

## **Non-profit Sector in Pakistan: Government Policy and Future Issues**

AISHA GHAS PASHA and MUHAMMAD ASIF IQBAL

### **I. INTRODUCTION**

The non-profit sector remains relatively small and underdeveloped in Pakistan. During the decade of the 1990s, it has demonstrated some nascent growth resulting from a number of favourable factors like the return to democracy, the growing push towards deregulation and privatisation, the process of globalisation and the emergence of international coalitions of civil society and the deterioration in the financial position of governments which has limited the public provision of social services. The objective of this paper is to examine the role played by government policy in fostering this process of growth of the non-profit sector of Pakistan and to review the key issues faced by the sector at this time.

Of particular concern are, first, the overall posture of the government towards the non-profit sector, the types of policies in place, and the underlying philosophy or principles that guide policy-making. Second, the forms of support to the non-profit sector by different levels of government. Third, the posture of international organisations and supranational governments towards local non-profit organisations and, fourth, the major issues facing the non-profit sector at the present time.

The objective of this paper is to analyse government policy towards the non-profit sector in Pakistan over the last two decades and review some major issues facing the sector at the present time. It is important to note that analysis presented here does not cover the period of current government. The methodology is primarily based on the review of available literature and government policy documents, and

Aisha Ghaus Pasha and Muhammad Asif Iqbal are Senior Technical Adviser and Senior Economist respectively at Social Policy and Development Centre, Karachi.

*Authors' Note:* This research was undertaken as part of the Johns Hopkins Comparative Non-profit Sector Project. Pakistan is among 40 nations (developed as well developing) that are participating in this large international research project. The Pakistan country study is undertaken by Social Policy and Development Centre (SPDC) and the Aga Khan Foundation (Pakistan), with financial support from AKF, CIDA and USAID. Details of this International Project may be acquired from <http://www.jhu.edu/~cnp>.

interviews with the experts of the field. The paper is organised in three parts. Section II describes the policy environment, including the posture of government and forms and extent of official support. In Section III we identify some of the major issues facing the non-profit sector.

## II. POLICY ENVIRONMENT

### Overall Posture of Government

By and large, government policy towards the non-profit sector has lacked consistency. During the 1990s, there have been periods when the policy can be considered to have been broadly supportive. This is evidenced by increasing reference in recent five year plan documents which have emphasised the role of non-profit organisations as compared to previous plans. Other supportive acts include the granting of special fiscal incentives for philanthropic contributions by corporate entities or individuals to non-profit organisations and the explicit recognition given to the role of non-profit organisations in major programmes of social development like the Social Action Programme and the Family Planning Programme. Perhaps as the ultimate symbol of recognition of the role of non-profit organisations, well-known leaders of civil society representing different non-governmental entities were inducted into the federal cabinet in October 1999 following the military takeover. Important portfolios like information and broadcasting, education, environment, women, population planning and local government have been allocated to these representatives.

As opposed to this, a number of actions have indicated a hostile attitude, especially with regard to non-governmental organisations engaged in either social or political advocacy. This culminated in 1998 in intelligence enquiries, attacks and deregistration by provincial government of Punjab of advocacy groups. Since 1996, there has also been pending with the parliament, a NGO Bill which many see as an attempt by the government to bring the non-profit sector directly under its control and regulation.

There are a number of factors that explain the dichotomy in government's posture towards the non-profit sector. First, while government is supportive at the policy level, it is obstructionist at the operational level of line departments of federal, provincial and local governments who see non-governmental organisations as competitive with respect to funds and influence. Enhanced role of the latter is seen as cutting into the functions and responsibility of the former.

Second, government is generally supportive of the welfare and service providing role of the non-profit sector, but openly hostile with regard to the role of non-profit organisations in social and political advocacy. As highlighted earlier, the granting of tax exemption to charitable donations made primarily to social welfare non-profit organisations like the Edhi Foundation and the explicit recognition of the role of non-profit organisations in programmes like SAP in social service delivery

are demonstrative of the support. As opposed to this, governments, have felt increasingly threatened by the role played by non-profit organisations in mobilising support of civil society at large on issues like violence against women, honour killings, blasphemy law, freedom of the press, accountability and corruption, etc. The resulting hostility has been reflected in attempts at penetration of various non-profit organisations and, in extreme cases, at attempts even for closure through deregistration.

The posture has also tended to vary among different parts of government. By and large, politicians from the ruling parties (like the Pakistan People's Party and Pakistan Muslim League) have been neutral in their attitude towards non-profit organisations. This is based on the perception that in Pakistan such organisations have not yet become influential enough to impact significantly on the political agenda and the voting choices of the electorate. Bureaucracies, especially in the finance and planning ministries, are mostly supportive because of the realisation that in the presence of severe fiscal constraints, enhanced role of non-profit organisations in service delivery saves money for the government. Line ministries have an ambivalent attitude and prefer to use non-governmental organisations only when there is a well-defined gap in capacity or resources. Intelligence and security agencies are generally hostile and openly distrustful of non-profit organisations, especially those performing an advocacy role.

There appears also to be another major dichotomy in government's posture depending upon the nature of the non-profit organisation. There is a greater tendency to support 'indigenous' non-profit organisations, which mobilise resources locally and frequently operate at the grass roots level in order to mobilise communities and prepare them for organising the provision of local services. Such support arises from the recognition that there are serious limitations in the outreach of government especially to pockets of poverty in far flung backward areas and this task has to be left to local NGOs. It is also predicated on the need to promote 'self-help' by communities so that the burden on government is minimised. The best example of this is the establishment of Rural Support Programmes at the national and provincial levels to perform the task of social mobilisation through establishment of CBOs at the village level. In the mid-1990s the government (of the Pakistan Muslim League) made a sizeable allocation of Rs 500 million to establish an endowment fund for the National Rural Support Programme (NRSP), which has been modelled on the Aga Khan Rural Support Programme (AKRSP), and has since played a major role in promoting the development of CBOs. It has also emerged as a major intermediary for channelising microcredit.

As opposed to this, there is hostility to 'foreign-funded' non-profit organisations, whose operations remain largely outside the regulatory control of government either because they are part of some large international umbrella non-profit organisation or because they receive funding directly from bilateral or

multilateral donor agencies. However, the hostility arises not only because of the financial and functional autonomy but mainly because many of these non-profit organisations have taken up causes like human and women's rights, environment, political freedom, nuclear disarmament, municipal building regulations, etc., which are considered politically sensitive or have security implications.

Given the lack of consistency in the government posture, no explicit comprehensive or cohesive policy has yet been articulated with respect to the non-profit sector. This is also the consequence of the absence of an institutional mechanism to coordinate the role of different registration authorities [as highlighted in SPDC (2002a)]. Nevertheless, some elements of the implicit policy towards non-profit organisations can be adduced from behaviour and general policy statements.

First, the implicit policy appears to be that the non-profit sector should preferably stay away from issues that impinge on national security or upon strategic interests and relations with other countries. Also, the advocacy role in the context of sensitive social, religious and political issues is to be discouraged. Second, the implicit policy encourages non-governmental involvement in the areas of social welfare and social sector delivery. For this purpose, fiscal incentives have been provided, a system of partial grant funding and, more recently, a more liberal approach towards public-private partnerships have been put in place to enhance the role of non-profit organisations.

Third, there is emphasis now on the need to develop an appropriate legal and regulatory framework within which institutions in the non-government sector can operate in a transparent and accountable manner. The revival in 1999 of the NGO Bill, pending in the Senate since 1996, highlighted the motivation for greater 'control' of non-profit organisations. However, under military government, negotiations over the draft of the Bill (and a version of the Bill proposed by the Pakistan NGO Forum), which involved greater consultation, indicate a change away from control towards an approach of facilitation and developing an enabling environment. This positive change in the implicit policy was possibly a reflection of the influence of NGO representatives in the federal cabinet and the need to provide some space for non-profit organisations to operate as a substitute for the ban on political activity under the military regime.

