

THINKING ETHICALLY!



A think-tank code of good governance

by Petr Jan Pajas

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Introduction: **Ethical priorities**

A well known folk legend would have us believe that a frog crouching in water, the temperature of which is slowly being raised to boiling temperature, fails to notice the increasing danger of the situation until it is too late – with lethal consequences. While scientists tell us is that this is not literally true, the legend offers an excellent metaphor to illustrate why think-tanks that ignore ethical issues do so at their own peril.

This code was designed in recognition of the need for independent think-tanks to be clear and transparent about their status in the public arena, given their stated objectives of influencing the outcomes of public debates and public policy-making processes.

Since think-tanks operate in the public arena, it is in their interests to make themselves fully accountable to the general public in terms of their objectives, their mission, their sources of funding, and the methodologies deployed in their research. To this effect, they should subscribe to both a set of ethical principles and a set of quality standards for their work.

There are areas where clearly stated principles are needed to ensure institutional and personal integrity, e.g. to attract and maintain the best people, or to build a sustainable reputation over the longer term.

Prerequisites included accountability and transparency in financial and organisational management, good governance overseen by an efficient, properly sized, competent and active board capable of maintaining in place checks and balances between the board's supervision and strategic leadership on the one side, and operational management on the other side.

Given the variety of environments within which policy centres work (e.g. different legal frameworks, different levels of openness of public policy-making process), such common principles should be developed with the broadest possible participation in order to ensure the principles' relevance and effectiveness under predictable circumstances.



Once the code of governance has been declared and the think-tank publicly commits to it, adherence should apply in all stages of the institute's research and advocacy: when selecting the problem, building the team, collecting data, identifying partners and stakeholders, reviewing the results, and publishing them, as well as after the task is finished, during post-project evaluation, and within the follow-up process of drawing lessons.

The Centre for Research and Policy Making (CRPM) in Skopje, Macedonia, requires staff and associates to sign the CRPM Integrity Statement¹, which covers among other issues the following:

- Independence and non-partisanship characterised by:
 - Avoiding any internal and external conflicts of interest
 - Avoiding political activities outside of work that would compromise the organisation
 - Never providing institutional endorsement to any political party
 - Non-acceptance of instructions in regard of performance or duties from any external authority.

CASE – the Centre for Social and Economic Research², with its main office in Warsaw, Poland, applies its Code of Conduct to clearly demonstrate its full and uncompromising non-partisan attitude towards any political party or interest group, devotion to the principles of transparency in its financial operations, relations to donors and contracting parties, as well as to the employees and engaged experts. Special attention is given to clear differentiation between the personal views of experts and other persons participating on CASE products from the institutional views and positions of CASE and its subsidiary organisations. High ethical standards in all aspects of CASE activity, as well as insistence on high-quality research, are a strongly underlined aspect of the CASE Code of Conduct.

1 [www.crpm.org.mk/CRPM Integrity Policy.htm](http://www.crpm.org.mk/CRPM%20Integrity%20Policy.htm)

2 www.case-research.eu



The PASOS think-tank code of good governance

The following ten principles underpin the PASOS code of good governance, which is designed to guide independent think-tanks' ethical conduct in policy-making and advocacy, and to maximise the integrity of their dealings with all stakeholders (staff colleagues, the general public, public authorities, and public officials). The code can serve as a guiding tool for independent think-tanks in their everyday work.

Principle One: **Comply with the rule of law**

The independent think-tank should comply with the laws of the country in which it operates, so long as the laws respect internationally recognised standards in the rule of law, observance and protection of human rights, democratic governance, equality before the law, and freedom of expression and association.

In case of advocating for changes in laws, the think-tank should always proceed within the legal framework of the country itself, or at least act in a manner recognised as corresponding to, or stemming from, generally accepted and internationally recognised rights. The think-tank should safeguard that all its activities are in compliance with the Universal Declaration of Human Rights¹, which is the ultimate framework for ethically accepted conduct between partners.

¹ Universal Declaration of Human Rights, adopted and proclaimed by General Assembly resolution 217 A (III), 10 December 1948, see <http://www.un.org/en/documents/udhr/>



Do the right thing!

The **Independent Sector** (of not-for-profit and philanthropic organisations of the United States of America)¹ comprises a diverse array of organisations, large and small, those that make grants and those that raise funds from the public, those that operate at the community and national level and those that work outside the United States.

