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# The Global Philanthropy Environment Index Pakistan

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## QUICK FACTS

**Legal forms of philanthropic organizations included in the law:** Company Limited by Guarantee, Foundation, Trust, Society, Association, Cooperative

**Five main social issues addressed by these organizations:** Basic Needs, Education, Food, Human Rights, Water and Sanitation

**Average time established by law to register a philanthropic organization:** 61-90 days

**Average cost for registering a philanthropic organization:** USD 600

Registration fee under the Societies Registration Act, 1860, is PKR 500 (approximately USD 3), registration under Section 42 of the Companies Ordinance, 1984 costs PKR 25,000 (approximately USD 152). In addition, consultants' additional charges vary between PKR 50,000–PKR 300,000 (approximately USD 300–USD 1,820) to complete the formalities involved.

**Government levels primarily regulating the incorporation of philanthropic organizations:** Central/Federal Government, State Government

Overall, the law and regulatory body may be divided into various categories. Firstly, there are those that primarily covers the registration, internal governance, and accountability of organizations; second, other policies cover financial requirements and management; and the third category covers the reporting relationship between the state and these organizations with respect to their operations or the manner in which they treat their employees. Additionally, the Federal Bureau of Revenue (FBR) monitors and regulates financial operations, while the Economic Affairs Divisions (EAD) deals with the issues related to foreign funding and foreign donors at the federal level.

Nonprofit organizations (NPOs) are governed by the law through which they are registered and the internal governance is controlled by their own constitution, memorandum, rules, or bye laws that were submitted for registration or as amended and approved thereafter. NPOs can also seek

licenses from Securities and Exchange Commission of Pakistan (SECP), a federal body that regulates companies in Pakistan.

**Philanthropic Environment Scores:**

Year	Ease of Operating a PO	Tax Incentives	Cross-Border Philanthropic Flows	Political Environment	Economic Environment	Socio-Cultural Environment	Overall Score
2022 GPEI	4.00	4.00	3.50	4.50	3.00	4.00	3.83
2018 GPEI	3.67	3.50	3.00	3.50	N.A.	4.00	3.53

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

## Key Findings

### I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

*The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.*

Question One: To what extent can individuals form and incorporate the organizations defined?

<b>Score: 4.0</b>
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In Pakistan, individuals are free to register organizations, foundations, associations, and NPOs (Articles 15-17 of the Constitution of the Islamic Republic of Pakistan) under the relevant section of the companies' ordinance and the Companies Act, 2017. The government has very little interference on the type or purpose of registering organizations. However, philanthropic organizations (POs) can register under different laws and function in consonance to a different set of provisions provided for in those laws. Different laws under which POs can be registered in Pakistan include: the Companies Act, 2017; the Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961; the Societies Registration Act, 1860; and the Trust Act, 1882. If any organization fulfills all legal requirements and complies with government regulations, then they will not face interference from the government. Upon registration, the governing body of the organization is permitted to operate independently without direction from the government.

Nonprofits seeking licenses from the SECP are eligible to operate throughout the country. Organizations pursuing a license from SECP must have certain systems and procedures in place. The SECP registration process is relatively lengthy compared to the registration process under other laws. Other types of philanthropy organizations can seek registration to operate at the provincial or district level. In Pakistan, organizations usually seek registration under the Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961, the Societies Act, 1860 or the Companies Act, 2017. POs that aim to operate nationally must register with the SECP and seek all necessary clearance certificates from regulatory bodies at the federal level.

Nevertheless, the Pakistani government is trying to improve the registration processes in order to ease PO operations, but organizations must still provide all documents in detail which can add months to the registration process. To assist applicants in the registration of POs and other related issues and queries, a web portal was developed by the Economic Affairs Division (EAD).

Question Two: To what extent are POs free to operate without excessive government interference?

<b>Score: 4.0</b>
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In Pakistan, organizations are free in their internal governing decisions and planning and implementing activities, with no restrictions applied by the government. They are allowed to communicate with national and international entities through various media channels. However, there are some restrictions on developing links with international entities. For example, an

organization working with international entities to collect data or conduct surveys must first seek permission to do so from relevant authorities.

