

Enabling Environment

for Nonprofit Organizations
in Pakistan





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ENABLING ENVIRONMENT

FOR NONPROFIT ORGANIZATIONS

IN PAKISTAN

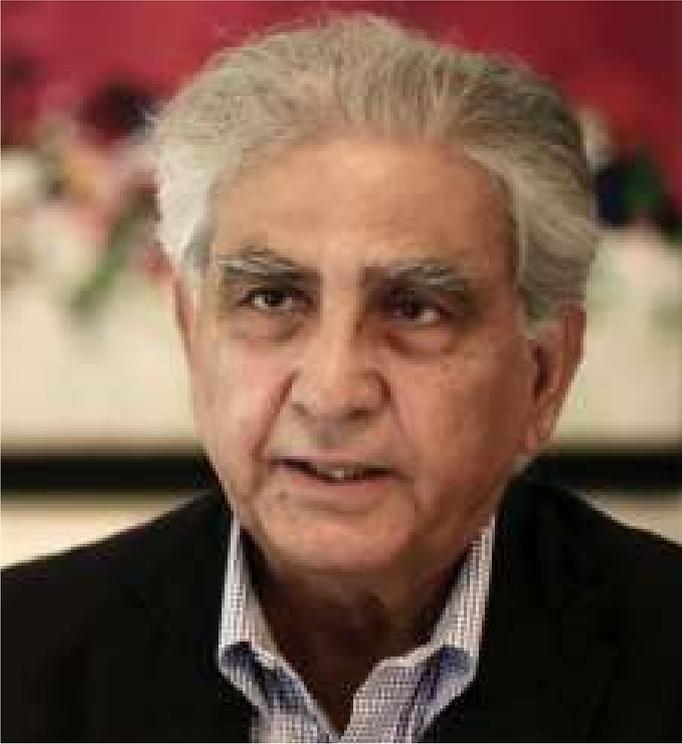
ABBREVIATIONS

AKRSP	Aga Khan Rural Support Program
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
DGI	Doing Good Index
EAD	Economic Affairs Division
FATA	Federally Administered Tribal Areas
FBR	Federal Board of Revenue
FGD	Focus Group Discussion
IDI	In-depth Interviews
INGO	International Non-governmental Organization
ITO	Income Tax Ordinance
KP	Khyber Pakhtunkhwa
MoA	Memorandum of Association
MoI	Ministry of Interior
MoU	Memorandum of Understanding
NAP	National Action Plan
NGO	Non-governmental Organization
NOC	No Objection Certificate
NPO	Nonprofit Organization
NRSP	National Rural Support Program
PCP	Pakistan Centre for Philanthropy
PEF	Punjab Education Foundation
RSP	Rural Support Program
SDO	Social Delivery Organization
SECP	Securities and Exchange Commission of Pakistan
SKMH	Shaukat Khanum Memorial Hospital
SOP	Standard Operating Procedure
SPDC	Social Policy and Development Centre
TCF	The Citizens Foundation

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PREFACE



The Pakistan Centre for Philanthropy (PCP) was established in 2001 as a nonprofit organization (NPOs) with the mandate to *inter alia* create an enabling environment for the growth and development of nonprofit sector operating in Pakistan for the public benefit. Throughout its history, PCP has been taking a lead role in promoting the cause of philanthropy in Pakistan through action research, certification of NPOs as well as advocacy with diverse stakeholders. Development of the present report is part of this continuous effort by PCP to provide support to nonprofit sector besides contributing to policy discourse on improving enabling environment for philanthropy in Pakistan.

The present report represents the second volume report on enabling environment as the first report “Creating an Enabling Legal Framework for Nonprofit Organizations in Pakistan” was published in 2002. The earlier report studied laws which were relevant to civil society in Pakistan with a special emphasis on those that operated as nonprofit organizations. Similarly, the present report aims to deepen the understanding and inform the discourse on a range of themes associated with enabling environment for nonprofit sector in Pakistan at present time.

There are several core issues which have been highlighted by this report. There is abundance of evidence that the prevailing policy and legal environment for NPOs in Pakistan has undergone palpable changes in recent years.

It is crucial for NPOs to readjust their role and functioning in accordance with the revised policy framework. Similarly, it is also important to note that the giving landscape in Pakistan has undergone substantive changes resulting in changed priorities and perceptions among individual, corporate and foreign donors in Pakistan. NPOs in Pakistan would need to make requisite adjustments in their operational and strategic functions for reaping the benefits from new funding opportunities. Lastly, an interactive dialogue involving all stakeholders especially the government is crucial for resolving the core challenges related to the enabling environment so as to fast track development and uplift of the under-privileged sections of society.

The findings of this report would be useful in deepening awareness about prevailing environment for NPOs and in presenting an action agenda for PCP, and suggestions for the government and other stakeholders who are engaged in facilitating NPOs. PCP also hopes that findings of this report will facilitate the government, civil society sector, and other stakeholders to make informed decisions in providing enabling environment for NPOs in Pakistan.

On behalf of the Board of Directors of the Pakistan Centre for Philanthropy, I would like to acknowledge the financial support of sponsors which made it possible for the Centre to undertake this valuable study.

A handwritten signature in black ink, appearing to read 'Zaffar A. Khan'.

Mr. Zaffar A. Khan, S.I.

Chairman, Board of Directors
Pakistan Centre for Philanthropy

ACKNOWLEDGEMENTS



It gives me immense pleasure to share the latest report on enabling environment for nonprofit sector in Pakistan.

The present report is a sequel to an earlier work by Pakistan Centre for Philanthropy which has grown into a cutting edge and a lead philanthropy sector think-tank in Pakistan in the last two decades. Throughout its history, PCP has been making focused and concerted efforts for improving and mainstreaming the overall policy and legal environment in Pakistan for promoting and supporting the cause of social development through improved and enhanced philanthropy. PCP as an organization is fully cognizant of the central role of philanthropy for augmenting and supporting fast track social development and equitable growth in Pakistan. PCP is also aware of the changed policy and legal milieu in Pakistan related to the nonprofit sector and deems it necessary to support the philanthropy sector in re-adjusting itself to better cope with changed landscape and compliance regime.

The present report presents findings of an analysis of the enabling environment for NPOs in Pakistan. The report begins by sharing the methodology and objectives which is followed by sections introducing the nonprofit sector in Pakistan. The next section discusses the legal environment for nonprofits with a particular emphasis on recently introduced legal and policy changes for regulating the sector. These sections are followed by a discussion on fund-raising environment for NPOs in Pakistan as well as issues and questions pertaining to the image of nonprofits in Pakistan. In the end, the report provides key actionable recommendations covering various aspects of the nonprofit sector in Pakistan.

The present report is predicated upon PCP's rich research expertise in the philanthropy sector and is consequently expected to inform policy discourse on regulating the nonprofit sector in Pakistan. The report seems to have come at an opportune moment as the debate on restructuring enabling policy environment for nonprofits continues in the country. Findings of this report can add deeper insights to this ongoing discussion. PCP will continue to follow up on the themes of enabling environment for nonprofits in light of this report and will make all endeavors to act as sector leader for promoting the cause of giving in Pakistan through an improved enabling environment.

The successful completion of the report owes acknowledgment to the collective efforts of several key individuals. First, PCP owes gratitude to Mr. Zaffar A. Khan, Chairman PCP, for his unwavering support, guidance and insightful input. PCP also owes appreciation to Dr. Attiya Inayatullah, Chair of the Research Committee, and the entire Board of Directors for their assiduous support.

The dedication and commitment with which PCP's Research Unit comprising of Muhammad Ali, and Ali Jadoon, worked on this study deserves appreciation. Special thanks to Mr. Rizwan Mehboob for reviewing and editing the draft report. PCP owes gratitude to all those senior professionals of the development sector who spared time to review the draft report and provide valuable feedback. Last but not the least, I would like to thank the sponsors that provided financial support for this study.

Shazia M. Amjad

Executive Director
Pakistan Centre for Philanthropy

EXECUTIVE SUMMARY

The governance paradigm in Pakistan, as well as in many other countries, has witnessed a major shift in recent decades, primarily prompted by a mix of public, nonprofit, and corporate participation in the development sphere. Consequently, governments around the world have been adjusting their policies to better cope with the evolving challenges in the development sector. In Pakistan, the under-regulated presence of the Non-governmental Organizations (NGOs) raised concerns after the Osama bin Laden incident where the platform of an international nonprofit organization was allegedly used to run a fake vaccination campaign in 2011. In 2014, the terrorist attack on the Army Public School (APS) in Peshawar martyred 149 people, mostly students. These incidents led the government to come up with the National Action Plan (NAP). Amongst other measures, NAP focused on choking terror financing and combating money laundering. The ensuing measures taken by the government also included regulating and streamlining the highly under-regulated NPO sector. This recapturing of free-for-all space was perceived by many to have shrunk the space for NPOs. The current study was conducted at a time when all these new developments were in flux. Hence, the study has captured a snapshot of the three aspects, i.e., legal framework, financial sustainability, and public image of nonprofits in Pakistan.

The Enabling Environment for nonprofit organizations refers to the body of policy and legal framework that governs the sector. These policies may either enable nonprofit organizations to function smoothly for achieving their avowed objectives of social uplift and development, or cause hindrances in their daily operations and overall growth. The enabling environment for the nonprofit sector is intrinsically linked to notions of internal governance, regulation, transparency and accountability. A wide array of legal instruments and policy stipulations govern the registration and operation of nonprofit organizations in Pakistan. Some of these cover the registration process, administration and accountability; others include how nonprofits are financed, managed, and run. Legislation and procedures also exist to streamline internal governance and compliance regimes within nonprofits, alongside controlling the advantages accruing to people, families or other members and corporate foundations.

The report finds that NPOs are facing a number of challenges which include the following:

Fragmented registration regime and multiple reporting:

The prevalence of multiple registration laws within the country gives rise to problems pertaining to the regulation and mainstreaming of the NPO sector. The process of registration has become more time consuming due to lack of procedural clarity and existence of multiple counterpart departments within government that have varied roles in registration. Similarly, the existence of multiple government interfaces (e.g. Social Welfare Department, Industries Department, Federal Board of Revenue, etc.)

that deal with nonprofits at federal, provincial and district level is costly and time consuming and thereby affects the smooth operations of NPOs.

Reporting of foreign funding: Prior to the introduction of new regulatory measures from 2015 onwards, reporting of foreign donations was nonexistent in Pakistan. In contrast, cross-border financing in both the region and internationally was regulated and the NPOs were required to report such inflows as well as outflows to government agencies. Under the new regime, the government requires all NPOs receiving foreign donations to sign a Memorandum of Understanding (MoU) with the Economic Affairs Division (EAD) at the federal level. This has happened without a legal cover, which is perceived as an extra registration process by the NPOs. This reporting mechanism needs to be clarified and made transparent.

Tax policies and related issues: Tax policies are another area of concern for NPOs. Delays in processing of claims of tax refunds, uneven understanding of issues within various levels of tax authorities are couple of challenges raised by NPO sector. The NPOs also believe that the 15 percent cap on their administrative expenses restricts their choices especially of service delivery organizations.

