Mexico.
- November 2000 - Approval by World Bank/GEF of second phase of FANP.
- September 2001 - Mexican Conservation Learning Network officially launched.

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