FinTech-enabled-Endowment: A Proposed Financial Sustainability Model for NPHDIs

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Research Article

Keywords: FinTech, Endowment, Financial Sustainability, Donor Dependency Ratio, Not-for-Profit Human Development Institutes

Posted Date: March 17th, 2022

DOI: https://doi.org/10.21203/rs.3.rs-1444561/v1

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ABSTRACT

Intro

The World's Indigent Population's socio-economic status has drawn the attention of the entire world for more than three decades. The Not-for-Profit Human Development Institutes (NPHDIs), aiming to serve this segment, faces Financial Sustainability as one of the major issues, as they are usually dependent on donors' funds especially to run and finance their operations. If there is a shift in the donors' donation preferences, then there is uncertainty in the fund generation forcing these organizations to get into turmoil, and this not only hampers their ability to serve but also challenges their survival and existence.

Methods

This study has been conducted in a two-fold research approach. Firstly, NPHDIs operating in Pakistan have been studied to evaluate their Financial Sustainability through Ratio Analysis based on Donor Dependent Ratio (DDR) and then, a FinTech integrated Financial Sustainability Model for NPHDIs has been proposed using Constructive Grounded Theory.

Results

Findings of the first phase shows there is a heavily reliant on donors funding with the DDR ranging from 100% to 91.73% based on a sample of ten randomly selected NPHDIs operating in Pakistan. Whereas, four main themes have been identified during the second phase, which has been articulated together to form FinTech-integrated Endowment – A proposed Financially Sustainable Model.

Conclusion

The values of NPHDIs' DDR are not less than 25%, so they are considered to be Financially Unsustainable. FinTech-enabled-Endowment is one main alternative to donors' dependent funds, which can provide sustainable revenue streams for these NPHDIs based on Social Finance Theory.

Keywords: FinTech, Endowment, Financial Sustainability, Donor Dependency Ratio, Not-for-Profit Human Development Institutes

JEL Classification: D64-Altruism, Philanthropy, Intergenerational Transfers, D69-Other, G32-Financing Policy, G33-Bankruptcy, G38-Government Policy and Regulation, G39-Other, I22-Educational Finance, Financial Aid

1. INTRODUCTION

Socioeconomic Development of the World's Indigent Population has drawn the attention of the entire world for more than three decades (Arhin, 2016; Sachs et al., 2021; UNDP, 2021; United Nations, 2015, 2017). Financial Sustainability is one of the major issues for Not-for-Profit Human Development Institutes (NPHDIs)[1] which not only hampers their ability to serve this market (Almas & Mukhtar, 2015) but also challenge their survival and existence (Arhin et al., 2018). FinTech-enabled-Endowment has the potential to provide Financial Sustainability to these Not-for-Profit Human Development Institutions (NPHDIs (Gerber & Hui, 2013; Paasche, 2016; Peterson et al., 2020) and also contribute towards all the 17 goals of

[1] As Charity and Nonprofit Organizations work for the development of humans, so they are termed as Not-for-Profit Human Development Institutes (NPHDIs) in the rest of this paper.

Sustainable Development Goals (SDGs) for achieving Socioeconomic Development of this segment of the world's Population (Sukmana, 2020). The NPHDIs are usually dependent on donors' funds especially to run and finance their daily operations (Bhatti, 2019). If there is a shift in the donors' donation preferences, then this leads to uncertainty in the fund generation (Wandera & Sang, 2017) forcing these organizations to get into turmoil (Arhin, 2016), which not only hampers their ability to serve this market but prove to be a big challenge for their Financial Sustainability (Almas & Mukhtar, 2015), i.e. their survival and existence (Arhin et al., 2018). FinTech-enabled-Endowment is one main alternative to donors' dependent funds, which can provide sustainable revenue streams for these NPHDIs (Gerber & Hui, 2013; Paasche, 2016; Sukmana, 2020), based on Social Finance Theory (Peterson et al., 2020).

Social finance, which includes endowment, and technology, more specifically FinTech, are frequently perceived as cure-alls to provide the remedy to Wicked Problems – the issues that affect the world's most helpless (Peterson et al., 2020). FinTech for Charity and Nonprofit Organizations, based on IT affordance theory, is a total game-changer (Gerber & Hui, 2013; Paasche, 2016). The concerns with traditional Charity and Nonprofit Organizations can be eliminated through increased efficiency, minimizing overheads, and providing complete transparency by the adoption of FinTech based technology (Harkness, 2020). But, the issue of Financial Sustainability of the Charity and Nonprofit Organizations requires more attention and further research. Existing literature related NPHDIs focuses on social & sociological aspects i.e. the Social Contribution (Saqib, 2016), whereas the Financial Sustainability of NPHDIs is an area related to the core of Management, Financial Management, and Technological applications (Ebenezer et al., 2020).

Financial Sustainability is also affected by the changing the donors' funding preferences, which leads to difficulties in achieving their funding targets, and thus fall short of required financial resources (Arhin et al., 2018). A sustainable Civil Society Organization (CSO) or sustainable NPHDIs is defined "as an organization that can continue to fulfill its mission over time and in so doing meets the needs of its key stakeholders, particularly its beneficiaries and supporters" (Arhin et al., 2018; Hailey & Salway, 2016). Usually, NPHDIs are significantly dependent on donors' funds, and changes in donors' donation preferences may lead to a decline and re-prioritizing the funding of NPHDIs, and hence may threaten NPHDIs continued existence and program (Arhin et al., 2018). Given this backdrop, the focus of this article is: How financial sustainability of NPHDIs can be ensured through the fusion of Fintech and Endowment?

