

Availability of an Adequate Compensation for Poor through a Model of Institutionalized Charity System in Pakistan

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Abstract

The paper discusses the un-institutionalized charity system in Pakistan. It explains that how it creates numerous problems and barriers in channelizing the funds to poor and designing an effective compensation for the deserved people in the country. In short, the overall impact of the un-institutionalized charity system has been discussed by giving examples from the current mechanism and related problems that exist in the country. Similarly, the role of Pakistan Bait-ul-Mal and outcomes associated with the Benazir Income support program have also been analyzed in terms of channelizing charitable funds to the needy people. This is a theoretical study based on an analytical approach which takes random samples from different countries regarding their charity system. A comparison of developing and developed countries has also been performed in the literature to study various aspects linked with different institutionalized charity systems being used around the world. Last, an innovative model of the institutionalized charity system has been proposed for Pakistan by integrating the positive aspects of multiple institutionalized charity systems discussed in this study in order to channelize and manage charity contributions effectively.

Keywords: Un-Institutionalized charity system, Zakat, Bait-ul-Mal, Philanthropy, Compensation for Needy, Model of Institutionalized charity system.

1. Introduction

Charity is an essential part of society and it is considered to be a foundation to remove social disparity [20]. There are different mechanism and systems around the world by which charity funds are distributed or channelized to poor and needy people [24]. Every country has its own charity system, one concept is that governments own and run the system of welfare works under the institutional mechanism [26]. It means governments acquire the funds through charity donors, taxes and authorize the specific institutions to manage and distribute the charitable donations to poor. Another way to channelize the charity funds to the deserved people is concerned with Non-Governmental Organizations (NGO's). NGO's work to attract donors to obtain financing or charitable donations for their social projects based on health, education, and poverty [16]. More the simplest charity system is to give the donations directly to the needy. This concept resembles with the "Zakat" in Islam where Muslims are required to give the set percentage of their wealth to deserving people. So, the properly institutionalized charity system is a key to ensuring social protection in underprivileged societies [1].

There is a tremendous amount of donations being generated in Pakistan; people here actively donate to the poor [14]. The institutional mechanism such as Bait-ul-mal exists in the country responsible for collections and distribution of charitable funds under the supervision of the government. In addition, NGO's are playing a vital role in working for the poor and the underprivileged sections of Pakistan [13]. NGO's collect most of the donations and charity funds and there are numerous innovative social projects address the specific societal needs such as education, health, and poverty eradication programs have a significant role in channelizing donations to the poor of the country [16]. A lot of donations emerges in the shape of Zakat in Pakistan. Zakat is maintained regularly through a contribution from salaries in many organizations, especially in banks and other financial Institutions [18].

Despite the handsome amount of charity donations in Pakistan, the funds are not being properly channeled to the poor & needy. More people are reluctant to donate funds to Bait-ul-mal and other similar charity collection sources such as masajids because the funds are not further transferred to the deserved individuals and groups [16]. The corrupt practices and the lack of an effective institutional mechanism are major hurdles against social protection of poor by charity [1]. The un-

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institutional charity leads to the waste of charitable contributions made by the people of Pakistan. This problem reflects the need to institutionalize the charity that could ensure effective utilization of funds and the betterment of the poor [25].

2. Problem Statement

The un-institutionalized charity system in Pakistan had resulted in wastage of the charitable contributions and it produced various compensation related issues for the poor and slow growth of social development of the country. What are the differences and impact of a un-Institutionalized and Institutionalized Charity System on the well-being of underprivileged sections of society and on the overall social development of the country?

3. Literature Review

Pakistan's charity system does not serve the purpose of protecting people from financial risk. There have been limited efforts to develop institutionalized arrangements. Government agencies have tried to find options, but have not been able to institutionalize charity [9, 10, and 11]. In Pakistan, there is a solid inclination for offering straightforwardly to people in need. A sense of religious based obligation to be charitable and to give to the needy is a major spark of charity by Pakistani People [12].

The major part of general giving goes directly to people in quick need, rather than to institutions and organized charities. Pakistani people consider that giving directly to the poor and the deserving is better to institutional giving [22]. Family and friend networks play their role in the direct giving to individuals in need. This inclination is impacted by the striking absence of trust in philanthropic and charitable organizations in Pakistan.