A recent example of this change is the commissioning by the Government of Pakistan of the Pakistan Centre for Philanthropy to undertake a study and consultative process to produce an Enabling Regulatory and Fiscal Framework for civil society organisations. This is part of the "Enabling Environment Initiative" launched by the Pakistan Centre of Philanthropy. The set objectives are as follows: first, to facilitate policy-makers and stakeholders to evolve a consultation-based regulatory mechanism that helps create an enabling environment for the growth and development of civil society organisations and provides for a regulatory role of the

State as a facilitator without compromising the autonomy and independence of civil society organisations; second, to produce an enabling regulatory and fiscal framework for Citizen Sector Organisations (CSOs) and philanthropy that is supported broadly across society; third, to build confidence and understanding between the government and CSOs thereby establishing a new foundation for co-operation for sustainable national development and poverty alleviation; and finally, to enhance and evolve mechanisms for promoting transparency and accountability in the operations of CSOs to underpin the formal regulatory system.

What are the philosophy and principles that lie behind the policy? One of the fundamental principles that guide government policy is that 'the government cannot deliver alone, civil society has to share the burden'. This realisation has become more acute in the face of rising fiscal constraints and the fact that the bulk of public expenditure has been pre-empted by the costs of debt servicing, defence and civil administration. It is also based on the recognition of the impediments to government delivery to poor, marginalised groups in relatively inaccessible backward areas. Such delivery is unlikely to be cost effective and properly targeted. Therefore, the logical role for non-profit organisations is to supplement government in the process of delivery of basic services.

The second principle is that of 'self-help'. Communities need to organise themselves collectively to cater for some of their basic needs. This is especially true at the grass-roots level. As such, local self-government or community-based organisations need to be encouraged to collaborate and organise the provision of local services or for welfare of the more vulnerable members of the community. This also explains the philosophy of decentralisation of government and devolution of power followed by the military government. As a result of implementation of the Devolution Plan, the discharge of a number of functions has been transferred to local governments, down to the union council level (a collection of villages or urban neighbourhoods) and community-based organisations are expected to oversee the provision of services and make line departments more accountable.

A more recently accepted principle has emerged from the new development paradigm which emphasises 'peoples' participation and empowerment', arising from the need to focus peoples' talents and resources towards development. This development paradigm has largely been promoted by international donor agencies. Based on this principle, the task is one of social mobilisation through formation of community-based organisations at the village level. But, in Pakistan, this principle has not been carried far enough where such social mobilisation can go beyond the provision of services to more active participation in the political process and in the advocacy of social change.

This takes us to the posture of political parties or factions towards non-profit organisations. Mainstream political parties, like the Pakistan Peoples' Party (PPP) and the Pakistan Muslim League (PML), which have shared power since 1988, up to

the military takeover in 1999, have a somewhat different posture to non-profit organisations than the fringe religious parties like the *Jamaat Islami* or *Jamiate Ulema Pakistan* and other groups which pursue a fundamentalist Islamic agenda.

During the PPP tenure (1988 to 1990 and 1993 to 1996) some progressive steps were taken to enhance the role of the non-profit sector and to improve its relationship with the government. Perhaps for the first time, there was some recognition of the legitimate role that non-profit organisations can play in espousing social and political causes. This explains the emergence of NGOs promoting human rights in general and the rights of women in particular. But there continued to be elements within the PPP government that had an ambivalent attitude towards the non-profit sector and harboured suspicions about its role. This explains the drafting of the NGO bill in 1996 by the PPP government, designed to achieve greater control over NGOs.

The Pakistan Muslim League government (1990 to 1993 and 1997 to 1999) also initially exhibited some enthusiasm for development of the non-profit sector. Much of the emphasis, however, was for the use of non-profit organisations as agents for social service delivery in order to reduce the fiscal burden on government. Consequently, a large endowment was given to the National Rural Support Programme, the Pakistan Poverty Alleviation Fund was made operational, fiscal incentives were given for corporate and individual philanthropy, and space created within the Social Action Programme for greater role of NGOs. But the PML was inherently distrustful of non-profit organisations playing an advocacy role. The confrontation reached a peak on issues related to the nuclear blasts in 1998 and on criticism by NGOs of honour killings of women and the blasphemy law. This culminated in 1999 by attacks of NGOs by the government of Punjab and the attempt to deregister a large number of such entities.

Some religious parties have developed a strong antagonism towards non-profit organisations. The animosity was articulated more aggressively as religious parties took centre stage following the imposition of restrictions on activities of mainstream political parties, the PPP and PML, in the aftermath of the military takeover in October 1999. Religious parties took on a head on confrontation, in particular, with non-profit organisations challenging the orthodox Islamic position with regard to the status of women, blasphemy law, etc. The former have argued that such non-profit organisations pursue a Western alien agenda aimed at transforming Pakistan from an Islamic state to a secular state on the basis of patronage from international umbrella civil society groups and sizeable external funding. A campaign was launched to either ban such organisations or bring them strongly under government control. Even the lives and security of leaders of some controversial non-governmental organisations have been threatened.

Underlying all this opposition by religious parties, there is the lurking suspicion that the real threat faced by them is the competition for funds and

influence. Philanthropy is active in Pakistan but much of it is currently channelised for religious purposes, like construction of mosques. The emergence of large non-profit organisations like the Edhi Foundation, which are seen as effectively utilising funds made available for social welfare or provision of basic services, has increasingly led to a diversion of charitable donations towards such organisations. Therefore, it is clearly in the interests of religious organisations to stem this trend.

### Forms and Extent of Government Support

Government support to non-profit organisations in Pakistan is generally considered as inadequate. SPDC (2002) reveals that public sector contributes only 6 percent of cash revenues of the non-profit sector in Pakistan. It also includes bi-lateral and multi-lateral foreign aid. The lack of government support is clearly a reflection of the largely indifferent or somewhat hostile attitude of government towards non-profit organisations, although it is possible that when the sample is extended to large non-profit organisations the share of government funding will rise.

Despite limited funding, the sources are diverse. New sources have emerged during the 1990s, indicating that for non-profit organisations, especially those engaged in welfare or service provision, medium run prospects are somewhat better. Traditionally, the principal source is small grants to non-profit organisations registered under the Social Welfare Voluntary Ordinance of 1961 by the Social Welfare departments of the provincial governments. In addition, grants are available to non-profit organisations managing orphanages and industrial homes for women from the religious *Zakat* and *Baitul Maal* funds.<sup>2</sup> Other agencies making small grants are the ministries of sports and youth affairs and environment of the federal level.

The establishment of provincial educational and health foundations as semi-autonomous institutions for making grants and loans to non-profit organisations has opened up a potentially significant source for financing the capital costs of new facilities like schools and hospitals by such entities. The financing formula is as follows: one third of the capital cost as a grant, one third as a loan at a relatively low interest rate, and the remaining one third to be financed by the non-profit organisation. The Education and Health Foundations generally only finance the

<sup>2</sup>*Zakat* is a form of charity religiously mandated under Islam and is officially collected by Government of Pakistan from Muslims since 1980. An autonomous *Zakat* council administers the Central *Zakat* Fund maintained by the State Bank of Pakistan, which does not form part of the federal consolidated fund. *Zakat* funds are mainly distributed among individuals. However, limited grants are also available to NPOs.

Pakistan *Bait-ul-Maal* Fund (PBF) was established in 1992, mainly to provide assistance to those in need (such as minorities) who are not covered by *Zakat*. PBF is administered by an autonomous board of management. Funds for the PBF come from the federal government. The PBF also receives small grants from the Central *Zakat* Fund and provincial and local governments.

capital costs, non-profit organisations are expected to finance their annual recurring costs. The Participatory Development Programme of SAP also used to finance part of the capital costs of provision of social services by non-governmental entities.

