Charity and the Trust Deficit

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Introduction

This paper was presented at the 2011 Takaful Conference in Amman, Jordan. This conference was held in the wake of the Egyptian revolution and the amazing awakening in the Arab World. The events following the Egyptian revolution have inspired movements worldwide and the effects are still being felt throughout the world. While the repression unleashed on the people in some countries is shocking and painful, the overall change that has been wrought in the psyche of the people and their leaders cannot be overstated. Repression may wreak havoc in the short term but the enduring spirit of the people will bring its own dividends in the long run.

Though on the surface the subject of this paper is philanthropy, it is really a call for generating indigenous resources in order to release honorable people from the shackles of servitude which indiscriminately borrowing nations put them in. These are resources that will help reduce the inequalities between the rich and the poor; inequalities which fuelled the recent uprisings in the Arab world. Socio-economic conditions which lead to the marginalization of the masses have to be addressed in an indigenous manner with local problems being resolved through local solutions. The values of human dignity, rights, responsibilities, equality and service entrenched in the Muslim psyche are now the hallmark of the modern world. If these values are to be truly revived in the Muslim world, they will need galvanizing by local initiatives. This can only be accomplished through partnerships with a robust civil society which has the ability and legitimacy to rise to the occasion and inspire the people. The lack of access to a reasonable level of success economically, socially and politically has to be replaced with a more equitable solution that will ensure honor and dignity for people, translating into the provision of services like education, health and poverty alleviation.

The voices of the Arab Spring demand rights for the people: they demand political freedom, the ability to make their own destiny; they demand an end to socio-economic inequality. However, all these aspirations need a reality check. They can only be achieved through a process, and that process necessarily has to involve the development of civil society, strengthen partnerships between the public and private sectors and make the government accountable.

Issues around the Continuum from Charity to Strategic Philanthropy

Strategic philanthropy is the cornerstone of charitable giving. This is especially true in the Arab/Muslim world. However, despite its huge potential in this region, philanthropy has not been effectively institutionalized. The continuing debate between giving to individuals for relief and giving to institutions for sustainability forms the defining ends of a continuum which is the subject of much debate and discussion. While it is not possible to proffer absolute choices to givers, the space between the two choices can yield a number of options.

The history of Philanthropy predates history itself. It has been the single most sustaining of activities for the dispossessed since times immemorial. Though the basic impulse for giving is largely faith based, it is essentially a moral urge that exists in human beings irrespective of school of thought, religion, color or creed. Helping humanity in distress is a basic part of every religious creed.
Philanthropy was practiced by ancient civilizations in the Middle East, Greece and Rome. One example was an endowment supported Plato’s Academy (c.387 B.C.) which existed for almost 900 years. In terms of institutionalized giving, the Islamic waqf goes back to 7th century AD. The medieval church was similarly involved in philanthropy during the 17th and 18th centuries. 17th and 18th century Europe engaged in philanthropy which received its modern day fillip in the 20th century when private foundations were able to mobilize millions of dollars for humanitarian needs. The 20th century witnessed the phenomenal rise and strengthening of these foundations. As profits in the corporate/financial sectors increased dramatically so too did the amount of funding they provided for the formal charitable sector. Much like in the preceding three centuries, the 21st is seeing further evolution in the relationship between the private sector and philanthropic organizations.

There is a both a historical and practical distinction between charity and philanthropy. Literature on the subject is now rich and diverse but quite clear on the difference. Charitable giving can be defined based on several categories based on individual, cultural, ethnic and religious preferences. There is a huge amount of giving taking place the world over; this giving has incredible potential not only in terms of absolute numbers but in terms of the qualitative change it can infuse in the lives of those who need it. It has the capacity to answer to the needs of the givers, recipients as well as the facilitators, all of whom are important protagonists in this rewarding enterprise. What these protagonists need to do is to find a suitable synergistic mix to move the process forward. Unfortunately poverty is increasing faster than efforts directed towards controlling or alleviating it. The underlying problem here is the need for sustainability which will impact poverty better than giving for immediate relief. However, giving for immediate relief is an integral and immensely important part of anti-poverty activity which arguments in favor of sustainability do not ignore. The sight of human suffering and deprivation is too intense to be relegated to concerns for future deals or future benefits alone.

While philanthropy has many different definitions, it is important to look at it in terms of a phenomenon that encompasses all kinds of giving and charity. In particular, how various forms are practiced by different cultural, ethnic and religious groups. The purpose is to address social issues which are inadequately remedied by the state, leading to a steady decrease in the humanity of those affected.

