

Country Development Cooperation Policy for Democratic Socialist Republic of Sri Lanka

January 2025

1. Purpose of Development Cooperation for Sri Lanka

(1) Sri Lanka has traditionally been a good friend of Japan. Since the establishment of diplomatic relations in 1952, Japan has maintained a friendly relationship with Sri Lanka, marking the 70th anniversary of diplomatic relations in 2022. The bilateral relationship has developed in various fields. Sri Lanka is geopolitically important to Japan in securing its sea lanes and in developing economic ties between South Asian, the Middle East and Africa. Additionally, Sri Lanka plays a pivotal role in establishing the international order in areas including the Indo-Pacific region as a founding member of the Indian Ocean Rim Association (IORA) and a key partner of a Free and Open Indo Pacific (FOIP).

(2) Sri Lanka has achieved stable economic growth until around 2018 since the end of the internal conflict in 2009. Sri Lanka has been addressing challenges such as human resource development, the expansion of economic infrastructure like transportation and electricity for upgrading industries for continued growth, social services improvement in rural areas, and natural disasters caused by the effect of climate change. However, due to the impact of the internal conflict, there are still areas, particularly in the Northern Province and the Eastern Province, where basic infrastructure development is insufficient, resulting in regional disparities in various aspects.

Since 2019, due to public investments exceeding the fiscal capacity of the government, accumulated external debt to cover chronic deficits, the outbreak of COVID-19, and global surges in material costs, Sri Lanka declared a temporary suspension of debt payments in April 2022, resulting in an unprecedented economic crisis.

In March 2023, a four-year IMF program (Extended Fund Facility (EFF)) was approved. As a chair, Japan, along with India and France, established the Official Creditor Committee (OCC) and led the restructuring of Sri Lanka's debt. In July 2024, Sri Lanka signed the Memorandum of Understanding on debt restructuring conditions with the OCC member countries, rebuilding its economy.

(3) Through support to back various reforms based on the IMF program, Japan aims to help Sri Lanka address structural issues and turn its economy around, while supporting the development of industrial infrastructure which also benefits Japanese companies. Additionally, under the FOIP, Japan will provide support to promote sustainable economic growth, enhance social resilience, and further address maritime issues, in order to contribute to consolidating and stabilizing a rules-based, free, and open international order across South Asia.

2. Fundamental Principle of the ODA (Overarching Aim): Building Economic and Social Foundation to Achieve Sustainable Economic Growth

With a view to promoting economic recovery and stabilization in Sri Lanka, Japan will provide support focusing on establishing the systems and infrastructures necessary for sustainable economic growth, including support to back various reforms based on the IMF program. In light of the history of conflict in Sri Lanka and its local development status, Japan will provide support, taking into account the regional disparities. Additionally, through such support, Japan will advance its efforts to achieve the goals of SDGs such as poverty eradication, reduction of disparities and measures against climate change, in order to realize human security.

3. Priority Areas (Specific Aims)

(1) Fiscal and Structural Reforms and Enhancement of Economic Foundation for Sustainable Economic Growth

Japan will provide support in macroeconomic stabilization such as in fiscal sector, power sector reforms, strengthening governance,

and combating corruption, which contribute to ongoing various reforms.

To realize the economic development through the growth of an export-oriented economy by way of trade and investment promotion and private sector development as well as fiscal consolidation, Japan will provide support in improving policies and institutions for public sector reforms and strengthening administrative capacity as well as in human resources development.

Japan will provide support for transportation infrastructure such as ports and airports as well as electricity infrastructure serving for renewable energy, which contribute to developing and improving business environment for Japanese companies working in Sri Lanka.

Japan will provide support in rural areas, which lag behind in development, particularly in main industries for rural areas such as agriculture and fisheries with the aim of industry promotion and diversification to support local development and export promotion. Japan also takes note of nurturing SMEs and startups.

(2) Enhancing Social Resilience

Japan will provide support to improve livelihoods for vulnerable groups and to develop social service infrastructure. Based on the "National Action Plan on Women, Peace, and Security" (WPS National Action Plan), which was formulated with support from Japan, Japan will provide support for comprehensive social and economic empowerment of women including conflict victims and vulnerable groups.

In order to strengthen institution for addressing exacerbated heavy rain and flooding due to climate change, Japan will provide support for developing physical infrastructure as well as administrative capacities. Japan will also engage in improving waste management and water sanitation to realize a circular economy, while giving consideration to contributing to the biodiversity conservation.

(3) Ensuring Peace and Stability

Japan will continue support in achieving complete removal of landmines in the North and the East. In addition, with the aim of supporting national reconciliation and social stability through “Peace Dividend” of economic social development, Japan will advance its efforts which contribute to developing infrastructure, industrial promotion and the empowerment of the vulnerable in the underdeveloped areas including the North and the East.

In order to expand cooperation under the FOIP and to contribute to the establishment and stability of a rules-based international order, Japan will provide support in further addressing maritime security issues through human resource development.

4. Points to note

(1) In order to support efforts for national reconciliation, Japan takes note of Sri Lanka's regional and ethnic balance.

(2) To sustainably support economic development, Japan considers debt sustainability, and the environmental and social impacts of development. Japan also takes note of utilizing Japanese technologies including technical cooperation such as in information and communication technology as well as digitalization.

(3) Japan will strengthen human connections by way of sending and receiving human resources in student exchange programs, vocational training and Japanese language education, and by way of dispatching volunteers to Sri Lanka.

(4) In order to manage the budget of Official Development Assistance strategically, Japan takes note of formulating strategic projects with a high degree of development effectiveness by following aid trends of international organizations and third countries, combining projects under a different scheme and method as well as exploring the partnerships with academia, industry and government, and with NGOs and international organizations.