These organisations share the belief that:

- As a matter of **fundamental principle**, the not-for-profit and philanthropic community should adhere to the highest ethical standards because **it is the right thing to do**.
- As a matter of **pragmatic self-interest**, the community should do so because **public trust in its performance is the bedrock of its legitimacy**.
- As a **natural consequence**, the donors and volunteers support such organisations because they trust them to carry out their missions, to be good stewards of their resources, and **to uphold rigorous standards of conduct**.
- But organisations are, at base, made up of people, and **it is up to the personalities forming these organisations - board members, executive leaders, staff and volunteers - to demonstrate their ongoing commitment to the core values of integrity, honesty, fairness, openness, respect, and responsibility**.

As a result, each organisation claiming membership to the Independent Sector **should have a formally adopted code of ethics** with which all of their trustees, staff and volunteers are familiar and to which they adhere.

¹ Statement of Values and Code of Ethics for Nonprofit and Philanthropic Organizations, Independent Sector, February 2004, www.independentsector.org/members/code_ethics.html



Any code of ethics is built on a foundation of widely shared values. The values of the Independent Sector include:

- *Commitment to the public good;*
- *Accountability to the public;*
- *Commitment beyond the law;*
- *Respect for the worth and dignity of individuals;*
- *Inclusiveness and social justice;*
- *Respect for pluralism and diversity;*
- *Transparency, integrity and honesty;*
- *Responsible stewardship of resources; and,*
- *Commitment to excellence and to maintaining the public trust.*

Adherence to the law is the minimum standard of expected behaviour. *Non-profit and philanthropic organisations must do more, however, than simply obey the law. They must embrace the spirit of the law, often going beyond legal requirements and making sure that what they do is matched by what the public understands about what they should do.*

Transparency, openness, and responsiveness to public concerns *must be integral to the behavior of organisations belonging to the Independent Sector.*

Principle Two:

Follow and regularly update your mission and programme

Founded with the aim to serve the public good, the independent think-tank should have a well-defined mission. Its programmes should effectively and efficiently work towards achieving that mission with an obligation to ensure programme effectiveness and to devote the resources of the organisation to achieving its stated purpose.



A mission to serve the community

According to Marilyn Wyatt¹, an American expert on good governance of NGOs, “NGOs differ from commercial organisations in that they are created to meet a need in the broader community or among their members rather than earn a profit for owners and shareholders. [They] are often held to a higher standard of behaviour than for-profit entities. Because they receive tax exemptions and other benefits, NGOs are expected to demonstrate a commitment to the community, members, or other stakeholders that goes beyond the mission and is on display in exemplary behaviour throughout the organisation.”

“Simply put, an NGO’s mission is what it does to meet that identified need. The mission [of an NGO] is usually linked to a set of basic, deeply held values, such as respect for the natural environment or aid to the poor. The mission and values inspire people to get involved in the organisation while providing a common focus for its activities and goals. A declaration of the NGO’s mission is usually included in its founding documents”.

¹ *A Handbook of NGO Governance, Marilyn Wyatt and The Central and Eastern Europe Working Group on NonProfit Governance, European Center for Not-for-Profit Law (ECNLI), Budapest, Hungary, 2004, ISBN 963-216-963-. See: www.ecnl.org/dindocuments/18_GovernanceHandbook.pdf*

Principle Three:

Be governed by a responsible body

Independent think-tanks should be governed by an elected or duly appointed governing body that should consist of individuals committed to the mission of the organisation. An effective governing body should determine the mission of the organisation and establish its management policies and procedures. Ideally, the governing body should be able to assure that adequate human resources (paid staff and/or volunteers) and financial resources (earned income, contracts and grants, and other contributions) are available. The governing body should actively monitor the organisation's financial and operational performance. The concrete form of the governing body depends on the legal form of the think-tank, its internal organisational structure, and the laws of the country in whose framework the think-tank operates.



Principle Four:

Avoid conflicts of interest

Members of the governing body, the chief executive officer and other managers, as well as employees and volunteers, should be loyal to the independent think-tank they represent or work for. They should all act in the best interest of the think-tank as an institution, rather than in furtherance of their own personal interests or the interests of some third parties. A public-policy-oriented think-tank should have internal regulations protecting it against the effects of actual, potential, or perceived conflicts of interest, and it should routinely and systematically enforce those regulations.