It is imperative that enhanced social and economic goods be produced to address these gaps. Such an approach is characterized as strategic philanthropy. Its practice leads the philanthropic impulse towards the creation of social assets. These assets can serve the needs of the populace by providing them with a reliable and a relatively steady source of necessary goods. The necessary goods generated by these assets include, but are not limited to, education, skills development, health and welfare. The recent rise of philanthropic organizations has created many opportunities to expand the practice of strategic philanthropy.

However, access the full realization of these opportunities still remains an issue, as does their adequacy of resources. The role of individual societies and social economic conditions enhances or diminishes the role and efficacy of philanthropic organizations. The changing economic and social development challenges facing the world demand collective action.

Governments are no longer able to single handedly fill the development gap that emerges due to a
lack of human and financial resources. As such, the significant gap between the rich and the poor remains largely unaddressed. This is a global truth. What is most important is the development of partnerships across society for increased contributions both material and technical.

Within the Muslim world, the divide is all the more obvious when we consider the wealth of nations and the impoverishment of the masses. Luckily, there is now greater awareness that these inequities have to be addressed. The world is looking closely at the potential of the Muslim world to develop the philanthropic paradigm. Financial estimates range from 500 billion dollars to one trillion dollars per annum accruing to the organizations. Philanthropic organizations across multiple sectors are supremely interested in opportunities and solutions to multiply these assets and increase their potential for investment into social sectors. We have to weigh all such approaches with care and caution.

New development strategies are replacing conventional approaches as the world moves towards accommodating rights based actions for social and economic development. While pervasive poverty and inequity remain the root cause of social problems, there is an enormous opportunity for positive change through synergistic use of resource and organizational partnerships.

Such an approach can flourish only in an atmosphere of mutual trust and confidence. One of the major obstacles to institutionalized philanthropy is the lack of trust between the giver and the receiver. Civil society is assuming a definitive role in social development and governments are beginning to recognize the need for meaningful partnership with civil society organizations (CSO). Such a partnership is necessary to effectively bridge the social development gap because neither party is able to achieve this in isolation. As such, there is a need for a strategic approach towards building the capacities of civil society and promoting civil society organizations as a credible source for, and partner in, development. Civil society, in turn, needs to engage with the private sector which has access to vast resources as well as an interest in socio-economic development.

The following is a description/presentation of an institutional program that seeks to lend credibility to the work of CSOs and strengthen the partnerships that they are capable of making by examining their governance structures, financial management systems and program delivery services to certify them for ultimate tax exemption by the government. Such a program exists in Pakistan as well as other parts of the world. Different countries’ models were studied before the PCP program was launched. These studies will also be reviewed.

**The Pakistan Centre for Philanthropy (PCP)**

The Pakistan Centre for Philanthropy’s mission is to increase the volume and effectiveness of philanthropy on social development in Pakistan. To achieve this, it works towards strengthening the partnership between the three sectors of society (private sector, civil society and government) to work together in achieving the common goal of social development. The focus of PCP’s philosophy is on partnerships. Partnerships need a platform of trust and confidence in order to prosper, especially when partnerships deal with significant amounts of money that is being funneled into social development. In order to build this confidence the needs of the respective parties must be met. The donors need to be confident that their contribution is reaching the correct beneficiary, the beneficiaries’ needs have to be analyzed and addressed in a rational manner and a suitable
guarantor needs to be identified whose guarantee holds both moral and administrative power. The tri synergistic partnership which PCP promotes is divided as follows:

1. Partnership with civil society

The role that civil society plays in filling the social divide has now been transformed into a paradigm of development.

The size, scope and capacity of civil society organizations working for public benefit have expanded dramatically. While informal activities especially of a self help and mutual support kind have characterized village life for millennia, formal organizations were few and far between in our part of the world and confined to a narrow range of relief and welfare activities. This spectrum has now broadened to include around 45000 organizations employing about 300,000 workers and engaging 200,000 full time volunteers in activities ranging from the traditional to the specialized. The role and the functions of Government have also undergone a phenomenal change. The State is shifting from being a monopoly provider of social services to creating an enabling environment for a variety of non state actors to deliver a variety of important social services. The state is thus moving towards becoming a facilitator rather than a controller. Such an approach is bound to unlock significantly greater contributions to national development by civil society partners than has happened in the past. Such an approach is likely to give incentive to business and individuals to move towards social investment through civil society organizations thus unlocking its own scarce resources for more efficient and effective management. (i)