This study contributes by proposing a FinTech-integrated Endowment (Paasche, 2016) as a Financial Sustainable Model for NPHDIs (Hailey & Salway, 2016; Newman, 2005), which in turn helps the revival of the Islamic Endowment (Waqf) Sector (AAOIFI, 2020) and finally commits to the socio-economic development of the society, especially for the indigent population (Sachs et al., 2021) – since Awqaf (plural of Waqf) have the potential of contributing to all 17 Sustainable Development Goals (SDGs), and so it will be included in the mainstream financing instrument targeting to achieve SDGs (*5th ICIBF*, 2021; Sukmana, 2020). Specifically, this study adds to the literature of Endowment Fund – creation & utilization, and its fusion to FinTech as this study proposes a Financial Sustainability model for NPHDIs through the FinTech-enabled-Endowment. This study also adds to the literature on Social Finance, especially Responsible Finance as their industry-wide definitions are still evolving as academic literature (*5th ICIBF*, 2021; Benedikter, 2011; Peterson et al., 2020).

The rest of the paper has been structured in the following way: Section 2 briefly reviews the literature on the topic & help to understand socio-economic development & associated variables. Section 3 details the methodology of the paper. Sections 4 & 5 exhibits the findings and discussion of the study. Finally, conclusion & implication and Limitation & Future Research appears in section 6 & 7 respectively.

2. LITERATURE REVIEW

2.1. Socioeconomic Development

Socioeconomic Development is the core concern of the Sustainable Development Goals. Presently, an estimated 689 million people living on less than $1.90 per day, which represents 9.2 percent of the world's population (Peer, 2021). Further, there are 258.4 million Out of School (OOS) children in the world, which constitute 16.67 percent of the world population of this age group (UNESCO UIS, 2019). If the present trend holds, by 2030, there will be more than 800 million OOS children – which will comprise half the generation of young people (Lee, Jeong, & Hong, 2018). The elite economic & political classes in sigma society are least concerned about the education quality of public schools as their own kids' learning is not affected by that (Figueroa, 2015). And, thus the World's Developing Countries find managing and developing Human Capital (HC) even more challenging (Peer, 2021) as there is a lack of political will along with the lack and mismanagement of required and available resources, respectively (Figueroa, 2015). Insufficient Public Finance is one of the major limiting factor (Lee et al., 2018), which proves to be a big challenge in uplifting the Indigent Population out of poverty and inequality, and this problem need to be addressed through Not-for-Profit Organizations.

2.2. Not-for-Profit Human Development Institutes (NPHDIs)

Not-for-Profit Organizations play an important role in international development (Arhin, 2016), especially in developing countries (Arhin et al., 2018). The World Bank (1999) has defined Not-for-Profit Organizations as "organizations that are largely independent of government and characterized principally by humanitarian or cooperative, rather than commercial, objectives" (Arhin, 2016). The Not-for-Profit Organizations can provide services in both geographical (like rural or remote areas) and service areas (like education, health, etc.) which governments are occasionally unable to serve. They can attend to the elementary needs that are being met neither by the government nor by the market. Their operations are being sponsored principally through the domestic and international donors' donation – which is dependent on the fundraising activities by these organizations, with merely limited funding from the government (Nzimakwe, 2008).

When Not-for-Profit Organizations reliance on either personal giving or official aid, then this strategy is termed as a High-Risk Strategy (Hailey & Salway, 2016). Donor dependence is relatively a high-risk strategy considering that there is no guarantee of long-term funding. Funding reductions are problematic for Not-for-Profit Organizations as they affect all organizational aspects such as project planning and implementation as well as day-to-day operations (Ijon et al., 2021), which leads to the problem of Financial Sustainability. For this paper, the Not-for-Profit Organizations are termed as Not-for-Profit Human Development Institutes (NPHDIs), as their prime focus is serving Humanity through development (Arhin, 2016).

2.3. Financial Sustainability of Not-for-Profit Human Development Institutes (NPHDIs)

Financial Sustainability is an important characteristic for the survival of an economic entity (Bolívar, 2016a), especially during COVID-19 pandemic which has affected the world economies (Arsyianti & Kassim, 2021). The economic growth has been predicted to be negative along with presence of recession since the third quarter of 2020 (Arsyianti & Kassim, 2021), so attaining Financial Sustainability for NPHDIs is even more challenging (Bhatti, 2019; Ebenezer et al., 2020). Various authors have given different definitions of Financial Sustainability. Ponce et al. (2021) have defined Financial Sustainability as "a variable that indicates whether an organization can continue operations without external donor funding". Wandera & Sang (2017) have defined FS as the guarantee that an institute's objectives are reached by warranting that the organization yields enough income to empower it to make future required investments. Bolívar (2016) has defined FS as the capacity of a Not-for-Profit Organization to remain operational now and in the future with the existing policies without causing the liability to upsurge endlessly. Ebenezer et al. (2020) have

defined Financial Sustainability as the capability of the institute to transfer resources based on available opportunities and confronted challenges, while at the same time it's able to maintain a comprehensive financial balance over the long-term, or the capacity of the institute to generate its own earnings or collect funds from local sources and reduce dependence on foreign donations, and still be able to implement the required projects for the period.

Various feasible options i.e. strategies exist to attain the Financial Sustainability of NPDHIs. One of them is Eggs-in-Multiple-Baskets Strategy, which can further be divided into Income Diversification Strategy, and Own Income Generation Strategy (Arhin et al., 2018; Ebenezer et al., 2020). According to León (2001), Income Diversification can be achieved if a minimum of 60% of the funding comes from five different sources; whereas according to Ebenezer et al. (2020), Income Diversification can be achieved, if funding sources include international donors (50%), membership fees (20%), community funding (20%), and other sources (10%). Own Income Generation Strategy includes many options, few important sources include Social Enterprises, and Endowment Funds (Arhin et al., 2018; Ebenezer et al., 2020).