The first hurdle is the lack of trust in the currently institutionalized arrangements for charity management in Pakistan. People here consider charity organizations less efficient, deceptive as well as ineffective to the current problems related to inadequate compensation for the poor [7]. In short, people do not believe that charitable organizations will take care of their funds or utilize them for the betterment of the poor. The unavailability of reliable mechanism and lack of proper information to take checks and balance on the performance of the charity organizations had made this problem of un-institutionalized charity worse in Pakistan [18].

Zakat is the Muslim system of charitable contributions to bring wealth balance in the society. Pakistan has also formulated a system to institutionally impose Zakat on cash deposits maintained by financial institutions, but the funds obtained through Zakat cutting, are not being channeled to the poor due to lack of effective institutional mechanism [13].

Bait-ul-Mal on the other side is an entity set up by the Muslim states to help the disadvantaged [13]. It is funded through the federal government budget and provides

assistance for a range of programs [14]. Apart from that, there are a few deficiencies in the management of Zakat and charitable contributions. Zakat funds are not properly collected and distributed among poor and needy. On the other hand, Bait-ul-Mal is also less effective due to corrupt practices, lack of effective management and the proper autonomy to broaden its scope of operations.

In Pakistan, an effort has been made to tackle the issues emerged from un-institutionalized charity and the Benazir Income Support Program are one of those efforts which have been made to design the compensation of poor especially widows [15]. The program came up with some new and innovative features such as the development of the huge database of poor households, using Information Technology for automated payment generation and cash transfer in the presence of evaluation of the processes by external organizations to assess and improve the quality of program [16]. The intervention of the third party helps to gain valuable insights about the incentive structure, program implementation and spot checking of eligible beneficiaries [15] and [17].

Second, the Benazir Income Support Program should also be taken into account while analyzing the charity system in Pakistan. On the other side, BISP had come up with several drawbacks. Launching and managing such funds is proving to be a burden on the economy as the number of BISP beneficiaries is going toward 27 million at the mid of next year. Further, the program has not been able to improve the life of poor because a one or two thousand rupees are not enough to compensate the poor or fulfill even the basic necessities in the presence of high inflation prevailing in the country. It is required to study the impact of BISP on the life of the poor in order to make it this incentive structure more effective for the poor.

Now, the charity system of the few developing countries has been discussed here. There are institutional structures in Bangladesh which manage and distribute charitable funds to NGOs in a specific sector. Basically, the government-funded foundation provides funding to small NGOs to run their social projects [19]. During the last decade, Institutionalized philanthropy has gained importance in India as Government had passed laws to compensate poor through a proper charity system, but these efforts are not enough to form an institutionalized charity system as the charity system in India is still underdeveloped and a lot of corrupt practices are not letting the charitable funds be channeled to the poor [5].

The Zakat Management Institution in Indonesia raises funds for poor Muslims. In the country, there are two categories of Zakat and Charity institutions: First manages funds raised by the government and generally acquire resources through a bureaucratic and rigid mechanism. Second manages Zakat or charity raised by individuals in society and the second institution is viewed as more professional and effective [23].

The charity systems of developed countries include Malaysia, New Zealand, Singapore and South Korea had also been discussed in the literature. In Malaysia, the success of Bait-ul-mal needs to be highlighted as an institutionalized charity system. The effectiveness of Bait-ul-mal there is closely associated with giving autonomy and practicing Islam principles in order to provide adequate compensation for the poor [17]. New Zealand has a developed and institutionalized system of charity and there is strong cooperation between government and the philanthropic sector. Recently, the government has formed a Charities Commission, which receives annual returns and examines the actions of charities. Further, there is a Charities Commissioner who works to ensure the effective use of charity funds and transparency in the charity operations on behalf of charity trustees. All these efforts help to channelize the charity funds to needy in an efficient way [23].

There is a central charity council in Singapore run by a Charity Commissioner who further has Administrators under him in multiple sectors within and outside the country. The Commissioner regulates all the affairs related to charity and makes the efforts to ensure best practices, public confidence and good governance in the charity system. Due to this institutionalized and effectively managed charity mechanism, positive outcomes have been experienced in Singapore evidenced by the very low rate of Poverty [21].

