



# Capable Partners Program Learning Agenda on Local Organization Capacity Development

## Country Report Series

### #1: Sri Lanka

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## INTRODUCTION

In Sri Lanka, local capacity is determined by three sets of factors:

- Structural transformation in the political-economy and cultures of the nation
- The particular competencies, products, services and relationships between the public sector, the for-profit private sector and the non-governmental sectors
- The affiliations and operations of donors

## STRUCTURAL CHANGES AND LOCAL CAPACITIES IN SRI LANKA

Sri Lanka's modern economy evolved from the plantations pioneered by the British in the nineteenth century. The plantation sector turned Sri Lanka's feudal relations of production into market relations, laying an enduring foundation for developing more complex capacities today. The plantation sector dominated economic activities in the country until the early post-independence period. Tea plantations, started in the 1870s in the central highlands, were followed by rubber and coconut plantations at lower altitudes. Large expanses of land were subject to mono-crops, and tended by wage laborers, producing low-value added commodities for export, such as tea, sheet rubber, desiccated coconut, coconut oil and husks, with the help of simple machinery.

This plantation economy led to the growth of village, regional and national markets linking a host of services and ancillary industries: transport, processing, packaging, marketing, the provision of legal and health services and trade in consumer goods. Exports from the tea, rubber and coconut plantations accounted for over 90% of the country's export earnings in 1948, the year Sri Lanka gained its independence from British rule.

In the shadow of the plantations toiled thousands of small farmers. Agriculture, both for commercial and subsistence purposes continued to be the occupation of the majority well into the late 1980s. Sri Lanka's ancient civilizations nurtured rice cultivation by constructing and maintaining an impressive network of irrigation works, demonstrating high levels of engineering acumen. Royal patronage for agriculture was succeeded by strong and steady government support for small farmers through the expansion of irrigation facilities, extension services and generous subsidies. Achieving self-sufficiency in rice and other food items is a national political imperative. In the 21st century, the *Wewa* (irrigation tank) and *Dagaba* (Buddhist temple) continue to symbolize a uniquely Sri Lankan legacy.

Sri Lanka has demonstrated remarkable resilience in the face of drastic economic policy changes. From 1956 to 1976 for example, chronic shortfalls in foreign exchange led to stringent government cut-backs in imports, resulting in local import substitution industries. While some of the export substitution products were of questionable quality, the emphasis on national self-sufficiency led to the emergence of important home-grown industries, such as industries producing paper, cement, ceramics, tires and handloom materials.

In a dramatic reversal, the "closed" economy was swept away and replaced by an economy thrown open to imports and foreign investors by a new, popularly elected government led by the United National Party (UNP) in 1977. The face of Sri Lanka's economy is changing today as the

service and manufacture sectors diversify, rapidly fueled by both domestic and foreign investment. It is estimated that one in ten Sri Lankans lives overseas, drawn by better economic opportunities or driven away by the war in Sri Lanka. Expatriate Sri Lankans are local capacity catalysts and facilitators of technology transfer. Apart from investing their earnings in enterprises and properties in Sri Lanka, expatriate Sri Lankans also play a critical role in introducing new concepts, products and services in Sri Lanka.

The plantation sector is being eclipsed by other sources of earnings, such as, the remittances of Sri Lankans working overseas. These remittances were the “foremost foreign exchange earner in 2011, surpassing export earnings from textiles and garments for the third consecutive year” (Sri Lanka Central Bank, 2011 Annual Report). Financial and information technology services are expanding. The tourist industry is booming. The landscape is dotted with factories producing a range of export goods, particularly garments, textiles, light electronic items and value added commodities from plantation produce.

Sri Lanka’s economy continues to place premium value on foreign investment, although attracting and retaining foreign investors is challenging in an environment where all countries are competing for scarce capital in the midst of global economic crises. The 30-year-old war between the Sri Lanka government and the Liberation Tigers of Tamil Eelam (LTTE) has taken an enormous toll on the North and the East. There are sharp regional disparities in the distribution of benefits, since the major part of this economic growth and diversification is taking place in the South-Western districts of Sri Lanka. There are jagged class-based differences too, as the gap between the rich and poor widens explosively.

## **SRI LANKA’S PUBLIC SECTOR, FOR-PROFIT PRIVATE SECTOR AND NON-GOVERNMENTAL SECTOR CAPACITY DEVELOPMENT**

### ***THE PUBLIC SECTOR***

Sri Lanka’s government is the nation’s undisputed leader in development. Macro planning and program implementation at national, regional and sector levels is directly undertaken by the government, often with funds and technical assistance from donors. The Sri Lanka government plays a transformative role in practically all sectors, leading major physical infrastructure construction and maintenance. Historically, the government has invested heavily in agriculture - the traditional occupation of the masses. The government distributes land to the landless, builds and administers irrigation works, supports agrarian research and provides extension services and a range of subsidies to farmers. The government prioritizes revitalizing the staple export crops, such as tea, rubber and coconut; introducing new cash crops, such as ornamental flowers; and achieving national self-sufficiency in rice and popular food items by expanding the area cultivated and increasing yields.

Sri Lanka’s huge Accelerated Mahaweli Development Programme initiated in 1977 illustrates the government’s lead role in development and its powerful capacity to transform the nation. Through a network of dams, reservoirs and channels, the waters of Sri Lanka’s longest river, the Mahaweli Ganga, were harnessed to achieve multiple purposes: large scale irrigation, hydro-

power generation, resettlement, employment, commerce, establishment of new towns and villages, etc. The Programme began with producing around 508 megawatts of power and using 364,000 hectares of land for irrigated agriculture and human settlement, with 80,000 families settled in areas serviced by the Programme by 1995. In previously sparsely populated areas, small and isolated hamlets were connected to roads and commercial centers. Sri Lankan engineers worked with British, German, Canadian and other foreign contractors to plan and implement the Mahaweli Development Programme. For example, the main contractors for the Mahaweli Victoria Project's dam and tunnel were the Joint British Venture, Balfour Beatty Nuttal and the power station (the largest in the country) was contracted to Costan International.