Conflict of interest policy: role of the board

Without doubt, matters of ethics in relations between an individual and the organisation may be left up to the personal judgment of all involved. However, conflict of interest may cause damage to the organisation, and that is why the board of a centre should adopt a conflict-of-interest policy. Such a policy is especially important for organisations operating in countries where the level of perceived mismanagement and corruption among civil society organisations is relatively high.

By establishing a conflict-of-interest policy, the board enhances the reputation of the organisation for accountability and transparency, and can help to attract new resources. It is also a guide for dealing with situations that have the potential to reflect badly on the organisation or individuals associated with it.

Conflict of interest exists when an individual faces competing choices that cloud or influence decision-making. Conflict-of-interest situations usually make the organisation's interests seem less important than other more personal matters. A conflict-of-interest situation doesn't automatically mean that an individual has done anything wrong. The danger may be the appearance rather than actual fact of wrongdoing. Conflict of interest can involve anyone, but it's particularly common on boards whose members are influential people with many ties in the community.

A conflict-of-interest policy helps the board to monitor behaviour within the organisation and to deal impartially with situations in which an individual's multiple interests compete or collide. The policy typically includes a requirement for full disclosure of potential or actual conflicts and abstention from deliberations and decisions in which an individual has a personal stake. Many boards require their members to sign conflict-of-interest disclosure statements either at the time of taking over the office or even regularly on an annual basis.



The policy should extend to employees, volunteers, as well as family members, business partners, and other close associates. Of course, it is not enough for the policy to exist merely on paper. To be effective, the Board must make sure that the policy is stringently enforced.

Common examples of conflict of interest include:

- *When a board member of a grant-making institution is also the CEO or a member of the board of the organisation receiving the grants.*
- *When a board member is also CEO of another organisation that competes against the first one for funds.*
- *When a board member obtains an interest-free loan from the organisation.*
- *When a board member's spouse is hired to provide professional services to the organisation.*
- *When a board member is related to a member of the staff.*

Conflict-of-interest policies should include these elements:

- 1. Statement of purpose.** *The policy states what is meant by conflict of interest, and whom it may affect.*
- 2. Guidance for conduct.** *Board and staff members are required to disclose any real, perceived, or potential conflict right away. They should be banned from taking part in discussions and decisions involving situations in which they or their family members and associates could benefit in any direct or indirect way.*
- 3. Annual disclosure.** *Board and staff members sign statements acknowledging their awareness of the policy, and identifying any real or potential conflicts in which they might be involved.*

Principle Five:

Be fair to employees and volunteers

The relationship of the independent think-tank to employees and volunteers is fundamental to achieving its mission. The human resources policy should address both paid employees and volunteers, and should be open, establish clear expectations, and provide for fair, meaningful and effective performance evaluation. Volunteers require special attention, since their service is essential in governance, and often also in administrative, logistic and other capacities.



Principle Six:

Practice sound and transparent financial management

The independent think-tank is expected to practice sound and fully transparent financial management, and comply with a diverse array of related legal and regulatory requirements. The financial system in place should ensure that accurate financial records are kept, and that the think-tank's financial resources are used in furtherance of its purposes. Periodic reviews should be conducted to address regulatory and liability concerns. Reasonable measures should be taken to prevent the misuse of public resources and any financial transactions for the benefit of those involved in crime.

Principle Seven: **Be open and accountable**

Think-tanks are mostly private corporations, or non-profit organisations or university departments operating to serve the public good. As such, they should be prepared to provide the general public with information about their mission, programme activities, and finances, usually by way of regular Annual Reports, and using their websites and other online communications tools. They should also be accessible and responsive to persons from the general public who express interest in the affairs of the organisation.



Don't be shy: opt for full disclosure!

Think-tanks are very much dependent on the image they are able to create with respect to the opinion of policy-makers on the one side and the general public on the other side. They share this characteristic with charity organisations and several other categories of non-governmental, not-for-profit organisations acting for the public good.

The Independent Sector Code of Ethics in this respect states the following:
“Openness and Disclosure are essential. The organization [should] provide comprehensive and timely information to the public, the media, and all stakeholders, and [should be] responsive in a timely manner to reasonable requests for information about its activities. All information about the organization should fully and honestly reflect the policies and practices of the organization. Basic informational data about the organization, including audited financial statements, should be posted on the organization’s website or otherwise made available to the public. All financial, organizational, and program reports should be complete and accurate in all material respects.”

