EUROPEAN VENTURE PHILANTHROPY ASSOCIATION

EVPA CODE OF CONDUCT

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Introduction and background

EVPA is a non-profit membership association made up of organisations across Europe interested in or practicing venture philanthropy. EVPA is independent from religious and political standpoints. The venture philanthropy approach includes both the use of social investment and grants. It works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. Finance first strategies, where the financial return is maximised and the societal impact is secondary, are not included in EVPA's definition of venture philanthropy. As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics:

- **High engagement** – Hands-on relationships between SPO management and venture philanthropists
- **Organisational capacity-building** – Building the operational capacity of portfolio organisations, by funding core operating costs rather than individual projects
- **Tailored financing** – Using a range of financing mechanisms tailored to the needs of the supported organisation
- **Non-financial support** – Providing value-added services such as strategic planning to strengthen management
- **Involvement of networks** – Enabling access to networks that provide various and often complementing skill-sets and resources to the investees
- **Multi-year support** – Supporting a limited number of organisations for 3-5 years, then exiting when organisation are financially or operationally sustainable
- **Performance measurement** – Placing emphasis on good business planning, measurable outcomes, achievement of milestones and financial accountability and transparency

Established in 2004, EVPA is a unique network of venture philanthropy organisations and others committed to promoting social investment and high-engagement philanthropy in Europe. EVPA's diverse membership includes venture philanthropy organisations, social investors, grant-making foundations, private equity and professional service firms, banks, philanthropy advisors and business schools.

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EVPA is characterised by this hybrid nature of its membership. The aim of this Code of Conduct is to develop the highest professional standards for the EVPA community where members can learn from each other in an atmosphere of transparency, humility and mutual respect. At EVPA, we see venture philanthropy as an approach to supporting organisations with a societal purpose that in no way aims to replace other philanthropic methods. It should be seen as complementary to other forms of philanthropy and investment, filling a market gap. However, beyond being a mere "tool", venture philanthropy is emerging as a new industry, with an entire support system around it, including advisory service firms and business school programmes specialised in venture philanthropy. As venture philanthropy continues to grow, the industry-building role of the association becomes increasingly important, thus also calling for the development of best practice training and guidelines.

Brussels, November 2011

Anne Holm Rannaleet
EVPA Board Member
Chair, Guidelines Task Force

Serge Raicher
Chairman
EVPA

EVPA Code of Conduct

All EVPA members are expected to develop and uphold the highest standards of practice in conducting their affairs with their donors, the investee organisations they work with, governmental authorities and the community at large. This practice is founded on the principles of **transparency, ethical behaviour, mutual respect**, and **the application of venture philanthropy key characteristics for professional business conduct**.

We urge all EVPA members to keep in mind that they each contribute in their daily work towards **building the venture philanthropy industry (the "Industry")**, with enhancing societal impact as an overall objective. Members are encouraged to report situations where the Code of Conduct is not fully applicable or does not provide sufficient guidance.

In pursuit of setting the highest ethical standards for the Industry, EVPA herewith adopts this Code of Conduct (the "Code") as a set of minimum principles with which compliance is mandatory for all **EVPA's full and VP investing members** and their employees. EVPA members are encouraged to share the Code with investees and other stakeholders. Compliance for EVPA members with the Code is dealt with through the Membership Committee on behalf of the Board of Directors of EVPA, to which any complaints should be addressed. No member will take advantage of its position in EVPA or abuse any information addressed to EVPA. Unethical conduct will be deemed to include any evasive practices intended to conceal non-compliance with the Code of Conduct. In the event of a proven serious case of misconduct by a member, the sanction is expulsion of that member from EVPA. The benefit of the Code is that it offers a framework for the resolution of ethical dilemmas.

The primary objectives of the Code are:

- to set the standards of conduct for an emerging industry;
- to state the principles of ethical behaviour that members of EVPA abide by;
- to assert on behalf of the membership the collective view that the highest professional standards, and just and equitable principles of philanthropy trade and investment are observed; and
- to provide the basis for consideration of and dealing with lapses in professional conduct within EVPA

Acting within the Rule of Law and within the Laws and Conduct of Business Rules of a particular jurisdiction in which an EVPA member organisation operates is the minimum expected of all members and their employees.