The Sri Lanka government also plays a leading role in the developing the nation's industrial capacities. The State Industrial Corporations Act of 1957 provided for the reconstitution of existing state enterprises as well as the establishment of new corporations to promote the development of large-scale and basic industries. In 1963 there were 14 state industrial corporations producing items such as textiles, cement, sugar, paper, chemicals, edible oils and fats, ceramics, mineral sands, plywood, and leather. By 1974 there were 25 state corporations, including such major undertakings as a steel mill and an oil refinery. Despite the 1977 policy shift in favor of the private sector, in early 1988 government-controlled enterprises continued to play a major role in industry. State-owned corporations accounted for nearly 60% of total industrial output. However, government industries are now being overshadowed by a more dynamic, efficient and fast expanding for-profit private sector.

Universal franchise was granted Sri Lankans in 1931. Political imperatives for wooing voters, have spurred on successive governments to invest substantially and continuously in public services, such as free education and free health services. Elected representatives have also invested in providing food subsidies and income supplements, especially to vulnerable populations, such as low-income families, pregnant and lactating mothers and school going children. *Samurdhi*, the government's main poverty alleviation program which succeeded several prior poverty reduction and safety net programs, currently provides subsidies and supports livelihood development and rural infrastructure development.

These free public services and safety nets have helped substantially to raise the physical quality of life of Sri Lankans and contributed to the formation of human capital. Foreign and local investors as well as international non-governmental organizations are capitalizing on Sri Lanka's plentiful supply of educated labor.

Sri Lanka's public sector faced enormous challenges, including:

- Lack of funds to meet the nation's needs for social services and physical infrastructure, resulting in, for example, poor quality construction, poor maintenance of infrastructure, chronically inadequate services reflecting sharp regional gaps regarding service availability and quality
- Inefficient management, with under-performing state industries plagued by debt, mismanagement and non-profitability issues
- The lack of work incentives for government employees due to low salaries, limited training, political interference and an environment where initiative and hard work may not be recognized

- Excessive delays and inefficiencies in public service delivery caused by red-tape and poor customer service
- Politicization and corruption, where, for example, indiscriminate political appointments have produced a bloated and incompetent bureaucracy. Public officials are seen to lack initiative, avoiding decisions and not taking decisive action owing to the often despotic and arbitrary interventions by politicians
- The lack of management training and “soft skills” at all levels of management
- Operations that are crippled by obsolete and complicated regulations
- The absence of institutionalized opportunities for civil society organizations to actively partner the government by contributing toward decisions, planning, implementing, monitoring and evaluating government public service and development programs. This is a loss for the country. The lack of institutionalized opportunities for civil society participation in the service delivery and development work of the government has prevented the creative use of citizens’ ideas, talents and energies

### ***THE FOR-PROFIT PRIVATE SECTOR***

In comparison to the public sector, Sri Lanka’s for-profit private sector reflects a very different business culture, pattern of growth and set of capacities. “It is the private sector which kept the economy going through all the crises,” remarked an executive of one of Sri Lanka’s leading companies. Private businesses are seen to be strongly customer focused, forward-looking, much better paid and efficient in comparison to a sluggish public sector. The private sector in Sri Lanka is dominated by a small number of “Blue Chip” companies – mainly large conglomerates descended from British plantation owning and trading businesses, as well as a few super-successful relatively new companies founded by Sri Lankans. The private sector also comprises a mass of rapidly proliferating medium, small and micro local businesses and bolstered by branches of big foreign banks and multinational companies.

The private sector has shown extraordinary resilience in adapting to Sri Lanka’s foreign exchange shortages, onerous state regulations (particularly restrictive during the pre-1977 era), and down-swings in economic activity during the 30 years war with the LTTE. Adventurous and open-minded, Sri Lanka’s private sector plays a dynamic, leading role in introducing new concepts, goods and services from abroad to Sri Lankan consumers.

However, Sri Lanka’s private sector continues to face challenges:

- Raising capital is a challenge faced by most industries, especially by small and micro enterprises and by entrepreneurs in Sri Lanka’s sprawling informal sector
- Even larger Sri Lankan businesses are heavily dependent on foreign stimulus and resources. Real innovation and capacity growth that’s driven by local private sector research and development is rare. There is great need and potential for value addition, for traditional exports as well as newer products. For example, a senior trade union office bearer emphasized the need for Sri Lanka to produce organic and flavored teas, do more blending of teas and improve packaging. MAS Holdings started its apparel industry in 1986 producing, basic, low-end products. MAS stands today as South-East Asia’s “number one supplier of

intimate apparel.” But MAS belongs to just a tiny minority of Sri Lankan companies that have made in-country research and innovation important business drivers

- Private businesses are obstructed by red tape, bribery and corruption in the public sector. At the same time there is collusion since businesses actively seek illegal favors. Bribery and corruption violates the rule of law, undermines trust between the public and private sectors and weakens for example, the quality of public goods and services because of government contract award and management malpractices
- The business climate in Sri Lanka has potential to improve. The World Bank’s “Doing Business in 2011” report ranks Sri Lanka 102 out of 183 countries regarding the overall ease of doing business. Sri Lanka is ranked 29 (Sri Lanka’s highest rating) for the “Starting a business” indicator and is ranked 160 (Sri Lanka’s lowest ranking) on the “Dealing with licenses” indicator

### ***NON-GOVERNMENTAL SECTOR:***

Sri Lanka’s NGO sector has demonstrated considerable success in filling the large gaps in services for vulnerable populations, such as children, senior citizens, pregnant and lactating mothers in low-income communities, IDPs, victims of violence, people with disabilities. The NGO sector has shown remarkable versatility in augmenting support within and across a range of sectors: maternal and child health protection, agriculture extension, preserving natural resources, cleaning-up the environment, resettling IDPs, educating the public on using alternative forms of energy, promoting livestock farming, fisheries and the diversification of crops. In times of crises, such as during the post-2004 tsunami period and during the 30 years war with the LTTE, the NGO sector played a monumental role in mobilizing volunteers and supporting humanitarian assistance, resettlement, rehabilitation and reconstruction efforts.