Civil society is recognized as the most effective vehicle for supporting the needy and providing services during emergencies while state institutions are still in the process of being mobilized. There emerged startling evidence of this phenomenon during the numerous natural disasters which have hit Pakistan. Two prime examples of this are the earthquake of 2005, which killed 73000 people and left many more crippled, homeless and destitute and the floods of 2010, termed as the greatest natural disaster the world has ever faced which left 20 million homeless and destitute and thousands dead and washed away. Both calamities destroyed not only people but also any basic infrastructure which may have existed. It was the civil society organizations and individual donors who were the first to reach the site of these calamities; they remain committed to the rehabilitation of the affected masses. The government tried very hard to play its part but the tragedies were of such a massive scale that it was not within the power of any government to single handedly address the people’s needs. It is interesting to note here that the assistance which Pakistan received from the countries of the world included extensive civil society intervention in terms of cash, goods and time volunteered.

Civil society, while being a critical resource, is at times the subject of criticism and mistrust. There are always exceptions to the rule of honesty and integrity. Such exceptions create a climate of distrust and lack of confidence. The diversity in the foci and sizes of CSOs plays a part in this perception. The ability that these organizations have to both assess and address the needs of their constituents cannot be found with any other actor in the social development field; this is the source of their immense value and potential. They are staffed by committed individuals whose objective is to redress the rampant inequities of society at whatever scale they can handle it and partners in these efforts must recognize the spirit and its worth and find ways and means of supporting them.
2. Partnership with the Private sector

The private sector is the repository of much entrepreneurial wealth which places a social responsibility on its shoulders to share that wealth with the society that helped generate it in the first place. Many private/corporate organizations have now established social sector financial institutions or charitable foundations of their own to channel their giving while also developing corporate social responsibility portfolios. However, they still need the help of CSOs to deliver services in thematic areas of their choice to geographical areas selected by them; it is not always possible for them to reach grass roots level populations on their own. Their purposes are better served by engaging CSOs in terms of service delivery as well as saving themselves the cost of creating establishments which would drain funding for social development. The private sector, though wary of government intervention, is not averse to government support for establishing civil society sector credentials.

3. Partnerships with donors

Donors can be national or international. However, their defining requirement is a proof of capacity and the ability to deliver services with credibility and efficiency. Many donors institute their own evaluation mechanisms which increase delivery costs which reduces funds available for the actual projects. In order to avoid this, the donors need to be convinced that the delivery channels selected for their projects are secure, effective and reputable.

4. Partnership with Government

The Government is the most potent guarantor for any activity. This is evidenced by the many sovereign guarantees our governments extend for securing substantial foreign loans. Additionally, those guarantees are accepted irrespective of the financial solvency of the governments extending them. So, if there exists a government guarantee, the civil society sector is reasonably assumed to be effective.

The Trust Deficit

The trust deficit is based not only on suspicion but on a lack of information about the protagonists of the social sector development enterprise. The two major stake holders, the government and CSOs operating for public benefit, distrust each other. This credibility gap mars all interaction between the two. This was exemplified during PCP’s consultations with stakeholders.

The reasons for a lack of trust are manifold and some have already been discussed. However, donors, no matter the size of the donation, seek an insurance policy before committing their money for altruistic causes. The donors have a responsibility to themselves, their organizations, their own ideologies and raison d’ etres to ensure that the subject of their largesse is well defined, deserving and focused in its endeavors. Additionally, donors need a guarantee that CSO projects possess the succor needed to achieve their stated ends. The onus of responsibility for providing proof that these needs are being met lies not with the donor but with the implementing partners, who have to establish their credentials and provide a guarantee to the donor through transparency and detailed record keeping. There are many CSOs which are recognized purely by their work
and do not need any props for generating support. In Pakistan, the Edhi Foundation, the Shaukat Khanum Cancer Hospital, the Layton Rehamatullah Benevolent Trust, the Al Shifa Eye Hospital, and the Citizen’s Foundation are all prime examples.

The search for credibility has been a recurring theme throughout literature on philanthropy. Some countries have addressed this problem by regulating CSOs through state institutions. CSOs, on the other hand, have never approved of such regulation; the idea of state regulation is abhorrent to them. As both the government and CSOs have legitimate arguments, this point will be explored further in the context of Pakistan.