Guiding Principles

1. Transparency: Transparency entails openness about the operations of the organisation and enables the development of trust between actors in a community of practice as well as the exchange of knowledge within an emerging industry. Transparency further enhances the reputation of the Industry as a whole. Concrete measures include openly communicating financial as well as societal impact measurement and results to relevant stakeholders. Transparency should act as a guiding principle for the engagement with stakeholders, with special attention to the relationship with the following:

- **Investee organisations:** clear information should be provided about expectations, balance of influence, rights and responsibilities.
- **Funders:** clear information should be provided about investment strategy, return expectations and measurement systems.

Within business or operations, conflicts of interest inevitably arise and occur when a person who has a duty to another also has a personal or professional interest that might interfere with the exercise of independent judgement. There should be sound mechanisms for identifying and dealing with potential conflicts of interest and disclosing them to all parties concerned.

2. Ethical behaviour: Ethical behaviour rests on the pillars of integrity, fairness and responsibility:

- Integrity is the fundamental building block of trust in business relationships. Trust is built upon repeated interactions between individuals which involve transparency, reliability and honesty. Integrity implies that competitive advantage and commercial success are derived from the application of superior individual and collective skill and not through the use of manipulative or deceptive devices or practices
- Fairness means playing by the rules, based on facts and circumstances and looking towards ensuring a balanced outcome
- Responsibility implies not seeking to evade or avoid the consequences of error but rather use them as a learning/development tool

Ethical behaviour further implies keeping promises regardless of whether or not there is a legal obligation to do so. Within the Industry, commitments are made subject to the provision of further information, carrying out due diligence, the results of uncertain external events and other matters. This means that clarity about what is committed and what is subject to further investigation is very important. Rules for operating in our Industry may vary between countries, regions, societies, legal systems and transactions. It is important that members understand the different rules that apply to their particular operation and situation.

In the ordinary course of business and in the carrying out of due diligence, individuals and organisations will obtain sensitive information from others. In an effort to safeguard the interests of disclosing parties, reasonable steps should be taken to protect such information.

3. Mutual respect: The Industry is a meeting place between professionals from diverse backgrounds. The hybrid nature of the Industry makes it especially important to keep an open mind and stay away from stereotyped prejudices. Members are encouraged to treat each other and any other player with mutual respect. Part of this mutual respect should be manifested in the partnership nature of the relationship between investor and investee organisations. No member shall malign, defame or unfairly criticise any other member in any dealings.

4. Applying venture philanthropy key characteristics for own professional business conduct: To build the reputation of the Industry and ensure a continued flow of resources, Industry participants are encouraged to "apply venture philanthropy" (please see definition in enclosed document "Venture Philanthropy – an Introduction") principles to themselves. Members are urged to maintain accounts in accordance with the standards and practices in their respective countries and encouraged to run their own organisations in accordance with accepted governance standards to promote efficiency and sustainability, ensuring that their own management and resources are sufficient to meet their stated objectives. Concrete measures to ensure efficiency and sustainability include offering fair and reasonable compensation to employees, as well as carrying out internal evaluations of the effectiveness of their investment programmes and external audits of both financial performance and where possible societal impact.

Venture Philanthropy is an emerging industry with a brief history and short track record. As such, it suffers from the "liability of newness", meaning that it is still building the reputation and legitimacy needed to attract resources. It should be in everyone's interest to work together to ensure that VP becomes a recognised industry. As a baseline, members should conduct their operations in a responsible manner and not engage in practices which may be damaging to the image and interests of the Industry. Furthermore, members are encouraged to contribute to the work of the Association to develop guidelines, training programmes and to collect data, as well as to transfer best practices. The association will survey its members on an annual basis about their VP operations in order to create an industry database and publish an industry report that should enhance the legitimacy of the Industry. Reliable data on the VP Industry can be used by EVPA members to improve their practices through benchmarking exercises, to attract resources including funding and professionals, and to make their voices heard. The Association will use the industry data to better target its services to the needs of its members. Responding to the industry survey is an important contribution to building the Industry and is a requirement for being included in the EVPA Directory.