Reduced funding opportunities: The changed policy milieu has impacted fund-raising capacity of nonprofits from foreign sources. Funds have dwindled due to lengthier security protocols as well as changed priorities and procedures of foreign donors in Pakistan. In addition to going through the registration process of EAD, NPOs also have to fulfill many requirements from banks and tax officials. Banks are particularly concerned with the sources of funding and need NPOs to provide them with documentary evidence of every transaction emanating from abroad. In case of insufficient evidence, banks may even refuse to credit the received funds to the account of the project or the organization.

Deteriorating public image of NPOs: The public image of NPOs in general has deteriorated over the years especially after the Bin Laden incidence in Abbottabad. NPOs believe that media played an unfavorable role by portraying all NPOs as possibly working against the interests of the country. Also, there is a persistent lack of trust on NPOs perhaps caused by lack of transparency, accountability, and excessive administrative expenses. Though people are generally wary of foreign funded and rights based groups, they do not have much issue with NPOs that provide services, i.e., health and educational facilities, etc.

A number of policy and operational level recommendations have been shared by NPOs for improving the enabling environment for nonprofits in Pakistan.

A simple, 'One Window' facility may potentially resolve issues pertaining to fragmented registration and multiple reporting. The One Window operation could allocate a

specific government department for dealing with all matters pertaining to the operations of NPOs –registration, NOCs, permits for foreign funding, etc. This facility could also serve the purpose of improving linkages and coordination between federal and provincial departments.

With regards to tax related concerns of NPOs, the relevant authorities need to be sensitized for resolving tax related issues in a timely manner. A uniform understanding of the policies related to the NPO sector should also be created in tax authorities. Secondly, before any change to the laws including tax regulations, government should

also consult with NPOs to assess potential outcomes of such amendments. A common platform of NPOs may be formed for coordination with the government including policy lobbying.

Finally, for building public image, NPOs need to improve their internal governance through increased transparency and accountability and should strive to allay the impression that funds are excessively spent on administrative expenses. PCP's certification program may help to improve on accountability and governance system of NPOs as it rigorously evaluates these two aspects among others.

INTRODUCTION

The origins of civil society activism are firmly rooted in the history of the progression of the human race. Arising from the fundamental need for survival and co-dependence, civil society has historically played a critical part in social improvement. A widely held understanding of civil society is that of a social structure that functions between an individual's family and the state. Therefore, development experts have always had a special focus on reinforcing civil society associations to advance sustainable development objectives. As a result, ideas of participatory development, community strengthening and individual-focused development have picked up significance - particularly in economies where governments have limited resources and a dearth of programs for social advancement. Civil society associations function as auxiliaries for governments and take different names; nonprofit organizations being one of them.

Nonprofit organizations which are also known by other names as 'nongovernmental', 'voluntary', 'community based', 'charitable' have been defined variously in different contexts and in regard to their activities. The confusion over the identification of nonprofit organizations is also amplified by the vast array of entities ranging from schools, hospitals, dispensaries, human rights organizations, sports clubs, madrasas, welfare associations, community based organizations, trade unions, professional forums, and many more that associate themselves with the sector. However, there are certain characteristics that are shared by such organizations.¹

- Have an institutional presence and structure;
- Are institutionally separate from the state;
- Do not return profits to their members, managers or directors;
- Are fundamentally in control of their own affairs;
- Attract some level of voluntary contribution of time or money; and
- Membership in them is not legally required.

Sometimes also referred to as the third sector with government being the first, and the business or commerce

being the second, nonprofit organizations have gained more prominence in recent past especially in regions of Asia, Africa, and Latin America where governments have not been able to meet the ever increasing demand for public good and services. Though these organizations have always been there for relief provision and human rights advocacy, they are also now significant contributors to socio-economic growth and civic infrastructure required to maintain a better quality of life for the people. These organizations are widely recognized as playing an important role in resolving issues concerned with poverty, inequality, education, health, etc. Moreover, nonprofit sector is also viewed as an agent for promoting good governance because of its focus on themes like transparency, effectiveness, openness and responsiveness. Charities, voluntary groups and social enterprises that form components of the wider nonprofit sector have their own particular strengths, including but not limited to the ability of reaching the most disadvantaged people, finding innovative solutions and offering a personal touch to their service delivery.

Despite its growing importance and contribution in social development, the nonprofit sector globally has come under closer scrutiny of governments as well as the general public. Many countries have formulated new policies or changed existing ones that are perceived to be meant to tighten the operational space of NPOs. Governments, on the other hand, justify such measures in the pretext of money laundering, terror financing, and other related issues. In Pakistan too, the nonprofit sector has been the focus of debate over the last many years. The government has brought the previously under-regulated NPO sector under a tighter regulatory framework covering their registration, funding, and other related matters that has impacted the working environment for the nonprofit sector. Pakistan Centre for Philanthropy had undertaken a study in 2002, for creating an enabling legal framework for NPOs in Pakistan, whereby it made some useful recommendations to the government. Since a long time period has passed since the last study, the present study attempts to present an update of the working environment for nonprofits in the country.

Enabling Environment for NPOs

An enabling environment is the policy and political context created by the governments, donors and other actors that affects the way not-for-profit actors perform their activities. The enabling environment comprises of not only the legal and regulatory frameworks but also the economic, political, cultural, religious and social environments in which NPOs operate. The enabling environment is thus defined by the European Commission as:

"a functioning democratic legal and judicial system – giving them [NPOs] the *de jure* and *de facto* right to associate and secure funding, coupled with freedom of expression, access to information and participation in public life."²

CIVICUS, World Alliance for Citizen Participation, which has been striving to highlight the state of civil society and

¹ Salamon, M. L. & Sokolowski, W. 1999. Volunteering in Cross-National Perspective: Evidence from 24 Countries. Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project.

² European Commission. 2012. In CIVICUS. 2013. Available at: <https://www.civicus.org/downloads/2013EEI%20REPORT.pdf>

draw attention to threats faced by civil society around the world defines enabling environment as;

“a set of conditions that impact on the capacity of citizens (whether individually or in an organized fashion) to participate and engage in the civil society arena in a sustained and voluntary manner.”³

The 2007 Enabling Environment Conference held in Kabul, Afghanistan, described the enabling environment as being characterised by: “political stability; confidence in the future; mutual trust, understanding, dialogue and collaboration amongst stakeholders; rule of law; protection of the rights of citizens; a diversity of stable, democratic institutions; and a streamlined legal, fiscal, regulatory, and administrative framework governing all spheres of private initiative, which is predictably, consistently and impartially applied”.⁴

The international community has repeatedly emphasized the need for creating and maintaining an enabling environment for nonprofit sector in order to fully tap its potential for achieving development goals. The implementation of democratic ownership, gender equality, operational transparency and accountability were identified as essential ingredients to enable NPOs to maximize their contributions to development at the Fourth High Level Forum on Aid Effectiveness held in Busan, 2011. Many institutions at global level are in favor of monitoring the enabling environment for NPOs on a regular basis so that corrective measures may be suggested well in time. The Global Partnership Monitoring Framework has also developed an indicator that tries to assess how civil society operates within an environment which maximizes

its engagement in and contribution to development. The assessment is based on qualitative, multi-stakeholders information.⁵

While demanding an enabling work environment, NPOs have also defined eight principles, known as the Istanbul Principles, guiding their own effectiveness in different areas of work from grassroots to policy advocacy, and in a continuum from humanitarian emergencies to long-term development.⁶ According to these principles, CSOs are effective as development actors when they;

- Respect and promote human rights and social justice;
- Embody gender equality and equity while promoting women’s and girls rights;
- Focus on people’s empowerment, democratic ownership and participation;
- Promote environmental sustainability;
- Practice transparency and accountability;
- Pursue equitable partnerships and solidarity;
- Create and share knowledge and commit to mutual understanding;
- Commit to realizing positive sustainable change.

Nonprofit organizations, as independent development actors, are profoundly affected by the context in which they work. The policies and practices of developing countries’ governments and official donors affect and shape the capacities of NPOs to engage in development. Progress in realizing the Istanbul Principles in practice, therefore, depends in large measure on enabling government policies, laws and regulations consistent with these principles.

Study Objectives

Given that the context in which NPOs operate has a bearing on the effectiveness and efficiency of their work, it is important to have periodic reviews of the enabling environment. Based on the findings of such studies, corrective measures may be recommended to policy makers. PCP had conducted a comprehensive review of the legal environment in the study on: “Creating an Enabling Legal Framework for Nonprofit Organizations in Pakistan” in 2002. However, in view of the new legal and procedural requirements and policies on the part of the Government of Pakistan, it seems an appropriate time to review and re-assess the enabling environment for NPOs.

As the previous definitions indicate, an enabling environment for NPOs can be defined in quite broad terms. In order to bring focus to the assessment, the present study addresses three critical areas that have been less researched in the past, and hold more relevance in the present scenario. When exploring the present enabling environment, this study focused on:

- 1 The current legal framework for NPO registration and operations;
- 2 Financial viability through access to funding resources ; and
- 3 The public image of NPOs.

³ CIVICUS. 2013. In ICNL. Assessment Tools for Measuring Civil Society’s Enabling Environment. Available at: <http://dev01.icnl.org/research/trends/trends5-1.pdf>

⁴ http://www.akdn.org/sites/akdn/files/media/documents/enabling_environment/2007_eec_statement.pdf

⁵ The Monitoring Framework of the Global Partnership for Effective Development Co-Operation

⁶ Istanbul Principles. Available at: <http://bccic.ca/istanbul-principles/>

Methodology

The study approach is qualitative in nature. To meet the objectives of the study, the following methods were used to collect information on different dimensions examined in the study and analyse data to seek answers to the gaps identified in improving enabling environment for NPOs in the country. Each strategy has been selected to address a different focus area of the study to maximize the quality and relevance of information gathered.⁷

The following techniques have been used for collating relevant information for analysis;

- i **Desk review:** This covered primarily the analysis of the legal, regulatory and policy framework for NPOs and involved a review of academic articles, studies and publications about NPOs in Pakistan. An extensive review of available literature and of national legislation and regulatory policies was conducted to shed light on the existing situation of the enabling environment for NPOs in Pakistan.
- ii **In-depth Interviews (IDIs):** Six IDIs, one from a government representative, one from a legal expert and four from the NPO sector, were conducted to help delineate the registration process, operation of NPOs and highlight the bottlenecks.
- iii **Focus group discussions (FGDs):** 18 FGDs were conducted with different types of NPOs in selected regions across the country. Each group on average

contained 6 to 10 participants. The objective was to generate information on the access to funding resources and the role of public image of CSOs in creating an enabling environment in general and access to financial resources in particular.

The study was designed keeping in view the fact that different types of NPOs face different challenges, i.e., issues faced by service delivery organizations are different from those faced by advocacy/rights based organizations. Keeping this distinction in mind, our sample for FGDs was drawn in a way to give appropriate representation to both types of NPOs.

The sampling strategy for FGDs was designed to allow for maximum representation of different types of organizations given the limited resources. In this regard, PCP's database of certified NPOs was used to select participants in each provincial capital, as well as from South Punjab, North Sindh, Khyber Pakhtunkhwa and Islamabad. Within each region, organizations were further selected based on their size to ensure representation of small, medium and large NPOs in each geographical strata. When making final selection of participants, it was also ensured that a variety of thematic areas and organizational structures were represented in the overall sample so that the issues faced by different categories of organizations were adequately highlighted.