In addition to other laws, if an organization is involved in a public fund-raising activity, it is required to seek permission from the office of the local Deputy Commissioner, under the Charitable Funds (Regulations of Collection) Act, 1953.

Question Three: To what extent is there government discretion in shutting down POs?

<b>Score: 4.0</b>
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Organizations are free to work or terminate their activities if they are abiding by the relevant laws. Involuntary termination would only occur if an organization is involved in activities against the state and public interest. In all cases, the government provides organizations with enough time to comply with regulatory requirements.

The government usually scrutinizes philanthropic organizations and would cancel the registration of those who fail to provide the required evidence and documentation of their operations. In the past, the government shut down POs and canceled their licenses due to noncompliance of regulations and failure to submit documents, including annual audited accounts and performance reports. Moreover, organizations can voluntarily terminate their activities based on the decision of its board, however this is a rare case.

## II. Domestic Tax and Fiscal Issues

*The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.*

Question Four: To what extent is the tax system favorable to making charitable donations?

<b>Score: 4.0</b>
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Companies are allowed a tax credit equivalent to 20 percent of their taxable income for donations made to any of the following entities operating in Pakistan: any board of education or university established by or under federal or provincial law of any educational institution, any hospital, any relief fund that is established or run by the federal, provincial, or local government, and any registered nonprofit organization (PwC, 2021).

Persons (individuals or an association of persons) are entitled to a deductible allowance for the amount of any zakat paid by the person in a tax year (Clause 60 of the Tax Ordinance, 2011). Persons are also entitled to tax credit on donations to any of the following entities operating in Pakistan: a board of education, university, other educational institutions, hospitals, relief fund, or any registered nonprofit organization (Clause 61 of the Tax Ordinance, 2011). Eligible nonprofit organizations are those that pursue religious, charitable, educational purposes, or promote amateur sports.

As far as receiving tax deductions is concerned, the process is lengthy but very clear. For instance, in order to receive tax benefits, the philanthropic organizations in the social sector must complete an application following a set number of documents. Among these documents, an evaluation by the Pakistan Centre for Philanthropy (PCP) is encouraged, giving a competitive advantage to organizations for tax exemption benefits. Furthermore, the government does not inhibit organizations or individuals in making charitable donations but it does put limits (20% for individual donations and 30% for institutional donations) on tax deductions for these donations. For instance, there are a variety of tax related formulas provided by the Income Tax Ordinance, 2001, which determine how much income tax benefit or tax credit can be offered by individuals and that it should not exceed their salary. In addition to this, there are a few limits on receiving donations depending on the nature of the organizations, but mostly there are no restrictions to receive or give donations.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

<b>Score: 4.0</b>
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There are different types of incentives for different types of organizations receiving donations. For instance, non-governmental State Development Organizations (SDOs), governmental-affiliated SDOs, and religious organizations can enjoy access to income tax deductions or credits from the government. In general, the income of a welfare institution or NPO, when expended in Pakistan for the purposes of carrying out welfare activities, are eligible for tax credit (Clause 100 of the Tax Ordinance, 2011).

Considering the Income Tax Ordinance (ITO), 2001, Section 100 C (1) and Section 2(36), approved NPOs are authorized to a tax credit of 100 percent of the payable tax. Payable tax is typically NTR (Normal Tax Regime) + MTR (Minimum Tax Regime) + FTR (Final Tax Regime). However, to receive the 100 percent tax credit, the following conditions must be met: NPOs must comply with the conditions that a tax return has been filed;

- Withholding taxes have been deducted, collected, and paid;
- Withholding tax statements for the immediately preceding tax year have been filed;
- Administrative and management expenditures of the NPO in question does not exceed 15 percent of total receipts;
- Salary should not exceed 5 percent of total receipts; and
- Surplus should not exceed 25 percent of total receipts.

