



AUGUST 2022

Market Functionality Index

SRI LANKA ECONOMIC CRISIS 2022

Assessing the functionality of selected markets for cash-based assistance



WFP
World Food Programme

SAVING LIVES
CHANGING LIVES



This **Market Functionality Index Report for Sri Lanka** has been rolled out to help inform the response to the ongoing economic crisis in the country. The full dashboard is also available at this [link](#).

Data collection was carried out by Hector Kobbakaduwa Agrarian Research and Training Institute and WFP, in alignment with the [MFI methodology](#).

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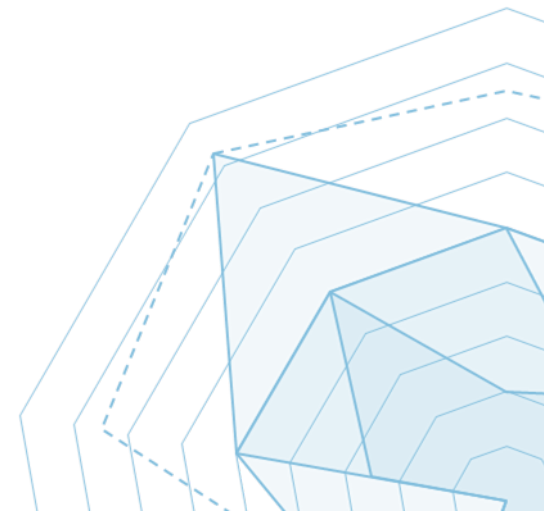
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Highlights



Spikes and instability in prices are posing threats to market functionality in Sri Lanka. Almost all markets are reporting concerns around rising and/or unstable prices. These high prices threaten to further impact food accessibility, with two in five households already spending over 75 percent of their income on food.



Other than prices, markets are relatively functional. At an aggregate level, Sri Lanka's markets currently have a wide range of distinct products, sufficient physical availability of goods, and a resilient supply chain. While there remain variations from market to market, most market functionality dimensions are showing lower risk levels for cash-based transfers – with the exception of prices.



Several mitigation measures should be put in place to safeguard against price-related risks for cash-based transfers. These include continuing to strengthen market monitoring, and adapting to price fluctuations, such as by calculating the minimum expenditure basket, and adjusting the transfer values.



Overall market functionality remains conducive to the use of cash-based transfers, while mitigation measures are essential to keep this from deteriorating. However, markets with especially high levels of risk associated with the use of cash-based transfers must remain flexible to shift to mixed modalities and/or in-kind food assistance.



The Market Functionality Index

The [Market Functionality Index](#) methodology is WFP's standardized market assessment approach that aims to quantify market functionality in a score per marketplace, while also identifying weaknesses or areas of interventions to guarantee the continuity or effectiveness of the assistance.

SURVEY: The methodology relies on a standard survey where questions are organized under nine dimensions deemed crucial to make a judgement statement around market functionality. These are: Assortment, Availability, Price, Resilience of Supply Chains, Competition, Infrastructure, Service, Food Quality and Access and Protection.

WEIGHT: The MFI considers three basic categories: 1) cereals; 2) food items other than cereals; 3) non-food items (NFIs). Cereal foods are considered more valuable by WFP to beneficiaries and thus weighted higher than non-cereal foods and NFIs. This means scores will be impacted more by the measurements (assortment, availability, etc.) of cereals than non-cereal food and NFIs.

SCORING: Markets are thus globally scored on a scale from 0 to 10 to allow worldwide comparability, where full market functionality (MFI=10) refers to a fully developed, efficient and functional market. In most contexts where WFP operates, we do not expect such scores to be achieved.

DATA COLLECTION: The assessment was carried out as a joint assessment with the Hector Kobbakaduwa Agrarian Research and Training Institute (HARTI) and WFP in Sri Lanka. Data collection was carried out by the HARTI food systems division team from 15 August to 21 August across 37 markets. In this assessment, 670 traders were interviewed based on the MFI's standard sampling guidelines.



Context

Sri Lanka continues to grapple with its worst economic crisis since its independence in 1948. As prices continue to skyrocket, there are serious concerns that the food security situation could deteriorate even further.

In July, the headline inflation rate spiked to another record high. This rate of 66.7 percent marked yet another alarming jump, from 58.9 percent in June (based on the latest year-on-year National Consumer Price Index [NCPI]). The impact of these rising prices has reverberated across the country.