⁷ FGDs and IDIs for this study were conducted during August – October 2017

AN OVERVIEW OF PAKISTAN'S NPO SECTOR

The history of civil society activism is quite old in the area covering modern day Pakistan. For a very long time, civil society comprised of the Biradari (family relationship union), Panchayat (town level nearby self-government) and Jirga (tribal gathering) composed of religious notables, town landowners and notables.⁸ Apart from the social structure, there was also an emphasis on charitable activity. These activities were motivated primarily by religious beliefs and political considerations. Both Hindus and Muslims promoted their religious ethos by undertaking welfare activities targeted at the poor segments of the community. In Muslim community the Quranic injunctions about Zakat (offering to the poor), khairat (charity) and Haqooq-ul-ead (human rights) laid the foundation for voluntary activities while the Hindu community was driven by the concepts of Daana (giving) and Seva (service). By the beginning of the 19th century, British rule was firmly established in the sub-continent. Foreign missionaries founded schools and convents in Punjab, Sindh, and North–West Frontier Province (renamed as Khyber Pakhtunkhwa). These included the Edwardes Church Mission School of Peshawar (1855), Jesus and Mary Convent of Sialkot (1858), and the St. Joseph's Convent of Karachi. The missions also established hospitals, dispensaries, orphanages, hostels, infirmaries, and seminaries.⁹

As the number and sphere of activities by voluntary organizations increased, the colonial government started to create a legal framework to streamline voluntary work during the second half of the 19th century. The Societies Registration Act (1860) provided legal status for NPOs. The Religious Endowment Act (1863) and the Trust Act (1882) regulated trust activity and shifted management of trusts from government to trustees. These laws allowed the government to monitor activities of the civil society while alleviating its social welfare burden. The creation of a legal framework, combined with mass mobilization under the nationalist movement, sharply increased the number of NPOs in the areas forming today's Pakistan.

Immediately after independence, Pakistani nonprofits helped to support and accommodate the massive influx of refugees from India. New dispensaries, maternity homes, infirmaries, and general hospitals were established, and doctors and paramedical staff delivered free medical care. The Girl Guides, Red Cross, and National Guard worked to reduce poverty and unemployment. In the ensuing years, civil society's focus shifted from emergency medical care to permanent resettlement of the refugees. The Family Welfare Cooperative Housing Society Lahore and the Social Welfare Society Lahore provided housing. Other

challenges included poverty reduction, education, health care, women's issues, and population control.

The government was generally supportive of nonprofits, particularly service-delivery organizations. The National Council of Social Welfare was established in 1958 to fund organizations; coordinate welfare responsibilities among government departments; and promote NGOs working in remote and deprived areas. The National Council of Social Welfare later became an advisory body and its mandate was assumed by the Directorate General of Social Welfare. However, the Voluntary Social Welfare Agencies Registration and Control Ordinance (1961) made registration mandatory for social welfare agencies and a system of closely controlled local governments was established under the framework of "Basic Democracy." The United Front for Women's Rights, the first NGO advocating women's rights exclusively, was banned under martial law. Schools and colleges run by welfare organizations were nationalized by the government of Zulfikar Ali Bhutto (1973–1977), but during the same period the number of labour unions grew. Several women's organizations were founded, such as Shirkatgah (1975), Pakistan Women Lawyers' Association (1980), and the Women's Action Forum (1981). New service-delivery organizations, such as SOS Children's Village and the Adult Basic Education Society, were also established.

The ensuing decades witnessed a flourishing civil society sector. Events such as the influx of refugees from Afghanistan led to substantial increase in the numbers of NPOs; over 200 NPOs were established in the Khyber Pakhtunkhwa (erstwhile NWFP) and Balochistan to help settle the 3.5 million refugees fleeing civil war. Some of the most prominent Pakistani NPOs were founded during the 1980s, including the Aga Khan Rural Support Program (AKRSP) and the Orangi Pilot Project. In early 1990s, the government launched the Social Action Program to improve social service delivery. The Social Action Program provided substantial project funding for civil society. Several government-initiated rural support programs modeled upon AKRSP were also established, including the National Rural Support Program (NRSP) at the national level, Sarhad Rural Support Program in Khyber Pakhtunkhwa (erstwhile NWFP), the Punjab Rural Support Program, and the Balochistan Rural Support Program.

Towards the start of the new Millennium, there were an estimated 45,000 nonprofit organizations in Pakistan, with more than 6 million members and a quarter million staff members.¹⁰ These NPOs were engaged in a diverse set

⁸ The history of NPOs in Pakistan has largely been taken from: Overview of Society in Pakistan by ADB available at: <https://www.adb.org/publications/overview-civil-society-organizations-Civil>

⁹ Qadeer, M. 1997. The Evolving Structure of Civil Society and the State in Pakistan. The Pakistan Development Review. 36:4, Part II, pp. 743 – 762.

¹⁰ Pasha, A. G., Jamal, H., & Iqbal, A. M. 2002. Dimensions of the Nonprofit Sector in Pakistan (Preliminary Estimates). Karachi, Pakistan: Social Policy and Development Centre.

of activities, ranging from religious education to sports activities, from performing religious rites to lobbying for civic amenities, and from running neighborhood vocational centers to national human rights advocacy organizations. According to a survey, nearly half (46 percent) of Pakistan's nonprofit organizations cited education as their main activity. The second largest component in the nonprofit

sector consisted of organizations engaged in advocacy (18 percent). Organizations providing social services represented 8 percent of the total, while about 5 percent of organizations reported religious activities as their main service. A relatively small share worked in the health sector (6 percent).¹¹

Space for NPOs in Pakistan: The Current Scenario

It has long been acknowledged that a strong and vibrant civil society is a key component of sustainable and legitimate development. Without it, development plans are less likely to achieve their objectives and people are more likely to suffer through inequitable growth and policies that fail to address social needs. Given the importance of the nonprofit sector, the international community has committed to creating an enabling environment for nonprofits on various occasions, including at the Fourth High Level Forum on Aid Effectiveness in Busan. Following the 9/11 terror attacks and subsequent concerns about money laundering and terror financing, the civil society sector globally has come under greater scrutiny of governments, across both the developed and the developing world. This has entailed more in depth examination of NPOs' activities and sources of funding and financing as well as more stringent registration requirements.

The activities of NPOs in Pakistan have also come into greater focus, in the backdrop of geo-political developments in the region. Several incidents over the last few years have prompted the government to bring the previously unregulated NPO sector under a regulatory umbrella. The regulatory and monitoring framework is primarily aimed at streamlining the working and funding systems of both local and international NGOs.

In 2013, the government introduced regulations that necessitated all organizations which received foreign funding to subject themselves to extra security procedures. Nadia Naviwala captures the changes arising from these policies; "organizations must undertake a security clearance process similar to the Foreign Agents Registration Act in the United States, which was passed in 1938 to limit foreign propaganda".¹² In interviews, donors, international NGOs, and local NGOs in Pakistan agreed, in principle, with the need of such regulations. However, it has also been pointed out that there is room for improving the implementation system under revised legal framework concerning nonprofit sector in Pakistan."¹³

The Ministry of Interior (MoI) of the Government of Pakistan issued a notification, 'Policy for Regulation of International Non-governmental Organizations (INGOs) in Pakistan'

in October 2015 whereby it acknowledged the diverse contributions of INGOs in the socio-economic development of Pakistan, through a campaign focused on awareness-raising, social-mobilization, infrastructure-development, service delivery, training, research and advocacy. It also reaffirmed the need for collaboration between INGOs and the Government, as well as with the private sector. At the same time, the notification emphasized the accountability of all stakeholders and transparency in functioning as key issues in good governance. Among many other things, this policy change required all INGOs working in the country to register afresh with MoI.

Notwithstanding the aforementioned sentiments, it cannot be argued that government should have no concern with how NPOs are registered and for that matter what they do once they are licensed to operate. Governments have historically refined existing laws and formulated new ones to effectively manage the working of this sector. However, an active effort must be made to ensure that the new regulations and their implementation should facilitate the development sector in working more productively.

*Pakistani nonprofits are required to apply for a certificate from the Securities & Exchange Commission of Pakistan if they are planning to receive more than PKR 50 million value of foreign funding. And internationally based organizations are also required to undergo a similar additional registration regardless of funding amount.
(Doing Good Index: 2018)*

¹¹ Pasha, A. G., Jamal, H., & Iqbal, A. M. 2002. Dimensions of the Nonprofit Sector in Pakistan (Preliminary Estimates). Karachi, Pakistan: Social Policy and Development Centre.

¹² <https://www.devex.com/news/pakistan-uses-regulations-to-tighten-grip-on-ingos-91003>

¹³ <https://www.devex.com/news/pakistan-uses-regulations-to-tighten-grip-on-ingos-91003#.Wedh8l00-8.facebook>

LEGAL ENVIRONMENT FOR NPOs IN PAKISTAN

Contextual Definition

The term NPOs refers to organizations which provide social services without any profit-making considerations. Any surplus income is reinvested for the organizations' core reform agenda. Such organizations, therefore, do not distribute any benefit produced among their members. Income Tax Ordinance 2001 of Pakistan identifies an NPO as an organization that aims to further a particular social cause or to advocate a particular view point without distributing surplus to its members. An NPO in Pakistan must also meet the following criteria:¹⁴

- Must be an association of persons or a company (cannot be an individual);
- Must be established for religious, educational,

- charitable, welfare or development purposes or to promote an amateur sport;
- Should be formed and registered under any law as a nonprofit organization; and
- None of its assets may confer a private benefit to any other person.

NPOs in Pakistan are engaged in a broad range of activities and comprise of organizations ranging from the unregistered and informal sole proprietorship to the most formal - a company with limited liability. Most NPOs are founded with either a well-defined aim, or with an explicit reason of being established for charitable purposes.

Legislative Framework for NPOs

Currently, there are several laws in Pakistan that are important for the registration and operation of NPOs. Some of these cover the registration process, administration and accountability; others cover how these entities are financed, managed and the connection between the state and these organizations regarding their operations or the way in which these treat their employees. Some legislations also exist for the larger public good while others exist to control the advantages accruing to people, families or other members and corporate foundations.

NPOs can work according to their own constitution, memorandum, principles or by-laws. If these NPOs acquire registration under an Act or Ordinance, they are subsequently bound to remain within and follow up on the arrangements laid out by that specific Act or Ordinance.

Given below is a list of relevant laws concerning establishment and operations of NPOs in Pakistan accompanied with a brief explanation;

1) The Societies Registration Act, 1860

This is the most well-established registration law and was promulgated by the British in pre-partition India. Organizations registered under the Act are legally bound through a Memorandum of Understanding (MoU) and Articles of Association. The purpose of this legislation

was to manage professional, scientific and fine arts activities and eventually, incorporate charitable and social organizations. This Act came into force so as to give lawful status to organizations operating in different development areas. A Society under this law had to register itself with the Registrar of Joint Stock Companies who, by extension was also the Registrar of Societies.

2) The Religious Endowment Act, 1863

The reforms in the Religious Endowment Act helped to empower the FBR with oversight of religious trusts, structures and to return authority to the Trustees and Boards of Governors. Given the recent legal changes in Pakistan, no organization can be registered under this Act. The Act, therefore, only recognizes the existence of such Trusts and provides for their effective management and activity regulation.