Statement of Values and Code of Ethics for Nonprofit and Philanthropic Organizations, Independent Sector, February 2004, www.independentsector.org/members/code_ethics.html

Accountable for your actions

According to the European Center for Not-for-Profit Law, “accountability is generally understood as an obligation or willingness to accept responsibility or to account for the organization’s actions. Accountability means that the organization holds itself accountable towards its multiple stakeholders and ensures that it meets the various stakeholder needs and interests (including beneficiaries, donors, government, policymakers, volunteers etc., as well as the public at large).

The accountability toward the government and the public at large includes the following key elements:

- *Compliance with legal obligations;*
- *Demonstrating how resources are spent and how these respond to the mission and obligations taken towards stakeholders;*
- *Good governance;*
- *Prudent financial management, based upon full program budgets that account for all programme expenses and indicate the identity of recipients, as well as how the money is used;*
- *Demonstrating goodwill or an intent to meet certain professional and management standards;*
- *Demonstrating regularly that the organization uses its resources wisely and doesn’t take advantage of its special privileges (e.g. tax exemptions) to pursue activities contrary to its nonprofit status, if it enjoys it.”*



In practice, it is the annual report, which is the ordinary tool of informing the general public, donors and public authorities about activities, at the same time reminding the readers about the mission, concrete objectives and goals of the organisation, alongside projects and advocacy events that have taken place the previous year. The annual report is usually published several months after the end of the previous fiscal year, so it provides an opportunity for a fair and open assessment of the impact of these projects and activities. The annual report should also identify the names of the members of the governing body and core management staff.

Policy centres have also other tools and possibilities as to how to inform those who are interested in the issues followed by the policy centre. These tools include writing articles, commentaries, letters to the editor, opinion pieces, and other contributions to newspapers and journals, in which core issues are described in a language accessible to the general public or to a target group. Similarly, local or national television and radio broadcasting is sometimes an appropriate medium.

Furthermore, the latest online communications media, specifically the internet with downloadable media, YouTube for video materials, and blogs for interactive exchange of views, offer an increasing range of means for reaching a variety of audiences. Social media platforms such as Facebook and Twitter enable the scope for careful targeting of interested online audiences.

Principle Eight:

Practice Trustful Fundraising and Responsible Stewardship of Funds

Fundraising provides an important source of financial support for the work of most independent think-tanks. The think-tank's fundraising programme should be maintained on a foundation of truthfulness and responsible stewardship; it should be consistent with its mission, compatible with its organisational capacity, and respectful of the legitimate interests of donors. The non-partisanship aspirations of independent think-tanks also require a fundraising policy that safeguards against the risks of money laundering and explicit dependence on a given donor, as well as measures that prohibit support of any concrete political party or interest group.



Donor relations: Handle with Care!

In the Standards for Excellence of the Maryland not-for-profit organisations (NPOs), it is recommended that fundraising activities should be made for reasonable expenditures. It is also recommended that “solicitation and promotional materials should be accurate and truthful and should correctly identify the organisation, its mission, and the intended use of the solicited funds”. Moreover, “the fundraising organisation must honour the known intentions of a donor regarding the use of donated funds”.

With respect to relationships to donors and protection of their privacy, it is considered appropriate to “respect the privacy of donors and safeguard the confidentiality of information that a donor reasonably would expect to be private”. It is also proposed that “the donors must be given an opportunity to state that they prefer to remain anonymous and that their name, the amount of their gift, or other information shall not be publicly released. That also applies to the right of donors to request their names being removed from any mailing lists, which are sold, rented, or exchanged”.

The anonymity of a donor does not mean that the amount of the donation itself should not be revealed in the annual report. In such a situation, in case of need, the identification of the donor might be revealed to a court or other authority. This is of greater importance for think-tanks that might be under special attention from the side of policymakers and executive power.

It belongs to the ethics of solicitation activities to keep them free from excessive pressure, and fundraisers should respect the clearly stated interests of the donor. It is imperative to exercise proper control over any staff, volunteers, consultants, contractors, other organisations, or businesses that are known to be soliciting contributions on behalf of the think-tank. It is also recommended, whenever applicable, to counsel whether the contracted solicitor is a properly registered professional, whenever that is required by the local laws.