In South Korea, the charity system is also well institutionalized as government policies help to establish a culture of giving under the transparent environment. There are very low chances of wastage of charitable contributions in the country as the government had imposed financial inspection and disclosure requirement for the charity organizations. A simplified donation process and a reliable donation reporting system encourage people in South Korea to take part in philanthropic actively [24]. On the other hand, a wide range of charity activities is based on the communities working under different religious banners in Pakistan. These activities generate funds which are given to people belong to the same religious background. More, the community-based charitable contributions are not being documented and channeled under the proper institutional mechanism [27].

4. Methodology

This is a theoretical study designed using comparative analysis of different examples of un-institutionalized charity systems. The comparative approach was also taken to view the impact of differences between institutionalized and un-institutionalized charity system. The multiple mechanisms of charity and related examples were taken from journal papers, books, charity laws, the internet, research articles and websites of charity organizations. In addition, the examples had been taken from both developing and developed countries. These

examples discussed in the Literature were selected based on the random sampling. The study presents some impressive examples and models of the institutionalized charity system as all the cited references highlighted the need for an institutionalized charity mechanism in Pakistan.

5. Findings

It is known that the current charity mechanism has proved to be ineffective as it generates many problems such as wastage of charitable contribution in corrupt practices in organizations, Lack of trust in people about the credibility of these organizations and the lack of an effective and transparent mechanism to collect and distribute the funds to the most deserved and needy people [20]. Then, it is required to develop a system which could gain trust and credibility among donors and more it could channelize the donations and funds to poor efficiently. The Bait-ul-Mal is still the best platform as an institutionalized charity system, but there is need to take some measures to increase its effectiveness [6].