3) The Trusts Act, 1882

The Trusts Act provides lawful cover to private acts of public charity. The Trusts Act makes it extremely straightforward to register a trust - a declaration on PKR 10 stamp paper will guarantee its creation. Moreover, registration is discretionary and not obligatory. The Act has likewise been utilized to establish public trusts and this has been maintained through case law.

¹⁴ Income Tax Ordinance, 2001 available at: <http://download1.fbr.gov.pk/Docs/2017831181435412IncomeTaxOrdinance2001updatedupto30.06.2017.pdf>

4) The Charitable Endowments Act, 1890

Charitable Endowment Trusts exist under the Charitable Endowments Act of 1890 by executing a Trust Deed which must be enrolled under the Registration Act of 1908, for the reasons of undertaking philanthropic work. The Act grants authority to the government to designate a Treasurer for better monetary administration of Trusts, along these lines *inter alia* guaranteeing the administration and shielding of any Trust property which may be in financial trouble.

5) The Charitable and Religious Trusts Act, 1920

This Act, among others, administers the operation of both altruistic and religious Trusts. The Act allows religious organizations as well as individual custodians of religious properties, such as seminaries and shrines to register with the government. The government also introduced the Act to regulate the source of funding and expenditures for such institutions. The court (District Judge) in its judgment can indicate the way in which the future operations of the Trust will be led thus enforcing accountability.

6) The Mussalman Wakf Validating Acts, 1913 and 1930 and the Mussalman Wakf Act, 1923

The previous two Acts present acknowledgment on Waqfs made by Muslims for their own advantage, or for the advantage of their relatives and in the long run or particularly for charitable purposes. The Act of 1923 represents the monetary administration of Waqfs. It requires annual records to be reviewed by an authorized auditor (as given in the Companies Act, 1913) and submitted for scrutiny to the District Judge.

7) The Voluntary Social Welfare Agencies Registration and Control Ordinance, 1961

This Ordinance facilitates grass-roots level organizations giving welfare services to those in need. The registration authority lies with the Directorate of Social Welfare, and registration can either be done directly or through a legal counselor. This Ordinance depends on the premise that the “poor and destitute” require institutional, as opposed to just charitable, support. The Ordinance requires that all associations occupied with social welfare or beneficent works must be registered with the Social Welfare Departments of the provincial governments.

8) Section 42 of the Companies Act 2017 (formerly Companies Ordinance, 1984) as a nonprofit Company

Registration under Section 42 of the Companies Act is quite similar to the registration of profit making Joint Stock Companies with the exception that profits, for this situation, are not dispersed among the individual investors. In law as well as in practical terms, there are two ways through which enrollment as a philanthropic organization can be accomplished. The first is through an application made to the Assistant Registrar Joint Stock Companies at the Directorate of Industries, and the second, through an

application made to the SECP. However, the latter option is more preferred in practical terms.

9) Income Tax Ordinance, 2001

This Ordinance defines a nonprofit organization for the first time in the legal history of Pakistan, yet the definition is exceptionally tight and leaves impressive circumspection to the department in stretching out the relevance to any organization. The Ordinance delineates issues concerning taxation of nonprofit organizations.

The prevalence of multiple registration laws within the country gives rise to certain problems pertaining to the regulation and mainstreaming of the NPO sector. There are consistency gaps in the body of legislation. For example, the size of membership required for registration varies across different laws. The definition of the type of organization that may fall under each umbrella changes across different registration options, yet these definitions overlap considerably resulting in the same organization applying for registration under multiple options. Consequently, there exists no proper definition of a “Nonprofit Organization” within Pakistani legislation. Section 42 of the Companies Act 2017, refers to associations formed for “promoting commerce, art, science, religion, sports, social services, charity, or any other useful object”, which the Societies Registration Act 1860, Section I, refers to as “any literary, scientific or charitable purpose”, the Charitable Endowments Act, 1890 refers to as “relief of the poor, education, medical relief and the advancement of any other object of general public utility, but does not include a purpose which relates exclusively to religious teaching or worship”. For the first time in the legislative history of Pakistan, the Income Tax Ordinance, 2001 defines nonprofit organizations explicitly.¹⁵

The different Acts and Ordinances are operative simultaneously. In this way “organizations engaged with one of the scheduled activities listed under the Voluntary Social Welfare Agencies (Registration and Control) Ordinance of 1961, may register as social welfare organizations, however such registration does not confer lawful identity on them. Consequently, numerous social welfare organizations are registered under another act, for example, the Societies Act or the Companies Act.”¹⁶ A legal ramification therefore, is that an NPO can have two separate constitutions for registration under the two separate acts, with each obliging the distinctive necessities of the registration agency.

At the provincial level, both the Industries Department (in charge of registration of societies and companies) and the Social Welfare Department (in charge of registration of social welfare organizations) have created procedures that are potentially difficult for newly established organizations. For example, to register under Section 42 of the Companies Act, SECP’s requirements include submission of a draft of the Memorandum and Articles of Association, CNIC of directors, promoters and Chief Executive Officer (CEO), their CVs, affidavits, income and expenses with sources

¹⁵ The Income Tax Ordinance, 2001 is explained in detail in coming sections.

¹⁶ Ismail, Z. H. 2002. Law and the nonprofit sector in Pakistan. The Johns Hopkins Comparative Nonprofit Sector Project Pakistan. SPDC Working Paper No. 3. Available at: https://www.academia.edu/33524931/LAW_AND_THE_NONPROFIT_SECTOR_IN_PAKISTAN

of income, a brief statement of charitable or other relevant work, the names of the companies, associations and other institutions in which the promoters, proposed directors and proposed CEO hold any office and many other documents. Frequently, sponsors are required to follow “proposed” constitutions, despite the fact that these are mere guidelines and NGOs may utilize elective structures as long as the required information is provided. Once the registration procedure has been finished, an application to the Income Tax Office then requires a number of different conditions to be met, which must then be incorporated into the documents. For companies, this adjustment requires fresh approval from the SECP, as well as from the High Court. Another issue with the legislation is that their authorization mechanisms are inadequate or vague. For example, the Societies Registration Act 1860 contains no requirement for periodic reporting of activities completed by a society, except for a list of the members of the managing body to be filed annually. In many cases accountability mechanisms are loosely enforced and inconsistently applied.

As a result, each type of registration has a distinctive method and prerequisite, alongside fundamental guidelines for the working of the organization. Under most types of registrations, the NPO has to fulfill certain essential obligations with respect to the registration authority. Each sort of registration likewise offers a few advantages. A research report by Social Policy and Development Centre (SPDC) observed that of the total NGOs operating in Pakistan around 65 percent are registered under Societies Registration Act, around 20 percent are unregistered and the remaining are registered under different acts.¹⁷ However, this does not imply that non-registered NPOs can’t acquire support. For example, if an NPO can persuade the tax authorities of the charitable deeds being pursued, there is no legal bar to them being given the status of tax exempted organization. The exceptions are also given to foreign NGOs which may have signed an MOU with EAD and FBR, respectively as well as Madrassahs and Mosques, in certain cases¹⁸.

NPOs registered under any of the Acts or Ordinances, can get funding from an international donor provided they have signed MoU with EAD, Government of Pakistan, national donors or any government department, as long as the NPO can meet the particular prerequisites and states of grants being advertised. It is pertinent to mention here that the vast majority of the funds accessible from the government sources and international donors are in the form of project aid.

While such variety in the legal framework may permit NPOs the flexibility of decision for registration, there is a need to guarantee that the definitions used to depict “charitable purposes” and “nonprofit organization” are consistent across the laws. Similarly, it is important that the term NPO ought to be perceived in the body of the laws overseeing or influencing the nonprofit sector. The variations existing in the laws relating to the administration and accountability of the NPO sector has contributed to weakening the government regulatory mechanisms. The government fears that some NPOs may be linked with “anti-state” activities and be able to frustrate accountability. Furthermore, the government is also concerned that some organizations have been created exclusively to apportion monetary benefits in the name of charitable purposes. NPOs on the other hand complain that the government is constraining efforts of the sector by changing legal milieu. Given the context, there is a need to review and improve the legal framework governing the NPO sector. Such a legal framework should help in weeding out problematic organizations while facilitating those that genuinely contribute towards the development priorities of the country.

Building Trust & Transparency — Certification Agencies: In the social sector, the rise of self-regulation models has been a response to the pervasive trust deficit and in some Asian economies, an effort to improve transparency and accountability. (Doing Good Index-2018)

Issues and Challenges

The challenges faced by the NPO sector in the context of legal environment as highlighted by FGD participants in all the provinces are more or less the same; difficulty in obtaining No Objection Certificate (NOC), procedural complexities leading to delays, multiple layers of reporting, etc. During discussions, NPOs across the board agreed that the legal landscape of the country is becoming more challenging and consequently may result in reduced volume and efficacy of civil society in Pakistan.

Difficulty in obtaining NOC

Requirement of NOC came across as the most pressing issue for NPOs except for those that operate in the

Sindh province. According to NPO representatives, NOC is required for projects as well as to operate in certain regions, for example, the former tribal areas of Khyber Pakhtunkhwa (KP) province. These requirements cause delays in timely implementation of projects.

Moreover, many FGD participants believed that NOCs are issued based on applicant organization’s public image and track record rather than being based on merit or standard operating procedures which puts newly established NPOs at a disadvantage. Consequently, some NPOs have started to prefer using indigenous resources to avoid NOCs and other formalities which is a good sign for their financial self-sufficiency in the longer run.

¹⁷ Pasha, A. G., Jamal, H., & Iqbal, A. M. 2002. Dimensions of the Nonprofit Sector in Pakistan (Preliminary Estimates). Karachi, Pakistan: Social Policy and Development Centre.

¹⁸ Ismail, Z. H. 2002. Law and the nonprofit sector in Pakistan. The Johns Hopkins Comparative Nonprofit Sector Project Pakistan. SPDC Working Paper No. 3. Available at: https://www.academia.edu/33524931/LAW_AND_THE_NONPROFIT_SECTOR_IN_PAKISTAN

Elements of unpredictability and ambivalence in response of government entities (especially at the lower echelons) appears to be yet another hurdle in the NOC regime for nonprofits in Pakistan. In all likelihood, it is more a result of limited understanding of the legal framework in field formations of regulatory bodies than any inherent flaws in the framework itself.

Reporting to multiple authorities

Another major issue raised by NPOs pertained to the requirement of reporting to several government departments. During discussion they shared that they are required to report their activities to the provincial Finance Department, District Coordination Officer, and many other authorities. Such requirements caused delays in project implementation. Most of the organizations which were part of FGDs agreed that there was a lack of coordination among stakeholders. For example, a slight change in NPO's internal SOPs or a change in board members is required to be reported to multiple authorities. These procedural delays were found to occur at multiple stages – for example, during registration, renewals, NOCs processing, etc.

Another issue which tied in with having to report to multiple authorities was the lack of coherence; for example, the MoI had a different interpretation of law while the field formations had another explanation leading to a situation where procedural requirements differed substantially. Owing to the existence of multiple chains of reporting, there is a lot of subjectivity when it comes to legal interpretation and requirements.