Another innovation in the financing of non-profit organisations is the setting up of trust funds. The Trust of Voluntary Organisations (TVO) was established in the early 1990s on the basis of an endowment of 90 million dollars by the United States Agency of International Development (USAID). This has emerged as a major source of funding to some of the larger non-profit organisations in the country.

With regard to payments rendered as a part of the contract for services, there are a number of examples in the areas of family planning services and the provision of non-formal basic education by home based schools. This practice has also been extended to the area of immunisation. Payments are expected to cover the costs of materials and equipment and a large component of the bill of salaries and utilities.

Other mechanisms again, of recent origin, include the access of relatively large non-governmental organisations to wholesale credit lines for retail extension of micro credit to relatively poor households and for small investments in infrastructure. The Pakistan Poverty Alleviation Fund (PPAF) was set up in early 1997 to perform this function. The federal government has created an endowment of Rs 100 million to defray the overhead costs and the World Bank is expected to make available a large credit line of up to 100 million dollars for onward lending. As part of its poverty alleviation package, the military government announced in 2000 the establishment of *Khushali* Bank, primarily for the extension for micro credit partly through a network of non-profit organisations and partly directly through commercial bank branches. The Government of Pakistan has already signed an agreement with the Asian Development Bank (ADB) for a loan of 150 million dollars to support the operations of the *Khushali* Bank under ADB's Micro-finance Sector Development Programme (MSDP).

Another mechanism, although indirect but significant in character, is the funding of the National Rural Support Programme (NRSP) by the federal government and the provincial Rural Support Programmes (like the Sarhad Rural Support Programme) by the respective provincial governments. These organisations are expected to engage in the task of social mobilisation in the villages, through the establishment of CBOs, essentially modelled on the successful experience of the Aga Khan Rural Support Programme (AKRSP). It is of interest to note that the NRSP has emerged as a major intermediary for channelising micro credit.

With regard to tax breaks, there are two types of fiscal incentives for non-profit organisations in Pakistan. In the area of income and corporation tax, the fiscal status relating to tax deductibility of charitable contributions by corporate entities or individual tax payers is embodied in the Income Tax Ordinance of 1979. A major effort was made to relax the ceilings on donations in the Finance Act of 1997-98, where the maximum percentage of charitable contributions by companies was raised

from 10 percent to 15 percent, while that for individuals was enhanced from 25 percent to 30 percent.

Another part of the fiscal framework that affects the non-profit sector is contained in the Customs Tariff, and relates to the policy of granting customs duty exemptions on the import of equipment (including vehicles) by non-profit organisations. By and large, this exemption has been restricted to large umbrella non-profit organisations who have significant foreign grant funding.

Finally, there is government support in kind. This is reflected in either free or subsidised provision of land and lower tariffs by public utilities. Also, there are cases of public-private partnerships involving the leasing out of government facilities. Based primarily on disillusionment with the coverage and quality of government provision, some of the provincial governments and occasionally the federal government have opted for management contracts with non-profit organisations, primarily of schools, clinics and hospitals. The expectation generally in such contracts is that the partner non-profit organisation will invest in upgrading the facilities and cover at least part of the recurring costs.

What are the perceived advantages and disadvantages of the different forms of support to non-profit organisations mentioned above? We discuss each source in turn. We evaluate the various sources of finance on the basis of a number of criteria. The first criterion is whether the particular form of support is *non-distortionary* in character or if it leads to changes in the behaviour of the recipient entity in order to qualify for the support, that is, if they affect autonomy or not. The second is *certainty*, indicating whether the support committed is disbursed in time at the agreed level. The third is *objectivity*, depending upon whether the disbursement of financial support by government is based on the application of objective criteria to determine the worthiness of different non-profit organisations for receiving such support and whether the process of selection is transparent or not. The final criterion is *sustainability*, as to whether the form of support contributes to the continued operation of the recipient or not.

Recurring grants have the advantage that they are largely non-distortionary in character and do not affect the autonomy of the recipient organisation, although a properly administered scheme should be accompanied by proper monitoring and evaluation of the use of funds. Disadvantages of recurring grants relate primarily to the other criteria. The lack of certainty arises in the irregular and unknown schedule of release of funds, depending upon the liquidity position of the entity making grants. Perhaps, the biggest problem is the absence of transparency and objectivity in the disbursements. Most interview respondents from non-profit organisations have strongly complained that the process of selection of non-profit organisations for grant support from the social welfare departments is highly politicised and usually based on kinship and other considerations. Transaction costs are high and the process of filing applications is complicated and cumbersome. In some cases, allegations have also been made about corruption in the process.

Capital grants can be distortionary in character, especially if they are oriented towards particular uses, like the construction of schools and hospitals. In the case of Education and Health Foundations and the Participatory Development Programme of SAP there are allegations again of lack of transparency and favouritism in the allocation process. The Foundations also allocate state land for construction of the facilities and this has constituted a major motivation for many applicants to obtain such land at subsidised rates and engage subsequently in real estate speculation. This increases the possibility of corruption in the process. The other disadvantage is that in the absence of recurring grants, following the receipt of the capital grant, facilities constructed may remain underutilised.

Payments for delivery of services may be an efficient way of organising the relationship between government and the private contractor. But the selection of contractors for delivery of services should be based on an objective bidding process, characterised by transparency. This is frequently not the case. For example, under Social Action Programme (SAP), government had launched Participatory Development Programme (PDP) with the objective to deliver social services through tripartite partnerships combining government, the private sector as represented by NGOs, and beneficiary communities. In this regard, SPDC (1997) notes: "No selection criteria on procedures were published. Although private sector firms were invited to submit proposals and several firms prepared and submitted proposals...all were rejected...". Also, there is the problem of the lack of certainty. Non-profit organisations face many problems in the reimbursement of the agreed amounts. The process of validation of services rendered is generally cumbersome and time consuming in character.

For most non-profit organisations, the creation of endowments is the preferred form of support. Its primary advantage is that it contributes to sustainability due to the guaranteed annual flow of income from the endowment. This also imparts a high degree of autonomy in the conduct of operations. The disadvantage, however, is that in the presence of a permanent source of funding, organisations may become more introverted, less accountable and slack in the achievement of the original mission goals. Therefore, it is essential that while endowments can be used to cover some of the core budgets, non-profit organisations continue to face market pressures to perform well so as to be able to finance the rest of the budget.

Tax breaks have the obvious advantage that the costs of support are effectively shared by the government with philanthropic entities. They also have the advantage of targeting funds towards those entities which have a good reputation for judicious and efficient utilisation of funds received. Unconditional philanthropic contributions also preserve autonomy and flexibility of recipient non-profit organisations. But, in Pakistan, while the tax deductibility provisions in the income tax ordinance for charitable contributions are fairly liberal, the system of classifying non-profit organisations, donations to which enjoy these provisions, is highly selective and arbitrary in character. In addition, widespread tax evasion implies that the fiscal incentive arising from tax deductibility provisions for donations is weak.

With regard to support in kind in form of leasing out of government facilities, the advantage is that if the relationship is properly structured then there is enormous scope for 'synergy' in the partnership, with each party benefiting significantly. But the basic problem is one of a general distrust among governmental and non-governmental entities and operational difficulties arising from fundamental differences in working styles. It is not surprising that public-private partnerships are of recent origin in Pakistan and there are only a few successful examples currently.

By and large, the pattern of government funding currently in Pakistan of non-profit organisations is that of conditional grants and payments for services rendered. Also, there is a preference for once-and-for-all capital grants as opposed to recurrent funding. What factors explain this pattern of support and what considerations lie behind government's funding of non-profit organisations?

