



**Dealing with a Changing Environment:
Fundacion Peruana para la Conservacion de la Naturaleza (A)**

After seven years of success, in which it had raised millions of dollars and helped to develop ways to protect and manage the remote and spectacular national parks and other “protected areas” of Peru, the organization known as Fundacion Peruana para la Conservacion de la Naturaleza (Peruvian Foundation for the Conservation of Nature) found itself unexpectedly in crisis. Despite generous support from international donors—among them the World Wildlife Fund, the MacArthur Foundation and The Nature Conservancy—FPCN, in December, 1991, faced a significant budget deficit. What’s more, it was a deficit that seemed to signal deeper problems. The majority of the members of its original board of directors, who had been largely responsible for successfully seeking financial support for the group, had moved on to other career interests, some outside of Peru. Funds from domestic donors were minimal, and a change in Peru’s tax law—part of a major reform and reorganization of what had been a weak central government—seemed likely to discourage corporate contributions to charitable and/or nongovernmental organizations.

Even as they began to make progress, over the next year, in dealing with the immediate financial problems of the organization, FPCN Executive Director Gustavo Suarez de Freitas and Director of Institutional Development Patricia Leon were convinced that, to avoid a recurrence of such problems, as well as to increase the organization’s recognition within Peru, it needed to make changes in its board of directors, which, to this point, had been drawn largely from the ranks of conservation-minded scientists. Suarez de Freitas and Leon resolved to transform the board structure so as to put the organization on a sound footing for the long term. As they approached the task, they began to consider exactly what sort of board and board members would be best.

This case was written by Howard Husock, director of the Case Program, John F. Kennedy School of Government, Harvard University with research assistance from Carolina Gutierrez. Funding for this case was provided by The Nature Conservancy and the US Agency for International Development. (0497)

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Early Years: Challenge and Formation

That FPCN existed at all—and had become one of the preeminent forces for “conservacion de la naturaleza” (conservation of nature) in Peru—was a reflection of the vision, enthusiasm and connections of the three founding members, the driving forces within its original board of directors in 1984. Marc Dourojeanni, Carlos Ponce and Manuel Rios met in the mid-1970s as members of the faculty of forestry sciences at the Agricultural University of Molina, a public institution in Lima. The three were well aware—far more so than most in Peru—of the extraordinary range of climates and habitats in the country, including tropical rainforest at the headwaters of the Amazon, on the country’s border with Brazil; forests of rare hardwoods in the Tumbes protected areas on the northern border with Ecuador; and the mountainous areas in the Paracas reserve, south of Lima, in which penguins actually thrived.¹ The three founders were, however, not optimistic about the inclination or capacity of Peru’s national government to protect such areas from logging, mining, small-scale “migratory” agriculture, and other unplanned development—despite the fact that, at least on paper, the country had established an elaborate system of national parks, sanctuaries, reserves and other forms of protected areas.

Much of this land had been set aside in the 1970s by Peru’s military government not so much to protect ecological habitats and “biodiversity” but, recalls co-founder Carlos Ponce, as “an expression of the military view of what constituted the patrimony of the nation.” Ponce, a forestry engineer, and Dourojeanni, a biologist, had both held important positions in the Directorate of Flora and Fauna, overseer of the protected areas. Dourojeanni had been the head of the agency at the time, during Peru’s military government of the 1970s, that many of protected areas were established. He and his colleagues were well aware that many of the parks and reserves had neither defined borders nor trained, equipped staff and park police. Many had desperately poor indigenous peoples—including such groups as the Machiguengas, Ashaninkas, Yaneshas, and Piros—living in or near park borders.