Lastly, the issue of territorial jurisdiction is also of a confusing nature especially for field-based nonprofits. While initial registration is generally to be dealt with at provincial and in some cases at national level, operational compliances may involve district or even tehsil level interface with government entities. Variance in these levels of interaction tends to strain the capacities of nonprofits for smooth operation and implementation of development interventions.

Lack of information and support

After the 18th Amendment to the country's Constitution,¹⁹ a major institutional restructuring took place because provinces took control over matters which previously fell under federal jurisdiction. Initially it was believed that this restructuring would make official business more user-friendly and smooth. However, because of the teething problems in the system, this was not the case. Very often, CSOs get very limited support and guidance from the government on such matters. Some NPOs during discussion informed that in many cases government officials themselves were unaware of relevant policy changes and thus were unable to help.

This issue is further aggravated due to the lack of a forum which could distribute this awareness in a timely manner. There is neither an NPO platform that can discuss collective issues and offer support, nor there is a focal entity within the government that can act as a point of contact and provide guidance on issues such as registration, taxation and other pertinent matters.

Lack of recognition of NPOs' role by Government

Several NPOs opined that government has not been very clear on recognition of the role played by the sector in social development of the country. They emphasized that authorities need to be cognizant of the fact that the absence of a conducive working environment, may negatively affect NPO's working in the long run. Moreover, some NPOs highlighted the absence of clarity about NPO related policies among officials of concerned departments, at times an opinion of an official can become the policy line. Lack of standard operating procedures result in arbitrary decisions that impact NPOs' operations.

Security concerns

For NPOs operating in sensitive regions such as KP, South Punjab and Balochistan, the lack of security has an additional risk. KP at that time was affected by terrorist activities and infiltration across its porous border with Afghanistan. Balochistan has been badly hit by deteriorating security conditions. NPOs from these areas, apart from having restricted access due to NOC requirement, also have to ensure security of their personnel and assets. NPOs operating in these regions repeatedly brought up the issue of waning government support in ensuring adequate operational safety. Due to a recurrent need for increased security, there's an inherent trust deficit between NPOs and the government. Holding public gatherings, meetings and campaigns also become problematic in these areas.

Tax exemption policies

Doing Good Index 2018 report makes some references to tax incentives in Pakistan being not very encouraging for NPOs. The report specifically mentions that "tax deductions are available for philanthropic giving, but they are low for both individual and corporate donors" especially in the regional context. The report also mentions that "Social Delivery Organizations (SDOs) face longer wait times to register as nonprofits and are penalized for incurring an operating surplus, but the experience of recruiting general and skilled staff is relatively positive".²⁰

Some NPOs deemed government's NPO related taxation policies not to be incentivizing. This together with very limited guidance compound the challenges with regard to compliance. NPOs in Pakistan are availing tax credits provided they meet the requirements under Sections 2(36) and 100C of the Income Tax Ordinance 2001. Many

¹⁹ The 18th Amendment ushered in major constitutional changes including taking away of the right of the President of Pakistan to dissolve the Parliament. The Amendment took important steps towards devolution of authority and enhancing provincial autonomy. It scrapped the Concurrent Legislative List of subjects and these subjects, with few exceptions, have been transferred to the provinces.

²⁰ <http://caps.org/our-research/doing-good-index-2018/>

participants in FGDs, however, opined that the process of claiming tax credits or refunds is time consuming. NPOs involved in emergency response and short-term projects are more likely to be affected by the lengthy processing time as they work under tight timelines.

Moreover, NPOs also considered that there is a lack of clarity with respect to the enforcement of tax laws. Some of the laws are not well defined and interpreted according to the needs of NPOs or the donors. At times, permissions from more than one authority is required for the same activity. Furthermore, NPOs need to be registered under two different provisions of the Income Tax Ordinance 2001, Section 2(36) and 100C, one allowing tax exemption on income to the NPO and the other to allow a donor tax credit on donation or grant made to such a tax approved NPO. The latter is of vital significance for acquiring bigger amounts of grants and donations from the private sector, both individuals and corporations.

Yet another tax related challenge that came up during FGDs with NPOs' representatives is that, in some instances,

taxes are deducted upfront. For example, in a five years' project, tax is deducted from the first instalment. As a consequence, NPOs end up paying taxes on the total amount of the project even if the project is discontinued or subsequent instalments are not received from the donor for various reasons. Moreover, even when the full amount is received, having to pre-pay taxes on funds that are received over later months or years, usually depending on the progress on projects, means that organizations end up paying higher amount in terms of the real value of money – purchasing power declines over time due to inflation.

Where We Stand

Tax Deductions are available for philanthropic giving but they are low for both corporate and individual donors. Social Delivery Organizations face longer wait times to register as nonprofits and are penalized for incurring an operating surplus. (Doing Good Index-2018)

Is the Space Shrinking for NPOs?

While NPOs feel that the space for development sector is shrinking they are also of the view that many new avenues are opening up. They are optimistic that the environment for NPOs may get better in future. One respondent in Lahore expressed this optimism by saying, "these new policies for NPOs would ultimately weed out the fake ones and leave those who are genuinely concerned for the wellbeing of their communities with more funding opportunities". This strengthened regulatory framework may initially create issues but if implemented effectively may facilitate the civil society in the coming years. Some of the issues that were stated as causing the shrinking space for NPOs include the following;

- Legal/regulatory framework such as registration with EAD and reporting of foreign funds, has led to increased costs and waiting time, thereby, constraining their ability to plan and implement development programs. Moreover, enhanced scrutiny at the time of registration and then regular monitoring during the operations has added to the workload of their limited human resources.
- Regulations regarding fundraising have curtailed NPOs' resource mobilization options. Registration with EAD is one example but there are many others as well, e.g., banks hesitate while opening accounts as informed by NPOs in Peshawar and Multan.
- Changes in tax policies concerning NPOs are perceived to be negatively affecting NPOs' capacity to execute their projects. Getting tax exemption has turned out to be a tedious task costing NPOs dearly in terms of cost, time and effort. Moreover, NPOs seemed to be unhappy with the renewal requirement of tax exemption certificates which used to have lifetime validity previously.
- Multiplicity of reporting and being accountable to many government authorities at different tiers is another aspect NPOs are concerned about. They feel that there should be one window operation where NGOs get all their issues addressed.

FUNDRAISING ENVIRONMENT FOR NPOs

Funds from donors, both national and international, act as a lifeline for the NPO sector; if there were no donor funds, there would not have been so many NPOs today. In fact, it has been argued that the mushroom growth of NPOs in Pakistan in the recent past has been driven more by the generous supply of funds from foreign sources than by the demand for development interventions by the communities.²¹ This can be traced through the trends in sources of funding for NPOs as well; a study conducted in 2002 reported that 87 percent of NGO funding is said to be based on indigenous sources while public sector contributions including those from bilateral and multilateral sources fill not more than 7 percent of pie.²² However, in the recent past foreign funding seems to have become one of the key sources of income for local nonprofits as was corroborated by FGDs conducted across the country. This perception is supported by the finding in Doing Good Index (DGI) that 67 percent of SDOs in Pakistan benefit from foreign funding.²³ It appears that the unfortunate natural disasters Pakistan faced over the last decade placed the country prominently on the international donors' agenda and resulted in an exponential growth of work by nonprofit sector.

There is a lack of clarity on how much funding NGOs in Pakistan are receiving from national and international donors. The revenue base of the NGO sector was estimated to be PKR 16.5 billion in 2000.²⁴ It is believed that the revenue base is much larger now as the number of NPOs has increased substantially; from an estimated

60,000 to 100,000 during the period from 2001 to 2009.²⁵ The last decade and ensuing years witnessed a phenomenal increase in the number of NGOs in Pakistan because of two main reasons; firstly, the devastating earthquake of 2005 which triggered international donor agencies to direct their funds towards Pakistan, secondly, the 2010 floods that wreaked havoc across the country. The influx of international donors' funds not only provided an opportunity for the existing NGOs to expand their operations but also encouraged new organizations to get established with the aim of providing emergency, civic and social welfare services. Some people feel that it was also during this time when many NPOs were formed not purely for the sake of serving the community, but also to cater to vested interests.

Discussion in the FGDs and in IDIs under this dimension covered subjects including, but not limited to, challenges and opportunities in fund raising both from local and foreign sources, changes in policies and how they have

In terms of priorities and purposes, alignment with government priorities is also important for over half of foundations in a limited sample --

In terms of operational approaches, there appears to be a shift towards multi-donors and public fundraising models, moving away from conventional practice of one principal source providing lion's share of philanthropy (Global Philanthropy Report, 2018)

Funding from Domestic Sources

Sustainability is a key issue for organizations engaged in welfare activities around the globe in general, but it is of even greater concern in countries like Pakistan where NPOs receive sizable proportion of income from cross-border donations. NPOs may reduce their dependence on more volatile sources of funding if they come up with an effective strategy to engage more indigenous donors towards organizational giving. Domestic fundraising has the potential to be at the center of NPOs' fundraising strategy given the fact that Pakistanis, as a nation, are a giving people. A study by PCP in 2016 estimated the individual annual giving in Pakistan to be around PKR. 240 billion.²⁶ The study further highlighted that not much of this charity is institutionalized by giving to organizations but is targeted towards individual recipients. This indicates that a huge and potentially sustainable source for fundraising is available that needs to be harnessed and tapped into.

One may argue that volatility may be an issue with indigenous donations as well; people giving less in times of economic slowdown and vice versa. But given that international inflows are tied to multiple factors than indigenous donations, it can be inferred that the latter sources are comparatively more reliable and consistent. For example, Zakat donations to Shaukat Khanum Memorial Hospital, one of the biggest recipients of charity in the country, are reported to have consistently increased over the years, from PKR 131 million in year 2000 to PKR 2,363 million in 2016.²⁷ This phenomenal (more than 18 fold) increase in 16 years (though it includes inflows from abroad as well) is testimony that charitable organizations with a good name and image do not have to struggle with financial constraints in the country.

²¹ See <https://herald.dawn.com/news/1152863>

²² Pasha, A. G., Jamal, H., & Iqbal, A. M. 2002. Dimensions of the Nonprofit Sector in Pakistan (Preliminary Estimates). Karachi, Pakistan: Social Policy and Development Centre.

²³ <http://caps.org/our-research/doing-good-index-2018/>

²⁴ Harnessing Local Capacity: U.S. Assistance and NGOs in Pakistan. Available at: http://pdf.usaid.gov/pdf_docs/pnaea519.pdf

²⁵ Ibid

²⁶ The State of Individual Philanthropy in Pakistan. Available at: <http://pcp.org.pk/uploads>

²⁷ See <https://shaukatkhanum.org.pk/about-us/facts-and-statistics/financial-statistics/>

Regulation/policies regarding domestic fundraising

There are no specific rules or laws that restrict fund raising from domestic sources. Most of the regulations become somewhat arbitrary on execution especially related to the local authorities, for example, district administration.

In almost all the regions, it was observed that a NOC, a letter issued by a concerned authority that allows an NPO to perform its planned activity, is required for any fundraising event to be organized in public. But in case of Multan or the entire South Punjab for that matter it was found that fund raising events are not allowed. "Principally, you can organize any such event but practically it is quite difficult to get the NOC" said one FGD participant in Multan. It was also revealed in Multan that an NOC is required not only for fundraising events but for any activity where the community is involved, e.g. for conducting research, for running awareness programs, etc. This requirement of NOC is not only limiting the current funding space for local organizations but is also barring them from reaching communities, understanding their issues, and creating solutions.