In September 2001, the government of Pakistan commissioned the PCP to undertake a study of all laws pertaining to civil society organizations, especially non-profit organizations working for public benefit. A country-wide consultation was launched with a broad range of stakeholders to ascertain their views on the present systems and seek suggestions for improvements towards good governance, transparency and accountability. The center set up a team of prominent national and international experts who participated in more than 65 consultations and meetings across the country, engaging more than 2200 participants. Diverse perspectives, rigorous analysis, reflective deliberations and intense debate characterized the exercise undertaken by PCP. These consultations produced a consensus-based legal framework for the growth and development of CSOs operating in the public interest. However, despite the transparent and participatory process, civil society in the final analysis denied the validity of the framework and opposed any regulation that was even proposed, yet alone recommended. The larger CSOs were not willing to accept any kind of a regulatory system that would hold them accountable in any way.

The results reflect a clear reflection of lack of trust: civil society to accept any formal regulation even when the framework was established by non-governmental stakeholders. In response, PCP started work on a volitional certification program which in order to establish CSO reputability by basing this credibility on their performance as well as the soundness of their systems.

The NPO certification programme was at the centre of controversy when it was initiated. Many civic groups questioned PCP’s mandate to certify independent and self governing organizations. Government agencies and donors were sceptical whether a certification scheme would gain the necessary legitimacy and scale. Business donors favoured their own due diligence mechanisms and were keen to retain their own independence and discretion. Since its inception however, the certification scheme has gained legitimacy among many of those who have been involved with it from government, civil society and business.

Given the suspicion between stakeholders, government, civil society and donors, it was exceptionally difficult for PCP to convince all these actors to accept the process. PCP strengthened its case by asking for a role that would imply total volitional response from the civil society sector. The government had long been unable to circumvent its reputation of being too willing to grant of tax exemptions to CSOs. In Pakistan, an organization registered as a non-profit organization working for the general public good is granted tax-exempt status by the Federal Board of Revenue (FBR). The PCP proposed a partnership with the FBR under which organizations evaluated and duly certified by the PCP would be given tax exemption. The PCP proposed a certification regime
that would be: eclectic in nature; would draw upon best international practices; develop a scoring system that would take local environments into cognizance. This regime would deliver an assessment of the CSO governance systems including management, finance and program delivery to show the transparency and efficiency with which they worked and were able to deliver.

Overview of Certification Internationally

Over the past 10-15 years, certification mechanisms have been initiated in many countries as a means to promote transparency, accountability and good governance. Recently conducted research studies provide ample evidence of the value added by certification as a mechanism for improving systems and processes in non-profits as well as for providing credibility assurance to donors about recipient organizations. In some cases, certification programs are also recognized by the governments, such as mechanisms which grant tax exemptions. For example, the AusAID Accreditation Scheme is mandatory for all Australian NGOs eligible for government funding. The accreditation process is designed “to provide AusAid and the Australian public with confidence that the Australian government is funding professional, well managed community based organizations that are capable of delivering quality development outcomes.” (ICNL) AusAid considers its accreditation program to be a “front end risk management process.” (ICNL) The accreditation process has two parts: an organizational review and a financial systems analysis.

In the Philippines, the certification mechanism is linked to tax benefits and is carried out by a designated independent accreditation agency, The Philippines Council for NGO Certification (PCNC). PCNC evaluation criteria include standards in the following categories: Vision, Mission, Goals, Governance, Administration, Program Operations (including monitoring and evaluation), Financial Management and Networking.

In Canada, a self-certification program ‘Code of Ethics’ is mandatory for all members of the Canadian Council for International Cooperation, an international civil society cooperation umbrella network.

Each type of accreditation/ certification mechanism has strengths and weaknesses, depending on the context in which it operates. Self-certification is certainly low-cost and easy to administer. However, the effectiveness of this mechanism depends to a large extent on the rigor with which the self-evaluation is carried out. By comparison, certification by a professional agency provides the best assurance of quality in service delivery, but is expensive to implement.