Amid this alarming situation, the Market Functionality Index (MFI) Report aims to play a timely and crucial role in: 1) forming an understanding of the market dynamics needed to achieve food security and essential needs; 2) assessing the feasibility, risks and impact of interventions; and 3) understanding how local markets can be strengthened.

This comes as part of WFP's efforts to expand its evidence generation initiatives to inform the response among government and humanitarian/development partners.



Resources

Learn more about the crisis and response with these resources:



[WFP Situation Reports](#)

[An overview of the situation and WFP's response to date.](#)



[WFP Market Monitors](#)

[A regular analysis of Sri Lanka's market and prices.](#)



[Joint Humanitarian Needs and Priorities \(June to September\)](#)

[An overview of the needs and joint response across sectors.](#)

Overview

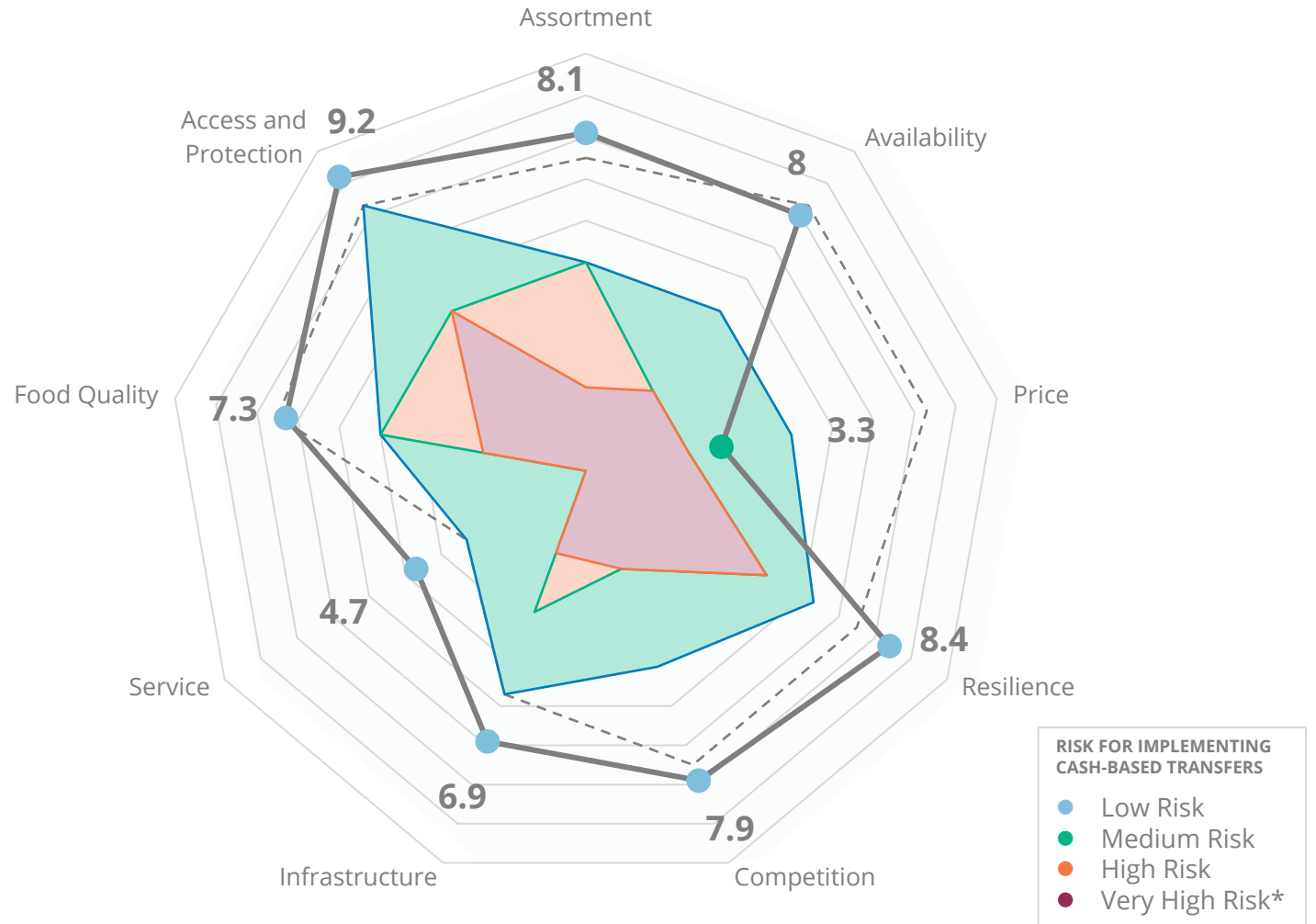
SRI LANKA: KEY FINDINGS



Overview