Peruvian governments had by no means been strong and consistent backers of protecting undeveloped lands: both the military government of the 1970s and the elected government of President Fernando Belaunde had discussed the idea of increased “colonization” of rainforest and other relatively unpopulated areas, including the possibility of the construction of a highway which would have bisected one of the nation’s largest national parks. At least two major agencies had overlapping responsibility for the management of protected areas. There was no significant movement, in their view, toward what the FPCN founders believed were the most necessary initiatives: training and equipment for those charged with maintaining protected areas, as well as plans for balancing the competing needs for environmental protection with the economic needs of Peru’s indigenous peoples, many of whom lived in or near protected areas. Moreover, the Peruvian

¹ In all, some 85 percent of all types of “zones of life” are represented in Peru, including 19 percent of the world’s bird species, nine percent of mammals, 9 percent of amphibians, and 3,200 known plant species.

government faced grave economic and political problems—including a persistent and serious left-wing guerrilla insurrection—such that parks could hardly be its priority. There had been times when the small force of park guards had had to wait four to five months simply to be paid.

In this context, the FPCN founders first tried, in 1983, to establish a nonprofit “committee” whose six-member board of directors would be drawn from three public organizations: the National Institute of Forests and Fauna (INFOR), the General Directorate of Forests and Fauna, and the Agricultural University. Their hope, from the outset, was to create a vehicle to receive funds from international donors who, they knew well, had a keen interest in helping to preserve “biodiversity” (diverse species and habitats) of which Peru could boast so much. They soon decided, however, to establish an institution more clearly distinct from government and, in October 1984, founded FPCN, with only themselves and one government official (Eulogio Herrera of INFOR) as board members. They chose to establish a formal foundation because that was the only type of Peruvian nonprofit organization which was audited by a government agency and, thus, they believed, would be the most reassuring form for international donors.² FPCN, however, was a departure from the tradition of Peruvian foundations, which were generally established for educational purposes as set out by the will of a single, wealthy donor. Dourojeanni, Ponce, and Rios were starting an organization without capital of their own, only their good names and links to organizations they believed would support the new enterprise.

They set out their organizational mission: “The Foundation, inspired by the extraordinary richness and biological diversity of Peru, and conscious of the dangers and threats to it, will work to conserve natural resources for the present and future generations.” Such work, they wrote, would take the form of “protecting representative areas of all the ecosystems within the territory of Peru; to create a greater comprehension within Peru of the need to protect natural resources; to encourage “sustainable development” based in the use of natural resources—i.e., development that would not leave environmental damage in its wake. To take on this mission, the Foundation set out the goal of becoming “a center of excellence, innovation and change in the formulation and execution of conservation programs and projects.”

By early 1985, they had hired as FPCN’s Executive Director, Richard Bustamante, the former director of national parks for the outgoing government of President Fernando Belaunde. The stage was set for a five-year period of spectacular growth and accomplishment.

² There were three general types of nongovernmental organizations in Peru: committees, associations, and foundations. Foundations were fewest in number—some 150 of approximately 4000 nongovernmental organizations. Only foundations, however, were audited by the Consejo de Supervigilancia de Fundaciones (Foundation Oversight Council).

1985-1990: Success and Growth

The combination of a vacuum of governmental action, significant international interest in protecting Peru's biodiversity, and the reputations of its founding board members, was a potent one for FPCN. Between 1985 and 1990, its budget grew between 25 and 50 percent annually, to \$250,000 by 1988 and more than \$500,000 by 1990. In effect, FPCN became the means for international donors, concerned that species of great potential economic, medicinal, and ecological importance were at risk of extinction, to give meaning to Peru's so-called "paper parks." The founding board members would meet often with representatives from major international foundations—often informally, over breakfast at Ponce or Dourojeanni's home. They succeeded in winning grants both to hire and train park guards and rangers, to send key people abroad for education and training, to stage planning workshops designed to help indigenous peoples understand the fragility and importance of the natural environments in which they lived, and even to buy and deliver four-wheel drive vehicles to patrol the parks and reserves.