In India, Give India maintains a web-based donation service through which donors may contribute online to certain not-for-profit organizations of their choice. In order to receive on-line donations through the “Give Online” site, an organization must meet selection criteria established by Give India. Specifically, an organization must be: a registered nonprofit which implements social development projects in India, politically unaffiliated at least 50% of its beneficiaries must be economically underprivileged, it must meet standards established by the “Credibility Alliance,” and it must be “willing to provide prompt feedback for the donations” that are made. The process for selection involves submission of an application which requires substantial disclosure in terms of financial reports and legal documents as well as an appraisal according to Credibility Alliance norms and an on-site visit.
The Credibility Alliance is a consortium of voluntary organizations and networks. Its norms are divided into “minimum norms” and “desirable norms,” both of which must be met by organizations listed on the website. There are 25 minimum norms, which focus on, among other things: board governance; consistency of activities with the organization’s mission; the existence of appropriate systems for planning, monitoring and review; internal control and consultative decision-making; clearly defined rules for personnel, including volunteers; appropriate financial and annual reporting. Desirable Norms require: that 2/3 of Board members be unrelated by blood or marriage; that a board rotation policy be in effect; disclosure of key executive staff’s salary and benefits; the distribution of staff by salary levels is disclosed in the organization’s annual report.

In the USA, the Maryland Association of Nonprofit Organizations (MANO) has established a “Standards of Excellence as an Ethics and Accountability Code” for the non-profit sector. MANO is a state-wide membership organization of more than 800 nonprofits devoted to strengthening and improving “individual nonprofit organizations and the nonprofit sector as a whole, while also working to bolster public confidence in and support for nonprofit organizations.” By establishing high, mutually agreed-upon standards in ethics and accountability, MANO has been able to raise public confidence and support for the non-profit sector in Maryland.

MANO began its ethics initiative in the wake of several national scandals involving improprieties by charities in the United States. After receiving a major funding commitment from the Charles Stewart Mott Foundation as well as other philanthropic organizations and corporations, the organization formed a 50 member working group. The working group consisted of NGO representatives, academics, lawyers, and other professionals, with subcommittees devoted to self-regulation, sector education, and public education. Over the following year, the working group conducted research and analysis of other regulatory frameworks, self-regulatory programs, educational initiatives, and public service campaigns. After completing the research phase, the working group drafted the Standards of Excellence as an Ethics and Accountability Code and designed a self-regulatory program as well as developed education and public relations plans.

**PCP Certification Program**

1. The Context

Nonprofit organizations (NPOs) have recently grown in importance throughout the world. It is generally recognized that social development cannot be achieved by government alone but requires broad-based, public and private partnerships, which involves ordinary citizen at all levels of society.

In Pakistan, the nonprofit sector has emerged as a significant force in promoting social and human development in the last decade. Nonprofit organizations are considered invaluable partners within the international donor community because of their ability to effectively deliver social services such as education, health, poverty alleviation, or rights advocacy. The diverse reforms being implemented in Pakistan, which include an enhanced role for the CSO sector, depend on effective relations between state institutions and civil society, especially NPOs. The Government of Pakistan’s (GoP’s) Poverty Reduction Strategy Paper (PRSP) spells out the measures needed to build the capacity of nonprofit organizations so that they may assume their role in building partnerships...
for both service delivery and as advocates for the poor. However, with the rapid growth of civil society and its emergence as a key player in the development agenda, nonprofit organizations are facing many new challenges. As they seek to diversify and develop their resource base, nonprofit organizations increasingly realize the importance of putting in place mechanisms which guarantee transparency, efficiency and good governance.

Multiple consultations undertaken by PCP have time and again indicated that the lack of information about NPOs is one of the major impediments to the expansion of their development activities. However, the need to improve accountability and transparency is a worldwide concern and not limited to Pakistan. Different approaches and solutions are being tried out in a variety of contexts; they all have the common goal of improving accountability, financial transparency, governance and program delivery.

2. The case for certification

In Pakistan, this includes the codes of conduct developed by various NGO networks (i.e. the one developed by Pakistan NGO Forum [PNF] a few years ago). Establishing such codes is a significant effort towards self-regulation as well as improving governance and transparency for NGOs. However, compliance remains a problem; many NGOs are not serious about adhering to standards so progress has remained minimal. In the absence of any enforcement mechanisms, the voluntary codes of conduct fall far too short of having a noticeable positive influence on the state of governance in the nonprofit sector and improving their public image.

PCP’s second initiative was titled “Nonprofit Organizations Certification Program.” Certification is a system where NPOs are voluntarily evaluated by an external agency based on standardized parameters. This not only provides critical and credible information about evaluated NPOs to a range of stakeholders, but also helps NPOs to streamline their internal systems and mechanisms in accordance with international best practices.