Apart from the NOC, another issue organizations faced when hosting local fund raising events was taxation. In Lahore, NPOs complained about tax that is levied by the Punjab Revenue Authority (PRA) on tickets of fund raising events. Interestingly, officials calculate tax based on the number of invitees or number of seats booked but NPOs argue that the number of people who actually attend the event is much lower. Moreover, organizations are expected to make a security deposit with tax authorities when they organize fund raising events. Though this deposit is refundable, in reality it takes considerable time and effort to actually get the amount back.

Another big concern mentioned specifically by NPOs in Quetta, Islamabad, and Multan pertained to the perceived image of the NPO sector which appears to have been damaged by the negative media coverage. As a result, generating funds from local sources has become increasingly difficult and challenging. There is a general feeling that individual donors prefer to donate to Masjids/Madrassahs or other religious organizations rather than giving to NPOs. This belief is corroborated by facts presented in an earlier study by PCP according to which about 80 percent of Zakat giving goes to Mosques and Madrassahs compared to less than 20 percent that goes to CSOs.²⁸

Funding from Government

Government grants are a major source of funding for CSOs around the world. But in Pakistan government support to nonprofit organizations is generally considered inadequate.²⁹ Despite liberal funding policies of the

government towards the end of the last century, it was revealed by a study in 2002 that public sector, including bi-lateral and multi-lateral foreign aid, contributed only 6 percent of cash revenues of the nonprofit sector in Pakistan.³⁰ The situation appeared to have improved with regard to government's financial support to NGOs during the last decade as reported by NPOs, but since then support has gradually faded away.

Nonetheless, NPOs working in the country are receiving funding from government in one form or another, usually as small grants. The pattern of funding from government differs across provinces. In Peshawar (KP), it was revealed that NPOs get small grants from various departments of the provincial government, e.g., social welfare, culture and sports department, etc. In Islamabad and Lahore (Punjab) NPOs receive funding from federal and provincial governments either directly or indirectly, e.g., through Punjab Education Foundation (PEF), Technical Education Department, Health Department, etc. Interestingly in Multan, despite the fact that NPOs claim to be facing a discouraging environment, they are getting funding from various government departments such as department of Labour, etc., for variety of activities such as technical education, police training, provision of clean drinking water, etc.

In Sindh the government seems to be more forthcoming towards the NPO sector, at least with regard to financial support. Comparatively more NPOs in Sindh indicated they have received funds from the provincial government in one form or the other.

Regarding their experiences of collaborating with government departments, participants expressed mixed opinions; some were positive as the projects were implemented smoothly while others showed their disappointment as they faced hurdles due to government procedures. Participants (especially in Punjab) were of the opinion that the success of projects implemented in partnership with government largely depends on the individual officials or departmental heads who are responsible for spearheading those projects. Another issue pointed out during discussions referred to situations when government officials get transferred or retire. Resultantly, it takes a long time for the new officials to understand the projects or the nature of partnership. Furthermore, it depends on the will of the new office bearers whether they want the partnership to continue. In one instance in Punjab, both the parties, i.e., the NPO and the concerned government department, had to fund a specific number of tube-wells each. While the NPO funded and completed its assigned number of units, the government completed only a few from the agreed number of units. Such being the case, a couple of NPO representatives in Punjab shared that their organizations actually declined funding offers from the government on more than one occasions. According to them, if projects get stuck in the middle, it is

²⁸ Individual Indigenous Philanthropy in Sindh (2014). Available at: <http://pcp.org.pk/uploads/Sindh.pdf>

²⁹ Pasha, A. G. & Iqbal, M. A. 2002. Non-profit Sector in Pakistan: Government Policy and Future Issues. The Pakistan Development Review 41:4 Part II, pp. 879-908.

³⁰ Naviwala, N. 2010. Harnessing Local Capacity: U.S. Assistance and NGOs in Pakistan. Harvard Kennedy School Policy Analysis Exercise, spring.

the NPO whose image and good-will suffers. On the other hand, when projects are successful it is the government who is the first to take credit.

Funding from individuals/sponsors

Though the majority of NPOs agree that they receive funding from individuals and sponsors, this source does not form a significant part of their overall portfolios. These individual donors/sponsors are usually founders or directors, their family members and acquaintances; individual led donations appear to largely depend on personal connections of an influential personality and their network. In other cases, NPOs solicit funding from well-off individuals residing in areas where those NPOs implement their programs. These funding requests are usually for specific purposes such as installing water pumps and paying educational expenses for poor students.

Another issue that was specifically raised in Multan pertained to situations where donations from individuals have to be routed through bank accounts and the recipient NPO has to provide documentary evidence to concerned authorities explaining how and from where the donation was received. This sometimes leads to the tax authorities approaching the individual donors and investigating them about how they could manage to save and donate to the NPO. In one instance, a donor who was providing free school uniforms for poor children stopped his donation as the tax authorities caused him too much inconvenience.

During the FGDs it was learnt that none of the individual donors tried to influence organizational vision or activities of the receiving NPO through their donations. In fact, contributions from individual donors to any organization were viewed as testament of their belief and trust on the organization, and its vision and operations.

Contribution from the communities NPOs work in

From discussions with NPOs' representatives it appeared that they do not receive significant contributions from the communities they work with. In most cases NPOs work with poor people who are not in a position of contributing in monetary terms. In some instances though, well-off individuals who reside in the community that is

benefiting from an NPO's interventions do make financial contributions. However, it is important to note that while communities may be unable to donate financially, they do contribute their time and resources in the form of free labour or by providing material, e.g., wood, sand, etc., that is locally available.

In Peshawar, for example, communities contribute towards maintenance/repairing of facilities once they have been completed with donor funds. This is true specifically of civic facilities, for example, tube wells, micro hydroelectric power stations, etc., where in case of damage or malfunction of the machines people contribute in monetary terms to get them repaired.

Endowment funds

An overwhelming majority of NPOs do not have endowment funds. Some exceptions are those organizations that are large and/or those supported by provincial governments. For example, provincial Rural Support Programs (RSPs) in Sindh and Balochistan have endowment funds, which have been established with grants from provincial governments.

The Charitable Endowments Act 1890 appears to serve as a regulatory framework for how endowment funds are established and managed. NPOs across the board did not seem to be very informed of any policy facilitating or restricting the affairs of endowment funds. Given the fact that a majority of them did not have endowment funds this was not too surprising. The provincial RSP in Sindh revealed that as per their policy, one-third of the profits earned on investment of endowment funds can be used, while two-third has to be ploughed back to the fund. According to them, this income from the endowment fund plays a significant role in meeting some of the core expenses.

Responding to the question of why they have not established endowment funds, some of the participants believed that sustainability of local partners never remained priority of international donor agencies (which were often their main source of funding). "We have been used as contractors", said one participant. "Almost all funding was project based; project complete, funding stopped, employees laid off, premises vacated – this is how donor funding has worked so far."

Funding from Foreign Sources

The impression that NPOs in Pakistan, irrespective of their size or jurisdiction of operations, depend on funding from foreign sources was quite apparent from the discussions held with NPOs across the country. While speaking on the financial environment they were concerned about the dwindling funding opportunities from international donor agencies more than anything else.

Foreign funding, regulations and procedures

Discussions revealed that the government was quite lenient towards foreign funding for NGOs until 2013 when they decided to streamline it. As described by some participants, previously any NGO desirous of collecting or getting funds from abroad had to simply sign MoU with the government. Under the new rules as notified in November 2013,³¹ the government has directed all the NPOs which

³¹ Government of Pakistan. Ministry of Finance, Economic Affairs, Statistics & Privatization (Economic Affairs Division). Notification No. 1(5)INGO/05, dated 28th November 2013

receive or intend to receive foreign contributions to register with the EAD. For this purpose NPOs have to provide seven files of required documents to EAD. These documents include annual plan of the receipts, details of the donors, activities to be carried out, areas where these activities would be undertaken, etc.

Once the application for registration is lodged with EAD, relevant officials visit NPO offices, ask questions, and verify field activities. Subject to concurrence, the organization is asked to sign MoU with the government. This MoU is valid for five years and the organization is required to provide the government and the concerned provincial/local government a report regarding its activities on an annual basis as per the agreement.³² While systematic on paper, this process has proven to be cumbersome and quite time consuming in reality.

In addition to scrutiny from EAD, NPOs also have to fulfill many requirements from banks and tax officials. Banks are particularly concerned with the source of funding and they need NPOs to provide them with documentary evidence of every transaction emanating from abroad. In the case of insufficient evidence, banks may even refuse to credit the received funds to the account.

Increase/decrease in foreign funding of NPOs

There is almost a universal agreement amongst NPOs that foreign funding has decreased over the last few years. The extent of this decline is narrated by some as being as low as 30 percent and as high as 80-90 percent by others. One of the NPOs in Lahore, however, revealed that their foreign funding has actually increased over the last few years. Further probe revealed that the head of the organization has been visiting Muslim countries around the world seeking funds and that is the reason of their increased foreign funding inflows.

Many reasons were quoted by the NGO representatives for the decreasing trend in foreign funding;

- **Regulation by the government:** As described in earlier paragraphs, the government now requires every NPO that receives foreign funds to be registered with EAD. It appears that the government has also communicated this policy to donor agencies as some of them now require their partners in Pakistan to have EAD registration before any funding is agreed. On the other hand, the registration process with EAD is lengthy and slow as pointed out by NPOs. Even from the more than 30 organizations whose representatives attended FGDs in Islamabad, just one had managed to get registered with EAD. Surprisingly many NGOs, especially in Karachi, did not even know of this requirement though at least some of them seem to be receiving foreign funding. It appears foreign funding or at least some part of it is still not being routed through the new regulatory system. There could be multiple

reasons for this; lack of awareness regarding the new requirements, lack of enforcement on government's part, and lack of interest on the donors' side to ensure government directives are met.

- **Requirement of NOC:** NPOs in general and those working in KP and Multan in particular believe that one of the reasons of decrease in foreign funding is the non-issuance of NOCs on timely basis by concerned authorities. One participant cited an example where funding was approved by one donor agency for some eight projects in FATA. After struggling for a few months NOCs were issued for only two projects while funding for the remaining six other projects lapsed as NOCs could not be obtained within the stipulated time period. In another case, NOC was denied for an official of the donor agency to visit the project sites. Consequently, the donor withdrew its support for the project. It appears from such instances that NPOs have to get NOCs for the foreign officials of the donor agencies in addition to the one they require for the project. This makes implementation and operations in certain areas more difficult and thereby discourages foreign donors from investing.
- **Stabilization of the emergency situation:** Some believe that donors' interest has decreased as Pakistan has come out of the emergency situation caused by the earthquake and floods in the last decade and terrorism in the more recent past. The law and order situation has improved after military operations. Hundreds of thousands of internally displaced people have returned back home in tribal agencies. As no other major calamity has hit in recent years, NPOs think this has led international donors, especially those providing humanitarian assistance, to divert their funds to other more needy regions, thereby, downsizing their operations in Pakistan.
- **Change in priorities of donor countries:** Interests of donor agencies have possibly changed, resulting in reduction in funds flowing into Pakistan. NPO representatives opined that donor countries/agencies feel people in Yemen and Syria are in greater need of help than those in Pakistan. Participants are also cognizant that the Trump Administration in the USA is more interested in investing money back home than in expanding their aid program.
- **Donors rely on professional implementing agencies:** Another issue raised by NGOs is a change in the way donor agencies have been working in Pakistan. Contrary to their past practices where they would partner with local NPOs to implement their projects, international donors now hire professional international implementing agencies and consultants. This approach on the part of international donors has left local organizations with fewer opportunities to form partnerships and has thereby limited their fund raising capacity.