NGOs do valuable work to mobilize civil society and the government through their advocacy work, pressing for legislative reforms and actions for protecting human rights, social justice, cultural heritage, natural resources and the environment. The Knuckles Conservation Forum, for example, succeeded in persuading the government to take over for conservation purposes lands owned by wealthy people, including President J.R. Jayawardena’s son. CENWOR successfully lobbied the government to change Sri Lanka’s Penal Code in 1995 to make incest and sexual harassment criminal offenses.

Sri Lanka’s non-governmental sector comprises non-profit organizations falling roughly into three categories: international non-governmental organizations (INGOs), local non-governmental organizations (LNGOs) and community-based organizations (CBOs).

INGOs in Sri Lanka are mainly branches of NGOs in donor countries registered in Sri Lanka. These INGOs are funded directly by their parent organizations, but also raise funds from other donors. For example, 60% of World Vision Lanka’s (WV) money comes from WV global child sponsorship collections via Support Centers located in various countries. The Nazarene Compassionate Ministries of Sri Lanka (NCM) began their charitable operations in Sri Lanka more than 100 years ago and was registered as a local NGO in Sri Lanka in 2000. NCM Sri Lanka gets 30% of its funds annually from its head office in Kansas City, USA. NCM Sri Lanka also gets funds for example, from the Canadian Food Grains Bank. NCM also gets help from the

Kansas head office to prepare funding proposals, such as, its DGP grants proposal. In fact, it was the NCM Kansas office which identified the DGP funding opportunity and asked NCM Sri Lanka to apply.

INGOs are principally directed by the visions, missions and goals of their parent organizations and tend to use tried and tested operating models favored by parent organizations. However, INGOs may have lower level objectives and activities shaped by consultations with local partners, beneficiaries and Sri Lanka government authorities. For example, Habitat for Humanity describes itself as a “single niche organization” in Sri Lanka helping poor people to build their homes through outright grants or small interest free loans. These activities are similar to Habitat’s operations in other countries. However, in Sri Lanka, Habitat is also catering to locally identified needs, such as, helping people to understand the value of and use solar stoves.

With the exception of a few NGOs that have originated in Sri Lanka, such as Sarvodaya and Sewa Lanka, compared to most LNGOs and CBOs, INGOs generally demonstrate greater capacity for designing and implementing large scale projects. INGOs usually have:

- Larger budgets, including a stream of steady core funding from parent organizations
- More staff, for example WV Lanka has more than 500 full-time staff in Sri Lanka and five expatriate staff members. NCM has 64 staff members including 31 Community Facilitators
- Comfortable office facilities, often having a head office in Colombo and regional offices. WV for example, has a large head office with 150 staff in Colombo and 43 Area Development Program offices
- Superior management systems, for example WV Lanka’s organizational structure has a “Design Monitoring and Evaluation Department,” a “Program Quality Department,” and a “Technical Services Unit” employing 7-8 technical specialists
- Incentives for staff. While working for an INGO is not as prestigious as working for the Sri Lanka government, INGOs pay more than the government, with salaries that are comparable to salaries offered by private sector firms

LNGOs emerged in the 1970s and 1980s when donor aid agencies helping Sri Lanka sought local implementing partners. Foreign donors have either directly created LNGOs or have provided the main stimulus for their establishment. For example, Partners in Alternative Training (PALTRA and originally Programme for Alternative Training) was created in 1996 in response to an initiative by three donors, Bread for the World, Germany, Christian Aid, UK and ICCO, Netherlands. PALTRA focused mainly on training the staff of these three donor organizations. In 2004, when the three donors pulled out, PALTRA decided to move forward as an independent, self financed training center. Organizations like PALTRA are rare. The overwhelming majority of NGOs are heavily dependent on donor plans for Sri Lanka and the funds that flow from donor agendas.

In terms of organizational structures, the larger LNGOs have modeled themselves on INGOs, having, for example, a board, full-time program officers headed by a Director/Executive Director, as well as activities that are driven by typical project cycle management systems and tools, such as project proposals, implementation plans, budgets, progress reports and audits. The smaller NGOs are more informal and operate more like voluntary societies or clubs, with office bearers and volunteers. On the whole, LNGOs are smaller than INGOs, with much smaller budgets and fewer full-time staff.

The executive director of a training institute in Colombo estimates that there are over 30,000 CBOs operating in Sri Lanka today. A CBO is a small grassroots organization formed by members of a particular community to meet specific community needs. Farmers associations, youth clubs, Rural Development Societies, Women's Rural Development Societies, death donation societies are examples of CBOs. District and village level government officers often play a role in establishing and/or activating dormant CBOs. CBOs tend to have slim, informal and fluid organizational structures where the ebb and flow of activity depends on the task at hand and the personal commitment of office bearer and other volunteers. Partnerships are critical, since CBOs are able to raise funds, get work and access training and other capacity building resources by partnering INGOs, NGOs and government authorities.

### ***CHALLENGES FACED BY NGOS:***

***Dependence on Foreign Resources:*** Both the INGOs and LNGOs are heavily dependent on funds, guidance and technical assistance provided by Western bloc foreign donors.

***Sharply Decreasing Funding for NGOs:*** Sri Lanka's NGOs fear the worst as donors either pull out of Sri Lanka or slash funding by around 30% compared to funds received in 2011. Sri Lanka's emerging "middle income" status, the completion of many IDP resettlement and humanitarian assistance projects and the general hostility of the government to foreign donors supporting NGOs are widely seen to contribute to current and impending funding deficits. Donors are cutting back, particularly on the percent funds given for administration, planning, evaluation, training and technical assistance, seriously undermining organizational capacity development and the potential for building reserve funds.