Certification is particularly valuable in the context of Pakistani because there are a large number of citizens’ organizations working for public benefit absent any reliable mechanisms to establish credibility. Corporate and other philanthropists have neither the means nor the time to thoroughly assess these organizations’ capacity and quality. Therefore, identification of credible organizations is essential in order for the government, corporate sector and other funding agencies to manage their assistance and to increase credible organizations’ access to support for their program.

3. Certification experience in Pakistan

In Pakistan, the Government entrusted to PCP the task of development of a certification and accreditation regime for NPOs. Mr. Shaukat Aziz, the then Finance Minister, announced the proposed reform in the 2003 Finance Bill (Para 34):

In order to assist in the creation of a credible rating list of NPOs, the income tax law contains the provision of non-government professional evaluation of the NPOs for entitlement to tax privileges. The Pakistan Centre for Philanthropy has therefore been assigned the initial responsibility for setting up a hierarchy for evaluation of the NPOs seeking ben-
efits under the income tax regime. They would operate against a transparently laid down
criteria delivered by qualified professionals. It is hoped that in due course of time other
rating agencies will also come into being on need basis to perform the same job.

The same commitment was more loudly pronounced in the PRSP (2003; Para 5.190 - 5.191):

The poverty reduction strategy recognizes the significant role that NGOs can play in
social service delivery, advocacy, and empowerment. However, the arrangements do
not exist to identify credible Not-for-Profit Organizations (NPOs) that can be trusted for
contributions from corporate philanthropists towards social investment. Certification of
NPOs will help bridge that gap. As a first step, the Government has authorized the PCP
for such certification.

A formal Memorandum of Understanding was also signed in 2003 between PCP and the Gov-
ernment of Pakistan’s Revenue Division. In pursuance with the mandate provided by GoP, PCP
undertook an extensive research and consultation exercise to develop the certification standards
and process. The year-long process involved in-depth analysis of registration and taxation laws
in Pakistan, comparative examination of various certification regimes in other parts of the world,
study of codes of conduct developed by NGO networks in and outside Pakistan, and nation-wide
consultations with key stakeholders (most notably, NPOs and corporate and international donors).
The product was the Certification Model, which contained process and standards for certification.
The standards (72 in all) were grouped together in three broad categories: internal governance,
financial management and program delivery. The Model is available on PCP’s web site (www.pcp.
org.pk) and has been formally approved by the Federal Board of Revenue (FBR).

PCP also undertook the task of implementing the certification regime and was formally authorized
as Pakistan’s first NPO Certification Agency (Appendix 1). In 2002, through a series of amend-
ments in the Income Tax Rules, the CBR linked tax exemptions to evaluation and certification by
an independent certification agency.

Since December 2003, PCP has received 485 applications from a very diverse range of NPOs
including large networks and umbrella organizations (like Pakistan Micro-finance Network) and
small-scale community initiatives (like SESWA). The Centre evaluates about 8 -10 NPOs every
month and by, June 2005 had certified 206 NPOs. Brief organizational and program profiles for
each of these NPOs can be found on PCP’s website.

Certification is awarded after a very rigorous and detailed evaluation which requires 15 - 20 per-
son days of investigation spread over a period of two months. Two basic instruments of evalu-
ation - the desk review and field evaluation - are applied. Desk review involves examination of
documents furnished by the NPO. Then, a team of experienced and trained evaluators visits the
organization (including any branches or facilities/ outlets) as per a mutually convenient program,
conducts a review of field records, critically evaluates program delivery, and scores the NPO on
relevant parameters. Observations from desk review and field evaluation translate into a detailed
evaluation report, containing strengths and weaknesses of the organization. Professional advice
is also provided to the NPO to help improve weaknesses. The report is shared with the applicant
NPO for feedback. Then it is presented to an independent Certification Panel , which has the final
authority to grant or refuse an NPO's request for certification. (For a description of certification process, see Appendix 2.)

4. Response from stakeholders

The response from corporate, international and Diaspora donors has been very positive. They have welcomed certification as an important strategic initiative to improve governance and transparency in the nonprofit sector and to provide credible information about potential recipients of their support. International donors are now asking for PCP certification as a preferred qualification for CSOs seeking funding, while some donors both national and international have made it a prerequisite. Some major Pakistani corporations and networks have already approached PCP for evaluation of their current and prospective partner organizations.