For the purpose of this paper – Financial Sustainability is defined as the ability of an organization to generate its own revenue and with the least reliance on donors' funding to meet its operational expenses, which can be measured through the NPHDI's Donor Dependency Ratio, and calculated by dividing the NPDHI's donor income with the NPDHI's total income (Ebenezer et al., 2020; Lewis, 2009). The donor dependency ratio over five year time period has been on average above 90 percent, which highlights the presence of sustainability issues in the majority of Ghanaian NPDHIs (Ebenezer et al., 2020). Similar results have been found in the studies conducted for the Zimbabwean, Kenyan, & Ethiopian NPHDIs (Ebenezer et al., 2020).

2.4. Endowment Fund

Endowment Funds are critical strategic asset & scared trust for Not-for-Profit Organizations with two important characteristics, i.e. it's restricted and it's forever with a permanent income source (Harvard University, 2017; Kochard & Rittereiser, 2008), and are defined as "a charitable gift established in perpetuity in which the principal is invested for total return (both income and appreciation) and a small portion of the fund's balance (usually 4 to 6%) is paid out, generally on an annual basis" (Harvard University, 2017; Newman, 2005). Further, the Endowment Fund has been defined by the Uniform Management of Institutional Funds Act (UMIFA) as "an institutional fund, or any part thereof, not wholly expendable on a current basis under the terms of the donor's gift agreement" (Newman, 2005). Previous studies have mentioned that the Endowment Funds existed as early as in second-century, eighth-century, & ninth-century (Newman, 2005); whereas the Modern Endowment Funds initiatives have been found to exist as early as the fifteenth-century (Kochard & Rittereiser, 2008). The German Marshall Fund of the United States (GMF), the Costa Rica United States Foundation for Cooperation (CRUSA), & the Luso-American Development Foundation (FLAD) are a few examples of institutes that were established as Endowment (Runde & Kohan, 2021).

Endowment Fund is a pool of money that can be considered as one of the various high-impact social investments, as through this critical and important financial instrument the NPHDIs can ensure their survival and sustainability and ensure that these organizations either continue their operations or for a specific program such as "affordable high-quality education" especially in low earnings societies (Hailey & Salway, 2016; Newman, 2005). Dr. John Campbell, Morton L., and Carole S. Olshan Professor of Economics, Harvard Faculty of Arts and Science had used the phrase, 'Vigorous Immortality' for endowment. He defined Endowment as "a promise to donors that there will be vigorous immortality for their financial gifts. Vigor refers to the spending we can do now, the impact we can make now. Any donor is going to want to see results today, and the university community and the public are going to want to see results today. Immortality refers to the fact that we don't just want to see results, today. We want to see a spending program that can be carried on indefinitely" (Harvard University, 2017).

The Financial Accounting Standards Board (FASB) has identified three types of endowments, which are: (1) true endowment, (2) quasi-endowment, and (3) term endowment. In true endowment, the donor states that the gift is to be held permanently as an endowment. Further, in quasi-endowment, the board of directors of the organization designates organizational funds to the endowment. Finally, in term endowment is established for a set period of years or until a future event (Benefactor Group, 2012; Newman, 2005). Dan Shore, VP for Finance and Chief Financial Officer, Harvard University (2008-2014) mentioned that Harvard has a meaningful percentage of its endowment that is flexible i.e. about 30%, but the larger part of the endowment, i.e. the 70% that is restricted (Harvard University, 2017). Lawrence S. Bacow, Board Member, Harvard Corporation mentioned that "endowment is the aggregation of thousands of funds that collectively constitute the Harvard endowment, each one given by a donor typically with a specific intent and a specific purpose. And the money is not fungible. We cannot say to a donor who's given us money to endow a new program or to support the library. That we're going to take from that program, instead, divert the resources to support something else. We've made commitments to those who have entrusted these funds to us" (Harvard University, 2017).

With decreasing in the funding received by these organizations due to a shift in donors funding landscape, the importance of endowment funds to overcome this fund shortage has increased many folds (Arhin et al., 2018; Harvard University, 2017; Newman, 2005). Dr. Bridget Terry Long, Saris Professor of Education and Economics, Harvard Graduate School of Education mentioned that endowment is very important for Harvard University to fill the gap firstly between the reduced research funding received, and cost of continued research, and secondly, between tuition charged to the students and the high cost of education that is subsidized, as the tuition covers a small fraction of numerous activities they do at the university (Harvard University, 2017). Not-for-Profit Organizations usually have no or very trivial endowment funds. Many boards of directors don't consider an endowment as a remedy, although an endowment has the potential of providing operating funds, revenue in the time of slow economic condition, and a source of funding new innovative programs during flourishing years (Newman, 2005).

2.4.1. Islamic Endowment – Waqf or Awqaf

The Arabian people were unaware of the concept of Waqf before Islam, the Holy Prophet Muhammad (Sallallahu Alaihi Wasallam) introduced it to them (Waliullah & Hermansen, 2019; Originally, published during the 19th Century). Sukmana (2020) has defined Waqf as "an endowment (donation) made by a donor under Islamic Law to a fund manager (mutawali/nazir) who is responsible for generating profits that are subsequently used to support socio-economic development". In Waqf, the corpus of the endowed donation is kept intact, while the profit or revenue generated from the endowed donation is used for meeting the operational expense of the NPDHIs (al-Khattab, 2007- originally published during the 9th Century; Al-Shirbini & Lock, 2015- originally published during the 10th Century).

