The "A" Word in the Charity Expenses and Is There an Alternative Perspective?

Araif Yusuff
IRUSA

Two years ago, I attended a large convention that was hosted by one of the National Muslim civic organizations. At the convention, Muslim faith-based charities (FBOs) used the convening opportunity to exhibit their respective organization's work, engage their donors, and attempt to raise funds for key projects. I was interested in learning more about the different programs that were being implemented both domestically and globally, to be more specific I wanted to learn about new innovations within the humanitarian space and how Muslim FBOs contributed to it. To my surprise, I did not find what I was seeking, rather I learned something entirely different, something I was not expecting to find. As I was walking through the exhibit hall and visiting the charities that were present at the convention, I found that instead of highlighting the impact of the organization's programs or how the lives of beneficiaries have improved as a result of their intervention, charity representatives were explaining how low their "admin rate" was compared to other organizations. The most interesting part was that donors seemed very engaged with the discussion and were clearly interested in a lower "admin rate." For those involved in the not-for-profit sector, administrative rate is important because whether it is acknowledged or not, it informs the decision making in any nonprofit at the leadership level. For me, this experience led me to a fundamental issue, the administrative rate does not tell whether or not a nonprofit is impactful, so why does the sector use administrative rate to measure the effectiveness of nonprofits?

Nonprofits administrative cost is a closely watched indicator. This approach evaluates the percentage of funds a charity devotes to overhead, such as administrative and fundraising expenditures. Conventional charity assessments have mainly depended on these administrative rates, which has led to the limited perception that lower ratios indicate more effectiveness and influence. This strategy, however, has drawn much criticism for oversimplifying charity performance and perhaps misleading stakeholders about the actual impact of their donations. Policy modifications must reflect this comprehensive viewpoint. Governments and regulatory agencies might require impact-focused metrics in yearly reports, calling attention to qualitative results in addition to financial information. Incorporating metrics like social return on investment (SROI) or community participation may provide a more accurate evaluation of an organization's worth (Lecy et al., 2012). Standardizing these processes across nonprofits can enhance accountability and

restore public confidence. Furthermore, integrating Islamic ideas into contemporary assessment frameworks may foster novel global models, enhancing equality and efficacy while maintaining cultural relevance across many contexts (Dhifallah, 2024).

When looking into this further, one could see that this notion of using the administrative rate as an indicator of success has been institutionalized based on how nonprofits are held in compliance both from a regulatory standpoint and industry ratings. According to Pallotta (2008), in 2007 the IRS undertook an investigation into the salaries of staff of various nonprofit organizations in order to enforce a law that fines charity officials for receiving excessive salaries and benefits. Pallotta argues that the nonprofit sector is the only sector in which this type of scrutiny is given. Take for example the rating body Charity Navigator, which gives donors a sense of which nonprofits are effective by assigning them a rating from 1 to 4, with 4 being the highest a charity can be given. One of the areas in which Charity Navigator assesses is "impact and measurements." The Charity Navigator (n.d.) website states, "we assess the direct impact of a charity's program relative to the cost requirement to run it to help donors identify high-impact charities."

It is important to measure a nonprofit's impact, and I would argue that it is one of the most important measurements to determine whether a nonprofit is effective or not. However, from the explanation that Charity Navigator provides, one could argue that looking at the cost to run a program does not in itself help donors determine if the nonprofit is effective. Looking at cost alone does little to tell a donor the impact the organization is making on the lives of people being served. In order to determine true impact, we should look at how the lives of the people being served have changed as a result of the nonprofit's intervention not at how much money was spent. In other words, one needs to conduct an impact evaluation and tell the story of the results from that evaluation. So, if cost alone does not tell a donor if an organization is impactful, why do we keep using cost to determine effectiveness? The dependence on administrative ratios fail to observe charities' wider contributions, including but not limited to community development and volunteer engagement, which, although not readily quantified, are essential for enduring societal advantages (Salamon, 2016). A growing number of scholars and practitioners are of the opinion that a diverse and comprehensive approach to charity evaluation is essential, integrating both qualitative and quantitative metrics to offer a more comprehensive assessment of organizational effectiveness (Borchgrevink, 2020).

According to Pallotta (2008), the current infrastructure of nonprofits was influenced by religion during the time when Europeans migrated to the New World. Pallotta states, "Our rules and ideas about charity began their journey into formalism with Puritan constructs. These constructs placed reason and results second to the host of other priorities, including self-sacrifice, self-denial, suffering, self-criticism and the salvation of the soul. To understand charity in America today one has to understand its Puritan roots, and the Puritans" (p.17).