Independent think-tanks should have policies in place regarding the acceptance and disposition of gifts and donations that are offered and/or received in the course of regular fundraising activities. These policies should include procedures to determine any limits on individuals or entities from which the organisation will accept a gift, the purposes for which donations will be accepted, and the type of property that will be accepted.

As regards responsible stewardship of solicited funds, the Independent Sector in the US requires that the organisation and its subsidiaries should manage their funds responsibly and prudently, which should include the following considerations:

- It spends a reasonable percentage of its annual budget on programmes in pursuance of its mission;*
- It spends an adequate amount on administrative expenses to ensure effective accounting systems, internal controls, competent staff, and other expenditures critical to professional management;*
- It compensates staff, and any others who may receive compensation, reasonably and appropriately;*
- Its fundraising costs are kept at a reasonable level which takes into account several factors affecting these costs;*
- It does not accumulate operating funds excessively;*
- It ensures that all spending practices and policies are fair, reasonable and appropriate to fulfil the mission of the organisation; and*
- Its financial reports are factually accurate and complete in all material respects.*

Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector, Maryland Association of Nonprofit Organizations, 1998, www.marylandnonprofits.org/html/standards/documents/Booklet507Revised.pdf

Principle Nine:

Promote open society values through active engagement in public affairs and public policy formation

Independent think-tanks represent an important vehicle through which individuals organise and work together within civil society to improve their communities and overall standards of life by providing evidence-based opinions and policy recommendations to policy-makers.

When proclaiming the intention to promote the values of an open society and defend society against misuse of power by public officials, there is an incumbent obligation to represent the legitimate common interests of the people, and to protect or promote democracy, the rule of law, freedom of expression and association, and human rights. Through public policy research and analysis, independent think-tanks submit and advocate for policy recommendations to be applied in the everyday life of society, as well as with respect to the improvement of laws and legislative processes.



Lobbying for the public good

When dealing with public policy issues, independent think-tanks have a special responsibility stemming from the fact that they are using the knowledge and results of the research or analytical work of their own or affiliated experts to influence decision-makers, those who are engaged in the legislative process or hold positions at the level of executive government. That means that independent think-tanks are an influential part of civil society, and differ in intent from ordinary lobbyists only insofar as they are sensitive to the needs of society and able to form their policy recommendations with full regard to these needs and with a serious attempt to foresee also the possible impact of the recommended policies on not only those who should benefit from them, but also on those who could be negatively affected.

This is an especially important principle for those policy centres, researchers and activists who have proclaimed their adherence to the values of an open society based on citizens' active participation in promoting democracy, the rule of law, good governance, respect for and protection of human rights, as well as sustainable economic and social development.

Independent think-tanks cannot build their opinion solely on the knowledge and experience of their own experts. Therefore, it is a duty of think-tanks to promote and actively apply in their practice principles of public participation. Within that context, the most important ethical imperative for a think-tank is an effort to stay strictly non-partisan. This approach should be clearly manifested in all products of a think-tank.

Principle Ten:

Research and advocate honestly and transparently

Independent think-tanks should refrain from gaining an unfair advantage through their research practices. They should respect intellectual property, design their research in ways that minimise bias, be open about potential sources of bias in their research, be transparent about the research procedures used, and make available the data they use to the public, while protecting the privacy rights of the subjects of research and participating third parties.

Independent think-tanks should avoid unsubstantiated and speculative policy recommendations and, as far as possible, should analyse the overall impact of the possible acceptance of their proposals on all relevant target groups. The formulation of policy recommendations, and the accompanying advocacy for them, should be carried out in the knowledge that there is a necessity to evaluate their immediate impact, as well as to have the capacity to arrange for long-term monitoring of outcomes.



The 'data credibility' question

Some of the principles of "academic honesty" are applicable exclusively in higher education. On the other hand, requirements like refraining from violation of intellectual property, fabrication, plagiarism, and from obstructing the research of competitors, are applicable for any research context, and their inclusion into the ethical guidelines for independent think-tanks should not face any substantive objections.

There is also another set of ethical principles guiding academic social research, some of which are more controversial/problematic. The first one is the principle of minimisation of bias. Its primary concern is the selection of the least biased available research designs.

Some would disagree with the principle as such, arguing that all research is inherently biased, and always reflects the interests of actors that conduct, sponsor, or utilise it. Yet, if someone takes such a position, he/she can still agree with the principle of refraining from intentional use of biased research designs.