During Medieval Period, the endowment instrument had been so developed that "thanks to the prodigious development of the waqf institution, a person could be born in a house belonging to a waqf, sleep in a cradle of that waqf and fill up on its food, receive instruction through waqf-owned books, become a teacher in a waqf school, draw a waqf-financed salary, and, at his death, be placed in a waqf-provided coffin for burial in a waqf cemetery. In short, it was possible to meet all one's needs through goods and services immobilized as waqf" (Kuran, 2001). During the early days of Islam, every companion of Prophet Muhammad (Sallallahu Alaihi Wasallam) who had the capacity, established a Waqf (al-Haytami, 16 Century). Conceptually, Endowment and Waqf[2] or Awqaf[3] similar (Sukmana, 2020), but operationally at times they may differ significantly (AAOIFI, 2020; Benefactor Group, 2012; Newman, 2005). However, the targeted endowment spending at Harvard University from its Endowment has been 5% to 5¼% over time (Sukmana, 2020). This means that the present Endowment Practices have the develo`pment potential to aim to reach the point,

[2] Waqf – the singular of Awqaf (Sukmana, 2020)

[3] Awqaf – the pural of Waqf (Sukmana, 2020)

where it can fulfill all public requirements through goods and services made available through endowment or waqf, as it had been developed during the earlier time mentioned above (Kuran, 2001; Zaman, 2021).

Though some Western scholars are of opinion that Awqaf cannot contribute to the economic development of the present era (Budiman, 2014), but, some recent researches highlights that Awqaf have the potential of contributing to all 17 Sustainable Development Goals (SDGs), and so it should be included in the mainstream financing instrument targeting to achieve SDGs (*5th ICIBF*, 2021; Sukmana, 2020). Throughout the history of Islamic civilization, it is has been evident that the scope, effect, magnitude and viability of waqf has been far greater than any other voluntary institutions in Islam such as sadaqah, hibah, wasiyah, qard, and nadhr"(Mannan, 1996). The establishment of the University of Al Qarawiyyin, Fez, Morocco during 857-859, and Al-Azhar University, Cairo, Egypt in 975 are amongst the world oldest universities have been based on Waqf assets (IslamiCity, 2017; Mujani et al., 2018). During the Ottoman Empire, there existed many innovative Awqaf, like, Credit Waqf, Revenue Waqf, Soup Kitchen Waqf, the Haramayn Waqf, Social Security Waqfs, Waqf founded by Women, Waqf Libraries, & Waqf Waters (Çizakça, 2018; "The Story of Waqf: Its Past, Present and Future," n.d.)

Sukmana (2020) has defined a waqf as "an endowment (donation) made by a Donor under Islamic Law to a fund manager (mutawali/nazir) who is responsible for generating profits that are subsequently used to support socio-economic development." This means that the corpus of the endowed donation is kept intact, while usufruct or profit derived from this endowed donation/investment is utilized to run the operation of waqf (Shaikh et al., 2017). Waqf can be a possible significant financial resource alternative for the government of external borrowings (Sukmana, 2020). Takaful Industry in Pakistan utilized Waqf based model, and the Takaful Companies share the profit of their business with their shareholders as well as Takaful Policyholders (Yusof et al., 2011). Despite, the awqaf having the potential to create a significant socioeconomic development impact, it has been left behind as compared to other Islamic Economic sectors. There is a need to increase awareness level about awqaf's possibilities, which is an important marketing factor for awqaf institutions (Sukmana, 2020).

2.5. FinTech-enabled-Endowment & FinTech-enabled-Waqf

FinTech is a disrupted use of technology in the financial sector – it has automated various processes from routine & manual tasks to non-routine and cognitive decision making while eliminating or reducing the costs of conducting financial transactions. FinTech has transformed the three broad areas in finance – the way of raising, allocating, and transferring capital (Das, 2019), especially in charitable transactions (Stern, 2019). Like Micro-donations, which were previously considered prohibitive for fundraising by the NPHDIs because of the high cost of collecting and processing checks of US$50 to US$1 – the cost was from 3% to 285% for checks under US$50 to US$1 respectively, have now become economically viable through FinTech innovative payment technologies (Paasche, 2016). One of the creative applications of FinTech is Digital Charity Box, and through this DCB smaller Not-for-Profit Organizations can quickly raise a large amount of funds for their charitable work (Finextra, 2018).

FinTech for NPHDIs can be defined as "any technology that eliminates or reduces the costs of financial transactions (Das, 2019), with enhanced transparency (Rehman et al., 2021; Riggins & Weber, 2012) and efficiency for the NPHDIs" (Paasche, 2016). While, Endowment can be defined as "a perpetual charitable gift with the principal being invested for return, both income and appreciation in value, while a minor percentage of the fund's balance is utilized to meet the operational expenses of NPHDIs" (Harvard University, 2017; Newman, 2005). According to Non-Profits Sources, 54% of the universal donors prefer to give an online donation (Stern, 2019), & millions of US dollars have been raised through weaving charitable donation into everyday business transactions through FinTech (Paasche, 2016), so FinTech-enabled-Endowment or Waqf can prove to be a total game-changer (Lee & Shin, 2018) – this amalgamation of technology (Riggins &

Weber, 2012) with social finance instrument (Shaikh et al., 2017) can enhance transparency, operational efficiency, and financial sustainability for NPHDIs (Riggins & Weber, 2012). Sukmana (2020) highlighted the need for future research should be conducted in the area of an Islamic Contract underlying Waqf Financing to meet the needs of basic sectors, like education, agriculture, etc.; and, further, there is a lot of potential for the gain of the masses through penetration of FinTech into Islamic Finance (Shaikh et al., 2017).