The market functionality index is determined by where each of these dimensions falls in relation to certain risk thresholds. For Sri Lanka, on an aggregate level, only the *price* dimension falls beneath the low threshold for risk associated with implementing cash-based transfers.

Dimension	Risk-Level*	Score
Assortment	● Low	8.1
Availability	● Low	8
Price	● Medium	3.3
Resilience	● Low	8.4
Competition	● Low	7.9
Infrastructure	● Low	6.9
Service	● Low	4.7
Food Quality	● Low	7.3
Access and Protection	● Low	9.2



*Risk levels refer to the level of risk associated with implementing cash-based transfers.
 Note: The dotted line on the radar chart is the threshold at which mitigation measures are recommended.

Overview



56%

of 37 surveyed markets had a **high** or **very high** risk level associated with implementing cash-based transfers

At the individual market level, there is a more complex picture, with a wide degree of unpredictability reported by the majority of markets across variation in the levels of risk for cash-based transfers seen across markets.

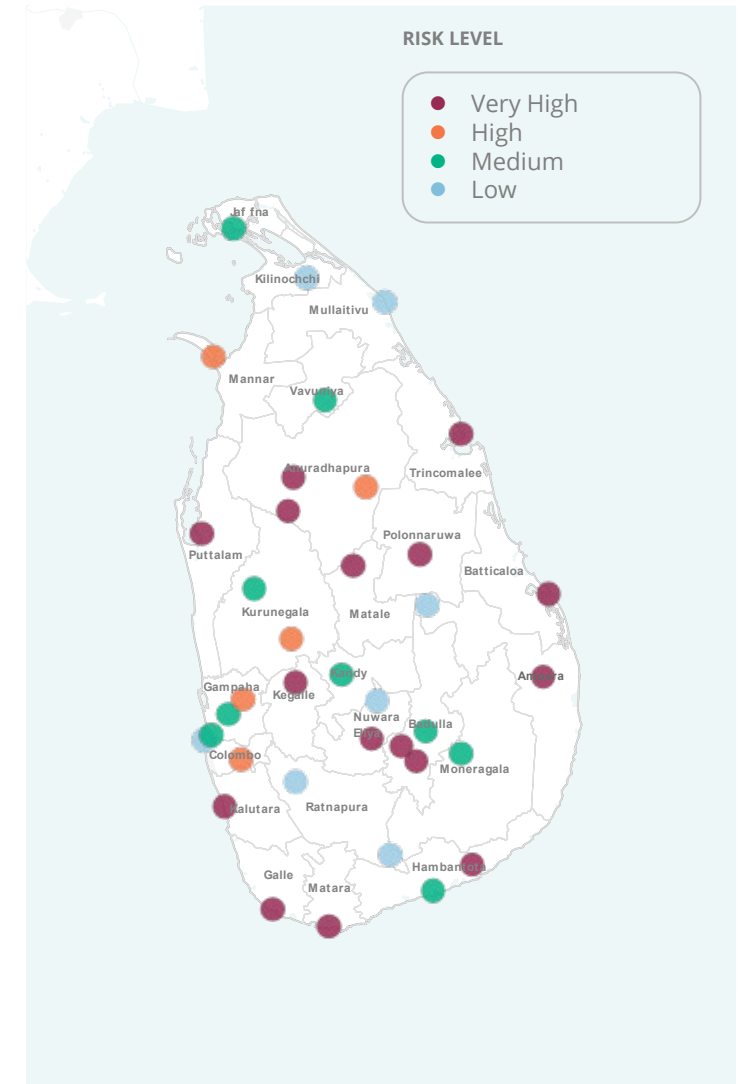
In total, 44 percent of markets were found to be at *very high* risk levels, while a further 14 percent were at high risk levels.