"The organization developed a reputation as being very good technically," recalls Patricia Leon, who would become its development and fundraising director in 1991, in explaining its success. By that time, FPCN was helping to manage protected areas, undertaking environmental education in urban public schools, and enjoying some success in promoting sustainable development.³ Through FPCN, the first organized master planning for parks and reserves took place, exploring such issues as the extent and nature of development and tourism. For instance, in January of 1988, the organization staged the first park management planning conference in which the full range of "stakeholders" was represented.⁴ Many of those involved in such work, as well as in the day-to-day jobs of guarding the protected areas, were nominally public employees whose salaries FPCN would pay, even though they remained officially on the public payroll. "We never had the right to administer any protected areas," recalls Gustavo Suarez de Freitas, "but were always acting in support of the government." At first, the management of reserves by FPCN was an informal matter. "It was a pact between gentlemen," recalls board member Carlos Ponce. Large, international donors would not allow matters to remain thus for long, however. The Nature Conservancy's Parks in Peril program, a key source of support for FPCN, insisted on—and obtained—signed contracts among the donor, the nongovernmental organization, and the national government. For one, three-year period (1986-89), FPCN had a signed "compact of cooperation" with the government, setting out the organization's right to spend money, generally, in support of park maintenance and activities. With the expiration of that compact, FPCN would obtain yearly approval to do what Suarez de Freitas calls "channeling" funds to augment parks budgets. At no time, stresses Suarez de Freitas, was official management—or police—authority given to FPCN. He

³ For instance, an FPCN-supported scientist introduced a new fish preservation technique which allowed Amazon communities to preserve, for two additional months, fish which they caught in the dry season, when fishing was best, providing indigenous peoples with a better diet during the wet season and even providing a surplus which they could sell.

⁴ The plan was developed for the Motape Hills (Cerros de Motape) national park.

adds, however, that, given the turnover in public officials, it may have seemed, even to the government, that FPCN was, in effect, the administrative authority for many protected areas.

Still, the same factors which helped to create the opening for FPCN to substitute, de facto, for government also posed grave risks for the nongovernmental sector: a pioneering environmental reporter for Lima's largest daily newspaper (El Comercio), and three environmental experts hired by the government, were murdered in 1989 by members of the Maoist Shining Path insurgency, which opposed "sustainable development" projects as insufficient to redress the inequities of the Peruvian economic system.⁵ It was a reminder that FPCN's growth and success was taking place within a society very much under siege.

For the most part, grants from international donors—especially The Nature Conservancy from the US and the World Wildlife Fund, UK, the two leading sources of FPCN support—were meant to pay for one or more of these specific projects. The John D. and Catherine T. MacArthur Foundation, however, began, in 1985, to provide \$20,000 a year, over three years, in unrestricted funds, money which allowed FPCN to open a small office in Lima for its executive director and a small core staff. Most of those whom FPCN was paying, however, worked on specific projects in regional offices. At a time when inflation was wracking the Peruvian economy—reaching heights of 7500 percent a year—FPCN's international donors, with their support paid in dollars, were a far more certain way than a public budget allocation to ensure that funds would be available for personnel at work in parks and preserves.

"With the economic crisis," recalls Luis Alfaro, who would, in 1994, become director general of protected areas and wild fauna, "the state effectively abandoned conservation projects. It had more important things to do. What's more, the state suffered a loss of prestige in the eyes of the international community. Consequently, nongovernmental organizations began to proliferate and to capture donations."

Institutional Structure

During these early years, FPCN was very much an organization driven by its founding members. Marc Dourojeanni, in particular, is widely viewed as having served both as president of the board and, in effect, as a sort of second executive director. He and the other founding members visited the group's office frequently and remained the key links with the international donors so crucial to the organization's growth. Board membership did gradually expand, however, first in 1986, to include Alfredo Novoa, a Peruvian businessman involved in large-scale infrastructure construction (e.g., bridges), and who had ties to the nation's business and political leadership. "I met Dourojeanni because I was interested in reforestation projects," recalls Novoa,

⁵ Journalist Barbara D'Achille and three others were murdered in 1989 during a visit to the rural site of "Project Vicuna," a model for cultivation of products from llama-related animals by indigenous peoples.

proud to have been the first “nonscientific man” on the board. Novoa, it was hoped, could be a source of advice about efficient operation, as well as a conduit to potential “in-country” donors. Three additional members, including businessman and Novoa friend Walter Piazza (in line to head Peru’s largest construction company and arguably the sole representative of Peru’s old-money business elite on the board), brought the total on the board to eight by 1990.