The reliance on conditional grants is motivated by the concern that the behaviour of non-profit organisations needs to be regulated by making support available only for activities that the government considers desirable. As such, the limited support is directed primarily towards non-profit organisations that are either engaged in social welfare or provision of social services. Grant funding of such entities involved in social or political advocacy is, more or less, non-existent. Unconditional grant funding or the setting up of endowments is generally not resorted to by government because they make the recipient organisations more autonomous in their operations.

Capital grants are preferred over recurring grants primarily for two reasons. First, the effort on the part of government is to minimise its downstream liabilities in the provision of services and thereby reduce the fiscal burden over time. As such, the objective is to provide some initial assistance to a non-governmental entity in establishing a facility and then letting it operate largely on the basis of self-financing of its recurring costs. Second, there appears to be some aversion to creating a sizeable bureaucracy for managing a recurring grants scheme for a large number of non-governmental organisations.

Interview respondents have made a large number of useful suggestions for improving government support to non-profit organisations as follows:

- (i) Simplification of the system for making grant applications to the social welfare departments, accompanied by somewhat more rigorous scrutiny and accountability.
- (ii) For sensitive activities (like a public radio broadcast) grants of an unconditional nature or endowments should be preferred.
- (iii) Tax exemptions for philanthropy should be more widespread. The laws exist but their application is not easy. The certification of non-profit organisations, donations to which are tax deductible, should not be done by the Central Board of Revenue (CBR) but by an independent rating

authority. As an initial step, all non-profit organisations registered under Section 42 of the Companies Ordinance, which requires relatively high standards of accounting and information disclosure, should be granted this status.

- (iv) The Boards of Education and Health Foundations and the Steering Committee of the PDP should have majority representation from the private sector, consisting of distinguished members of civil society and the corporate sector. This model has been, more or less, successfully followed in the case of the PPAF. Grants should be based on proper criteria, applied with transparency.
- (v) In the case of contracts for services, the bidding process should be made more transparent, and the process of validation of services provided made less cumbersome. In addition, revolving funds should be established with enough liquidity and a built-in monitoring system instituted. Altogether, not only is there case for expanding the level of government support to non-profit organisations, but also of streamlining the system and making it more autonomous, transparent and accountable.

### **Changes in Government Posture**

We have highlighted earlier that the government posture towards non-profit sector has been variable and lacked consistency. But behind all vagaries in the relationship there is a growing recognition of the role of non-profit organisations, especially in the areas of social welfare and social service delivery. This is a consequence both of major external developments like globalisation, return to democracy, the emerging fiscal crunch and the influence of donor agencies in promoting the role of the non-profit sector, as well as due to internal changes in the role and character of non-profit organisations. During the last two decades, recognition of the role of non-governmental entities has been greatly facilitated by the visible and spectacular success achieved by some organisations like the Edhi Foundation and the Aga Khan Rural Support Programme. Despite operating in difficult conditions, such organisations have achieved rapid growth and carved out a distinct role for themselves. More importantly, they have demonstrably contributed to significant improvements in the lives of those they have assisted.

There is now greater appreciation of the potential for greater cost effectiveness and better coverage and targeting by the non-government sector, especially in far-flung and backward areas. Given this recognition and in the presence of acute financial constraints, government has accepted the need for supplemental delivery by the non-profit sector. As the priority for social development and poverty alleviation increased during the decade of the 1990s, inevitably more space has been created for operations by non-profit organisations. Besides, non-governmental organisations have got more organised through

establishment of coordinating agencies and resource centres (like the NGORC) for capacity building. This has culminated in a somewhat more active role of NGO representatives not only in policy forums but also in federal and provincial cabinets.

But as the NGO sector has grown, points of tension have emerged which have created hostility towards non-profit organisations. Social and politically activist NGOs have come into confrontation with government and the more traditional elements of society, like religious organisations. As the competition for charitable contributions has intensified, social welfare non-profit organisations have increasingly been pitched against entities performing religious activities, like construction and maintenance of mosques and the organisation of festivals. Professional and managerial personnel have been diverted away from the government towards non-governmental organisations, frequently with better remuneration.

With regard to the level and form of government support there has been more diversification in the sources than in the quantum of support. New forms of capital grant funding have emerged like the Education and Health Foundations and the PDP. There are new financial intermediaries like the TVO, PPAF, the *Khushali* Bank and the NRSP. Payments for services rendered by non-profit organisations have spread to a wider range of services related to non-formal education, immunisation, family planning, etc.

There has also been an improvement in the fiscal environment for non-profit organisations. Major changes in tax legislation were introduced in the second half of the 1990s. But while the tax laws with regard to deductibility of charitable contributions has been liberalised, their application has remained limited due to the very selective granting of the appropriate status for receiving donations to non-profit organisations.

With regard to changes in the overall legal and regulatory framework, perhaps the principal measure was the introduction of the NGO bill in the late 1990s, which has not yet been promulgated. Salient features of the bill include its 'umbrella' character whereby all social welfare organisations (SWOs) must mandatorily be registered under this law; restriction on the "social education" role of SWOs but an increase in the list of permitted activities and the inclusion of the term "development" for a number of activities undertaken by NGOs; need for compulsory auditing of accounts; discretion with government to terminate any NGO, take over its assets and operations; creation of an appellate mechanism and more information disclosure on sources of funding [SPDC (2002a)].

Interview respondents have criticised many of the provisions of the Bill. Some have questioned the ability of one 'umbrella' law to capture all the differences among non-profit entities. Others have voiced their strong opposition to the proposed granting of extraordinary powers to government to close down, dissolve, replace and control non-profit organisations. In addition, the proposal that all foreign funding should be routed through the government has been considered as encroaching on the

financial autonomy of donor agencies and recipient organisations. Also, doubts have been expressed about the ability of small NGOs to hire external qualified auditors. Generally, representatives of non-profit organisations have emphasised on the need for introducing stronger self-regulation within the non-profit sector to obviate largely the need for this role to be performed by government.

### **Posture of Supranational Governments**

We examine next the policies of supranational authorities like the World Bank, the UNDP and other international bodies towards non-profit organisations in Pakistan. International aid inflows into Pakistan have been substantial, and have financed a large portion of fiscal deficits. In particular, we focus on the impact of international agencies on the policy of the national government towards the non-profit sector and the attitudes or reactions of non-profit organisations in Pakistan to these international agencies.

The policies of supranational agencies towards non-profit organisations in Pakistan has undergone a fundamental transformation. Traditionally, the former had preferred to implement programmes and projects through government ministries and departments. But the high levels of corruption and inefficiency in public delivery has led international donor agencies, like the World Bank, to adopting a much more flexible and pro-active attitude with respect to working with non-governmental organisations. This is also the consequence of the global criticism of international agencies as closed entities in which the voice of NGOs was not heard in policy and programming decisions. For example, the Bank has been under attack for not taking fully into account the human displacement and environmental implications of large hydro-electricity projects. Now, the Bank has NGO offices all over the world and there is a full-fledged NGO unit in Washington.

Similarly, agencies of the United Nations have an important advocacy role to play in the implementation of various UN conventions and resolutions at the national level. This has created a natural partnership among UN agencies like UNDP, UNICEF, UNIFEM, UNEP, ILO, UNESCO, WHO, etc., and national NGOs working in the areas of human rights, status of women, labour laws, environmental standards, etc. This partnership in advocacy has, of course, led sometimes to confrontation and an uneasy relationship with national governments. In recent years, international agencies like the World Bank, Asian Development Bank, UNDP, European Union, etc., have moved in to motivate federal and provincial agencies to build in mechanisms for a larger role for non-governmental organisations. This is evident in major programmes like SAP and the family planning programme. But progress has been slow, given the resistance of line departments to handing over part of their functions to non-governmental agencies.