The price dimension was the main factor influencing these high risk levels, with price rises and *ss* the country. Nearly all markets classified at *very high* risk levels had substantial concerns around prices.

The Annex contains the full list of markets and scores.

Province-Level Results

Province	Market Risk Level*
Central	● ● ● ●
Eastern	● ● ● ●
North Central	● ● ● ●
North Western	● ● ● ●
Northern	● ● ● ● ● ●
Sabaragamuwa	● ● ● ●
Southern	● ● ● ●
Uva	● ● ● ●
Western	● ● ● ● ● ●
Total	37



*Risk levels refer to the level of risk associated with implementing cash-based transfers.

Findings

BY MFI DIMENSION



1. Assortment

Key Findings

Overall, Sri Lanka’s risk-level on the dimension of assortment is **low** – meaning that people are generally able to find their different essential needs in the market.

In almost all 37 markets, the level of risk for assortment was low or medium. There were only three markets which fell into the high risk category: Kalutara, Meegoda (DEC) and Mannar.

More than half (57 percent) of traders reported a high product breadth of over 1,000 distinct items – also known as the number of stock-keeping units. Only 5 percent reported having less than 50 stock-keeping units.

A wide range of cereals are available; rice, flour and maize are the most commonly available cereals. The most commonly available non-cereals are roots and tubers.

Traders reported assortment issues mostly for non-food items – in the categories of shelter (22 percent), health (17 percent), and communication (16 percent).



Province-Level Results		
Province	Risk-Level*	Score
Central	● Low	8.8
Eastern	● Low	8.8
North Central	● Low	8.3
North Western	● Low	8.0
Northern	● Low	7.8
Sabaragamuwa	● Low	8.7
Southern	● Low	7.5
Uva	● Low	9.5
Western	● Low	6.8
Average	● Low	8.1



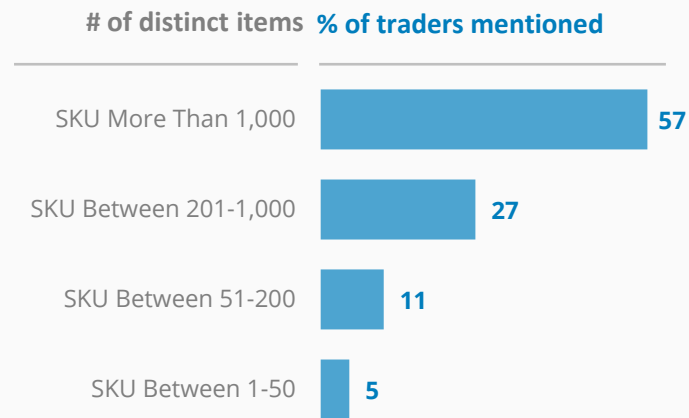
*Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.