***Lack of Public Trust:*** While individual NGOs may demonstrate cordial and effective working relations with the government, their beneficiaries, volunteers, local donors and other civil society partners, on the whole, the NGO sector is viewed with suspicion and distrust. During the war and after the 2004 Tsunami, Sri Lanka received generous foreign assistance. NGOs were used to distribute the aid. "If the NGOs really used the funds and things they got to help people they were supposed to help, the North and the East should be flourishing today" remarked an executive of a large company. "NGOs are looked upon as lords of poverty profiting from help for the poor" commented the Executive Director of a leading INGO. NGOs are frequently accused of hypocrisy, fraud and embezzlement. "Less than 50% of the NGOs have good intentions. Less than 10% have the organizational capacity and systems to avoid fraud" analyzed a training expert.

NGOs in Sri Lanka are also adversely affected by the lack of public education and understanding of their real and potential roles. In Sri Lanka, NGOs have, for example, highlighted various illegalities relating to human rights violations, corruption and the abuse of natural resources. NGOs have closed gaps in social services, especially in the case of groups neglected by the government, such as IDPs in the North and the East. NGOs have advocated progressive reforms and propagated for example, cutting edge practices in organic agriculture and sustainable timber harvesting. However, these contributions are not adequately recognized and valued in Sri Lanka.

**Increasing Government Surveillance:** NGOs are also demonized by the government and nationalist sections of the population as being tools of foreign imperial powers and as being meddlesome trouble-makers. The government is stepping up its surveillance by requiring NGOs getting foreign support or that work in more than one administrative district to register with the National NGO Secretariat located within the Ministry of Defense. NGOs operating within just one district have to register with their District Secretariats or Divisional Secretariats. NGOs are required to submit monthly reports describing their on-going progress and funding status. NGOs are also required to attend regular meetings convened by designated government authorities. Surveillance and controls are particularly stringent in the North and the East where the LTTE deployed “front” organizations supposedly providing social services to camouflage subversive operations. The government has appointed a Presidential Task Force which approves project proposals and monitors project sites, beneficiaries and activities in the North and the East.

**Limited Government Partnerships with NGOs:** While the government has stepped up its surveillance of NGOs, there is no enabling regulatory environment in the country aiming specifically at strengthening NGOs. While there are various individual relationships between government authorities and NGOs, there is no distinctive culture of government-NGO partnership based on mutual respect and mutual help, driven by the desire to leverage each other’s strengths. NGOs are for the most part under-utilized resources. NGOs tend to be marginalized and operate on the remote fringes of national development programming. This is a loss for the country since NGOs are conduits for harnessing the talents and energies of citizens.

**Programming Dissonance:** NGOs in Sri Lanka profess to espouse specific causes. CENWOR focuses, for example, on empowering and protecting the rights of women, through research, education and advocacy. The Bentota River Environment Development Society passionately opposes toxic effluents and dumping garbage in the Bentota River. However, owing to their dependence on donor funding, LNGOs and CBOs are severely challenged in aligning their activities with their professed missions. To keep afloat financially, CENWOR has taken on training low-income women, when it would rather expand its research and advocacy activities.

On the whole, LNGOs and CBOs go with the flow. Many organizations are ever-ready to follow donor funds and support donor agendas. For example, HELP-O located in the Galle District, got Rs. 157,000 from NORAD during 1994-5 for its first project to develop a women’s income generating group. During the 1996-7 period, HELP-O got Rs. 47,000 from NFPO to engage in coast conservation activities. During 1996-8, HELP-O received Rs. 143,000 to do HIV-AIDS research. During 1998-9, HELP-O was given Rs. 589,000 by SIDA to raise public awareness of child rights. Their open-mindedness to accept practically any type of assignment has helped LNGOs and CBOs in Sri Lanka to acquire insights, knowledge and programming and technical expertise relating to multiple sectors. However, this knowledge and expertise tends to be superficial, limited and evanescent.

**Lack of Unity:** The NGO sector has several umbrella organizations, such as the Consortium for Humanitarian Assistance (CHA) at a national level, the Vavuniya NGO Consortium at a local level and the Disability Organizations Joint Fund at the sector level. However, these umbrella organizations have failed to build unified, strong and sustainable NGO networks. On the whole, the NGO sector is fragmented, with ad hoc partnerships and organizations competing for donor funds and squabbling over territorial issues.

***Administrative Burdens:*** As a result of increasing surveillance by both the Sri Lanka government and foreign donors, NGOs have much heavier administrative burdens today. “We spend much more time and money now to get approvals and to do report to different people. Sometimes, we have to appoint a person just to get the approvals from government” complained a senior staff member of an NGO operating in Vavuniya.

## **DONOR AFFILIATIONS AND CAPACITY DEVELOPMENT**

Since independence Sri Lanka has received substantial foreign assistance in the form of grants and concessionary loans. Concessionary terms offer high-risk loans, low interest rates, longer repayment periods and technical assistance. However concessionary loans are usually based on meeting conditions, such as compliance with standards relating to contracting, procurement, auditing, monitoring and evaluation procedures, etc. Tied aid may also require procuring goods and services from the donor. Donor foreign assistance conditions, however, have generally helped to bolster Sri Lanka’s capacities for complex planning, upgrading and diversifying its technologies, managing programs, expanding training and generally improving transparency and accountability.

Foreign assistance has enabled Sri Lanka to plan and execute massive infrastructure building projects: roads, bridges, power stations, airports, harbors, irrigation works, dams, waste treatment plants, rural electrification schemes, etc. These projects have been gateways to technological advancement since the project components often include provisions for training Sri Lankan personnel on how to manage new programs, administer new institutions and use and maintain new technologies. Foreign assistance has also facilitated progressive innovations and upgrades in Sri Lanka’s education and health services and introduced new programming approaches centering on human rights, such as gender equity, services for people with disabilities, national reconciliation, the rehabilitation of ex-combatants, psycho-social services and trauma counseling for war victims, etc. If not for donor support, programming in these areas would be sparser.