In the area of micro credit, international agencies have pushed aggressively for involvement of NGOs/CBOs. The Pakistan Poverty Alleviation Fund (PPAF) has been promised sizeable support by the World Bank while the *Khushali* Bank is expected to receive a large credit line from the Asian Development Bank. Both institutions will channel credit to households through non-governmental organisations. It is of significance to note that TVO finances its operations largely through a big endowment from the USAID, made at the time of the departure of this agency from Pakistan.

Beyond the process of service delivery, international agencies are also promoting a greater role of civil society in the formulation of policies and in monitoring the implementation of policies. The World Bank has insisted on a dialogue between government and non-governmental organisations in the preparation of the Interim Poverty Reduction Strategy Paper (IPRSP), which will form the basis for funding by IFIs. The UNDP has emphasised the role of participative processes in good governance and is expected to support the role of non-governmental organisations in the area of poverty monitoring and in the design and establishment of social safety nets.

Besides support to non-profit organisations engaged in advocacy, the role of international organisations has met with criticism from government, various political parties and religious organisations. There is, in particular, a strong aversion to the direct funding role of donor agencies without information on transfers to government. A popular complaint about foreign-funded NGOs is the generally high salaries and perquisites (including large duty free vehicles) being given to senior executives of such organisations. This has raised overhead costs, distorted the labour market, and diverted talent from government due to the relatively low salaries in the public sector.

What is the attitude of national non-profit organisations towards supranational agencies? This ranges from one of strong affiliation of some NGOs to international agencies to that of hostility. The former consist of non-profit organisations that have either been established by some international agency or pursue a mission that is closely aligned to the goals of the international agency and consequently receive a large portion of their funds from abroad. NGOs are frequently motivated to have a strong relationship with some international agency because of the quantum or security of funding and/or because of the prestige and the prospect of being able to pay high salaries.

As opposed to this, many 'local' or 'indigenous' non-profit organisations prefer to maintain a distance from international agencies, especially those, like the World Bank, which have a controversial reputation in the local culture. Some of these organisations are quasi-political or quasi-religious in nature, and it is important for them to demonstrate their 'purity' and commitment to an entirely domestic agenda, so as to mobilise popular support.

### III. CURRENT ISSUES

We finally identify the major issues facing the non-profit sector in Pakistan. We first rank the major issues confronting the non-profit sector based on our knowledge of the field and the results of expert interviews (listing of respondents given in Annex I). Following this, we identify and discuss the five issues that are considered most important and salient for the future of the non-profit sector of Pakistan. An attempt is made to indicate how each issue is likely to be resolved and what implication this is likely to have for the future evolution of the non-profit sector in Pakistan.

Table 1 gives the ranking of issues confronting the non-profit sector in Pakistan. Issues of high importance are to be found in areas relating to government policies, funding, management and personnel respectively. Within government policies, issues ranked high are the legal status of non-profit organisations and extent of government control; within funding, the major issue is that of financial sustainability; within management and personnel, the key issues appear to be lack of professionalisation and training, which undermine capacity, and the degree of accountability within the non-profit sector. Finally, in other areas, the prime issues are related to ideological and political attacks on non-profits. We take up detailed discussion of each of these issues.

#### **Legal Status of Non-profit Organisations**

The legal status of non-profit organisations has emerged as a key issue in view of the NGO bill pending with government. We have highlighted earlier that there is strong suspicion among non-governmental organisations that this Bill represents primarily an attempt by government to acquire greater control over non-profits. Consequently, there has been agitation to prevent the promulgation of the Bill.

Provisions of the present draft of the Bill which are considered as draconian in character include the following: requirement that all NGOs re-register with the Ministry of Social Welfare within a specified period; arbitrary powers with government to de-register, suspend or dissolve an NGO or to remove any provision of the constitution of a NGO; removal of "social education" as a permitted activity of social welfare organisations; compulsory external audit, etc.

There are a number of major dangers if the Bill is allowed to go through in its present form. First, it will place an enormous unnecessary additional burden on non-profit organisations which are already legally registered, particularly keeping in mind the voluminous documentation and the tedious process required for such registration. Government does not have the resources or institutional capacity to handle such a massive task within the period specified. The numbers will run into tens of thousands. Meanwhile, it means that the majority on non-governmental organisations will largely have to cease all their work.

Table 1

*Ranking of Issues Confronting the Non-profit Sector in Pakistan*

Issue	Importance				
	Low 1	2	3	4	High 5
<b>A. Government Policies</b>					
(1) Tax treatment of private giving			√		
(2) Legal status of non-profit organisations					√
(3) Reductions in government support			√		
(4) Changes in forms of government support		√			
(5) Extent of government control				√	
(6) Policies on non-profit/for-profit competition	√				
(7) Influence of international organisations (World Bank)		√			
(8) Regional integration (e.g. European Community)	√				
<b>B. Funding</b>					
(9) Extent of individual giving				√	
(10) Corporate support				√	
(11) Foundation giving				√	
(12) International Support				√	
(13) Competition from for-profits		√			
(14) Fee income			√		
(15) Sales and other business income			√		
(16) Financial Sustainability					√
(17) Volunteering: willingness, problems with recruitment			√		
<b>C. Management and personnel</b>					
(18) Personnel recruitment/management		√			
(19) Staff compensation and retention		√			
(20) Over-Professionalisation	√				
(21) Lack of Professionalisation, lack of training					√
(22) Tension between advocacy and service provision				√	
(23) Legal Problems (e.g. liability)	√				
(24) Accountability within the non-profit sector					√
<b>D. Other</b>					
(25) Regional, religious and ethnic conflicts		√			
(26) Political instability			√		
(27) Ideological/political attacks on non-profit					√
(28) Independence from religious institutions			√		
(29) Independence from business	√				
(30) Independence from politics		√			
(31) Ethical issues			√		
(32) Lack of information on non-profit sector			√		
(33) User and client control	√				
(34) Conflicts within non-profit sector				√	
(35) NGO co-ordination; networking and formation of umbrella groups				√	

Second, the “hidden” intent of the legislation appears to be that of targeting advocacy non-profit organisations. Not only is there a danger that many of the NGOs pursuing an apparently controversial agenda may not be granted registration but also that the process whereby new NGOs, proposing to engage in social or political advocacy, operate will become increasingly difficult. This will greatly retard the future of the NGO movement in Pakistan. Even if such NGOs are given registration they will be constantly under the threat given the sweeping powers that will become available to government to dissolve or suspend operations of existing NGOs.

Third, the proposed Bill will place small non-profit organisations in a disadvantageous position. Conditions of stronger internal governance requirement and external audit will be more difficult for non-profit organisations, which have neither the institutional or financial capacity, to comply with. This could lead to the exit of many of the smaller more informal non-profit organisations and community based entities at the local level.

A study done by the International Centre for Not-for-Profit Law (ICNL) made the following recommendations in order to modify the draconian provisions of the bill:<sup>3</sup>

- (a) The registration authority should not have the power to dissolve/remove the legal status of corporate bodies created under other laws.  
The law should clarify the general supervision and licensing functions of different agencies.
- (b) The power given to government to terminate NGOs, seize their assets, freeze their funds or take over the operations should only be exercised as a last resort for very serious violations and that too after due notice. In addition, there should be the right of judicial appeal.
- (c) There should be a provision of judicial review against the decision of the Standing Appellate Committee.
- (d) Provisions relating to the furnishing of all kinds of information, including financial, are too broad and should be limited to situations where there is a rational reason for the request.
- (f) Given the controversy and heat generated by the NGO Bill, it is suggested that in order to improve the climate the government instead focuses on preparing, in consultation with NGOs, a statement explicitly highlighting its NGO policy. Such a policy should focus more on providing an enabling environment for the non-profit sector rather than on control. The policy should define the relationship between government and NGOs in the context of delivery of services and state the parameters within which non-profit organisations can engage in an advocacy role. Such a policy should also clearly outline the fiscal framework within which NGOs can

<sup>3</sup>As cited in Hussain (1996), p. 27.

operate. As far as registration with a central authority is concerned this should only be made compulsory for non-profit organisations which are currently receiving government support or are contemplating to apply for such support.