1. Assortment

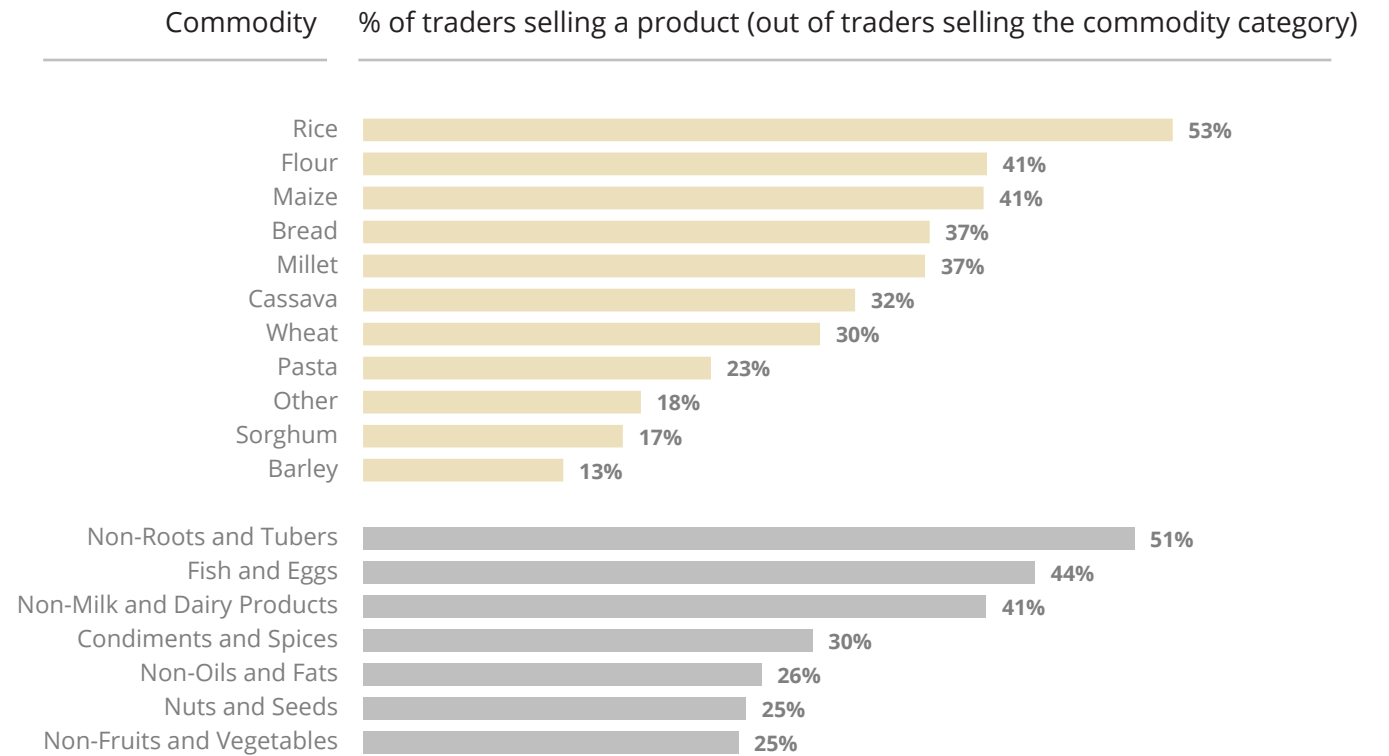
Overall, there was a wide breadth of distinct products available across markets.

Breadth of Products



SKU = Stock-keeping units

Products sold in shops





2. Availability

Key Findings

Overall, Sri Lanka’s risk-level on the dimension of availability is **low** – meaning that in general, markets have a physical presence of goods in sufficient quantities.

In almost all 37 markets, the level of risk was low. However, there were three markets that fell into the *very high risk* category: Economic Centre (Dabulla), Kalutara, and Matara.

Across the markets, cereals were slightly more unavailable than non-cereal foods and non-food items; 22 percent of traders reported running out of cereals, while 34 percent reported that cereals are scarce. In contrast, for non-food items, 15 percent reported running out and 5 percent reported that they are scarce.

This scarcity was not consistent across the country, with scarcity of cereals most pronounced in the North Western and Central regions.

RISK-LEVEL: **LOW**






Province-Level Results

Province	Risk-Level*	Score
Central	● Low	6.0
Eastern	● Low	8.1
North Central	● Low	9.4
North Western	● Low	6.4
Northern	● Low	9.7
Sabaragamuwa	● Low	9.4
Southern	● Low	7.9
Uva	● Low	7.3
Western	● Low	7.2
Average	● Low	8.0