On a more practical level, the principle of bias minimisation can be seen as problematic given the additional costs it introduces, since often the designs known to be less biased are considerably more costly, and often practically unaffordable. In addition, researchers are often tempted to adopt a design known to be more biased than an alternative one, not only because of tight budget constraints, but also because they do not believe that the expected decrease in bias will outweigh the additional costs.



For example, in survey research, truly random and representative samples can be costly, and as a consequence are rarely used. One context where this pressure applies quite strongly to policy research centres is in the competition for funding: think-tanks often have to provide better results for less money than most competitors. For this reason, the PASOS code outlined here includes the principle of openness about possible sources of bias in the chosen research design.

This idea is closely related to the principle of transparency of research, which demands that researchers keep records of the data and procedures applied, and make them available for the purposes of review, evaluation, and replication of their research. This principle can be problematic for think-tanks for practical and ethical reasons. On the practical side, the production of such records, their maintenance, and publication impose additional costs on research that are often not negligible, and in the short term yield only limited benefits for the research centre. On the other hand, there are long-term benefits that can be expected from such measures, such as an increase in the visibility and reputation of the centre.

From the ethical point of view, there is a possible conflict with two other principles relevant for research. First, there are cases where the data were provided to the research centre from a third party upon a binding agreement of confidentiality. These issues are complex, and it often happens that the perceived public interest in data is in conflict with the legal framework. Second, making all the data used in the research publicly available might violate the rights of the human subjects of research. This problem is widely recognised, and its standard solution consists in making the personal data anonymous, and allowing use only for limited purposes and by registered users.

Appendix I:

Proclamation of Adherence to the PASOS Ethical Principles

*We, the undersigned representatives of, with the registered office at inafter careful consideration have decided to announce publicly our adherence to the **PASOS Ethical Principles**, as summarised below:*

- *We shall comply with laws of our country and internationally recognised principles*
- *We shall follow our goals and operate in accordance with our publicised mission*
- *We shall structure our think-tank so as to allow for being responsibly governed*
- *We shall apply a strict internal policy to avoid conflicts of interest*
- *We shall create a team based on fair treatment and respect to employees and volunteers*
- *We shall practice sound and transparent financial management checked by regular audits*
- *We shall be open and accountable to our donors, beneficiaries and the general public by publishing annual reports*
- *We shall practice trustful fundraising and responsible stewardship of funds received*



- *We shall promote and follow the values of an open society, protecting the rule of law, democracy and human rights, using the means of providing high-quality policy recommendations*
- *We shall organise our research honestly and in full respect to the transparency of the evidence used and methodology applied.*

It is our intention to create by all means and further maintain within our organisation and with regards to our donors, partners and beneficiaries the conditions allowing us to fulfil this voluntarily taken obligation.

In on

[Names and positions of statutory representative(s) signing the proclamation]

[Signatures made in accordance with statutory documents of the organisation]

Appendix II:

On Framework Code of Conduct for Non-Profit Organisations as recommended by the European Commission

The basic features of the Framework for a Code of Conduct for NPOs, to Promote Transparency and Accountability Best Practices¹, as recommended by the European Commission to the EU member-states, are as follows:

- *NPOs should pursue the mission purpose of the organisation and should use their resources for these purposes.*
- *Responsibility of legal compliance should lie with the highest governing body of the NPO.*
- *NPOs should produce a document containing identification information on the organisation.*
 - . *This record should be kept up to date and available at the NPO's office.*

¹ See Annex to European Commission Communication to the Council, The European Parliament and the European Economic and Social Committee: *The Prevention of and Fight against Terrorist Financing through Enhanced National Level Coordination and Greater Transparency of the Non-profit Sector*, COM(2005) 620 final, Brussels, 29 November 2005, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0620:FIN:EN:PDF>



