External development assistance, received in the form of loans and grants from bilateral and multilateral development partners plays an important role in meeting country's development financing needs and contributed to around 50 per cent of the public investment.

Over the past several decades, the country has enjoyed Concessional Financing from multilateral financial agencies such as the International Development Association (IDA) of the World Bank, the Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), OPEC fund, European Investment Bank and bilateral development partners such as Japan, South Korea, France, Austria, Germany, Denmark, the USA, Australia, Kuwait, Saudi Arabia, the Netherlands, Sweden, China and India. These concessional financing have been extended in the form of outright grants, credits with longer maturities and low or no interest, and/or mixed credits (loan and grant combined).

The concessional financing received from these development partners have been channelled to projects in the areas of poverty reduction, livelihood support, social welfare, education, health, economic infrastructure such as power and energy, roads, ports, ground transport and aviation, agriculture and irrigation, water and sanitation and environment protection and in support of economic adjustment programmes.

The composition and the form of external development financing have substantially changed over the last few years with the implementation of the government's economic policy strategy under "**Sri Lanka - The Emerging Wonder of Asia: Development Policy Framework of the Government of Sri Lanka**" and with the graduation of Sri Lanka to a middle income country status. With the expected reduction of concessional financing, steps have been taken effectively to broaden the options for foreign financing for public investment with a proper mix of less or non concessional financing with the available concessional financing. A greater focus has been made on the needed large priority sector investments such as energy, roads and express highways, ports and aviation, irrigation and water supply schemes at the same time the required resources for the development of lagging regions have been provided for. Under this new development strategy China and India have emerged as two lead development partners while the ADB, IDA and Japan maintaining their support as in the past. Meanwhile, Iran and Russia extended new development assistance while some other traditional development partners continued their support for the country's development efforts including for the rehabilitation and reconstruction in the north and east.

With higher per capita income level, the concessional assistance from western bilateral partners in general has diminished while financing in the form of export credits have taken a prominence. The ADB's share of concessional financing is gradually declining while non concessional financing portion is increasing. The country has also taken steps to approach non-concessional window of the World Bank – International Bank for Reconstruction and Development to expand financing options. Sri Lanka also have successfully tapped capital market financing with sovereign bond issues, most recent being for USD one billion with a 10 year maturity.

At the end of September 2010, the country's committed undisbursed foreign financing stock stood at USD 7 billion. The planned strategy to raise GDP growth rate to around 8% over the next 6 year period is well underway with a target of 6-7 % of public investment ratio. This investment will be financed through desirable mix of external financing with concessional and other type of financing while ensuring improvement of debt sustainability. The government is making all available options to enhance the foreign financing resource envelop to support the ongoing development programme, exploring the renewed opportunity for accelerating country's overall development after the reunification of the country under one umbrella.