FPCN sought to expand the group of those advising it on its direction and fundraising in another key way, as well. In addition to the board of directors, it established two advisory councils, a scientific council, and an economic council. The former was to offer advice on the substantive direction of the organization. Should it continue its emphasis on using protected areas to preserve biodiversity? Or should it get involved in urban environmental problems such as Lima’s air pollution, or industrial pollution from the nation’s mining and fish processing industries? The economic council was to be a local group which would assist with fundraising. These advisory councils each had 20 members—some of whom (in the case of two members of the economic Council, Novoa and Piazza) also served on the board of directors.

Notwithstanding the expanded membership of the board of directors and the establishment of the advisory councils, however, the founding members remained the heart of FPCN—and were recognized as such in a number of ways. Each was given veto power over new initiatives. Although non-founding board members were limited to two, consecutive three-year terms, there was no limit for the founders. Moreover, the expectation that the board would play a central role in FPCN’s operations was reflected by the requirement that it meet, as a whole, monthly. (There were no subcommittees.) Richard Bustamante, the group’s first executive director, recalls founding board members being in the office, however, as often as three times a week, pushing their vision toward reality.

The Crisis Develops

Even as FPCN grew, there were signs that it might, in time, face difficulties. Chief among these was the decision, in 1988, of founding member and board of directors President Marc Dourojeanni—like many Peruvians during this period of insurrection and inflation—to pursue an academic opportunity in the United States. (He was named to head environmental programming for the InterAmerican Development Bank.) Dourojeanni, recalls Gustavo Suarez de Freitas—a forestry engineer who had been the first staff member hired—had always been “the heart and soul” of the organization. “He was not someone who could really be replaced.” (Dourojeanni did remain involved by phone and met with FPCN staff members visiting the US.) As time went on, further complications involving the founding directors developed. In 1991, Carlos Ponce, who had become president of the board following Dourojeanni’s decision to leave the country, accepted the presidency of the Peru chapter of a transnational environmental group, Conservation International.

The two advisory councils, moreover, did not become as effective as both the board, and executive director Bustamante, had hoped. The scientific council, many of whose members travelled widely, seldom met. By 1991, it had not met in more than two years. The economic council was more active but not notably successful in raising domestic donations to complement the funds coming from foreign donors. Domestic contributions netted less than \$20,000 a year.⁶ Some FPCN staffers recall their concern that the economic council did not include enough representatives of Lima's old-line fortunes but, rather, younger entrepreneurs who, in some cases, seemed more interested in developing new business contacts through the board than contributing time or money. The presence of members of the economic council on the board of directors also caused management confusion; it was not always clear whether the council should act on its own to raise funds or wait for direction from the board of directors as a whole.

Finally, in 1991, the MacArthur Foundation told FPCN that it would not renew its annual grant of unrestricted funds. It was at roughly the same time that the organization found out it had serious financial problems.

Deficit

FPCN, recalls Gustavo Suarez de Freitas—that first employee who had continued to play a key role in the organization—had always been aware that it did not have funding to allow it to rent extensive office space or to purchase a great deal of furnishings and office equipment. At the same time, the organization felt under pressure to be as professional as possible in order to assure international donors that their money was being well spent. That necessitated enough central office staff to develop presentable reports about its work, as often as not in English. It meant that there was a need for fax machines and photocopiers. Despite what it thought were its best efforts, FPCN found, that it was overspending. An audit showed, as the end of 1991 approached, that it was running an annual deficit of \$71,000—about 10 percent of its budget. The overriding cause appeared to be the fact that, with the exception of the expiring MacArthur grant, its financial support did not include sufficient funds for its overhead costs—and it did not have other sources of funds to pay such costs. “It was a lesson for us,” Carlos Ponce says of the MacArthur grant nonrenewal. “The interests of donors can change.”

Recalls Gustavo Suarez de Freitas, who had been with FPCN since even before it had been organized as a formal foundation, “Many people were wondering. Is this the end?”