An issue of concern to many donors, as well as PCP, is the increasing pressure placed on PCP as it is currently the only certification agency. For this reason, PCP is reluctant to proactively approach additional donors who require their NGO partners to undergo certification since PCP may not be able to meet the demand.

The GoP relies on certification as the sole mechanism to strengthen governance in the nonprofit sector in Pakistan. GoP support also manifests itself in its representation on the Certification Panel, financial support for certification through the Ministry of Social Welfare (MoSW), PCP engagement for FBR capacity building, and PCP’s representation on a number of official forums and committees.

The FBR and its Zonal Commissioners accepted certification by PCP as sufficient and necessary proof of good performance by an NPO in achieving its aims and objectives during the last three years. This trust speaks to the confidence FBR possesses in this rigorous evaluation process as well as the value it adds to government’s work for channeling tax benefits to NPOs with a credible track record.

The response from the civil society sector itself has been mixed, at least initially. Some prominent NGO leaders (including those belonging to PNF) have questioned the utility of certification in view of the existence of voluntary codes of conduct. Their concerns also include PCP’s capacity and legitimacy to certify other organizations. They also consider certification as an exclusionary regime.

However, the bulk of NGOs (including most members of PNF, especially its provincial chapters in Punjab and NWFP), have expressed their full support for this initiative and view certification as a window of opportunity to diversify their resource base and to access increased philanthropic assistance. Many NPOs feel that certification helps them to obtain tax exemptions, saving them from the arbitrary and subjective discretion of the tax authorities. Overall support from the sector is increasing, as demonstrated by the influx of applications to PCP.

5. Lessons learned

The evaluation experience of the past few years has revealed that governance is a major issue in the nonprofit sector. Internal governance structures are weak and personalized. Too often, the
governing body is either nonexistent or fails to perform its policy-setting and supervisory role. Policy decisions are frequently left to the chief executive officers, who then work without clear accountability to the governing body. NPOs’ credibility is eroded and scarce development funds wasted. NPOs’ ability to deliver services innovatively and to sustain development advocacy is hampered.

As the role of the nonprofit sector in social development increases, its capacities must also be augmented to increase its efficiency and effectiveness. Several capacity-building organizations are working to do this. However, there are no clear standards and benchmarks for performance. Because it is semi-formal, the nonprofit sector does not adhere to sector-wide standards of governance, financial management, and program delivery. The certification standards not only constitute such benchmarks, but also incentivize adoption of and adherence to these standards by linking certification with a range of benefits.

6. Goal and objectives

The goal of NPO certification program is:

- To strengthen the nonprofit sector in Pakistan

The objectives of NPO certification program during 2006-09 are:

- To set sector-wide standards in critical areas of internal governance, financial management and program delivery
- To bridge the information and credibility gap between grant makers and grant recipients
- To help professionalize grant making of various categories of donors (national and international)
- To build NPOs’ capacity to meet international quality standards, GoP supports NPOs through tax incentives but does not have the required capacity and institutional mechanisms to evaluate their governance and financial attributes. Though FBR (and its Zonal Commissioners) scrutinize applications before allowing tax benefits, it does not have an objective system capable of yielding reliable information based on a transparent and professional process of evaluation. Through an amendment in the 2002 Income Tax Rules, tax authorities are obliged to apply the same parameters as developed by PCP. However, the FBR and its subordinate offices lack the capacity and the will to meet the rigor of a truly comprehensive evaluation. The system of standardized evaluations for performance assessment is also new to them. Therefore, the capacity of relevant FBR officers needs to be expanded so that they understand the new tax exemption regime and the process and parameters of performance assessment. Such capacity building efforts would help the FBR to target its tax incentives at professional, well-managed and transparent NPOs in addition to helping NPOs to obtain tax exemptions.

PCP’s experience with certification clearly illustrates the continued need for further expansion of the certification system and for refinement of process and standards for validating NPOs. Also important is the communication and dissemination of information; linking certified organizations with national and international donors (individuals and organizations) remains the overarching aim in strengthening Pakistani civil society.
The conventional to strategic continuum will always exist in the context of philanthropic giving. Accepting this, philanthropic actors must focus on pursuing as many sustainable solutions for social development as possible. There cannot be a sense of finality enshrined in any approach. The answers will be found in the effort, commitment and dedication of actors. Philanthropic actors must remain committed to sustainability by moving from individual to institutional; from charity to social development; from foreign dependence to indigenous resources.

Works Cited

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• Internal PCP documents
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End Notes