### **Financial Sustainability**

At the present stage of development of the NGO sector of Pakistan, financial sustainability of the operations of non-profit organisations remains a big issue. This is a reflection partly of the lack of government support, which is very limited, complex and arbitrary in nature. While tax laws for charitable contributions are fairly liberal, they are characterised by very restricted and selective application. Consequently, a tradition of widespread corporate and individual giving to non-profit organisations has also not developed. Given information inadequacies and asymmetries, flows of funds are not necessarily routed to non-profit organisations that have the best track record of efficient and sustained delivery. Besides most of the individual giving remains restricted to religious purposes.

The overall consequence of the lack of development of funding mechanisms is that the financial future of most non-governmental organisations, especially the smaller ones, remains quite uncertain. This is one of the factors explaining the high rates of turnover of NGOs observed in the field surveys. Many small NGOs come into existence because of some lump sum funding from a particular source and die once the funding is consumed and there is no replenishment. Alternatively, operations cease when some promised funding does not come through. This means that many NGOs cannot pursue their missions within an extended time horizon. It then becomes difficult to invest in capacity building. Also, it proves difficult to attract qualified staff, given uncertainty about the duration of employment.

As highlighted earlier, the government has a tendency to prefer capital grants *vis-à-vis* recurring grants. Therefore, while non-profit organisations are able to construct facilities on the basis of capital funding, they are unable to sustain their operations because of the inability to mobilise enough revenues to cover recurrent costs. The result is that many of these facilities are over-designed, but remain underutilised subsequently.

A special problem arises in the context of foreign-funded NGOs. Due to vagaries in the foreign aid environment, continued inflow of funds from donor agencies remain uncertain. In addition, international organisations are generally unlikely to make a long-term commitment for funding a particular non-governmental organisation. The expectation is that after some initial period of support, the non-profit entity will be able to establish a sufficiently good reputation to be able to find substitute domestic funding. This seldom happens. Consequently, non-profit organisations that are dependent on foreign support are forced to downsize and curtail their operations once the funding diminishes or ceases. The lack of

sustainability of foreign aided NGOs have been amply demonstrated when many of them ran into serious financial problems after May 1998 when donors imposed sanctions on aid to Pakistan following the nuclear blasts and more recently after October 99 due to the takeover by the military government.

A number of proposals have been made by the interviewees for improving the financial sustainability of non-profit organisations. First, small grants from the Social Welfare departments of the provincial government should not be made on an annual basis. Once a non-profit organisation has filed a proper application, met the eligibility criteria and been approved for funding, it should be guaranteed financing for a longer period, say three years. This will introduce a degree of permanency in its operations and also reduce transactions costs. Reviews should be conducted normally at the end of the three-year period in order to qualify for the next cycle of funding. In addition, there should be regular monitoring.

This, of course, presupposes that, even in the presence of fiscal constraints, overall government allocations to the social welfare departments remain stable and perhaps even show some growth. One alternative worth considering is the establishment of Social Welfare/Development Foundations to perform the function of grant making which is currently the responsibility of the Social Welfare Departments. A sizeable initial endowment can then be made to Foundations so that in the presence of a regular flow of funds they can make a commitment for longer-term grants to individual non-profit organisations.

The problem of an imbalance between capital and recurring grants for delivery of services also needs to be resolved. Ideally, the percentage contribution of grants to capital and recurring costs of non-profit organisations should be the same. But, in view of inadequate access of such organisations to the banking system and the capital market, a higher contribution of grants to capital costs could be justified. But instead of a system whereby the government, for example, picks up the capital cost only, a somewhat more balanced form of support could be to finance half the capital cost initially and a share of the recurring cost annually, such that the present value of the support remains, more or less, the same.

With regard to the support by international donor agencies, it is also recommended that instead of opting for large initial support which is difficult to match subsequently by the recipient organisations, such agencies may choose to establish endowments either for organisations with an established track record of performance or with large trusts of foundations which can then route through funds annually to the target organisations. This can ensure a, more or less, continuous flow of funds to a number of non-governmental organisations. Of course, the move towards endowments will require appropriate safeguards for ensuring performance and possibly necessitate changes in funding procedures of donor agencies.

**Lack of Professionalisation and Training**

The process of development of the non-profit sector of Pakistan has been retarded by the lack of adequate human resources with non-profit organisations. Most of these organisations, especially the smaller ones, rely on voluntary part-time inputs rather than on full-time professional inputs. While voluntarism is clearly one of the strengths of the sector, it limits the capacity to deliver beyond a point. Especially in the delivery of complex services, like health, a component of professionalism becomes essential for innovation and effectiveness in the process of delivery. The itinerant nature of the activity of most NGOs does not make employment in non-profit organisations an attractive career prospect. Most recent graduates have a strong preference for job security. In addition, employment in the rural areas with NGOs working in the villages is generally not the preference for the urban middle class.

How can professionalism and training opportunities be introduced increasingly to contribute to capacity building of the non-profit sector? The government has taken a significant step in this regard through establishment of various Rural Support Programmes, aimed at the strengthening of the capacity of community-based organisations at the local level. The National Rural Support Programme (NRSP) has already done significant work in this area and has begun to channel significant micro credit to relatively poor households in the rural areas through these CBOs. Today, the operative constraint to local capacity building is perhaps the availability of trained social mobilisers with umbrella NGOs. The demand for this kind of personnel is likely to increase further following the establishment of social/community development departments in the recently constituted district governments.

The higher educational system will clearly need to be geared up to produce more personnel who can engage in this social mobilisation function. For this purpose, enrolment in the social work and sociology departments of the universities will have to be expanded, with greater emphasis being placed on internship of students with NGOs. In addition, there is need for creating a class of professional managers with medium sized and large NGOs. Perhaps one or more business schools could also offer a specialisation in the management of non-profit organisations. Already, the Institute of Business Administration (IBA) at Karachi is encouraging its students to seek internship in NGOs. This has also been motivated by the fact that given the stagnation of Pakistan's economy, job opportunities are not opening up in the corporate sector.

As far as more short term and specific hands-on training of NGO personnel is concerned, there is also a need to augment the training capacity in this area. Along with the NGO Resource Centre in Karachi, there is need for establishing such facilities in the other provincial capitals. These resource centres should perform an important training function through the offering of specialised short term courses for

capacity building of NGOs. While this activity may initially be subsidised, it is important eventually that a market be created for training whereby NGOs become willing-to-pay for courses that they perceive as being valuable to them. The government could also contribute to this process by offering short-term training programmes with a focus on non-profit organisations in its Rural Academy in Peshawar and the National Institutes of Public Administration (NIPA) located throughout the country.

### **Accountability within the Non-profit Sector**

One issue that has assumed importance in recent years is that of accountability within the non-profit sector. Despite its many drawbacks, one of the merits of the proposed NGO Bill is that it focuses on mechanisms for introducing greater accountability of non-profit organisations. The need for this has arisen for a number of reasons. First, entities interested in making charitable contributions are unable to properly assess the worthiness of different non-profit organisations in the absence of adequate information disclosure on mission goals, internal governance structures, outputs and outcomes, budgets and sources of funds, etc.