### III. Cross-Border Philanthropic Flows

*The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.*

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

<b>Score: 3.0</b>
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The legal regulatory environment is quite favorable for sending cross-border donations. Nationals are allowed to send donations abroad within a monetary limit of USD 1000 as an individual without any penalty, but conditions vary for different types of organizations and some cost for banking service charges is also involved. It is necessary to have a foreign currency account or engage with a financial services company, such as Western Union, to process an overseas transfer. Duties are applied when sending donations abroad. Although the process of sending donations abroad is quite clear and concrete, it is not a commonly observed behavior. Since philanthropic organizations in Pakistan are themselves facing problems in getting donations, they try to attract all the philanthropic giving that could be potentially sent abroad.

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

<b>Score: 4.0</b>
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In Pakistan, cross-border charitable donations can be received without significant additional costs. There are some limitations on the type of activities relating to state security and vested interest of political affiliations supported through cross-border contributions. Prior to the introduction of new regulatory measures from 2015 onwards, reporting of foreign donations was nonexistent in Pakistan. In contrast, cross-border financing both regionally and internationally was regulated and NPOs were required to report such inflows and outflows to government institutions. Under the new regime, the government requires all NPOs receiving foreign donations to sign a memorandum of understanding (MoU) with the Economic Affairs Division (EAD) at the federal level (Pakistan Centre for Philanthropy, 2020, p. 8).

In contrast to sending donations, receiving donations is commonly observed as funding, given that financial resources are limited in Pakistan. A no-objection certificate and registration documents from the Economic Affairs Division of the Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization, is mandatory to receive donations. Recently, a policy on cross-border donations was revised and now the charities commission is working with provincial EADs to monitor the receipt of cross-border donations.

Different financial service companies are collaborating with various commercial banks to facilitate the receipt of foreign funds. For example, Faysal Bank joined Western Union's global network for account, wallet, and cards for international money transfer payout. And the State Bank of Pakistan recently launched an initiative called the Roshan Digital Account in collaboration with commercial

banks operating in Pakistan. These accounts will provide banking facilities to non-resident Pakistanis seeking to undertake banking services. This would support smoother cross-border transactions, including donations.

#### IV. Political Environment

*The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.*

Question Eight: To what extent is the political environment favorable for philanthropy?

<b>Score: 5.0</b>
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Philanthropic freedom is widely appreciated politically and many political parties have their own philanthropic organizations. For example, the Alkhidmat Foundation Pakistan, which was launched by the political party Jamaat-e-Islami, is actively participating in various initiatives in the fields of health, education, poverty alleviation, and disaster relief. Political parties also participate in programs aimed at improving the conditions of downtrodden and marginalized sections of the society.

Philanthropic passion is widely shared throughout the nation and actors in the political environment identify and accept the role of philanthropy in social change. During the last few years, the role of philanthropy has been highlighted by the government. Various initiatives in microfinance and social protection programs have been taken by the government in collaboration with nonprofit organizations. The Ehsaas Programme is a first-of-its-kind poverty alleviation initiative inviting the private sector, philanthropic community, international agencies, and civil society organizations to contribute financial resources or expertise in Pakistan.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

<b>Score: 4.0</b>
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In Pakistan, all donors are free to contribute to any philanthropic cause. No external pressure by the government to make or change their decisions is reported. Philanthropy in Pakistan can be studied from three outlooks: individual giving, corporate giving, and international giving. Individual giving has no issues and has grown 3.5 times over in a 15-year period, more than three times in the 1998–2014 period (Pakistan Centre for Philanthropy, 2016). The 2016 study by the Pakistan Centre for Philanthropy estimated individual giving to be over PKR 240 billion (USD 1.94 billion) in 2014, as compared to PKR 70 billion (USD 45 million) 15 years ago. For corporate giving at local levels, organizations are free to donate as per their will. The government is more interested in the amount philanthropic organizations allocate to benefit communities.