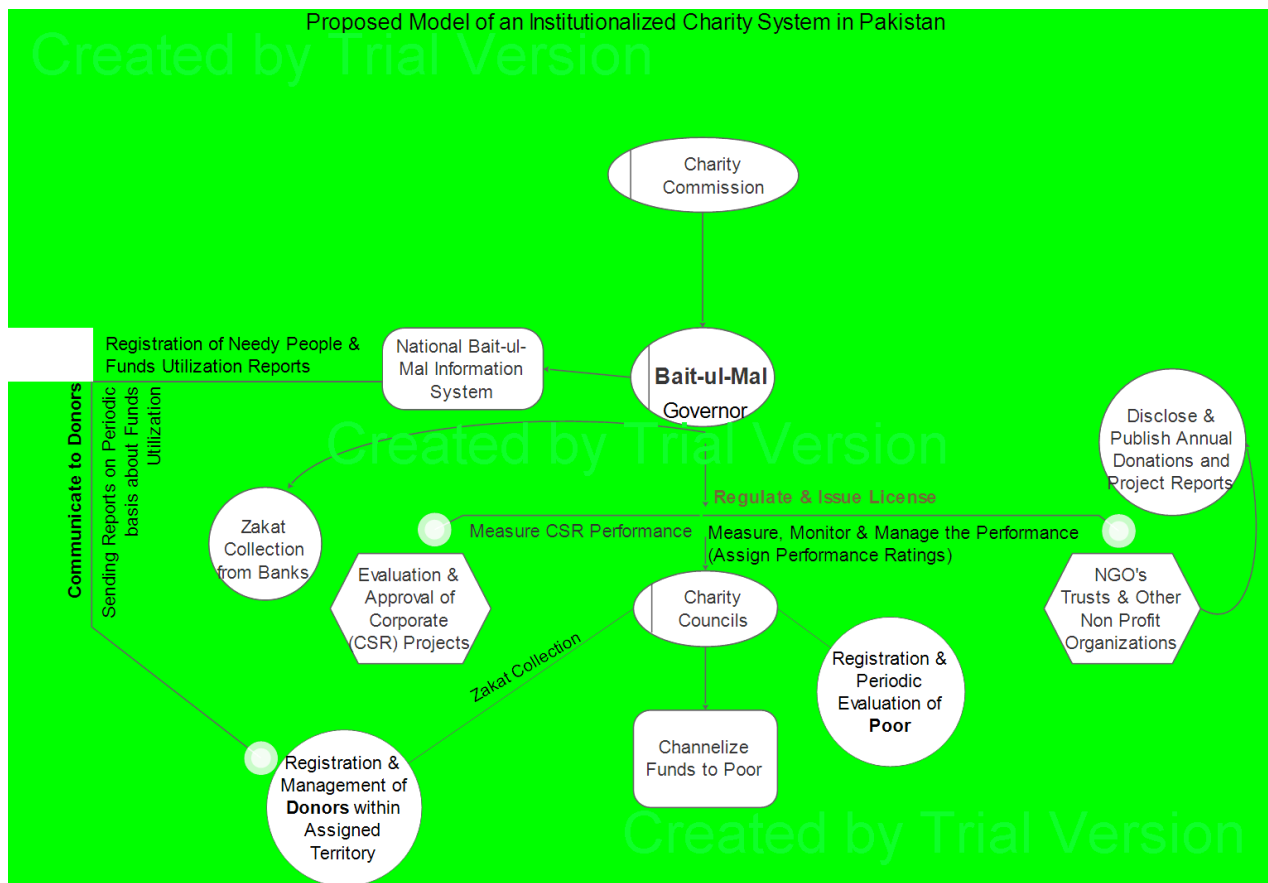
6. Discussion

Based on the literature presented above, Zakat funds are not being channeled to poor due to un-institutionalized charity. In line with this problem, it is necessary to highlight another issue related to Zakat deductions in banks. Basically, Banks collect Zakat funds on the 1st of Ramadan on annual basis, but unfortunately, these funds are being utilized for the perks & privileges of executives. There is no institutional mechanism to ensure checks and balance on these activities [17].

The concept of Bait-ul-Mal has significant importance in Islam as it is formed to institutionalize the charity system in Muslim countries; especially the managing Zakat funds and channelizing to the poor are its core functions. Many Muslim countries are using this concept effectively, but in Pakistan, the charity system is still underdeveloped [10]. Although Bait-ul-Mal had been established here two decades ago, but this effort could not help in institutionalizing the charity system in Pakistan [11].

Proposed Model of Institutionalized Charity System

Here this paper presents the model to institutionalize the charity system in Pakistan. In order to understand this model in a better way, it has been discussed in sections. First, the model suggests making Bait-ul-Mal an autonomous and independent body which could direct, register and regulate all the charity organizations, welfare works, trusts and NGO's [30]. For this purpose, Bait-ul-Mal in Pakistan has to be restructured in a way that there could be an independent Charity Commission and Governor exists as depicted in the Diagram.



The Governor Bait-ul-Mal will be the Chief Executive elected by the Charity Commission comprise of credible and competent members nominated by the Parliament and Judicial Commission of Pakistan jointly. By this way, the Bait-ul-Mal would be transformed into an effective body which could be able to monitor and channelize the charity funds and Zakat to compensate the poor with proper utilization of funds [22].

Second, there would be numerous Charity Councils working in all the districts and their numbers and size are subject to the population size in a particular area. Charity Councils will register the needy and poor people from the respective area of councils after proper evaluation and confirmation of their financial capability. Further, the council would also be responsible for developing and managing donors within its territory. Each Council would also have its own electronic database linked with the central Information system of Bait-ul-Mal. The information system would help the councils to manage and assess the needy periodically and channelize the donations to each and every deserved person [31].

The registered poor families of the charity council would have the facility to obtain free of cost, health and education facilities from the Public Sector institutions through their Charity council registration cards which could be verified online [16]. More, the Charity Councils will be required to disclose the reports to Bait-ul-Mal about services and funds provided to the deserved people. Then the final reports will be sent to the donors of Bait-ul-Mal which include the facts and figures about

where, when and how the Donor funds were utilized to compensate the poor. By providing real-time information to donors about their funds will increase the donor’s trust in the system which is crucial for the growth of the sector [29]. These reports would also be available online and this verification process may restore the confidence of people in charitable contributions.

