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Webinar
Brief 23:2021

Enabling Environment for Non-profit Organization in Pakistan

Challenges of Financial and Regulatory Mechanisms



**Pakistan Institute of
Development Economics**



PAKISTAN INSTITUTE
OF DEVELOPMENT
ECONOMICS

JOINT WEBINAR 4th February 2021

PAKISTAN CENTRE
FOR PHILANTHROPY



Enabling Environment for Nonprofit Organization

Financing and funding are the most important concerns of the civil sector in the wake of ongoing pandemic of COVID. A number of small sized NCOs rely on lump sum funding from a certain-local or foreign-source, as on-going pandemic has hit hard to every sector, civil society is also going through the hard times. In such difficult situations, if Government will not come forward to support them, many of these organizations will close their operation and then there is no replenishment. This session will focus on abovementioned financial resource constraints for NPOs to find quick solutions. Given this, the panel may deliberate on the following questions?

- ▶ Is the space shrinking for NPOs in Pakistan?
- ▶ What are the major legal and fundraising challenges for NPOs in Pakistan?
- ▶ What mechanism can be proposed to inform civil society regarding available indigenous funding sources?
- ▶ How to determine a direction to make secure fund-raising strategy?
- ▶ How public private partnerships can be promoted?
- ▶ What measures can NPOs take to better cope with the changing policies of the government?
- ▶ How and what media channel can be used to improve the trust deficit of public and government on NPO sector?



SCAN
TO JOIN
WEBINAR

AGENDA

7:00 - 7:10 PM

Welcoming Remarks
Speaker: Dr Nadeem ul Haq
Vice Chancellor
PIDE

7:10 - 7:25 PM

Speaker: Ms. Adeela Bukhari
Joint Secretary NGO/INGO
Economic Affairs Division (EAD)

7:25 - 7:40 PM

Speaker: Mr. Muhammad Naeem Khan
Additional Registrar
SECP

7:40 - 8:00 PM

Speaker: Ms. Shazia Amjad
Executive Director
Pakistan Centre for Philanthropy (PCP)

8:00 - 8:20 PM

Speaker: Mr. Hammad Naqi Khan
Chief Executive Officer
World Wide Fund, Pakistan (WWF)

8:20 - 8:40 PM

Speaker: Ms. Sabira Qureshi
Founder/ Managing Trustee
Pehli Kiran School Education Trust

8:40 - 8:55 PM

Question Answer Session

8:55 - 9:00 PM

Concluding Remarks
Dr. Nadeem ul Haq
Vice Chancellor
PIDE



PIDE Islamabad



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FIDE Official



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Non-profit organizations (NPOs) have become important in the last few years. Pakistan has tried to emulate the environment with the donors to create non-profit organizations. In Pakistan, NGOs and NPOs have grown and matured over time. The purpose of this webinar is to enlighten us about

- What are these non-profit organizations?
- What role do these non-profit organizations play in Pakistan?
- Are they involved in policymaking?
- Are they competitors to local organizations?
- Are they providing the service and what is the cost of their service provision?
- Where is the funding coming from?
- Is the government letting these NGOs compete against the university sector and kill the university sector?

Key points

- Non-profit organizations (NGOs), also known as a non-business entity, not-for-profit organization, or non-profit Institutions, is a legal entity organized and operated for a collective, public or social benefit which cannot distribute its profit among members in contrast with an entity that operates as a business aiming to generate a profit for its owners.
- NGOs are the supplement of the government efforts for socio-economic development but at the same time, their activities have to be regulated for the aid effectiveness. In the past decades, there was no mechanism to check the performance of such organizations.
- In the west and north, NGOs and NPOs are developed, more recognized, and more regulated sector.
- In Pakistan, NGOs and NPOs have grown and matured over time. According to the NACTA survey, 65000 NGOs were registered across Pakistan and most of them were not working or working without any address and offices. Today, only 16000 NGOs are working across Pakistan.
- The legal framework and the policy for organizations receiving foreign funding in 2013 were launched on November 25th, 2013 and there was no compliance and enforcement until 2017.
- Economic Affairs Division (EAD) has not received any applications in 2016. In 2017, EAD received 20 applications then the number increased in 2018. In 2019, EAD has received more than 200 applications. In 2020, EAD has signed around 300 applications. 132 applications have been regretted due to some security clearance and 400 are still under process.
- The government wants to facilitate the people who are doing good work and they want to stop the people who are bringing a bad name to the country. More than 50 percent are working in health and education and some of them are working on creating a public-private partnership. There are several NGOs that are guiding domestic violence; they are working on human rights, climate change, religious tolerance, and interfaith harmony. Media can also play a positive role and it can highlight the work of those NGOs which are providing certain assistance.
- One sector that is completely ignored is the university sector. The NGOs compete directly with the university sector. Donors refused to give funding to the universities and turned to the Securities and Exchange Commission of Pakistan (SECP).
- Asia Foundation, the British council, and Chamonix are also consulting firms and they get 150-200 million dollars. But in Pakistan, the entire university sector does not have 150-200 million dollars.
- EAD received several applications from the universities because universities are statutory bodies. Universities have been created under the parliament and they can access anybody for any funding and they don't need any registration. EAD deals only with the NGOs and non-profit organizations which are receiving foreign funding.