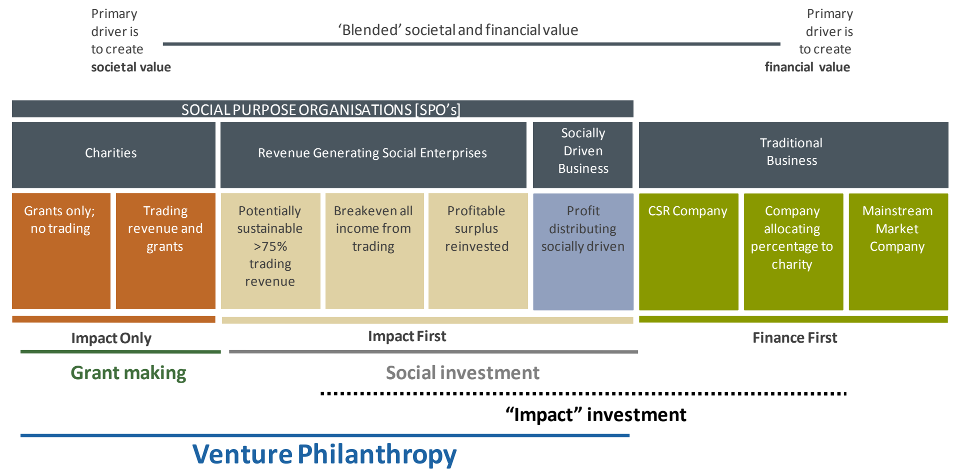
Venture Philanthropy - An introduction

EVPA defines Venture Philanthropy as an approach to build stronger investee organisations with a societal purpose by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural

Why use Venture Philanthropy?

VP is one tool in the social investment and philanthropy toolkit. It has emerged in Europe during the present decade as a high engagement approach to social investment and grant making across a range of investee organisations with a societal purpose (SPOs), from charities and non-profit organisations through to socially driven businesses. Social investment refers to funding that may generate a financial return, but where the societal impact comes first; so-called Impact First strategies. Grant funding on the other hand is the provision of non-repayable donations to the SPO supported; an Impact Only strategy.

Finance first strategies, where the financial return is maximised and the societal impact is secondary, are not included in EVPA's definition of venture philanthropy. The relatively newer term "impact investment" includes both impact first and finance first strategies. The following diagram aims to clarify the differences and overlaps of this terminology.[1]



[1] Adapted from John Kingston, CAF Venturesome, by Pieter Oostlander, Shaerpa and EVPA

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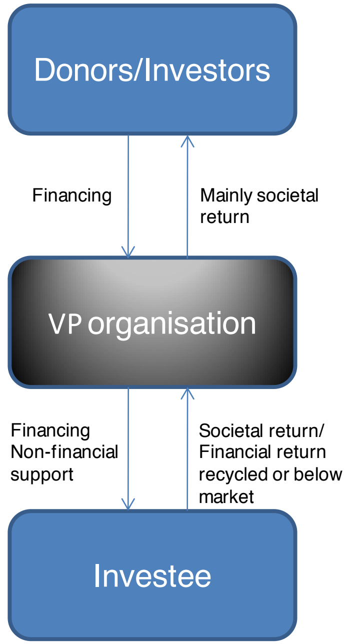
Summary of the key stakeholders in venture philanthropy



Donors/Investors – Mainly foundations, VC/PE firms, high net worth individuals (many from VC/PE sector or business entrepreneurs) and corporations. They expect mainly a societal return on their "investment".

VP organisations –VP organisations provide tailored financing and non-financial support to the target organisation (investee) and expect a societal return on their investment. Any financial return is usually recycled into new investments. Mostly set up as foundations, funds or a structure that incorporates both.

Investees – Organisations with a societal purpose at a critical stage in their development.

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EVPA has two main aims: to support its members in carrying out their venture philanthropy activities, and to promote venture philanthropy throughout Europe.

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