There was a time when the government was lenient about support, funding, or grants provided by international organizations to local philanthropic organizations and would not require information from local or international organizations about the details of their budgets and activities. However, in the last few years, the process of receiving international grants was modified. The government requires detailed information about amounts, purposes, and uses of foreign funds. International and national NGOs are asked to sign MOUs with government departments at the federal level. Signing



the MOU is a lengthy and tedious process that requires patience from those seeking such arrangements with the public sector. NGOs in Pakistan see it as a major hurdle for the growth of the philanthropic sector.

After the Army Public School massacre, the government took strict actions against organizations that didn't comply with the regulations and received foreign funding without providing proof or evidence of project implementation for which the funding was given, as well as the approval from EAD for receiving funds. Today, aside from the nonfunctional POs and POs with ill intentions, the government is encouraging this sector to come forward and work hand-in-hand with the government. This was especially evident during the COVID-19 pandemic, as the government engages POs to reach out to those who have lost their jobs or are short of food.

## V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

<b>Score: 3.0</b>
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Like countries around the globe, Pakistan's economy suffered drastically in 2020. The gross domestic product (GDP) growth rate for fiscal year 2019–2020 dipped as low as one percent. COVID-19-related closures and lockdowns to limit the spread of the virus are also contributing to growing unemployment and poverty. The struggling economy of Pakistan was hit hard by this pandemic, which negatively impacts philanthropic activities. The unstable economy and reduction of foreign investment into Pakistan has created some obstacles for philanthropy but has not significantly affected individual and philanthropy in Pakistan.

## VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

<b>Score: 4.0</b>
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About 96 percent of the population of Pakistan follows Islam. Though every religion has philanthropic components to it, Islam takes this a step further by making some forms of it compulsory. The tradition of philanthropy in Pakistan is of two kinds: obligatory and voluntary, as followed in Islam. Obligatory philanthropy consists of zakat and fitrana and voluntary philanthropy includes the institutions of sadaqa, waqf, and other charitable forms of donation. Largely, people trust POs and generously give donations to them; however due to some bad examples, people show some reluctance in trusting POs. Nevertheless, examples of philanthropic organizations with strong infrastructure and capacity include the Aga Khan Foundation, Edhi Foundation, and the Shaukat Khanum Memorial Cancer Hospital and Research Centres.

Furthermore, POs are becoming more open to the idea of gender identity. For instance, recently more work is being done relating to the transgender population in Pakistan. The representation of women in the philanthropic sector, as well as in the workforce in Pakistan, has increased in recent years. Women are also taking part in leading POs, though still not as much as men due to cultural patterns that still create an unfavorable environment for equal conditions for women in the workplace.



## VII. Future of Philanthropy

*These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.*

### Current state of the philanthropic sector

The state of philanthropic sector in Pakistan is well developed. Though comparatively informal individual philanthropy is more prevalent in Pakistani society, nonprofit organizations are still contributing tremendously in various forms. The sustainable and well-established mechanism of zakat—an obligatory Islamic philanthropic contribution—exists in Pakistan. Government and nonprofit organizations collect zakat for development initiatives for underprivileged people in different regions of the country.

Corporate social responsibility encourages companies to contribute to social development. The role of the corporate sector in alleviating issues in Pakistan holds key importance. Many large companies have started publishing sustainability reports of their philanthropic initiatives. In addition, high net worth individuals and other private groups make significant charitable contributions to social investments in the country. The government is also taking initiatives to encourage the private sector to be involved in more efficient and effective development and philanthropic activities. The Ehsaas Programme and Benazir Income Support Programme are two examples of the government's interest in philanthropy. Tax exemptions and benefits are also offered to POs who serve in certain sectors and fulfil their legal and regulatory requirements.