With the departure of executive director Bustamante, as well as his successor Paul Remy (who served less than a year during 1991), Suarez de Freitas emerged as FPCN's executive director. It would be he, working closely with newly-appointed fundraising director Patricia Leon, a former insurance agent who had become involved with environmental issues as a Sierra Club member in

⁶ The organization would later estimate it was spending \$24,000 to raise \$19,000 from domestic sources.

Vancouver, British Columbia. Suarez de Freitas and Leon would have to lead the foundation back to a sound financial footing over the course of 1992 and beyond. The situation was close to dire: Suarez de Freitas and Leon went so far as to loan the organization \$35,000 from their personal funds, a “bridge loan” to allow the organization to meet its obligations. Times, indeed, were difficult. Frequent blackouts in Lima caused the foundation, which found it could count on only 8 hours of electricity a week, to have to buy its own electrical generator, further increasing its cost of operations. The bridge loans were only a stopgap; by the end of 1992, the deficit still stood at \$87,000.

A Changing Situation

The election of President Alberto Fujimori in 1990 had signalled a significantly different political era in Peru. The former rector of an agricultural university, Fujimori, of Japanese ancestry, and a political unknown, had won an upset victory and begun the process of bringing both inflation and terrorism under control.⁷ His “auto-golpe” (self-coup), or temporary suspension of democracy and due process of law in April, 1992, set the stage for the arrest of key leaders of the Shining Path insurgency. His measures to reduce public employment and control the money supply so as to reduce inflation—officially known as the Government of Emergency and National Reconstruction—became popularly known as “Fuji-shock.”

Among the Fujimori Administration’s initiatives to make the public sector leaner, more efficient and less corrupt was a significant change in Peru’s tax structure—one with an impact for nongovernmental organizations. In its first year in office, the administration successfully proposed measures to reduce some 300 taxes, many of which had gone uncollected, to a group of only five. As part of this reform, the measure ended the practice of allowing corporations and individuals to deduct from their taxable income the amount of contributions to nonprofit organizations such as foundations. There was a widespread sense that many foundations amounted to little more than vehicles for wealthy families to avoid paying taxes. (Within months of the change in the law, 70 of 150 formal foundations in Peru were dissolved.) The change in the tax law meant that FPCN was confined to seeking outright contributions, with no tax incentives, or providing goods or services for which it could charge corporations or individuals.

Beyond tax law changes, the Fujimori administration—although it had discussed policy toward protected areas particularly—believed strongly that the authority of the central government had to be reestablished. A proposal to regionalize many public agencies, for instance—put forward in the waning days of the Alan Garcia presidency—was dropped by the new administration. The new administration had begun to be successful in reestablishing central authority—especially after the arrest of terrorist leaders—in forging an economic climate attractive to transnational firms as well as Peruvian capital which might formerly have fled the country. Such firms as IBM, Coca-

⁷ Peru has significant Chinese and Japanese ethnic communities.

Cola, Gillette, Glaxo Wellcome, and Nestle were either established in Peru already or considering increased investments.

At the same time such changes were unfolding, however, environmental issues—and particularly the issue of preservation of biodiversity—was taking on a higher profile in Peru and Latin America. The United Nations Conference on Environment and Development (widely known as the Earth Summit) was held in Rio de Janeiro, Brazil, in June of 1992. It was the first major international environmental conference held in South America and had a major symbolic effect in advancing the importance of “green” issues. More specifically, many attending nations, including Peru, signed such Rio compacts as the Convention on Biological Diversity, recognizing the importance of species preservation.

The higher profile of environmental issues, as well as the aggressive fundraising efforts of FPCN, helped to improve its financial fortunes. Over the course of 1992 and 1993, FPCN succeeded in finding ways to attract individual and corporate members to augment their international financial backing. Faced with the loss of tax-deductibility for donations, the group began to offer a subscription newsletter and “green products”—such as Christmas cards and T-shirts—the purchase of which supported the organization. It began to seek individual and corporate members, to complement the donations it received from international organizations. It even ran a successful raffle. These efforts had led to an increase in in-country fundraising (up to 25 percent of all unrestricted funds) and, by the end of 1993, to a 35 percent decrease in the operating deficit. Staff projected eliminating it completely over the course of the coming two years.