- *Registered NPOs should send this identification information to the body responsible for fulfilling relevant registration functions. This body should be informed of changes in the key features of the organisation and of winding-up of the organisation (together with a statement on how the net assets of the NPO will be distributed).*
- *The information should clearly identify the NPO. In addition to the formal name of the NPO, additional information could include any commonly used acronym or other informal name, business/working name, and registration number (if appropriate).*
- *The document would further include information on the address of the registered office, telephone/fax number/website address and a record of previous addresses and changes of address.*
- *Details of sub branches of the organisation would also be included.*
- *The NPO should have a statute or bylaws including a description of the NPO's organisational and decision-making structure - reflecting the size of the organisation and indicating internal financial control systems.*
 - *The document should identify directors/executive committee members or other decision-makers of the organisation, and their responsibilities.*
 - *Where appropriate, the beneficial owner of the NPO would also be identified.*
 - *A list of the bank account numbers under the name of the NPO, and any data on personnel details, should be kept confidentially at the registration authority, and at the NPO's office.*
- *NPOs should follow proper book-keeping practice.*
- *NPOs should produce annual financial statements of income and expenditure, as a part of the annual report, containing:*
 - *a description and budget of activities and projects over the previous financial year*
 - *a statement of how these have promoted the NPO's general objectives.*

- NPOs should use formal channels for money flows for all transactions, whenever there is a reasonable possibility to use the formal financial system. To the extent practicable, all money received should be deposited in bank accounts, and the disbursement of money should be performed by means of these bank accounts.
- NPOs should follow the “Know your beneficiaries and associate NPOs” rule, which means that the NPO should make best endeavours to verify the identity, credentials and good faith of their beneficiaries and associate NPOs. This could include, for example, in advance of payment, the NPO determining that the potential recipient has the ability both to accomplish the charitable purpose of the grant and protect the resources from diversion to non-charitable purposes. Where practicable, the NPO should reduce the terms of the grant to a written agreement and engage in on-going monitoring.
- NPOs should keep full and accurate audit trails of funds transferred outside their jurisdiction/country and of funds transferred to any person delivering service on behalf of the originator NPO. This could include keeping appropriate records of all financial transactions to direct intermediary organisations and persons.
- Financial statements and reports should be kept available at the office of the NPO accessible at the request of public authorities with oversight responsibility.
- Annual financial statements and reports, minutes of meetings of decision-making bodies, and records on audit trails should be kept for at least five years at the registered office of the NPO².

In order to avoid overburdening NPOs with excessive administrative requirements, simplified accounting and reporting requirements should apply to NPOs under a certain size.

² The European Association Of Consultants To And About NotFor-Profit Organisations Code Of Ethics, EUConsult, London, UK, 1999



Appendix III:

The resources use policy of the Trust for Civil Society in Central and Eastern Europe

An example of an approach to the issue of responsible use of resources is taken from the Trust for Civil Society in Central and Eastern Europe (CEE Trust)¹.

"It is our duty to honour the public trust vested in us by utilising the Trust's resources wisely and efficiently. In meeting this responsibility we strive at all times to exercise [besides our mission, principles of accountability and transparency, informed and responsible grant-making, committed board leadership, sound management practices, and avoidance of conflicts of interest]:

*a. **Care in the maintenance and protection of resources.** We base our policies and decisions about the management of funds on careful deliberation and informed advice from impartial experts. A system of internal controls ensures that our resources are protected and properly used.*

*b. **Balance in the disposition of resources.** We do not accumulate financial resources unnecessarily and limit the proportion of funds spent on administrative and fundraising activities to a reasonable proportion of costs.*

*c. **Sound judgment in the acquisition of resources.** We do not solicit or accept financial resources from illegitimate or ambiguous sources or from people or institutions whose values or mission conflict with our own.*

*d. **Transparency in financial reports.** We keep full and accurate records of the disposition of funds, including audited financial statements, according to established international book-keeping standards, and we make these records available to the public in a timely and accessible manner.*

¹ Trust for Civil Society in Central and Eastern Europe: Code of Conduct, Budapest, 2004, www.ceetrust.org/media/upload/TrustCodeofConduct_.pdf



Appendix IV:

Internal controls

Internal financial controls might be an additional measure introduced within an organisation to ascertain proper handling of funds. Internal controls promote both integrity and efficiency. When they are in place as explicit board policy, internal controls reassure donors and constituents that the resources are used wisely and effectively.

It is the duty of the board to ensure that internal controls are both established and implemented. Among the most important internal controls, the Board can require the use of professional accounting standards, the separation of transactions responsibilities (e.g. separation of invoice approval from responsibility to implement bank and cash-box transfers). The board's supervision of the investment policies of the management, as well as annual external audits, are indispensable for centres with higher annual turnover.

Once introduced, the board should review internal controls periodically to verify that they are being observed.