According to this model, Bait-ul-Mal will be able to collect Zakat funds from Financial Institutions under collaboration with State Bank of Pakistan. Furthermore, the model describes that Bait-ul-Mal is a Central Charity Management and Regulating agency which will register and give license to all categories of charity organizations upon fulfillment of certain conditions. The first condition would require Charity Organizations to submit the 2-3 percent of their annual donations to Bait-ul-Mal. Second, these organizations have to submit the annual reports to Bait-ul-Mal based on the collection amounts, social projects, accounting practices and overall performance of the charity organizations.

The performance of the social sector of Pakistan can be best judged through this parameter if it is imposed by the Central Charity Management Agency under institutionalized arrangements [2]. Similarly, Bait-ul-Mal will be able to obtain audit reports of Charity organizations and Corporate Social Responsibility Project in the Corporate or Commercial sector of the country. Last, on the basis of various assessment parameters like Donation Management and the effectiveness of social projects, the Central body will develop and publish ratings

of charity organizations which could further help differentiate the credible and non-credible charity organizations, hence building the confidence of donors to contribute.

Hence the model comes up with an effective mechanism to institutionalize the charity system in Pakistan. According to this model, Bait-ul-Mal performs the leading role to ensure the charity funds utilization for the well-being of the poor. The regulating and monitoring of Charity Organizations would reduce the wastage of charitable contributions and the corrupt practices in the sector [28]. After all, Bait-ul-Mal will be able to design an adequate compensation for the poor through Zakat and Charity funds while minimizing the impact of poverty on the economy.

Conclusion

The study describes that charity system in Pakistan is un-institutionalized despite the presence of Bait-ul-Mal and a simplified process of compensating needy in the shape of Zakat and Benazir Income Support Program. Underdeveloped Charity System and corrupt practices result in wastage of charitable contributions and decline of people confidence in giving. The paper explains that the Institutionalized Charity System would have a major role in designing adequate, consistent and well-administered compensation mechanisms for the poor of Pakistan. More, this study finds the concept of Bait-ul-Mal and Zakat could be the key to revitalizing the charity system of Pakistan when combining with the use of Professional & Advanced Management, accountability, strict regulations, audits, transparency and innovative use of funds in order to compensate the poor at their doorstep through better service delivery.

Recommendations

In Pakistan's case, there is need to develop an advanced and innovative system of charity as presented in the discussion part of the paper. By building upon the proposed model of the institutionalized charity system, there should be an emphasis creating supportive role between government and Central Charity Management and regulating agency like Bait-ul-Mal in the proposed model's case.

The key factors must be considered while institutionalizing the charity arrangements. The factors include improvements in accountability, governance, and transparency in the overall operations of the charity. In order to compensate the poor adequately through institutionalized efforts, first, it is important that the Central Charity Management Organization should develop public trust in charity organizations, provide proper assistance to the Charity sector, and support best practices in governance and administration.

The tax and legal environment should also be taken into account while formulating institutionalized

arrangements [4]. Apart from the institutionalized efforts, there should be a clear mechanism to measure the performance of charitable organizations working in Pakistan. The performance assessment should be integrated with institutionalized efforts and will help to restore the donor's confidence in the charity sector and further, it is crucial for the growth of charity and social development in Pakistan and it may turn into the decent method of alleviating poverty through well managed and channelized compensation [2].

The community-based charity activities should also be incorporated into the institutional setup of charity. The central charity management body must be in existence to ensure monitoring and regulation for community-based charity contributions. There should be defined parameters and standards set by the central body for each community in order to bring all charity based transactions under a single platform. This would further help to achieve the objectives of transparency, accountability and properly channeled charity contributions. Most importantly, the institutionalized charity system should be managed strategically in Pakistan through set targets and focus on the well-being of the poor. For this Purpose, a strategically managed institutional body will play a vital role in collaboration with government and other state institutions.

Limitation and future research

This theoretical study is based on the analytical approach which does not include the empirical evidence and quantitative analysis to support the need of an institutionalized charity system in Pakistan by providing the evidence related to issues prevailing due to un-institutionalized charity mechanism. In future, a quantitative study could be conducted to study the impact of the Institutionalized charity system in different countries. More, a study can also be conducted on how to measure the performance of not for profit organization through institutionalized efforts.

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