³² Government of Pakistan – Ministry of Finance, Economic Affairs, Statistics & Privatization (Economic Affairs Division). Notification No. 1(5) INGO/05, dated October 1, 2015.

Bridging the Funding Gap

Cognizant of the fact that foreign funding is decreasing, nonprofits are taking various steps including searching for alternative funding sources. Some of the measures they have taken are highlighted below:

- NPOs are either winding up their operations altogether or limiting the number of employees, offices and projects. An NPO in Multan stated that they have reduced the number of their employees from several hundreds to less than 100 as they have closed down many regional offices due to financial constraints.
- Some participants revealed that they are looking for alternate sources for funding. A couple of them in Balochistan say they have tried to bridge the gap by seeking funding from government.
- The financial crunch has forced some NPOs to either start charging fee or increase the existing fee for their services.

However, some NPOs believe that the measures stated above are only of temporary nature and are insufficient to meet the long term requirements of their operations. A few of them even fear that they may have to close down their operations altogether. In the face of this trend, it is not surprising that NPOs have attempted to identify alternative sources of funding. Though they are experimenting with many options but a substitute of the same scale of foreign funding is not easy to be found. Nonetheless, a couple of avenues that organizations have tried to tap into are the corporate sector, and individual indigenous donors.

The corporate sector in the country has been increasingly

supporting activities of common benefit through its corporate social responsibility (CSR) programs. A report by PCP on corporate philanthropy estimated this giving to be to the tune of around PKR. 13 billion in 2018 alone.³³ NPOs believe that this is one of the options that needs to be explored. However, at the same time, they are aware of the fact that companies having bigger donation portfolios often establish their own charitable organizations. This does not leave much room for other NPOs to benefit from CSR budgets. NPOs also think they need to direct more effort towards attracting donations by individuals and this could help them to make up at least a part of the deficit created by decreasing inflow of funds from abroad.

As a third avenue, NPOs also seem to be interested in trying the option of online/digital and crowd fundraising, but most of them don't know where to start from. Some of the NPOs revealed they have already tried some online fundraising options but without much success. Only one organization from Lahore shared a positive experience with a crowd-funding portal. NPOs fear that as there are no policies/regulations regarding digital funding, the government may not allow it. Some participants also voiced concerns that if they try online fund raising they may have to perform extensive reporting for which they do not have the capacity. Finally, some participants stated that since government officials dealing with NPOs' affairs, i.e., people sitting in SECP or FBR, do not have sufficient understanding of what online fund raising is and how it works, the government will have to enhance its own capacity before NPOs can effectively use this as a source of funding.

³³ Corporate Philanthropy Survey 2018. Available at: <http://pcp.org.pk/uploads/CPS-2018C.pdf>

PUBLIC IMAGE OF NPOs

NPOs have contributed immensely to civil society activism in Pakistan through their agenda of promoting pluralism and diversity, progressiveness in fields of arts and sciences, reassuring culture, providing essential and basic amenities of life to poor people and crafting an eminent reflection on the vital social, economic, political and cultural issues confronting Pakistan.³⁴

Despite the fact that NPOs have been instrumental in efforts for creating a more equitable and prosperous society while eradicating poverty, illiteracy and other issues, their public image has not been entirely positive. The image of an organization is crucial to an NPO's success, just as is the case with corporate organizations. The more positive an image a nonprofit can cultivate amongst the public, the more opportunities it will have. Given this importance of public perception, it is imperative for every NPO to endeavor to build trust among the communities it works with as well as among other stakeholders, e.g., funders, contributors, customers, government, etc. A study on this subject in Pakistan was conducted in 2008 which covered both

urban and rural areas. This study reported that the public trust on donor funded agencies was low and because the government used an all-encompassing term 'NGO' to apply to all types of civil society and not for profits, the public assumed any organization that is associated with being an NGO is run by international donor agencies despite the fact that many are community-based local ventures.³⁵ This perception that not for profits have an ulterior agenda creates hurdle for NPOs to implement their programs. Cognizant of the fact, NPOs are investing great effort in improving their image and working towards gaining public trust and support.

It is natural that people trust those organizations that have built a good public image of themselves. Participants of our FGDs frequently quoted examples of Edhi Foundation, Shaukat Khanum Memorial Hospital (SKMH), and The Citizens Foundation (TCF) as enjoying very positive public perception, which eases their fundraising efforts and makes them financially sustainable.

The Current Scenario

NPOs unanimously voice their concerns about the deteriorating public image of NPOs in Pakistan. They are of the view that, although the situation was not ideal in the past, it has further deteriorated in recent years, especially since the closure of an INGO in Islamabad as its platform was found to be used to run a fake vaccination campaign in Abbottabad. They specifically referred to the negative role played by the media in such incidents and the consequent damage caused to the reputation of the overall NPO sector in the country.

In the meanwhile, perhaps partly influenced by incidents such as the one stated above, the government realized the need to lay down a regulatory framework to strengthen the registration of INGOs and to monitor foreign funding of local organizations. Through such regulation, government required all INGOs working in the country to register afresh within the stipulated time period. Local NPOs, especially those that receive foreign funds, were directed to follow the new regulations. Some NPOs feel that instead of directing excessive monitoring and regulation toward non-compliant or fake NPOs, they are all treated in the same manner. "We are suffering not because we have done something wrong but because there are a few who have done so and the government is unable to pinpoint them", said an NPO representative in Lahore.

Things are a bit more challenging for NPOs operating in certain areas where the law and order situation is not

very stable. NPOs in Peshawar complain that government officials sometimes treat them with an air of mistrust. More or less the same situation was described by NPOs working in Multan where they face distrust from government offices. NPOs in Karachi, Islamabad, Lahore and Quetta are also not satisfied with the treatment that they receive from government officials. This view of NPOs is not only held by the government officials but by the general public as well, at least in some areas. In Multan, employees of NPOs sometimes feel hesitant to express their association with the sector.

Among many other things, faith-based issues and cultural factors are considered to play a major role in affecting the public image of NPOs in the country. This is particularly true of the areas where traditions and/or tribal customs play an important role in daily life of the people, e.g., KP, FATA, South Punjab, and Balochistan. NPOs in these areas are often blamed for working against traditional/cultural values while purportedly spreading western cultural values.

Another interesting aspect that comes forth from discussions is that the public image of an NPO is also linked with the kind of work it does. Service delivery organizations are usually appreciated as their services are visible to the community in one way or the other. Rights-based NPOs, on the hand, are more likely to be mistrusted. This discrimination may also be driven by the fact that rights-based organizations raise a voice against the injustices

³⁴ An NGO Training Guide for Peace Corps Volunteers: The Role of NGOs in a Civil Society. Available at: http://files.peacecorps.gov/multimedia/pdf/library/M0070_all.pdf
³⁵ Bano, M. 2008. Dangerous Correlations: Aid's Impact on NGOs' Performance and Ability to Mobilize Members in Pakistan. World Development, 36(11), 2297-2313

meted out to minorities and other vulnerable segments of the society by those who are in power, and thus may be perceived as contrary to cultural and community norms.

“Financial transparency, good governance and ethical working hold the key to enhancing public confidence in NPOs”. FGD Karachi

However, NPOs are aware that the government or the public cannot always be blamed for the lack of confidence placed on them; they themselves share the responsibility as well. On multiple occasions during discussions they accepted their failure in actively engaging with the community. This failure has manifested itself in a variety of ways, for example, not respecting the local culture, not been able to portray the same living standards as of the poor communities. One NPO official in Quetta opined that how can we expect people who are struggling for basic necessities to have respect for an NPO while its staff is visiting them in a Land Cruiser. Some others also believe that NPOs have relied on influential quarters of the communities, e.g., sardars, choudries, politicians, etc., instead of the real representatives of the people.

NGOs including charities, advocacy groups and voluntary organizations, have a responsibility to demonstrate to the public that their operations are consistent with their values and cultural norms. These organizations are formed to serve a cause, rather than generate profits for owners and investors. But many NGOs face public scrutiny for their practices, including hiring policies, salaries of top executives and the allocation of donated funds. This creates increased pressure on the NGO sector to demonstrate the same level of transparency and accountability as the private sector.

Today, NPOs need to have robust branding. They need the branding to find new donors and retain existing ones. Active management of public image ensures that the image of an organization is consistent with its mission statement.

“Branding holds the inflection point in fundraising as well as engagement with the public sector”. FGD Peshawar

Regional languages were also considered a barrier to good public image as they sometimes create a hindrance in accurately understanding the work carried out and beneficiaries' feedback. Representatives of donor agencies often find a great deal of difficulty in acquiring a thorough understanding of the challenges faced in their work, particularly in terms of the issues involved in monitoring and evaluation, quality assurance, communication with beneficiaries, working with local partners and the recruitment of local translators and interpreters.

Empirical evidence suggests that public awareness regarding the work of NPOs lead to more favourable perceptions. Public awareness campaigns with a specific focus on guiding people regarding the nature of work of NPOs have been viewed more favourably than general NPO awareness campaigns.³⁶ According to a study carried out by the Asian Development Bank, some of the NPOs have played a crucial role in making people cognizant about the vital issues through their mobilization campaigns.³⁷ Such issues include human and legal rights, the role of women in economic development, and the impact of over-population. Other NPOs have played an important role in areas where there was a dearth of provision of healthcare services, water, sanitation, and employment opportunities to young men. Undoubtedly, NPOs in Pakistan have helped change national perceptions and policies that have a bearing on the agenda of sustainable social development in Pakistan. Some of the findings from our study corroborate this evidence.

“Due to language and cultural barriers, sometimes the donors are unable to precisely understand the work carried out in Pakistan”. FGD Peshawar

“We focus on creating awareness in general public with latest updates on socio-economic developments in the communities”. FGD Islamabad

Another significant barrier to positive perception of NPOs is the scarcity of funds for overhead costs including expenses on building public perception. Donors are usually not willing to fund these costs which leaves nonprofits to struggle with maintaining a decent infrastructure including working space, trained human resources and other amenities. Many organizations, deliberately, allocate all marketing and communication expenses to programs when, in most cases, these expenses should be reported as administrative or fundraising overhead.

Increased involvement within the community through local interagency groups, membership organizations, and ties to a community-wide strategic plan can help support organizations promote continued growth and collaboration in the communities in which they operate.

“Public image mainly depends upon performance standards in areas of work of an NPO and sometimes underfunding can seriously jeopardize the quality of outcomes”. FGD Karachi

“Community involvement is the most important feature to build a reliable image. We have observed very closely over the years that unsuccessful projects were those where community involvement was lacking and successfully implemented projects had always

The participants considered public image as one of the key determinants for the sustainability of an NPO. If NPOs intend to continue to position themselves as democratic institutions of civil society and as checks and counterbalances to the state, they must present themselves as examples of good governance, financial transparency, legitimacy and responsibility to target groups and society in general.