3. METHODOLOGY

3.1. Method

The study has been approved by review board [4](2020; 2021) and is based on NPHDIs operating in Pakistan as the country is facing multiple socio-economic challenges. Based on Human Development Index (HDI), Pakistan is ranked 147th out of 188 countries and has been classified as a low human development country (Najam & Bari, 2017), and the only South Asian country which is ranked in the low human development category (Khan, 2006). During the fiscal year 2020-21, Pakistan's poverty ratio stands at 39.3 percent using the World Bank's Lower-Middle-Income Poverty Line as the point of reference (ANI, 2021). Further, there are 22.8 million Out-of-School Children (Hasan, 2021; UNICEF Pakistan, 2019) – which makes Pakistan, a country in the world with the 2nd highest Out-of-School Children population (The Academia, 2019). This study has been conducted in a two-fold research approach. In the first phase, NPHDIs operating in Pakistan has been studied to evaluate their Financial Sustainability through ratio analysis (Institute, 2015) and then, in the second phase, a FinTech integrated Financial Sustainability Model for NPHDIs has been proposed using Constructive Grounded Theory (Charmaz, 2014; Creswell, 2009; Kenny & Fourie, 2015).

3.2. Sampling and Data Collection

The population data related to NPHDIs operating in Pakistan has been considered in the first phase. The list of these NPHDIs population has been collected from the NPO Directory available at the website of Pakistan Centre for Philanthropy[5] (PCP, 2021a), a designated Certification Agency by the Federal Board of Revenue (FBR), Government of Pakistan (PCP, 2022). There were 893 NPHDIs listed with PCP as on November 06, 2021, with only 47 NPHDIs listed having their audited reports for at least recent last five years available through their respective websites. So, for this study, these subset forty-seven (47) NPHDIs are considered to be relevant NPHDIs population for this study to draw a random sample of ten (10) NPHDIs, representing around 20 percent of the selected NPHDIs population.

Table 1 - PCP's List of Certified CSOs (NGOs)

Description	No. of NGOs	Source
Pakistan Centre of Philanthropy's List of Certified CSOs (NGOs)	893	(PCP, 2021b)
No of NGOs with last 5 years Audited Annual Accounts – available	47	Authors' Computation
NGOs selected randomly	10	

In the second phase based on purposive sampling (Creswell, 2007), initially in-depth interviews (Creswell, 2009) have been conducted with ten participants, who have been Industry Practitioners (ranging from Financial Practitioners with Shariah Knowledge to Shariah Advisors at Islamic Banks and Consultancy, and Social Sector Practitioners) to develop a proposed Financial Sustainable Model for NPHDIs. Further, to integrate the earlier proposed Financial Sustainable Model for NPHDIs with FinTech to provide a solution

[4] Board of Advance Studies & Research, Mohammad Ali Jinnah University, Karachi, Pakistan.

[5] Pakistan Centre for Philanthropy (PCP) is a designated Certification Agency by the Federal Board of Revenue (FBR), Government of Pakistan vide S.R.O. No. 1116(1)/2003 dated December 18, 2003. In accordance with Section 2(36) of Income Tax Ordinance, 2001, nonprofit organizations working in Pakistan are required to seek the approval of Commissioner Inland Revenue to be recognized as not for profit. As part of the procedural requirement as envisaged and provided in rules 211(2)(g), 213 (2)(d), 217 (1) (b)(vii), 220(1)(b)(vi), 220 A (3) (d) and 220 A(7)(1)(b)(iv) of Income Tax Rules 2002, PCP conducts performance evaluation of NPOs on behalf of FBR and certifies that NPOs/NGOs/CSOs meet with the desired requirements of certification standards (PCP, 2022).

for the investigated research question, finally, in-depth interviews (Creswell, 2009) have also been conducted with two participants, who are FinTech Industry Experts. Occasionally, snowball sampling (Creswell, 2015) has also been used with participants suggesting other Industry Practitioners and FinTech Experts. Sample Size guidelines provided by Charmaz (2006) and Marshall (1996) have been adopted. The data collection has been stopped when the categories (or themes) got saturated, i.e. on reaching the Saturation Point – when gathering fresh data has no longer sparks new insights or reveals new properties (Charmaz, 2006). According to Marshall (1996), if the research question is adequately answered then the sample size is not an issue in a qualitative study. Even for very detailed studies, it could be in single figures.

3.3. Data Analysis

During the first phase, data analysis is conducted through Donor Dependency Ratio (DDR) (Ebenezer et al., 2020; Lewis, 2009) – i.e. based on ratio analysis (Institute, 2015), and then, in the second phase, after the transcription of the participants' in-depth interviews, the transcripts are initially 'open coded', and then 'refocused coded' to develop categories, and finally evolve the Grounded Theory (Kenny & Fourie, 2015) with the data analysis being conducted through Constant Comparison (Savin-Baden & Major, 2013). NVivo 12 (Academic Consulting, 2018a, 2018b), analysis software for Qualitative data, has been used to identify codes and themes based on the original responses from the interviewees. The process of coding was implemented with the sentences as the unit of analysis, by using the above-mentioned software (Auld et al., 2007).

3.4. Quality of the Research Design

The reliability and validity of the data collected during the first phase have been achieved from the use of audited annual accounts of the NPHDIs. During the second phase, data triangulation through different participants (UNAIDS, 2010) i.e. Financial Practitioners with Islamic Knowledge, Shariah Advisors[6] at Islamic Banks and Consultancy, and Social Sector Practitioners has been utilized to achieve the validity of the sources utilized to generate data (Mason, 2002) to develop a deeper understanding of the researched phenomenon (Willig, 2013).

4. FINDINGS

The findings based on data analysis is conducted through Donor Dependency Ratio (DDR) – i.e. based on ratio analysis are shown in the table below:

[6] Shariah Advisors (SAs) may be defined as a person or institution who is deemed acceptable in Islamic financial services industry to advise on Islamic legal and wider Shariah matters related with structuring of Islamic financial products The SAs may comprise of any two types of following Shariah Advisors – firstly, those SAs who have training in the classical Islamic legal tradition; and secondly, those who have contemporary educational background but with highly impressive expertise in structuring of Islamic financial products (Butt, 2008).