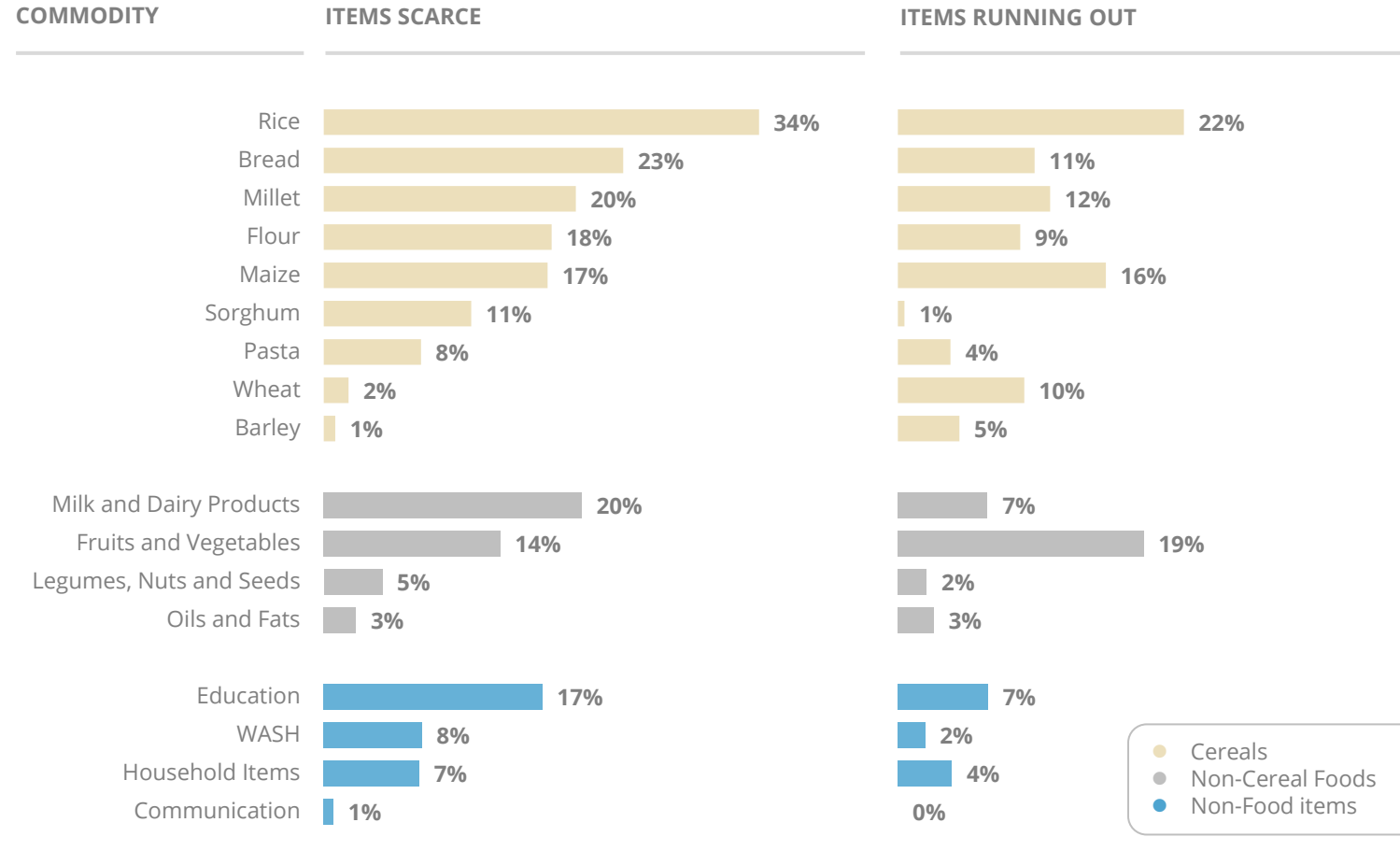
Recommendations and Mitigation Measures

The following are mitigation measures related to availability:

- 
Utilize vouchers to allow contracted traders to rely on secured business flow, thus allowing them to position adequate stocks in advance.
- 
Set up Preferred Supplier Agreement (PSA) or Optimize Fresh Food Supply Chain (OFFSC)
- 
Adopt hybrid modalities to complement the missing items.

**Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.*

2. Availability



3. Prices

Key Findings

Overall, Sri Lanka’s risk-level on the price dimension is **medium**. This is currently the most concerning risk dimension, and could worsen further as inflation continues to increase.

Nearly one-third (12 markets) of the 37 markets are facing *very high* levels of risk when it comes to prices, while six markets are facing medium levels of risk. This implies that there are notable price increases and unpredictability reported in these markets.

Traders most commonly reported an increase in prices for non-cereal foods (81 percent), followed by non-food items (68 percent) and cereal foods (61 percent). Out of these cereal foods, traders reported an increase mostly for rice and flour.

The price dimension answers two questions: 1) Were there significant price increases in the past month; 2) Are prices predictable or are they subject to unpredictable variations?