Laws and Regulations

- Very few laws regulated by SECP related to NPOs, like section 42 which covers the licensing and revocation, and section 43 which covers the post-revocations proceedings.
- Various measures have been introduced to mitigate the risks of money laundering and terrorist financing by NPOs which were licensed under the umbrella of section 42 of the companies Act, 2017
- Startup donation of Rs. 200,000 mandatory for subscriber members.
- Maintaining all the records of the donors, all the transactions, and of those who are the beneficiaries.
- Certification has to be issued by the auditor which will confirm all the funds at the time of renewal of licenses.
- The money, property, donations, or income would only be utilized to achieve the objectives by NPOs.
- To ensure the safety of the company's charitable assets maintenance of a system of sound internal control would be made.

Challenges and Risks Faced by NPOs

- The main challenge that is faced by NPOs is strict compliance requirements under SECP laws.
- The law also provides a strict monitoring regime which is not easy to meet by NPOs.
- Another important issue is related to the security clearance of foreign funding.
- In the cases of NPOs having foreign CEOs, directors are forwarded to the Ministry of Interior for security clearance which takes much time for approval.
- Maintaining transparency in funds receipt and utilization is still a challenge.
- NPOs' transport facilities may be used to transfer people, cash, weapons, etc.
- Partners may exploit NPO name/goodwill for nefarious purposes, relief may be provided simultaneously to genuine recipients and terrorist elements.
- Good Governance
- NPOs must undertake annual training of employees on anti-money laundering and combating the financing of terrorism (AML/CFT) issues,
- NPO regulations, challenges, and strategies, highlighting the repercussions of acting against national interests.
- Identification of every board member, whether executive or non-executive, and their screening against the United Nations Security Council Resolutions.
- AML/CFT policy to be approved by BOD and made public and reviewed annually.
- Commitment from the top is required to develop and enforce the policy.
- Considering a risk-based approach, NPOs may consider having an independent oversight committee for operational, financial, and risk oversight, including AML/CFT risks.
- Ensure transparency and financial accountability.
- Funds to be received through banking channels, dedicated bank accounts for receipts and separate accounts for the projects, joint signatories for operating bank accounts, identity of depositors and withdrawers to be ascertained, complete particulars of guarantees maintained.

Way Forward

- SECP is working for simplification of procedures and requirements of regulations. SECP is also acting proactively and maintaining balance in facilitating and regulating the NPO sector. Therefore, we may expect a well-groomed, prosperous, and transparent NPO sector in the coming days.
- The government needs to take a deeper look at financial regulations because cross-border financing for these organizations has shrunk.
- The government should ensure transparency and accountability for the national interests and the promotion of good work and stop anti-money laundering, terror financing, religious intolerance, and ethnic violence.
- Pakistan Centre for Philanthropy (PCP) is a non-profit organization registered with the Securities and Exchange Commission of Pakistan (SECP) and licensed under section 42. PCP can act as a facilitator between NPOs and the government for building trust and also create an active stakeholder consultation group to obtain inputs from them.
- More updated quantitative analysis is required to understand NPOs' challenges especially related to funding flows and utilization.
- NPOs play a significant role in Pakistan's development. The government needs to view them as partners, build trust and take them into confidence while developing future regulatory and compliance requirements.



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