Table 2 - NPHDIs' Donor Dependency Ratios

S #	Recent Last 5 Years Average	Total Income	Donor Depending Funding	Donor Dependency Ratio (DDR)
1	Afzaal Memorial Thalassemia Foundation	147,547,246	147,547,246	100.00%
2	Helping Hand for Relief and Development (HHRD)	57,152,716	56,976,257	99.69%
3	Orange Tree Foundation	50,894,466	50,731,809	99.68%
4	The Indus Hospital	5,532,684,830	5,502,683,013	99.46%
5	Developments in Literacy	302,229,277	297,368,161	98.39%
6	Family Education Services Foundation(FESF)	279,322,336	268,949,828	96.29%
7	Trust for Democratic Education and Accountability	886,969,945	845,554,213	95.33%
8	Jamiyat Punjabi Saudagran-e-Delhi	149,076,365	140,273,636	94.10%
9	Care Foundation	1,166,308,199	1,090,578,667	93.51%
10	Awaz Foundation Pakistan	54,593,583,400	50,076,003,800	91.73%

Source: Authors' Computation

A brief financial summary based on the sample of ten (10) NPHDIs selected randomly shows that they are heavily reliant on donors' funding as evident from the table given above [which shows total revenue, donor depending funding, and Donor Dependency Ratio (DDR)]. The maximum and minimum values for the Donor Dependency Ratio range from 100% to 91.73% for the selected sample of NPHDIs operating in Pakistan.

Participants Profile

The participants of this study are Financial Experts with Shariah Knowledge. They have various exposure as they have been working as Financial Practitioners with Shariah Knowledge (Professional Islamic Bankers including CEOs of two Islamic Banks operating in Pakistan,), Shariah Advisors at Islamic Banks and Consultancy, and Social Sector Practitioners. The diversified exposure has enabled the researchers to get enriched input for the proposed model development. After the development of the proposed model, FinTech Experts have been interviewed to integrate FinTech with the proposed Financially Sustainable Model. These two interviews were conducted online, as one of the experts resided out of Pakistan, and the other expert also desired to have it online due to his time constraints.

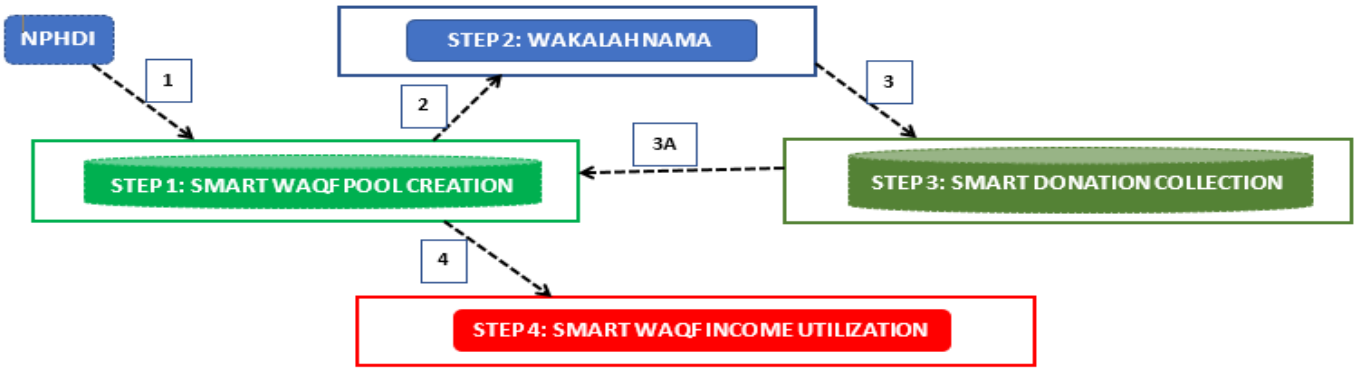

Figure 1 - FinTech-based Waqf Model for NPHDIs

Overview of the Constructivist Grounded Theory

To propose a Sustainable Financing Model, the study looks at the option of Endowment, particularly Islamic Endowment known as Waqf. Though the Waqf-based Financing Model has great potential of providing Financial & Self Sustainability to the NPHDIs from the very first day, but presently its application is very limited in the Social Sector. However, in Pakistan's Takaful Industry, Waqf-based application is at a very

advanced level. Four main themes have been identified through the interviews conducted, which are: Smart Waqf Pool Creation; Wakalah Nama; Smart Donation Collection; and Smart Waqf Income Utilization.

Smart Waqf Pool Creation

The first step towards creating a sustainable financing model for NPHDI is to establish a Waqf Pool. With the initial Waqf donation by the NPHDIs' shareholders, this Waqf Pool is created with a written Waqf Deed being signed by the Waqf establishers, and witnesses. Initial Waqf donation can be either in form of Cash or Property. SMART means are used to create this Waqf Pool – Bank Accounts for Cash Waqf, while for Property or Business Waqf, the SMART means are used to initiate the process of property or business transfer to Waqf Pool, and then materialized accordingly through proper documentation in due course of time. The Waqf donations are to be invested & utilized in revenue generation, and thus, the earnings received from these investments can only be spent on the Waqf's beneficiaries.