Appendix V: **Rules of board operations**

The board of a think-tank should have its own working procedures. Such procedural rules strengthen accountability, enhance efficiency, and provide a solid framework for collective action. The best guide for the board's operations is a set of well-written core documents that provide instruction in matters such as the selection of members, meeting schedules, and decision-making procedures.

The board can formulate more detailed procedures through policy statements that cover any number of issues, from the place of board meetings to the format of agendas. It is recommended² to collect all such rules into a manual, which the members will have at their disposal and can be made available to them through the centre's internal web pages.

The manual may contain rules for:

- *calling board meetings in regular or extraordinary sessions*
- *preparing and distributing the meeting agenda*
- *monitoring meeting attendance*
- *checking quorum and applying voting methods*
- *applying communications technology for emergency decision-making*
- *drafting and approving new policies*
- *conducting board elections and/or filling vacancies on the board*
- *handling a board member's resignation and/or removal from office*
- *providing orientation induction for new board members*
- *organising board self-assessment*
- *preparing and approving minutes of meetings*
- *computing the board members' reimbursements*

² *A Handbook of NGO Governance, Marilyn Wyatt and The Central and Eastern Europe Working Group on NonProfit Governance, European Center for Not-for-Profit Law (ECNL), Budapest, Hungary, 2004, ISBN 963-216-963-. See: [www.ecnl.org/dindocuments/18_Governance Handbook.pdf](http://www.ecnl.org/dindocuments/18_Governance%20Handbook.pdf)*



Sound decision-making depends on accurate information. Board members need to obtain complete and timely information before they meet, in order to be prepared to discuss agenda items and come to a reasonable decision. On the other hand, proper procedures regarding the use of information and the implementation of decisions are required for guidance and for strengthening the organisation's decision-making competences.

Board members should ask the staff to help them prepare for meetings by providing concise, carefully chosen materials well in advance. The staff can help keep board members informed by distributing more general information from time to time. Board members should not shy away from asking the staff for more information, or different forms of presenting information, if they feel it is necessary to form sound judgments.

Moreover, the board should not rely on the staff as its sole source of information: it needs to seek out other opinions and perspectives to make sure that the story received is complete. Every board member should come to meetings having read all the background materials. This will allow the meetings to consist of active discussion and decision-making rather than a boring presentation of information that board members can easily read on their own.

Core organisational documents usually specify the minimum number of statutory annual board meetings. While it is not easy to provide a perfect recommendation as regards the number of board sessions per year, it is almost certain that only one meeting per year is rarely often enough for the board to discharge the full range of its duties. It depends heavily on the costs related to a board meeting and the travel distances to be covered, as to whether fewer but longer board meetings will be preferred to shorter but more frequent meetings. Whatever the choice, board members need to be informed of the dates of meetings well in advance and have sufficient opportunity to prepare for them.

It follows from the logic of approving the annual plans, budgets and reports that at least one Board meeting should be scheduled close to the beginning of the year, so that the annual plan of activities and budget might be approved, while another one would be needed in the fifth or sixth month of the year to discuss the issues related to the previous year's annual activity and finance reporting. The late summer or early autumn is appropriate for evaluation issues and preparation for bigger events related to the whole organisation, including the election of new board members. Such meetings usually have a strictly respected agenda, and the board members are more likely to attend them, since their active participation and deliberation are expected.

The records of board meetings are a core instrument of accountability. Minutes are a form of institutional memory that enables an organisation to work consistently and deliberately, without being vulnerable to an individual's special agendas or efforts to seize control. The Board should appoint a person to keep a record of all formal proceedings, including their time and place, attendance, agenda, and decisions taken. These minutes are circulated between all board members for approval in draft before they are distributed in final form. Excerpts might be made from the meeting minutes, in which the decisions made and the arguments in support of the decisions, if considered appropriate, are summarised. Such excerpts may be then made public or provided to authorities or donors requiring certain information about the decision-making of the board.

The main policy decisions taken by the board should be gathered together in a Policy Manual, which should be circulated throughout the organisation. The Chief Executive, working with the Chair of the Board, or a Secretary to the Board, if there is such a person, are usually responsible for ensuring that the minutes are taken, and the Board Policy Manual is updated and distributed as needed.



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There is an annual membership fee of EUR 500.

*For more information, contact PASOS Executive Director Jeff Lovitt at **jefflovitt@pasos.org***

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