In terms of project scale and volume of aid funds, China, the World Bank, the Asian Development Bank and Japan lead the donor community in Sri Lanka. Other donors include the United Nations family, the European Union, and the embassies and/or bi-lateral aid agencies of Australia, Britain, Canada, Denmark, France, Germany, Iran, the Netherlands, New Zealand and the USA. Donor programming broadly falls into two categories. China, the World Bank, the Asian Development Bank, Japan and Iran mainly support the construction of big infrastructure projects. On the other hand, the European, American and Australian donors – the Western Bloc – tend to invest smaller sums of money to serve individuals and communities in need.

Western Bloc programs fill the gaps in public and private sector services. Western Bloc donors have played a key role in introducing new programming priorities and concepts. However, the inclination to align their programming in Sri Lanka with their foreign assistance priorities makes Western Bloc donors vulnerable to allegations that they are introducing unnecessary and inappropriate ideas and practices in Sri Lanka.

Western Bloc donors and the United Nations have been instrumental for the most part in creating the local NGO sector in Sri Lanka. Their most widely applied programming model channels

funds for international development assistance from Western Bloc governments or individual philanthropists through aid agencies to NGOs in Sri Lanka who may pass on some of the funds to small CBOs toward implementing project activities. Close relationships with foreign donors make NGOs the objects of suspicion and derision by Sri Lankan politicians, their supporters and the more nationalist sections of the population.

Sustainability is one of the biggest challenges faced by beneficiaries with donor developed capacities, whether it's a factory or a trauma counseling center. Projects are opened with great fanfare. But when the project period is over and donor funds dry up, a program could shut down completely, lose its character by being merged into another program, or operate sloppily at sub-standard levels.

Sri Lanka is a member of the non-aligned movement and has been open, historically, to receiving help from practically any country or organization. However, since the war, Sri Lanka's relationship with the United Nations and Western Bloc countries is fraught with tension over allegations of human rights abuses. The deteriorating government-donor relationship is a formidable impediment to the local capacity development work being done, or which could be done, by the United Nations and Western Bloc donors. The close collaboration and active partnership by government and donors anticipated by the Paris Declaration for example, is largely absent in Sri Lanka. During the Eelam war years and soon after the war, the government of Sri Lanka accepted donor assistance. There were regular cluster and sector meetings relating to IDP resettlement, demining, water and sanitation, reconstruction, etc. chaired by senior government authorities, such as ministry secretaries at the national level or of Government Agent rank at the district level attended by implementation partners, including government and military personnel, donor representatives, UN officials, INGO and NGO staff. However, the IDP crisis is easing. The government has indicated a strong preference now for receiving outright grants or hardware, such as vehicles, machinery and other equipment, rather than have donors directly run programs in-country.

## **REFLECTIONS AND RECOMMENDATIONS FOR DONORS**

“Sri Lanka has changed dramatically since the end of the armed conflict in 2009. The Sri Lankan economy grew approximately 8% in 2011. Resettlement of internally displaced people is largely complete. Sri Lanka is now a middle-income country at peace” commends the World Bank's Sri Lanka website homepage. This statement is controversial. The war is over, but ethnic conflicts continue to simmer ominously while class conflicts are exacerbated by escalating costs of living and widening gaps between “haves” and “have-nots.” The scars of war have not healed, particularly in the North and the East, where there is widespread suspicion, fear, anxiety, humiliation, despair and traumas associated with violence and the loss of life, property and livelihoods. There is need for donors to continue to help filling the huge gaps in services for IDP returnees.

But the World Bank statement does ring true in certain respects. With the end of the war, Sri Lanka has turned a new page in its history, starting a chapter bristling with new challenges. As it assumes the status of a “middle income” nation with most IDPs settled, Sri Lanka faces a different set of local capacity building needs. Donor funds are drying up and donors have begun

to leave the country, such as, SIDA, or to leave areas with vulnerable populations. UNICEF and UNHCR for example, are planning to leave Jaffna in 2013. Concerned, but hopeful UN staff and NGO representatives emphasize the need for “a completely new way of thinking and new strategies for helping” by donors:

***Fund What Local Organizations Want To Do and Do Best:*** Invest in the missions of local organizations. Set up partnerships programs with local organizations (NGOs, government agencies and private companies) in ways that optimize the ability of local organizations to identify needs, beneficiaries, expected outcomes, and program designs, based on their own missions. While there is much rhetoric on country ownership, the reality is that donor funded programs continue to be overwhelmingly shaped by donor goals, current priorities, timelines, preferred models and administrative requirements. NGOs are particularly vulnerable, since many NGOs were established with donor support to implement donor agendas. Donors need to place more weight on sensitively and actively supporting what local organizations passionately want to do, or do best, rather than foisting program models favored by the donor on local organizations.

***Facilitate Stronger Partnerships and Interlocking Capacities Between the Public, Private and NGO sectors:*** Currently, there are links between these three sectors, but the links are tenuous and weak. A few NGOs interviewed by the LA team, such as the Foundation for Environmental Protection, HELP-O, and the Organic, Environmental and Rural System Foundation (all located in the South), have occasionally received small grants of less than Rs. 200,000 from the government and smaller grants from local private sector firms. NGOs sometimes train and work closely with government authorities. For example Women in Need in Jaffna, collaborated on a daily basis with local government officials, such as Public Health Inspectors, midwives, Samurdhi Officers, Grama Niladhari and Probation Officers. With funds from USAID’s SURGE project, Women in Need, Jaffna, provided a series of much needed training on gender sensitivity to these officials.