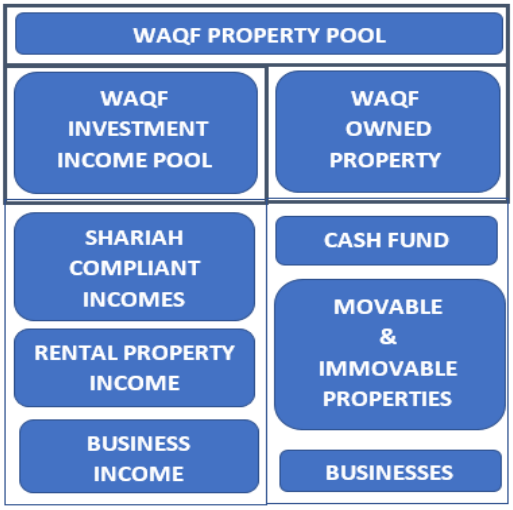

Figure 2 - Waqf Property Pool

The participants discussed the limited application of Waqf in the Social Sector, although it has the potential of contributing to all the 17 SDGs. "Waqf has a lot of potentials; it can be used in many things (Participant 1)". "Nowadays, Waqf is only practiced in mosques – as no one do Waqf, as you can see in the society that many people go and do Sadqa-e-Jariah, which is to give mosque, and this for Madarrasah. We don`t have other options. No options and no practice (Participant 1)". "The biggest issue with Waqf in Pakistan, we don't have any laws i.e. no Legal Framework for Waqf. If you make section 42 company, you will go to SECP, take approval from them and you made a company. But when you will go to make it a Waqf, there will be a list of questions, which arises as we have no framework. Since, there is no framework, then, with whom you will register it? – One of the biggest questions. When this question comes in front of us, then our organization didn't go towards Property Awqaf. If you are going to go towards Property Waqf, then you can make a document and keep it – "waqf deed". You and I will know but it doesn't fall in any framework. You make NPHDI as a trust, or a society, or section 42 company – there are frameworks for these but there is no framework for waqf (Participant 5).

Wakalah Nama

Nowadays, the Waqf donations are usually limited to donations made for Mosques and Madrassas (religious schools) in Pakistan. Hence, its use in the Social Sector is very limited, despite having a lot of potential for socio-economic development, especially for the indigent population of the society. Presently, donor prefers donating Zakat in large amount, but the Zakat and certain Sadaqat can only be given to Zakat Deserving Person (ZDP) – a person who lacks the wealth threshold of possessing 52 tolas[7] of Silver or equivalent value. So, to serve the indigent population with the utilization of Zakat and Sadaqat received, the Waqf needs to get Wakalah Nama (authorization) from the Zakat Deserving Person to receive, collect Zakat and certain Sadaqat on their behalf, and spend it in them and other ZDPs' needs.

Smart Donation Collection

After the creation of Smart Waqf Pool and subsequently getting Wakalah Nama (authorization letter) signed from the Zakat Deserving Customers (ZDC), now Zakat and Sadaqat can also be collected along with other donations, like pure donation, and Waqf Donation. Smart Zakat Donation collected through various bank accounts needs to be transferred to the Waqf Bank Account, ideally as the standing order by the particular bank at the day end, to ensure the wealth balance is reduced to zero of ZDCs. This process is needed to

[7] Tola is a unit of measurement of mass and is equal to 11.663 gm.

ensure that the wealth of the ZDCs is maintained below the Zakat receiving threshold level as discussed earlier.

The Waqf Donation can be invested in the following: The Cash Waqf Fund can be invested in Shariah Compliant Investments[8] . Movable and Immovable properties can be leased out to receive rental income, while the corpus of the Movable and Immovable properties are maintained. Finally, the Waqf Business Investment needs to be kept secure, while the profit earned can be used to serve the beneficiaries.

Figure 3 - Waqf Investment Pool

Smart Waqf Income Utilization

While Waqf Investments are kept secured, the incomes generated from the different Waqf Investments are utilized for serving the beneficiaries of Waqf.

5. DISCUSSION

Last recent 5 years Audited Annual Accounts are only available for 47 NGOs, out of the total 893 NGOs registered as per the List of Certified CSO presented at the website of Pakistan Centre of Philanthropy as on November 08, 2021 (PCP, 2021b). The Donor Dependency Ratio (DDR), which is a measure of donor-dependent funding, ranges from 100 percent to 91.73 percent for the randomly selected sample of ten (10) NGOs operating in Pakistan. The range of this calculated ratio based over five year time period shows that there is more than 90 percent reliance on donors funding which reflects that majority of the NGOs cannot be operated without donors' funding (Ebenezer et al., 2020). The higher donor dependency ratios suggest that these NGOs are not financially sustainable (Lewis, 2009) as donors' funding withdrawal will result in their collapse (Bhatti, 2019). The DDR for Potentially Sustainable NPHDIs should be less than 25% (Mudaliar et al., 2018).

It is evident from the Sindh Rescue & Medical Services, formerly Aman Ambulance which had been taken over by the Sindh Government to meet the operational expenditures of this service to the general public (Bhatti, 2019). So, the initial finding suggests that these NPHDIs are heavily reliant on donors' funding, and this make them follow a "***Relatively High-Risk Strategy"*** as mentioned by Hailey & Salway (2016) in their study titled "New routes to CSO sustainability: The strategic shift to social enterprise and social investment. Various feasible options i.e. strategies exist to attain the Financial Sustainability of NPDHIs with the focus on the Own Income Generation Strategy which may include many options. Few important sources may include Social Enterprises, and Endowment Funds, which includes Waqf Funds. (Arhin et al., 2018; Ebenezer et al., 2020).

Waqf Funds have the potential of contributing to all 17 Sustainable Development Goals (SDGs), and so they should be included in the mainstream financing instrument targeting to achieve SDGs (*5th ICIBF*, 2021; Sukmana, 2020). In Waqf, the corpus of the endowed donation is kept intact, while usufruct or profit derived from this endowed donation/investment is utilized to run the operation of waqf (Shaikh et al., 2017), which has been defined by Sukmana (2020) as "an endowment (donation) made by a donor under Islamic Law to a fund manager (mutawali/nazir) who is responsible for generating profits that are subsequently used to support socio-economic development." Waqf can be a possible significant financial resource alternative for the government of external borrowings (Sukmana, 2020). Despite, the awqaf having the potential to create a significant socio-economic development impact, it has been left behind as compared to other Islamic economic sectors. There is a need to increase awareness level about awqaf's possibilities, which is an important marketing factor for awqaf institutions (Sukmana, 2020).