³⁶ McDougle, L. M. 2014. Understanding Public Awareness of Nonprofit Organizations: Exploring the Awareness–Confidence Relationship. *International Journal of Nonprofit and Voluntary Sector Marketing*. 19: 187–199.

³⁷ Asian Development Bank. 1999. *A Study of NGOs-Pakistan* (Manila: Asian Development Bank).

vigorous involvement of community people.” FGD Quetta

Community leaders must be taken onboard before initiating any intervention at the community level. These are the people in the community whose opinions are respected, whose insights are valued, and whose support

is almost always needed to make any fundamental change. Generally, they’re regarded as having a finger on the pulse of the community, able to express the point of view of the public (or some significant portion of the public) and usually having some influence over community opinion.

“Public image is important and can be improved by inviting local notables and politicians at the launch of new programs in community”. FGD Lahore

Image Building Efforts by the NPOs

Given that NPOs overwhelmingly believe public image plays a deciding role in the success of any organization, it is interesting to explore the steps they have taken for building their own profiles. Our discussions suggested that there is a great degree of variation; some are doing nothing or very little, others are making an active effort in low-cost approaches, and a few invest substantial effort and resources and come up with innovative ideas.

NPOs, almost unanimously, believe that building a good public image is a costly business as it requires money, time, and human resources. This being the case, smaller NPOs say that they have neither the money nor the capacity to take steps to improve their perception among the public or government. The best they can do is to publish brochures, pamphlets, and newsletters. These publicity measures have very limited circulation; they usually reach donors or are displayed through stalls. These NPOs also sometimes use social media for publicizing their organization and activities but at a very low profile. For example, they may have Facebook pages that aren’t actively updated and usually provide only basic information about the NPO and its activities.

Yet there is another category of NPOs that are trying to build their public image by actively using social media. Their social media accounts provide good information not only about the organizations but also about their areas of operation and nature of activities, objectives, and

achievements. In addition to social media outlets, these organizations also rely on traditional print materials, i.e., newsletters, pamphlets, to inform the public of their name and initiatives. Though such NPOs do not usually have separate departments, e.g., communication, to handle affairs of image building, they do circulate such materials within their networks including donors, beneficiaries, and the general public.

The third group is the one that continuously works on building and improving their perception. Usually these types of NPOs include organizations that are large, have nation-wide operations, and are financially able to afford dedicated staff to spearhead image building initiatives. However, there are many examples of small and medium sized NPOs as well that think out of the box to propagate their good work amongst general public. It was learnt during interview of a local NPO in Quetta that they involved religious leaders in planning of their projects and that helped them to counter the negative image of NGOs among the community. In another case, a Lahore based NPO organizes various activities with schools. They believe that the kids who participate in their programs serve as their brand ambassador. NPOs in this group have a strong presence on social media outlets and they use these mediums not only for building their profile but sometimes also for raising funds. Alkhidmat Foundation, Layton Rahmatulla Benevolent Trust (LRBT), and The Citizens Foundation are some of the examples.

RECOMMENDATIONS

The discussions with NPO representatives not only highlighted issues and challenges faced by the sector in the country but they also helped outline many practical suggestions for improving the environment for the NPO sector in Pakistan. Some of the more relevant recommendations in this regard are outlined below:

One Window Facility

A simple, one window operation is the most efficient strategy which can potentially resolve most issues pertaining to NPOs registration and their operations. The one window operation should clearly allocate a specific government department that would be responsible for dealing with all matters pertaining to NPOs – from registration, to NOCs, to permits for foreign funding and guidance on tax exemptions. In this manner, processes can be streamlined, the flow of information can be managed, systems can be standardized and bureaucratic delays can be reduced.

Mainstreaming Registration Process

There is a strong case for mainstreaming the registration process for nonprofits in Pakistan. At present, there are multiple legal provisions and procedural protocols which need to be met for any NPO to complete the registration process. Ideally, there should be a one-stop or one window mechanism and simplified registration process which should facilitate NPOs in the registration or renewal processes. On the part of government, linkages and coordination between various layers of government including federal and provincial needs to be improved for simplifying the NPO registration regime.

Uniform Policies that are easy to Understand and Implement

NPOs suggested that there should be uniform implementation and interpretation of laws across the board. Legal issues need to be highlighted in advance, in consultation with selected representatives of NPOs before formulating laws and procedures. A greater degree of uniformity across multiple legislative requirements pertaining to NPOs can help facilitate the sector. Whether that is done through the consolidation of all registration laws into one, or through the standardization of definitions, some initiative needs to be taken to encourage greater degree of consistency. It is also crucial that NPO representatives be consulted and heard if and when such policy changes are introduced.

Multi-stakeholder Body for NPO Sector Governance

It was also suggested that a multi-stakeholder committee (including parliamentarians, academics, corporate leaders, civil society representatives and selected donor agency members) may be constituted for providing strategic

direction to nurture the NPO sector in Pakistan. Such a platform could be used to brainstorm and forge consensus around various policy or legal reforms for further strengthening the role and contribution of NPOs in the country. Such a body could also be associated in steering lobbying and advocacy interventions for promoting the cause of NPO-led development and resource mobilization. This body may also review policies concerning NPOs and recommend changes from time to time to the relevant forums.

Formation of a common platform/forum of NPOs

NPOs feel that there should be a common forum where they can discuss their issues and challenges and deliberate on solutions. This forum could provide support in guidance, training, etc., alongside playing the role of an intermediary between the government and the sector.

Ensuring transparency in NPOs

Participants in FGDs as well as other interviewees were of the view that while NPOs expect government to provide them with a facilitative and conducive working environment, they also need to ensure maximum transparency and accountability in their own day-to-day affairs. This would in turn build trust between them, the government and the general public.

We indeed live in a “global age of philanthropy.” Philanthropic institutions span the globe, albeit with high concentration in a handful of countries. The sector is growing rapidly, with almost three-quarters of identified foundations established in the last 25 years. If this trajectory continues, philanthropy will be poised to have an increasingly significant social and economic impact. (Global Philanthropy Report, 2018)

Promoting Private Social Investments

In view of the fact that government’s fiscal space is expected to remain constrained in future and donor funding is all likely to be tied to many pre-requisites, the NPO sector should explore private and corporate sector giving in Pakistan as a potential source of funding. For this to happen, NPOs would need to package their message and do lobbying in a way that trust and confidence of private sector is boosted. One option could be to form thematic working groups of NPOs, identifying areas of social investments and preferred strategies which could later be shared with corporate and private sector giving entities. Such working groups may be formulated at the provincial level.

Improved Enabling Environment for Philanthropy

A mix of short-term and long-term strategies may be pursued to fully reap dividends of individual, institutional and corporate giving in Pakistan. On the one hand, NPOs

may put in place better and more effective lobbying, communication and advocacy interventions to disseminate the potential of philanthropy and social development in Pakistan. On the other hand, NPO networks and PCP may design structured dialogue with higher level government forums for introducing improvements in strategic areas such as taxation, compliance and regulation. A mix of long term and quick win solutions could be the best way forward for promoting the cause of NPO sector in Pakistan.

UPDATE ON DEVELOPMENTS IN THE ENABLING ENVIRONMENT FOR NPOs IN PAKISTAN

- According to Mol website, as of 30 December, 2019, 144 INGOs had applied for registration, 75 organizations appear in the “List of approved INGOs” while applications of 22 INGOs were under process.
- In January 2019, Pakistan reached out to envoys of the western countries to allay their concerns over the issue of cancellation of registration of some INGOs. The then Foreign Secretary, Tehmina Janjua, reaffirmed Pakistan’s commitment to a mutually beneficial framework on INGOs, underpinned by rule of law, transparency and responsive to government’s priorities. It was clarified that the cancellation of registration of some INGOs was decided in full accord with the standards of due process whereby the organizations were given a chance of appeal. The envoys were apprised that there were 74 INGOs freely operating in the country and the government duly recognized their contributions.
- In March 2018, Punjab promulgated the Punjab Charities Act 2018 to regulate working of the NPOs in the province registered under different laws. The law lays down the establishment of a Charity Commission for the registration, administration and regulation of charities, fund-raising appeals and collection of charitable funds for charities and other institutions operating in the province. In July 2019, the KP Government also enacted a similar law – the Khyber Pakhtunkhwa Charities Act 2019, for setting up the KP Charitable Commission to regulate the NPO sector in the province. Under the law enacted in both the provinces, the existing charitable organizations have to re-register themselves with the new Commissions. The province of Sindh has also recently promulgated the Sindh Charities Registration and Regulation Act 2019 to regulate charities’ activities in the province. The proposed Sindh Charities Registration and Regulation Commission will regulate charitable activities including those donating and those receiving donations. Balochistan is in process of drafting its Charities law for approval of the Provincial Assembly.
- Moving forward, with the promulgation of laws for regulating NPOs in nearly all provinces and establishment of Charities Commission, one of the key recommendations of this study about a one window operation and a single regulatory body for the NPO sector seems to be coming closer to becoming a reality. Once all the provincial Commissions are fully functional, it is expected that the enabling environment for NPOs in the country will improve considerably.

ANNEX

Research Guidelines

The following survey guidelines were used in conducting Focus Group Discussions;

1. Legal Environment
 - a. In your opinion, how favorable is the legal environment for NPOs in Pakistan?
 - b. Has your organization been affected by recent amendments in NPOs regulatory laws and policies? If so, how it has affected?
 - c. Does the government provide any tax exemptions or incentives to NPOs? How else does the government support NPOs?
 - d. How can the legal and political environment for NPOs be improved in Pakistan?
2. Fund Raising
 - a. Domestic fund raising
 - Is there any regulation/restriction on the receipt of domestic funds by NPOs?
 - Does your organization receive funding from an individual private donor/sponsor? Does that influence your organization's vision?
 - Do you receive significant donations from the communities you work in?
 - How actively does your organization involve the community? Do they have influence over where funds are spent?
 - Does the government provide direct/indirect grants or funding to your NPOs? If so, how much? For what type of projects? Through what channels?
 - b. Foreign Funding
 - Does your NPO receive foreign funding? Are there any specific regulations or procedures that need to be complied with?
 - Has your receipt of foreign funds increased or decreased over the last few (5?) years? If so, how did you adjust your fundraising efforts?
 - Does your organization receive funding from multilateral or bilateral organizations? Which ones? What share of your total budget do these sources contribute?
 - c. How important is it for your organization to identify new funding sources? What are some new sources that can potentially be explored?
 - d. Would your organization be interested in exploring online/digital fundraising?
 - e. Does your organization have an endowment fund? How crucial is it as a source of funding? Is there any limit to endowment building for NPOs?
 - f. Do you think the space for NPOs is shrinking in Pakistan? If yes, how so? Are any new avenues opening up?
3. Public Image
4. Does the leadership of any organization (for example, experienced or female or male) make any difference in the prevailing working environment?
5. What are the most pressing challenges NPOs are facing in Pakistan?
6. What are the different aspects that make up an enabling environment for NPOs in Pakistan?
7. What are the different types of CSOs in Pakistan?



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