With reference to the impact of COVID-19 on the philanthropic landscape, the Pakistan Centre for Philanthropy (PCP) published a newsletter in 2020. The newsletter reports on the scenario facing philanthropic organizations, when Pakistan remained under a lockdown to battle the COVID-19 outbreak. Local charities along with individuals, corporates, industrialists, public sector employees, law and enforcement agencies, medical associations, trade unions, and philanthropic organizations responded actively and came together to support government efforts to provide relief to low-income groups, including offering food commodities and medical assistance. Amid the pandemic, Pakistanis bonded together to assist those most deeply affected in a unique and inspiring way, offering support to daily wage earners when they were faced with no income, health insurance, or financial safety net.

The Philanthropy Matters edition of the PCP newsletter (available at <https://www.pcp.org.pk/uploads/Newsletter-Covid19-Edition2020.pdf>) discusses further the philanthropic sector's response to the pandemic.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. COVID-19 pandemic: The unexpected spread of the virus globally resulted in locking down economic activities, businesses, and employment opportunities across the globe. For a developing country like Pakistan, which already struggles to cope up with economic strain, socio-political instability, and inadequate health and education facilities, the outbreak of COVID-19 hit the people of Pakistan particularly hard. During this time, POs came forward, working long days and nights along with the government to support those in need. They helped to establish isolation

centers and medical call centers. They also dedicated their already established hospitals and medical centers for COVID-19 patients.

2. The government announced a multi-billion rupee economic package to provide relief to citizens, particularly low-income groups whose livelihoods were badly affected by the COVID-19 pandemic. The ration distribution by the government was done in collaboration with POs. Pakistan's top religious authority called for the early distribution of zakat to support those with low incomes, who are most vulnerable to an imminent economic slowdown due to the COVID-19 pandemic.

#### Future development trends in the philanthropic landscape

New challenges bring new opportunities. New trends in the philanthropic landscape of Pakistan offer hope for improvement. The contribution of diaspora philanthropy to sustain civil society-led initiative has been highlighted in various channels of media. The SECP granted approval to the first technology-based crowdfunding platform to commence live testing under the first cohort of the Regulatory Sandbox. Reaching out to the underprivileged and vulnerable segments of society is the government's priority under the Ehsaas Programme. The government has recently launched the Roshan Digital Account program to facilitate diaspora funding. Other emerging developments related to impact investment are under consideration by the government.

#### Three key recommendations to improve the environment for philanthropy

- One window registration facility: A simple, one window operation is the most efficient strategy to potentially resolve most issues pertaining to NPOs registration and their operations. The one window operation should clearly allocate a specific government department that would be responsible for dealing with all matters pertaining to POs—registration, NOCs, permits for foreign funding, and guidance on tax exemptions. In this manner, processes can be streamlined, the flow of information can be managed, systems can be standardized, and bureaucratic delays can be reduced (Pakistan Centre for Philanthropy, 2020, p. 33).
- Formation of a common platform or forum for POs: POs feel that there should be a common forum where they can discuss their issues and deliberate on solutions. This forum could provide support in guidance and training, alongside playing the role of an intermediary between the government and the sector (Pakistan Centre for Philanthropy, 2020, p. 33).

### VIII. Philanthropic Response to COVID-19

*These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.*

#### Areas where the nonprofit sector and philanthropy playing a role in responding to COVID-19

- Health and education;
- Social safety; and
- Food security.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

More technology-based initiatives have been taken by both the government and nonprofit sector. Technology and social media are being used as a mode of communication to spread the need of support for philanthropic activities. Fund transfer via mobile applications is becoming more common.

Impact of COVID-19 on the philanthropic environment

The Pakistani people collectively came forward to tackle hard situations due to the COVID-19 pandemic. Those who lost jobs and were facing a shortage of food were supported by the privileged classes. The nonprofit sector, in collaboration with government and volunteers, tried to help reach poor people in hard-to-reach locations. Youth actively participated to help society and, despite the risk of the virus, they disseminated food at the doorsteps of people in need. Charities and POs distributed rations and provided medical assistance to parts of the country remaining in lockdown. Religious authorities called for the early distribution of zakat—an obligatory annual charity in Islam—to support those with low incomes and who are most vulnerable to the economic slowdown due to the coronavirus pandemic.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

Same as in 2020.

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