There is scope for much stronger, longer-term relationships based on interlocking capacities and multiplier effects between the three sectors. The aim should be to leverage what each sector does best to help the other sectors. For example, the private sector can share its business management expertise with the public sector and NGOs, particularly with weaker, under-resourced lower level local government units, such as the Divisional Secretariats (DS). “DS people need a lot of help. They don’t know what their rights are and what they have to do. Because they are from the TNA (Tamil National Alliance), they don’t get any help from the government” said an office bearer of a Vavuniya NGO. NGOs are usually more sensitive to community needs and skilled at engaging community members. NGOs could help local government authorities to better understand and respond to community needs. Donors could facilitate building these relationships.

***Transform Private Sector Charity into Philanthropic Giving and Development Assistance:*** The private sector is Sri Lanka’s engine for growth and has increasing potential for supporting both the government and NGOs. Big companies in Sri Lanka are interested in Corporate Social Responsibility activities. The private sector could be supported toward graduating from one-off, sundry charitable deeds, such as giving alms to clergy and distributing largesse to the poor. There is scope for transforming private sector charity into long-term philanthropic ventures with a development focus, by establishing foundations and through systematic grant-making and management of grantees by local companies. The consulting company Strategic Inspirations interviewed by the LA team, has helped the family firm Hemas Industries to establish a

foundation and is repeating the same exercise for MAS Holdings. Donors could support these efforts.

***Transit From Inputs To Sustainable Livelihood Development:*** Donors pumped large sums of money into resettling IDPs. The supply driven, input-based programming model that was used for the most part has run its course and is being phased out currently. UN agencies and NGOs basically distributed livestock and agricultural tools to IDPs. As a result, beneficiaries have become dependent. “NGOs do benefit people in need. About 90% of the assistance in the North and East comes from NGOs. One drawback is that NGOs have made people beggars.” The Executive Director of an NGO in Jaffna went on to describe how difficult it is to get beneficiaries to help themselves and to make personal contributions to development projects. “People first want to find out what you will give. If you promise to give them something, they will come happily in large numbers. It’s very difficult to break through this.” The inputs model was also wasteful, since beneficiaries could not properly utilize what they got, sometimes owing to poor planning. “Toilets were built in places without water, so they were used to keep goats;” “At the end of the day people just sold the tools.”

What could donors do to help more effectively? Livelihood development is now a top priority in resettled areas in the North and East, as well as in other parts of Sri Lanka. A UNDP senior manager emphasized the need to help small producers. She said the technical assistance and credit for small producers engaged in farming, fisheries, crafts and livestock rearing are grossly inadequate – “with huge gaps in services.” Farmers for example, need information on how to adapt to changing weather patterns, cultivation and marketing methods for new commercial crops. How to provide technical assistance, credit and insurance services to small producers? “Instead of making government bigger, perhaps a solution is to have private companies or NGOs provide these services to small producers.” Forming, reviving and strengthening cooperatives too, is important. UNDP, FAO, CIDA and IOM are discussing these proposals. Their decisions will shape new program models for helping the North and the East in the future. There is an interest in USAID and other American organizations, seen to exemplify promising practices in working with the private sector. “We met Land O’Lakes to learn from them” said a UNDP senior manager. A past president of the Vavuniya NGO forum who is highly critical of the inputs model spoke approvingly of USAID programs that offer incentives to businesses that create more jobs in the North and the East.

***Invest In Strengthening Local Organizations:*** Crushed by reduced donor funding, government threats and a tarnished public image, NGOs in Sri Lanka are struggling to survive. This is dangerous, since attrition in the NGO sector will weaken civil society overall in Sri Lanka. Donors have all along used NGOs mainly as vehicles for project implementation. Donors have invested much less in building the self-confidence, public image and organizational capacities of NGOs. This approach needs to change drastically if NGOs are to survive and thrive in Sri Lanka.

To build the organizational capacities of NGOs, donors can:

- Partner the government in creating an enabling NGO regulatory environment in Sri Lanka. Also, there is need for donors to strongly support efforts to educate the public on the actual and potential roles and contributions of NGOs. Right now, donors are skittish, preferring to work around issues and under the radar, rather than engaging the government directly, owing

to fears that surveillance and government interference will increase if regulations are revisited

- Fund the services of intermediary technical assistance providers, giving precedence to local intermediary providers, to help NGOs acquire and successfully apply expertise in multiple areas, such as, articulating and sticking with their own missions, public relations and image management, raising funds from local as well as international sources, diversifying partnerships (currently centered on donors) to work productively with the government as well as with private companies, and to strategically manage innovation
- Conduct comprehensive research on the NGO sector to get more information on current organizational capacities and funding sources. For example, preliminary research conducted by the CAP LA team indicates that the NGOs are getting substantial help from “local people.” However, there is no reliable data on who is funding locally and how funds are raised locally

***Make Grants Country-Specific, Easier and More Helpful For Grantees:*** Organizations funded by donors are increasingly baffled and discouraged by the grant-making requirements of donors. Applying for EU funds and USAID funds is seen to be a painful process – taking too much time, with complicated instructions, demanding preparation and often a waste of time, energy and money. It took approximately two years since the RFA was advertised for grant money to flow to the Round One DGP grantees in Sri Lanka. In comparison, the Global Environmental Facility (GEF) grants, although small in size, get accolades from grantees for quick disbursement over 1-3 months and flexibility, since additional funds are given to pay for technical assistance along the way.

***Invest In Building Strong Donor-Government Partnerships:*** Disagreements over human rights issues, particularly during the war with the LTTE, has created a rift between the government and Western Bloc donors. Western Bloc donors tend to minimize their interactions with the government. However, donors need to revive the spirit of country ownership and harmonization by taking much greater initiative to ease this tension and establish friendlier and more productive working relationships with the government. An important forum for example would be a functioning high-level government-donor Group. Continuing, revising or newly forming sector specific Consultative Groups (used to get IDPs resettled) and/or Working Groups comprising government authorities, donor and civil society representatives would enhance communication, collaboration and coordination.