The Board Issue

Even as they began to reduce the organization’s deficit, however, Executive Director Suarez de Freitas and Development Director Leon became more and more convinced that the structure and composition of FPCN’s board of directors was a major problem. “We had to have the ability to do more within the country,” says Leon. “As staff members, we had a ceiling as to who we could reach.” There had been some change which they considered to have been positive. For the first time, for instance, FPCN’s board was now headed by a nonscientist, Fernando de Trazegnies, a nationally-known and well-respected attorney. But the death of one board member had reduced the total membership to seven, a number of whom—such as the formerly crucial Marc Dourojeanni—were no longer active. “Seven people is not much more than a friends’ club,” says Leon. What’s more, recalls Leon, the organization was under pressure from donors to pursue the model of “an independent board,” one which brought its own ideas and backgrounds to bear on the foundation.

In early 1993, Suarez de Freitas and Leon decided that the organization needed a major gathering of its staff and outside advisors to consider its direction—as well as such specific issues as how its board of directors should be structured and the role the board would play. Only a more

effective board, believed Leon particularly, could assist in the sort of domestic fundraising which she saw as crucial to ridding the organization of its deficit problem permanently, as well as increasing its notoriety and impact within Peru. Changing the board would not be easy. A philanthropic tradition was not well-established in Peru; the country's affluent historically confined their volunteer work to educational institutions.

Leon and Suarez de Freitas began to consider a wide variety of potential changes in the board. These included the possible expansion of the number of members to 36, mimicking the total of one of FPCN's major donors, The Nature Conservancy, in order to increase representation from a variety of sectors. They considered the possibility that regional FPCN offices might have their own boards. They considered requiring that new board members make financial contributions to the organization. They considered whether to establish a variety of subcommittees to help the board focus on specific tasks—including, but not limited to, fundraising and the oversight of the organization's budget and finances. They thought, too, about what types of persons should serve on the board; they were convinced that the current board had a disproportionate number of scientists. Finally, they discussed whether to build on the existing board, with its core group of founding members, or to start all over with a completely new group.

Representatives of major FPCN donors, such as The Nature Conservancy, as well as experienced outside consultants, such as a partner in the McKinsey Corporation, the international management consulting firm, would be among those who would consider, along with the FPCN staff and board members, potential changes in its institutional structure, as part of the larger strategic vision for the foundation.

Exhibit 1

PROYECTOS EN MARCHA

SISTEMA NACIONAL DE AREAS NATURALES PROTEGIDAS POR EL ESTADO (SINANPE)