Province-Level Results		
Province	Risk-Level*	Score
Central	● Medium	4.4
Eastern	● Very High	2.1
North Central	● Very High	0.6
North Western	● Very High	1.7
Northern	● Low	5.7
Sabaragamuwa	● Medium	4.7
Southern	● Medium	2.7
Uva	● Very High	1.5
Western	● Medium	4.9
Average	● Medium	3.3

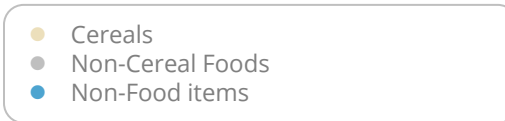
Recommendations and Mitigation Measures

The following are mitigation measures related to prices:

- Strengthen evidence** by establishing a market monitoring system, and calculating monthly expenditure baskets with frequent review.
- Adjust transfer values** in line with close monitoring of prices and expenditure, as needed and where appropriate.
- Adopt vouchers with capped prices** agreed with traders.
- Implement weekly or twice a month distribution** when needed to adjust the value based on market prices fluctuation.

**Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.*

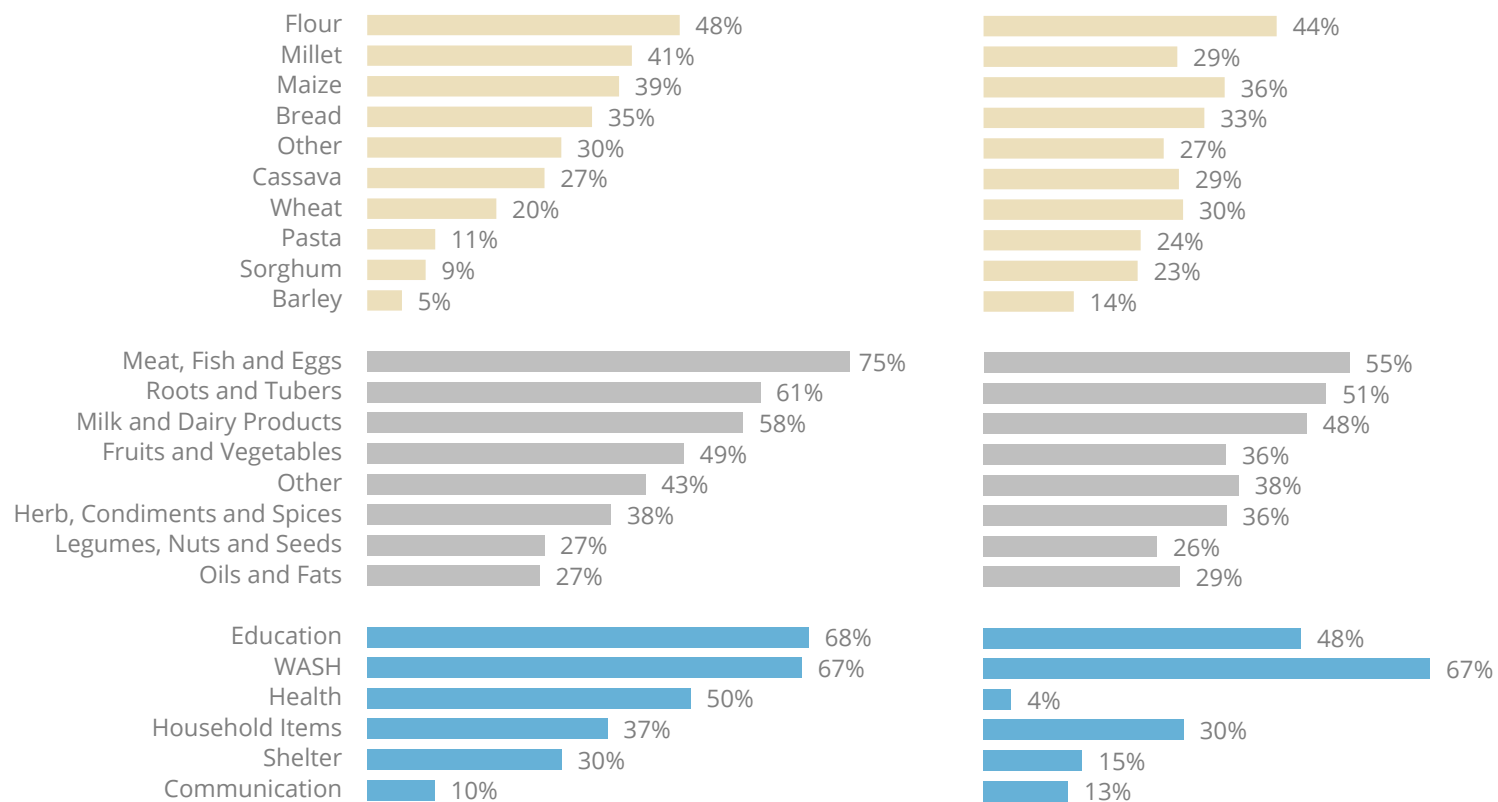
3. Prices



COMMODITY

INCREASED PRICES

UNSTABLE PRICES



4. Supply Chain Resilience

Key Findings

Overall, Sri Lanka’s risk-level on the dimension of supply chain resilience is **low**. In all 37 markets, the level of risk for supply chain resilience was low.