Based on the suggestions of the interviewees, the ideal grant-making process would:

- Award grants for at least a three-year period. NGOs emphasized the need for a longer funding period toward obtaining tangible results
- Take no more than six months for funds to be distributed to grantees from the time the RFA is published. USAID could learn from OFDA and OTI about disbursing grants funds quickly
- Give priority to meeting in-country needs and be sensitive to country-context when reviewing proposals and designing projects
- Reward applicants demonstrating a deep and sincere interest in the project proposed
- Solicit a concept paper limited to four pages and with a follow-on proposal that should be no more than 20 pages

- Hold at least one proposal writing workshop to help concept paper winners to develop their proposals with all travel expenses paid by the donor
- Build planning funds for the first four months of the grant, so that the first set of funded activities are devoted to preparing a grantee-owned project plan with donor representatives and technical assistance providers
- Develop working relationships between donor representatives and technical assistance providers throughout the life cycle of the grant toward facilitating mutually beneficial learning for all parties. This would involve regular consultations, site visits and other participatory activities
- Require a bi-annual report and an annual report while conducting quarterly monitoring visits with data audits
- Have a funding cushion for each grantee toward disbursing additional funds for getting technical assistance and meet unexpected expenses, such as, costs caused by inflation
- Provide at least 10% for the grantee's administrative costs
- Build-in funds for staff training, organizational development, mid-term (internal evaluation) and final program evaluation (external evaluation)
- Build-in funds for following-up and supporting project spin-off activities and outcomes for 6-12 months after a project is officially over/closed

## **NATIONAL NGO SURVEY FINDINGS**

In May and June, 2012, the CAP Learning Agenda team in Sri Lanka carried out a survey administered to a random sample of 50 NGOs registered with Sri Lanka's National Secretariat for Non-Governmental Organizations. On May 15<sup>th</sup>, 2012, the number of NGO registrants in the National Secretariat's online database stood at 1379. The National Secretariat defines its registrants as "National Level NGOs." The Secretariat requires an NGO to get registered with the National Secretariat if it meets one or more of the following criteria:

- The NGO is registered in any country outside Sri Lanka
- The NGO is local, but receives foreign funds for its operations
- The NGO operates in more than one administrative district in Sri Lanka

The National Level NGOs registered with the National Secretariat represent just a subset of a much larger population of NGOs and CBOs in Sri Lanka. However, the National Secretariat registrants are likely to represent Sri Lanka's more ambitious and venturesome NGOs, with big visions, wider geographic scope of operations, and relationships with foreign partners. At the same time, the NGOs registered with the National Secretariat appear to have suffered considerable attrition over time. The CAP team's research assistant randomly selected NGO telephone numbers listed in the National Secretariat database of registrants. The assistant reported that he had to make an average of seven phone calls before he contacted an active NGO. The other telephone numbers he called were disconnected, or led to residences and businesses.

**Establishment:** The NGOs in the sample were established between 1946 and 2010. A large proportion - 50% - were started during 2001-2010, followed by 42% established during 1990-1999, and just 4% started during the 1981-1990 period. This pattern largely confirms general impressions of NGO growth in Sri Lanka where NGOs are seen to have mushroomed after the

December 2004 tsunami when foreign aid flowed generously into the country. The oldest organization in the sample is the Moors Islamic Foundation founded in 1946. The two most recently formed organizations in the sample are the Sri Lanka Parents Association of Autistic Children and the Human and Skills Development Foundation established in 2010. The data suggests that NGOs in Sri Lanka are evolving on the whole from associations based primarily on traditional and religious ties, to organizations embracing universal values, dedicated to serving populations with special service and advocacy needs. On average, the NGOs have operated for 14 years since inception and until 2011. It could be surmised that the National Level NGOs tend to be youthful and likely to be in need of organizational development support.

**Location:** The NGOs sampled are located in 12 of Sri Lanka's 22 administrative districts. The NGOs tend to cluster in urban and suburban areas. 46% are located in the Colombo District, followed by the Gampaha District (10%), the Kandy District (10%), and the Galle District (8%). With the exception of the Ampara District (6%), the other seven districts have lower proportions of NGOs registered with the National Secretariat, since each of these seven districts has only 2-4% of the NGOs, including surprisingly, the Jaffna District (2%) and the Batticaloa District (2%). Many NGOs currently operate in the North and the East, so their weak representation in the National Secretariat's database of registrants is perplexing. The reasons could be that many NGOs active in the North and the East have head offices in the South, receive foreign funds indirectly or covertly and/or operate only within single districts, which would then require them to register with only District Secretariats or Divisional Secretariats, rather than the National Secretariat for NGOs. Since the National Secretariat for Non Governmental Organizations is managed by Sri Lanka's Ministry of Defense, and the surveillance of NGOs with foreign links is a main function of the National Secretariat, some NGOs in the North and the East could be operating under the radar too.

**Staff and Volunteers:** A significantly high number - 74% - of the NGOs sampled have permanent staff and 84% use Volunteers. It could be surmised that NGOs registered with the Secretariat are likely to be better resourced than other NGOs and CBOs because they tap directly into foreign funding sources and technical assistance.

**Funding:** Of the NGOs interviewed, 46% claimed to have received foreign funds over the past five years. This is surprising. One might expect the proportion of NGOs getting foreign funds to be significantly higher, since foreign funding and/or being a part of an organization which operates in other countries are criteria for requiring NGOs to register with the National Secretariat. It is possible that organizations that previously got foreign funds are no longer getting foreign funds.

The NGOs interviewed, categorized their funding sources as follows:

- 58% are funded by local people
- 44% are funded by INGOs. The respondents identified funding organizations based in number of countries: Australia, Canada, Japan, Italy, Pakistan, Netherlands, Thailand, Switzerland, UK, and the USA
- 34% are funded by local NGOs
- 22% are funded by multi-lateral development organizations: ADB, EU, FAO, UNDP, UNHCR, IOM
- 12% are funded by private, for-profit companies

- 8% are funded by bi-lateral donor organizations: two organizations, the Human and Environment Lanka Progressive Foundation and the Association for Rural Community Savings got funds from USAID; two other organizations, the National Peace Council and the Association of War Affected Women got funds from the U.S. Embassy
- 8% are funded by religious organizations
- 4% are funded by the government of Sri Lanka

The survey highlights several interesting funding practices. For example, the Mind Development Services Organization raises money mainly by selling its *Manasa* magazine. The Sri Lanka Eye Donation Society gets money from grateful recipients of eye donations from Sri Lanka and around the world. The Angunakolapelessa Janasuwaya Janatha Sanwardana Padanama is funded by Minister Sajith Premadasa, the son of Sri Lanka's former President Premadasa.