Second, there is a negative perception that overhead costs of some non-profit organisations are relatively high and reflect the exceptionally large salary and perquisites given to the chief executives and senior management. Third, there is concern that many non-profit organisations receive foreign funding directly, information on which is generally not made available either to government or to the public at large. Since some of these organisations are engaged in political or social advocacy, this has created a particularly strong sensitivity within the government and religious organisations in the country that foreign agencies are using NGOs to pursue an 'alien' agenda.

Given these perceptions, it is important that unless the process of accountability is improved the NGO movement in Pakistan will meet strong resistance which could limit its growth. Therefore, the basic issue is one of building greater accountability in the system without jeopardising the autonomy, especially with regard to funding, and leading to greater intrusion by government or attacks by hostile groups based on the greater information provided on nature of operations and external funding.

A number of proposals have been made by the non-profit leaders with regard to improving accountability of the non-profit sector. First, large NGOs, which are currently the prime targets, must be subject to higher standards of internal governance and audit and accounts. This can perhaps best be achieved by specifying that all NGOs handling budgets annually in excess of, say, 10 million rupees should obtain registration from the Corporate Law Authority as a company under Section 42 of the Companies Ordinance (SPDC, 2002a). This will ensure that there is a proper Board of Directors, a General Body, minimum number of annual meetings,

preparation of an Annual Report along with approval of the annual budget by the Board of Directors and external audit by a recognised firm of Chartered Accountants. All this will ensure greater internal accountability of the management of relatively large non-profit organisations. We have recommended earlier that appropriate tax exemption status be given to encourage NGOs to register under Section 42 of the Companies Ordinance.

As far as external accountability is concerned, there is need to establish an independent agency which can be charged with the function of collection of information on non-profit organisations in the form of a Directory of NGOs, with key summary information on each reporting NGO. The process should remain voluntary in character, with the incentive to individual NGOs that such a Directory will become a vehicle for publicity and for mobilising support from organisations making charitable contributions. This independent agency could ultimately become a rating agency, whereby NGOs interested in funding could be ranked on the basis of various performance indicators. This could help in the development of a market for charitable contributions and create an incentive system whereby non-profit organisations that have a high rating are able to attract more donations.

An important issue is how can accounting standards can be improved, especially in the case of smaller non-profit organisations. Most of these organisations do not have the capacity for maintaining proper accounts and for hiring external qualified auditors. One option is for establishing an Accounting Aid Centre (AAC), with support either from government or some donor agency, attached perhaps to the NGO Resource Centre, where NGOs can get training for establishing accounting systems and hire on a subsidised basis, auditors, who are employees of the AAC.

The issue of reporting on foreign funding of non-profit organisations is a complex one, and needs to be examined objectively. On the one hand, compulsory reporting is felt to be an imposition on the autonomy of international agencies and of the recipient entities. On the other hand, absence of information has created a climate of 'suspicion' and affected the credibility of non-profit organisations. Perhaps, as an intermediate solution, external agencies may be asked to provide information annually to the Economic Affairs Division (EAD) of the Ministry of Finance, Government of Pakistan, on NGO recipients of assistance and the amounts given. The EAD has the responsibility for coordinating all aid inflows into Pakistan.

### **Ideological and Political Attacks on Non-profits Organisations**

The environment for non-profit organisations, especially those engaged in social and political advocacy, has worsened in Pakistan due to the growing tension between religious organisations and 'modern' NGOs. Some religious organisations have highly criticised, and even resisted, the kind of agenda being pursued by NGOs like the campaigns against the blasphemy law, honour killings, etc. The military government has maintained a liberal posture with respect to the role of civil society

and has seen this partly as a surrogate for the political process. But the situation could alter dramatically if some of the activist NGOs start agitating for improvements in the process of accountability, return to democracy, etc. Therefore, it is vital that in the interest of survival and growth of the non-profit sector, especially that related to advocacy, an effort is made to minimise the ideological and political attacks on the non-profit sector.

There is a general consensus among the leaders of non-profit sector interviewed that one way of reducing the tension is for the government to formulate a policy on NGOs that, among other things, articulates the parameters within which non-profit organisations can play an advocacy role. It is important that in the process of development of such a policy there is a dialogue between various stakeholders of the non-profit sector such as NGOs, political parties and religious organisations leading to a better understanding of the respective roles.

In addition, some interviewees indicated that NGOs who are under suspicion should be more forthcoming with information on their governance structure, activities and funding arrangements. Greater information disclosure will perhaps improve the perceptions about these organisations. Further, from the viewpoint of protecting the sector, non-profit organisations will need to demonstrate greater unity and solidarity and form stronger coalitions so that attacks on individual NGOs can be resisted collectively. The Pakistan NGO Forum, for example, will have to play a more active role in organising the community of non-profit organisations.

Beyond the above five big current issues of legal status, financial sustainability, lack of professionalisation and training, accountability and ideological and political attacks respectively relating to the development of the non-profit sector in Pakistan there are other issues also like extent of individual and corporate giving and its tax treatment, level and nature of government support, new government policies in field like culture, health and education, lack of information on the NGO sector, etc. that will need attention. Tackling all these issues is essential if the non-profit sector is to emerge as a vibrant third sector of Pakistan.

**ANNEX I****LIST OF INTERVIEW RESPONDENTS**

Interviews of the following persons from various categories have been conducted:

- 1 Mr Javed Jabbar  
Chairman, Bhan Bahli and Small Projects Office (SPO), Karachi
- 2 Mr I. A. Rehman  
Human Rights Commission of Pakistan, Lahore
- 3 Ms Khawar Mumtaz  
Secretary, Pakistan NGO Forum, Lahore
- 4 Dr Suleman Sheikh  
Sindh Graduates Association, Hyderabad
- 5 Begum Surraya Jabeen  
Chief Operating Officer of the Family Planning Association of Pakistan,  
Islamabad
- 6 Mr Muhammad Tahseen  
South Asia Partnership (SAP-Pak), Lahore
- 7 Mr Qadeer Baig  
NGO Resource Centre (NGORC), Karachi
- 8 Ms Zubeda Jalal  
Federal Minister for Education, Islamabad
- 9 Mr Omar Asghar Khan  
Federal Minister for Local Government and Rural Development, Islamabad
10. Dr Mushtaq Ahmed Khan  
Federal SAP Coordinator and Member, Planning Commission, Islamabad
11. Mr Shahid Khan  
Director General, Voluntary Social Welfare Agencies, Government of  
Punjab
12. Mr Shafiullah Khan  
Chief Health/SAP Coordinator, Planning and Development Department,  
Government of NWFP, Peshawar
13. Mr Saif-ur-Rehman Grami  
Director, Social Welfare, Karachi Metropolitan Corporation, Karachi
14. Prof. Ghafoor Ahmed  
Naib Amir, Jamat-e-Islami, Karachi
15. Mr Raza Rabbani  
Deputy Secretary General, Pakistan People's Party, Karachi
16. Mr Sartaj Aziz  
Former Secretary General, Pakistan Muslim League, Islamabad

17. Ms Seema Baloch  
World Bank, Islamabad
18. Ms Osaku Okai and Mr Sardar Wasimuddin  
Chief Economic Section and Senior Economic Consultant,  
Royal Embassy of Japan, Islamabad
19. Dr Shahrukh Rafi Khan  
Sustainable Development Policy Institute, Islamabad
20. Prof. Sarah Safdar  
Chairperson, Department of Social Work,  
University of Peshawar, Peshawar

### REFERENCES

- Hussain, Maleeha (1996) *Government/Donor/ NGO Collaboration: Lessens Learned and the Action for the Future*. United Nations Development Programme, Pakistan.
- International Centre for Not-for-Profit Law (1996) Comments on the Draft Social Welfare Agencies (Registration and Regulation) Act, 1995, Government of Pakistan, Ministry of Social Welfare and Special Education. Prepared for the World Bank.
- Social Policy and Development Centre (1997) Review of the Social Action Programme. Karachi. (Research Report No. 16.)
- Social Policy and Development Centre (1998) Financial Sustainability of NGOs: Proposals for Federal Budget 1998-99. Karachi. (Policy Paper No. 13.)
- Social Policy and Development Centre (1999) *Social Development in Pakistan: Annual Review 1999*. Karachi: Oxford University Press.
- Social Policy and Development Centre (2002) Dimensions of the Non-profit Sector in Pakistan (Preliminary Estimates). Karachi. (SPDC Working Paper No. 1.)
- Social Policy and Development Centre (2002a) Law and the Non-profit Sector in Pakistan by Zafar H. Ismail. Karachi. (SPDC Working Paper No. 2.)
- Trust for Voluntary Organisations (1999) *Annual Report*. Islamabad.