[8] Shariah Compliant Investments (SCIs) may be defined as investment funds that are governed by the requirements of Islamic Jurisprudence and are considered to be a type of socially responsible investing (Chen, 2021).

6. CONCLUSION & IMPLICATION

Based on the above findings and discussion, despite Islamic Endowment (awqaf) having the potential to create significant socioeconomic development impact by contributing to all 17 Sustainable Development Goals (SDGs), but however it has been left behind as compared to other Islamic economics' sectors because nowadays, people prefer to give Zakat or Sadaqat as part of donation owing to their usual unawareness regarding the benefits and the operations procedures of Waqf donations. The proposed FinTech integration with Islamic Endowment will help a vast majority of Educational Institutions aiming to promote education for underprivileged children to attain financial sustainability through processes of FinTech-based Endowment (Waqf). Hence, the reliance on donors' funds will be reduced or eliminated.

The study has the following implications:

1. There is a need for a Regularity Framework – regarding Waqf registration and reporting of Waqf. This will encourage Waqf Creation, & will prove to be beneficial for the socio-economic development of the masses, especially the indigent population of our nation.
2. Property Waqf Model and Composite Waqf Model can provide the highest level of Financial Sustainability for the NPHDIs, so they need to be promoted through Waqf Conducive Regulations.
3. Digitalization of Transactions can facilitate the process to be Shariah Compliant like standing orders carried out by the banks at the day end.
4. There is a need to increase awareness level about awqaf's possibilities, which is an important marketing factor for awqaf institutions.

7. LIMITATIONS AND FUTURE RESEARCH

The paper is an initial study that give a general overview of the sector and emphasizes on the need of Digitalization and Waqf integration with the NPHDIs. However, the some questions require further researches as the use of technology is a very broad area, like: What technology is suitable as a solution for the problems faced by the NPHDIs in Pakistan? How that technology be implemented? What are the expectations after the implementation of such technology? What is the cost-and-benefit analysis of such step? Same questions are valid for Waqf integration, like: What is a SMART Waqf? Why it is called SMART? Where will be the automation and digitalization part?

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Figures

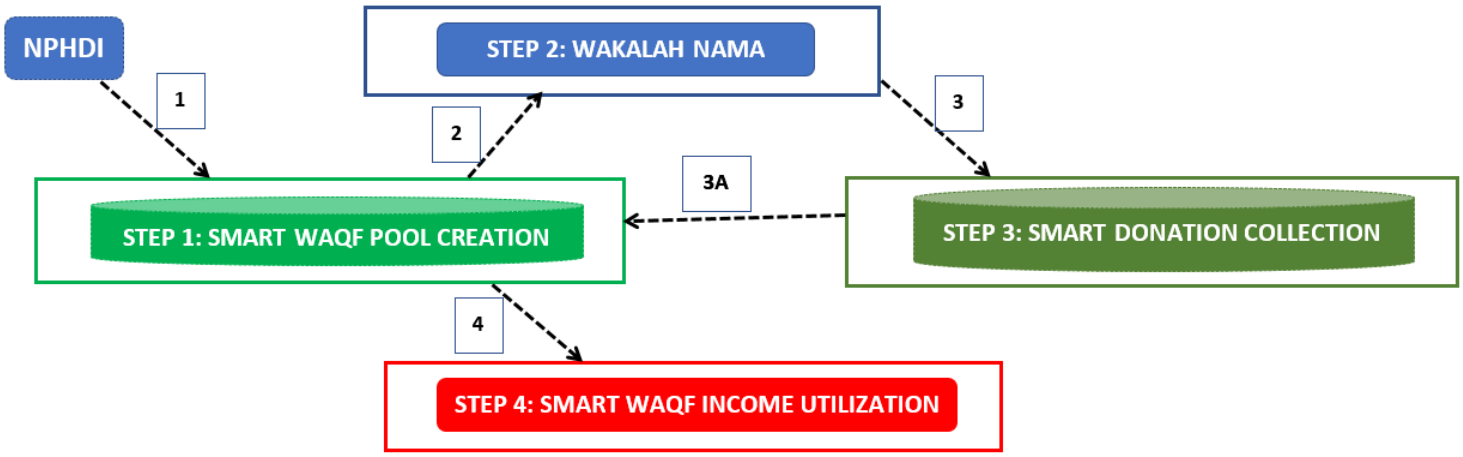

Figure 1

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Figure 2

The first step towards creating a sustainable financing model for NPHDI is to establish a Waqf Pool. With the initial Waqf donation by the NPHDIs' shareholders, this Waqf Pool is created with a written Waqf Deed being signed by the Waqf establishers, and witnesses. Initial Waqf donation can be either in form of Cash or Property. SMART means are used to create this Waqf Pool – Bank Accounts for Cash Waqf, while for Property or Business Waqf, the SMART means are used to initiate the process of property or business transfer to Waqf Pool, and then materialized accordingly through proper documentation in due course of time. The Waqf donations are to be invested & utilized in revenue generation, and thus, the earnings received from these investments can only be spent on the Waqf's beneficiaries.

Figure 3

The Waqf Donation can be invested in the following: The Cash Waqf Fund can be invested in Shariah Compliant Investments[1] . Movable and Immovable properties can be leased out to receive rental income, while the corpus of the Movable and Immovable properties are maintained. Finally, the Waqf Business Investment needs to be kept secure, while the profit earned can be used to serve the beneficiaries.

[1] Shariah Compliant Investments (SCIs) may be defined as investment funds that are governed by the requirements of Islamic Jurisprudence and are considered to be a type of socially responsible investing (Chen, 2021).