A promising finding is that 58% of the NGOs get funds from "local people." This finding needs to be researched further. As Sri Lanka assumes "Middle Income" status and donor funds dry up, it is important to have more information on local funding sources and the local fund raising operations of NGOs. Donors need to invest more effort into supporting the institutionalization and growth of local giving practices from citizens, Sri Lankan government agencies and for-profit companies operating in Sri Lanka.

### **ACTIVITIES:**

The NGOs interviewed have rich tapestry of service activities, relating to education (42%), helping small scale producers (22%), providing microcredit or loan and savings support (20%), increasing employability /employment (16%), improving small businesses (14%), increasing yields and diversifying agricultural practices (14%), protecting natural resources and the environment (14%), protecting human rights (10%) and extending water and sanitation services (8%).

Activities in the education sector are quite diverse. Some NGOs, for example, help children with disabilities to get educated and students from low-income families to access primary and secondary schools. Other NGOs offer environmental education, facilitate vocational training, enhance technical and business management knowledge and provide life-skills training for preventing HIV-AIDS, alcohol and drug addiction. NGOs are keen to introduce new ideas and practices. For example, Gemi Seva Sevana promotes the cultivation of organic fruit and vegetables. This NGO convenes weekly meetings for farmers interested in organic agriculture and also provides technical assistance and residential training for farmers using its own training room.

NGOs in Sri Lanka show a pronounced interest in creating more opportunities for economic advancement. There is widespread hunger for more income in the country, driven by Sri Lanka's high rates of inflation, youth unemployment and underemployment; declining consumer purchasing power; and low wages.

In Sri Lanka, NGOs are looked upon as service providers to needy groups not getting adequate help from the government or the public. The survey data confirms this conventional assumption.

While Sri Lanka has generous free education and health services, there are significant shortcomings in the quality and the coverage of the public services. Government investment in free public services, such as, education is in fact declining as a percent of GDP. In this context, the service contributions of NGOs become increasingly more important. 52% of the NGOs support “special groups” or populations with special needs, such as, people with disabilities, refugees, youth, women, the elderly, those who are terminally ill, etc. Examples follow:

- The Preethipura Infant Home provides full-time, on-site care for severely disabled children including rehabilitation and skills development services
- The Share Foundation helps slum dwellers and elderly, disabled and terminally ill patients. The Foundation does house-to-house visits in slum areas and enables patients in slums to get their medical tests done
- The Alcohol and Drug Information Center (ADIC) carries out alcohol and drug prevention counseling and awareness-raising sessions for youth. ADIC also supports the rehabilitation of addicts
- The Sri Lanka Parents' Association of Autistic Children advocates greater government support for autistic children and their families and facilitates networking and mutual support.
- 20% of the NGOs interviewed help refugees to find temporary shelter, return to their villages, rebuild their houses, re-start livelihoods and send children back to school

## **STRENGTHS AND CHALLENGES:**

NGOs in Sri Lanka appear to be tapping into the country’s deeply rooted philanthropic traditions, such as the Buddhist practice of *Dhana* (giving). When asked to identify their greatest strength, the overwhelming response from the NGOs interviewed was that they get help from people – from committed staff, board members, partners, communities served, volunteers, resource persons and the general public. The Centre for National Social Economic Programme and Policy Transformation Sri Lanka was an exception. This NGO said its greatest strength was its detailed action plan that was presented to many local and international organizations.

When asked what their biggest challenge was, 32% of the organizations responded that they had inadequate funds which made it difficult for them to retain staff and expand services to meet the demands of beneficiaries. Other “biggest” challenges included:

- Obstructive government rules and regulations – for example, the Spence Evoluzione Charitable Trust faced difficulties in getting approval from government authorities for its projects
- Negative public image, where NGOs are disparaged by the government and the public
- Difficulties and disappointments in working with the government – for example, the Bentota River Environment Development Society is struggling to get government authorities to implement laws for preventing dumping and pollution of the Bentota River. The Naradha Sawana Padanama complains that the government is responsive to its efforts to promote the adoption of new techniques to educate disabled children
- Non-receptive public – for example, the Sri Lanka Council for the Blind finds it difficult to secure appropriate and stable livelihoods for blind people or to create an environment where blind persons are regarded as equals by society. The Sri Lanka Parents’ Association of Autistic Children lacks public support, because people are largely ignorant about autism. The

Action Group for Social Development is set back in its fight for social justice when members of the public are afraid and unwilling to speak out

- Opposing vested interests – for example, the Association of War Affected Women faces political challenges when training women to come forward as electoral candidates and political leaders. The Alcohol & Drug Information Centre is engaged in an uphill struggle to counter heavy advertising by the tobacco and alcohol industries

Interestingly, just a couple of organizations mentioned lack of knowledge or technical expertise as their biggest challenge. The need for more training was expressed, but as a secondary concern. The other needs described by the NGOs interviewed included:

- Improved governance within organizations and stronger project management, record keeping, and report writing skills
- More technical training for NGO staff, for example, to update and improve techniques for helping populations with special needs, such as, people with disabilities, as well as the need for staff and volunteers to learn more effective methods for preventing HIV-AIDS, protecting the environment and disseminating new agricultural and business development methods
- Training for staff and volunteers on doing advocacy or effective ways of educating and mobilizing the public
- The need for organizations to own their office buildings, as well as the need for special spaces, such as training centers and auditoriums