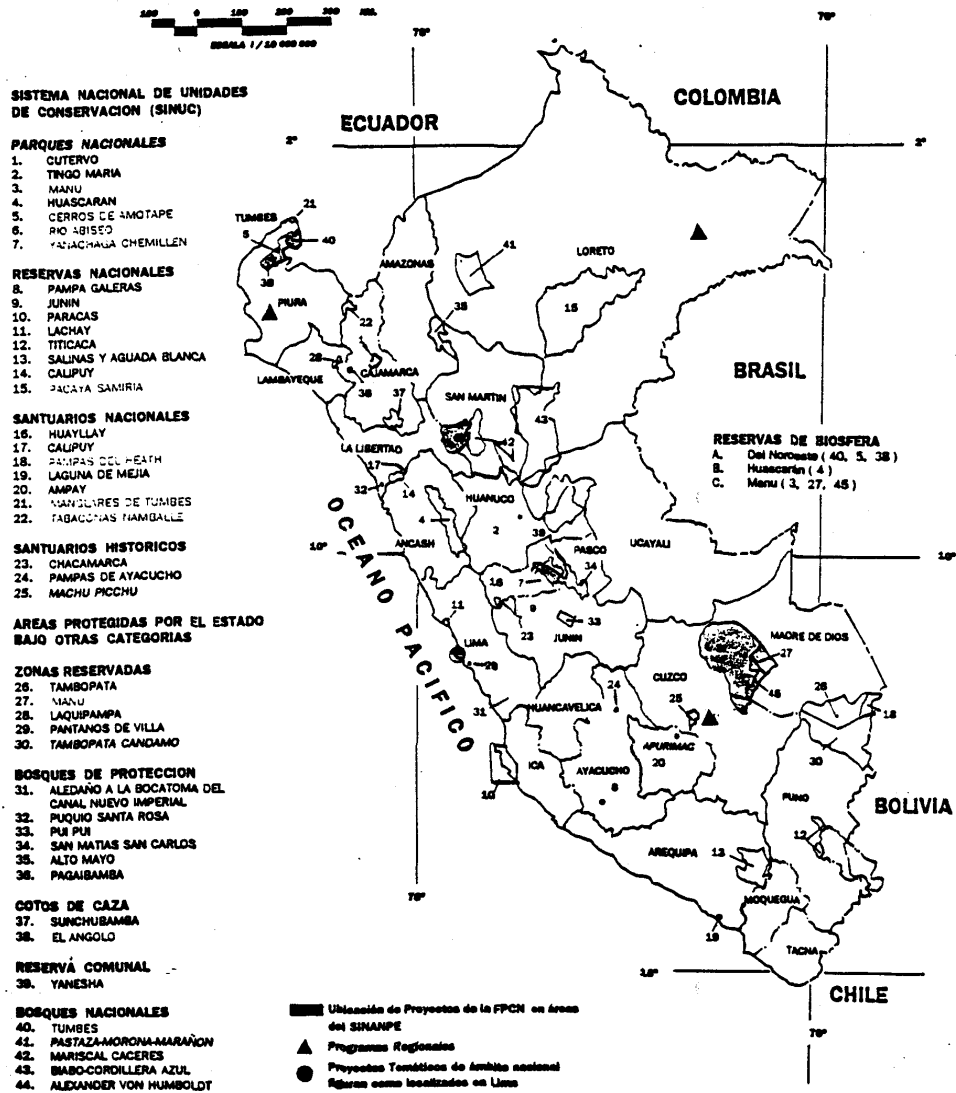


Exhibit 2

FPCN Organizational Chart

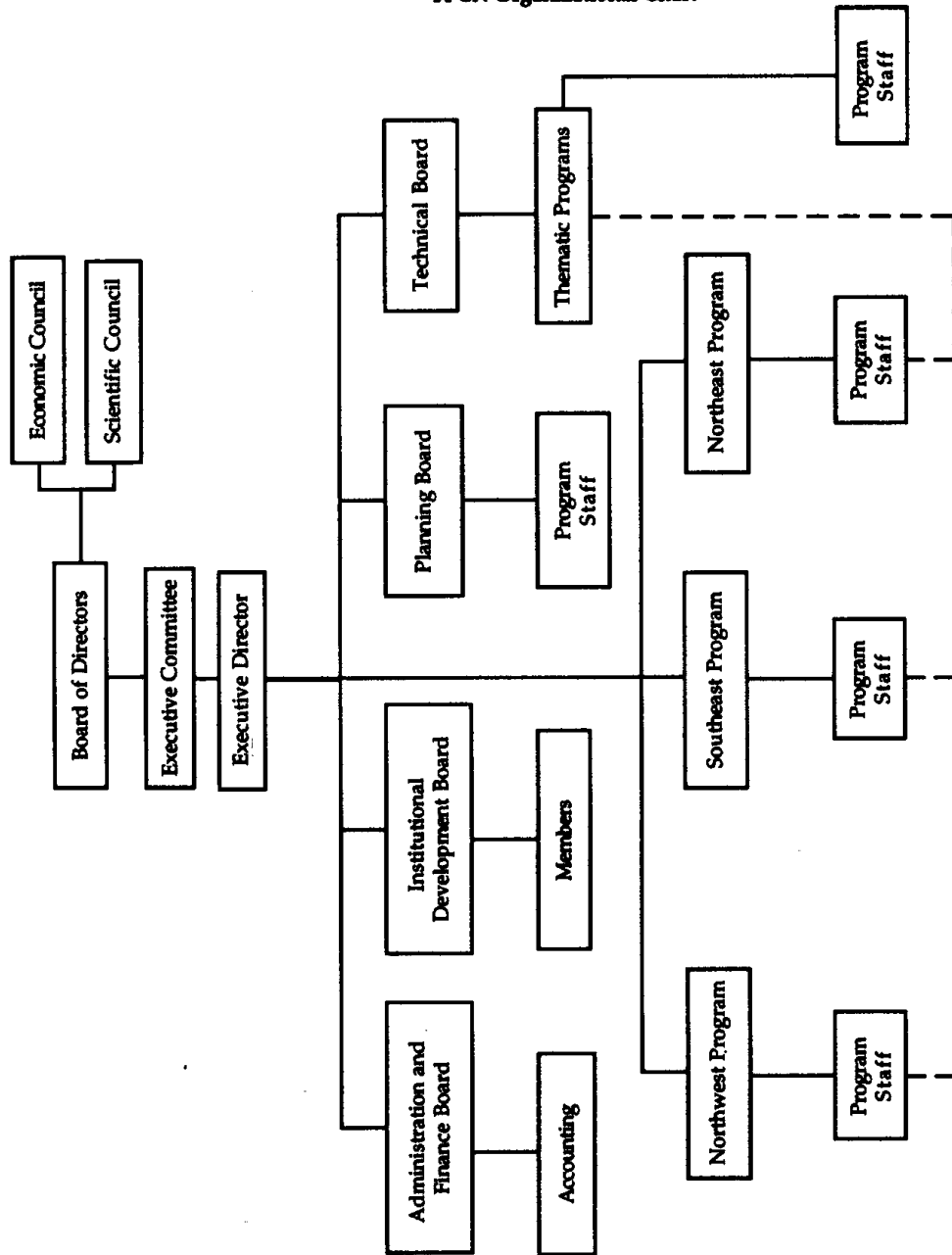


Exhibit 3