### EXPLANATION OF ABBREVIATIONS

AAC	Accounting Aid Centre
ADB	Asian Development Bank
AKDN	Aga Khan Development Network
AKF	Aga Khan Foundation
AKRSP	Aga Khan Rural Support Programme
CBO	Community Based Organisation
CBR	Central Board of Revenue
CIDA	Canadian International Development Agency
CSO	Citizen Sector Organisations

- EAD Economic Affairs Division
- HRC Human Rights Commission
- IBA Institute of Business Administration
- ICNL International Centre for Not-for-Profit Law
- IFI International Financial Institution
- ILO International Labour Organisation
- IPRSP Interim Poverty Reduction Strategy Paper
- IUCN International Union for the Conservation of Nature
- MSDP Micro-finance Sector Development Programme
- NGO Non-governmental Organisation
- NGORC NGO Resource Centre
- NIPA National Institute of Public Administration
- NPO Non-profit Organisation
- NRSP National Rural Support Programme
- NWFP North West Frontier Province
- OPP Orangi Pilot Project
- PCP Pakistan Centre for Philanthropy
- PDP Participatory Development Programme
- PHED Public Health Engineering Department
- PILER Pakistan Institute of Labour Education and Research
- PML Pakistan Muslim League
- PMN Pakistan Micro Finance Network
- PPAF Pakistan Poverty Alleviation Fund
- PPP Pakistan People's Party
- RSPN Rural Support Programmes Network
- SAP Social Action Programme
- SDPI Sustainable Development Policy Institute
- SPDC Social Policy and Development Centre
- SPO Strengthening Participatory Organisation
- SURF South and West Asia Sub-Regional Resource Facility
- SWO Social Welfare Organisation
- TVO Trust for Voluntary Organisations
- UN United Nations
- UNDP United Nations Development Programme
- UNEP United Nations Environment Programme
- UNESCO United Nations Educational, Scientific and Cultural Organisation
- UNGASS United Nations General Assembly Special Session
- UNICEF United Nations Children Fund
- UNIFEM United Nations Development Fund for Women
- USA United States of America
- USAID United States Agency for International Development
- WHO World Health Organisation

## Comments

This paper is the second in a series of three Working Papers commissioned to the *Social Policy and Development Centre* by the Aga Khan Foundation and the Centre for Civil Society Studies at the Johns Hopkins University, as part of the Comparative Non-profit Sector Project of the latter University.

The paper deals with the role of non-profit organisations, an issue of vital importance to the contemporary development discourse, and of particular relevance to the Pakistani polity given the objective of non-profit organisations to promote democracy, and to enhance the quality of human life. I would like to congratulate the authors for their exhaustive exposé of the status of the non-profit sector in Pakistan, and their examination of its successes and failures in influencing policy-formulation. The paper discusses the attitude, and the extent of government support lent to the process and growth of the non-profit sector in the country and reviews the major issues facing the sector.

The participation of the citizen sector in development is coming to have a profound impact on the manner in which socio-economic problems are beginning to be tackled. Although there has been a tradition of citizen involvement in the resolution of socio-economic problems in this part of the world, the term civil society has gained currency only in the recent past. An assessment of the sector in terms of government policy over the last two decades hence is a timely exercise. The new roles and inter-relationships of the citizen sector that have evolved since the 1980s bear witness to the emergence of a “development governance” paradigm, in which citizens are encouraged to play a role in activities involving their own welfare. The importance of the role can be appreciated by the fact that in the end it is the masses that make history. In order to realise the potential of the new paradigm however, relevant social institutions need to be nurtured and enhanced. The latter point however has not been sufficiently developed in the paper. The authors mention it only in passing.

The paper discusses the various types of non-profit organisations, and the corresponding differences in government policies with reference to these organisations. The focus of the discussion for the most part remains on the development NGOs that address structural disparity and the institutional weaknesses which breed socio-economic inequality. In this context, the authors call for improvements in the areas of population growth, nutrition, health, and education. Crucial to improvements in these areas however, is the problem of governance and deficient service delivery, in which civil society organisations play a fundamental role. The term Civil Society (as noted in the Country Report prepared by Rabia Baig and Adnan Sattar for the CIVICUS Index on Civil Society by the NGO Resource Centre, Aga Khan Foundation, Pakistan, 2002) moreover, covers a range of non-state

and non-market citizen organisations and initiatives. It includes networks and alliances, operating in a broad spectrum of social, economic and cultural fields. The authors however ignore the necessity of incorporating evidence from these marginalised histories and cultures in their expose.

As regards the values, norms and attitudes that civil society represents and propagates, the paper refers to the concepts of ‘community participation’, ‘people’s empowerment’, and human rights (in which context mention is made of minority and women’s rights, human exploitation engendered by bonded labour, displacement of populations, and human rights violations in terms of extra judicial killings, torture by state agencies etc.). However, what is not pointed out is that civil society is far from homogeneous in terms of values, and there is a dichotomy between the values held by modern Civil Society Organisations, and informal or folk sub-sectors. Unlike the common vision and goals pursued by the majority of civil society organisations, *jirgas* for instance, sanctify centuries old feudal and tribal systems, such as honour killings, and bonded labour etc. The contradiction in values of the “organically” (ibid.) created organisations, as compared the hybrid pre-capitalist social forms that subscribe to the logic of an earlier traditional system, are neither distinguished, nor highlighted in the paper.

Although the authors point out that “the non-profit sector remains relatively small and underdeveloped” and mention the “shift in the government policy”, the overall impact of civil society initiatives needs to be gauged by the fact that CSOs are now accepted as partners in social and economic development. Their impact however remains low on account of the inability to sufficiently influence public policy-making and monitoring. More needs to be made of the partnership between the public and the non-profit sectors. The judiciary moreover, needs to be strengthened, the private sector revitalised, and a coordinated effort made in collaboration with the NP sector for the achievement of a more just society.

The authors point out that proper monitoring and evaluation of the use of funds and improvement in the process of accountability will enable the NGO movement to grow in Pakistan. Hence, they advocate building of greater accountability without jeopardizing the autonomy of NGOs, especially with regard to funding, thus warding off intrusion by government, or attacks by hostile groups. The paper as such argues in favour of legal independence. What needs perhaps to be pointed out is that legal independence tantamounts to financial dependence, which in turn would impact on the sustainability factor, which is one of the main concerns of NGOs.

The lack of a social contract between the people and the state accounts for most of Pakistan’s governance and service delivery problems. Civil society organisations play a fundamental role in restructuring of systems and society. The importance of the engagement of the citizen in tackling social issues and in engaging with public authorities in establishing policy directions, especially in the exercise of

power hence cannot be minimised. Its value also cannot be diminished in view of the need for all governments to keep public expenditure as low as possible. This offers the opportunity for 'civic engagement' in all forms, notably in the establishment of foundations. Such an engagement however, also has the down side of the risk of subordinating civil society to the agenda of the state, an eventuality that requires further thought.

**Soofia Mumtaz**

Pakistan Institute of Development Economics,  
Islamabad