Pallotta claims that the Puritans were the first to formalize what we know today as capitalism. However, putting profit over interest went against Puritan beliefs. As a result, Puritans were encouraged to donate as much as they could in order to keep within their framework of beliefs. "The notion was this: on one side of the line, we will deny our self-interest and that will make our self-interest acceptable on the other. Charity gave Puritans the psychological permission to engage in their natural self-interest. Self-deprivation and charity were therefore made synonymous" (Pallotta, 2008, pp.20). In other words, charity was seen as a means of purification. For example, one could do what is necessary to earn a profit and put his self-interest first. Then in order to correct that self-interest, he or she could donate to charity. However, in doing so charity became a form of self-deprivation.

One could argue the link between charity and self-deprivation has made its way to the present in which charities are restricted in terms of how funds are spent. One could argue that this notion of self-deprivation has continued in how charities are viewed today. Many donors expect that the majority of what they donate gets to the people they are attempting to help. However, the way charities operate has evolved since the time of the migration to the New World. Charities today are complex and are required to adhere to laws and regulations. For example, US-based charities that are involved in international development have to ensure compliance with OFAC Sanctions. In order to be successful charities need to be set up similar to a business, which means that they have the same if not similar expenses as for-profit organizations. However, if charities need to function similar to businesses, would that mean that their expenses would need to go up? If that is the case, shouldn't we change the way in which we determine if a nonprofit is effective or not? Is there an alternative in which administrative rate could be viewed differently?

One would argue that Islam has a favorable view of administrative rate. As with many faiths, charity is a core belief in the Islamic faith. There are several forms of charity in Islam that are mandatory, such as *zaka*t, or voluntary, such as *sadaqah*.[5] The verse of the Quran that governs who can receive zakat identifies eight categories of people. Chapter 9, verse 60, states, "Alms tax is only for the poor and the needy, for those employed to administer it, for those whose hearts are attracted to the faith, for freeing slaves, for those in debt, for God's cause, and for needy travelers. This is an obligation from God. And God is All-Knowing, All-Wise" (Quran). Zakat is seen as a social welfare tool and an act of devotion. Its primary goal is to lessen inequality and poverty by redistributing wealth throughout the Muslim community. According to Benthall (1999), zakat is "closely linked with prayer and is held to 'purify' both givers and the wealth which they give." This part of purification emphasizes zakat's twin social benefit and spiritual purity goals.

[5] *Zakat* is a mandatory amount of 2.5% that Muslims must donate yearly based on their wealth that has been held for one year. *Sadaqah* is charity that is given voluntarily.

Islam does not view charity as a form of self-deprivation, rather it views it as a reward or something that is good for a person. Therefore, the person that is collecting charity is looked at as doing a service by helping members of the faith fulfill their obligations to God. As a result, God includes them as one of the categories of people that can receive zakat. The way in which zakat was collected in the past is very different from how it is collected now. Presently, zakat is generally collected in different ways: people give it to people who they know are poor and needy, others donate it to their local mosque and place the responsibility of distributing it on the mosque, while others donate it to Muslim faith-based charities who then use it for emergency response or implementing development projects. The question that is not clearly answered by Muslim scholarship is does the allowance of the "zakat collector" to receive zakat funds translate to charities, and can it be used toward administrative expenses?

Can zakat provide a solution to the restriction of administrative expenses is something that should be further researched both by philanthropic experts and Muslim scholars. One would argue that Islamic principles of charity can provide a path for charities to be more sustainable and therefore more impactful. In order to be more conclusive on articulating how the Islamic tradition can influence the way nonprofits are set up, further research needs to be conducted. The research that is available is not conclusive. Unfortunately, the way charities are currently set up, they are forced to neglect their growth, program interventions are short term and offer a band-aid solution to problems, executives do not invest in research and development on how to solve humanitarian problems, and charities are not able to recruit the best talent due to "admin rate" restrictions. The humanitarian needs of the world are increasing, there are new problems that are being developed due to climate change. To meet the growing humanitarian needs of the world, charities need to be able to be sustainable, agile, efficient, and be allowed to operate in ways that make impactful solutions the priority. However, until we stop using how low the administrative rate is for a charity as a measurement for success, charities will not be able to provide impactful solutions to major humanitarian issues.

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Bio: Araif Yusuff serves as the Chief Operating Officer for Islamic Relief USA (IRUSA). In this executive role, he supports the nonprofit in carrying out its mission of eliminating poverty from the world through programs focused on relief and development. Araif Yusuff has carried out responsibilities as Director of Programs since 2021, and in this capacity, he had oversight of a $350 million portfolio of disaster relief and development programs in the U.S. and around the world.