Annual Contributions to the Financing System

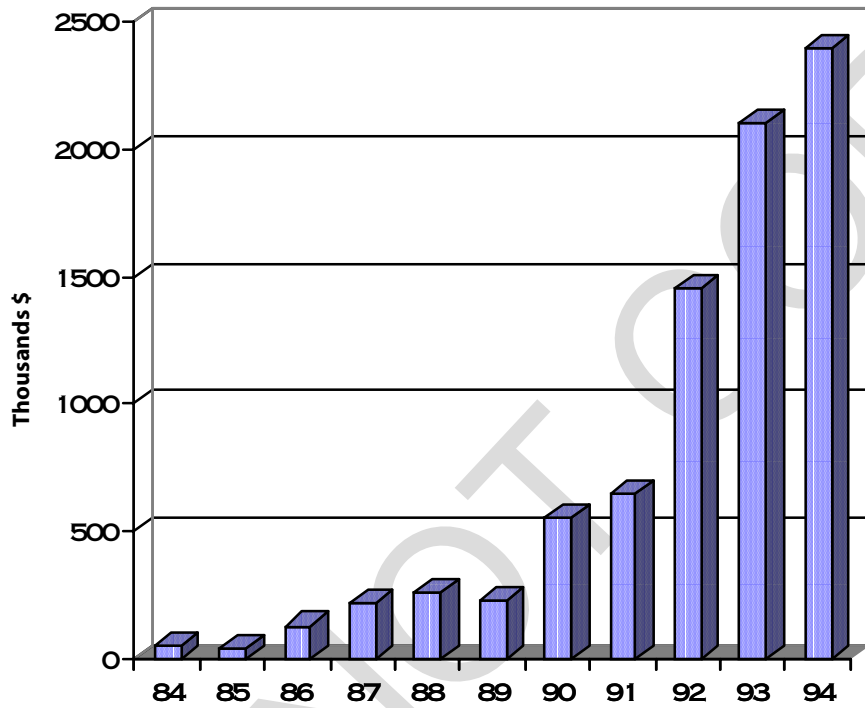


Exhibit 4

Annual Projects and Areas Protected