The resilience dimension evaluates responsiveness of supply chains and their resilience or vulnerability to shock. The score addresses two questions: 1) How responsive are supply chains to shock in demand? 2) How vulnerable is the supply chain?

RISK-LEVEL: **LOW**



Province-Level Results

Province	Risk-Level*	Score
Central	● Low	9.1
Eastern	● Low	8.9
North Central	● Low	9.1
North Western	● Low	7.6
Northern	● Low	7.8
Sabaragamuwa	● Low	8.9
Southern	● Low	8.9
Uva	● Low	8.8
Western	● Low	7.6
Average	● Low	8.4



**Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.*

5. Competition

Key Findings

Overall, Sri Lanka’s risk-level on the dimension of competition is **low** – meaning that generally, the business environment across the 37 markets is conducive to fair competition.

In almost all 37 markets, the level of risk for competition was low or medium. However, there were two markets which fell into the *very high risk* category: Galle and Pollonaruwa. Meanwhile two other markets fell into the *medium risk* category: Trincomalee and Veyangoda (DEC).

Overall, the level of competition is satisfactory; 68 percent of markets had five or more traders selling non-food items, while 74 percent of markets had five or more traders selling cereals.

The competition dimension addresses two questions: 1) is there sufficient competition within the market? Are there more than 5 players? 2) Does a trader control the market/is there a monopoly?

RISK-LEVEL: **LOW**



Province-Level Results

Province	Risk-Level*	Score
Central	● Low	9.6
Eastern	● Low	6.5
North Central	● Low	6.3
North Western	● Low	8.1
Northern	● Low	9.2
Sabaragamuwa	● Low	9.2
Southern	● Low	7.7
Uva	● Low	8.3
Western	● Low	6.8
Average	● Low	7.9



**Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.*

6 - 9. Infrastructure, Services, Food Quality, Access and Protection

Key Findings

Overall, Sri Lanka’s risk-levels on the dimensions of infrastructure, services, food quality, and access and protection are **low**.

Infrastructure was considered a low risk in most markets, meaning that systems like sewage, transportation, and electricity/communication networks were generally conducive to functioning markets. Five markets were facing a high level of risk, but none faced a very high level.

The service dimension was considered low risk for most markets – referring to the service provided during shopping and checkout. There were no markets which were considered at high or very high risk.

Food quality was also a low risk for almost all markets, indicating an adequate level of hygiene and cleanliness, material separation, and temperature and stock management. Only three markets were found to have high or very high risk levels.

Access and protection had the highest score among all dimensions, and is considered a low risk among most markets. This implies that traders had not generally reported issues such as road access, social barriers, physical threats, or security issues that might obstruct customers’ abilities to access markets – though further assessments should be undertaken to understand the extent of any access and protection issues.



6 - 9. Infrastructure, Services, Food Quality, Access and Protection

Province-Level Results				
Province	Infrastructure	Services	Food Quality	Access / Protection
Central	● 7.5	● 7.5	● 8.1	● 10.0
Eastern	● 6.8	● 5.0	● 6.9	● 9.0
North Central	● 6.3	● 3.3	● 7.2	● 9.4
North Western	● 6.0	● 4.4	● 6.7	● 7.2
Northern	● 6.7	● 4.3	● 8.3	● 9.7
Sabaragamuwa	● 8.3	● 6.1	● 7.1	● 9.4
Southern	● 4.1	● 4.2	● 6.3	● 9.2
Uva	● 8.2	● 5.4	● 8.4	● 8.8
Western	● 7.7	● 3.1	● 6.7	● 9.6
Average	● 6.9	● 4.7	● 7.3	● 9.2

Recommendations and Mitigation Measures

The following are mitigation measures related to food quality*



Contract traders that operate with adequate food safety standards.



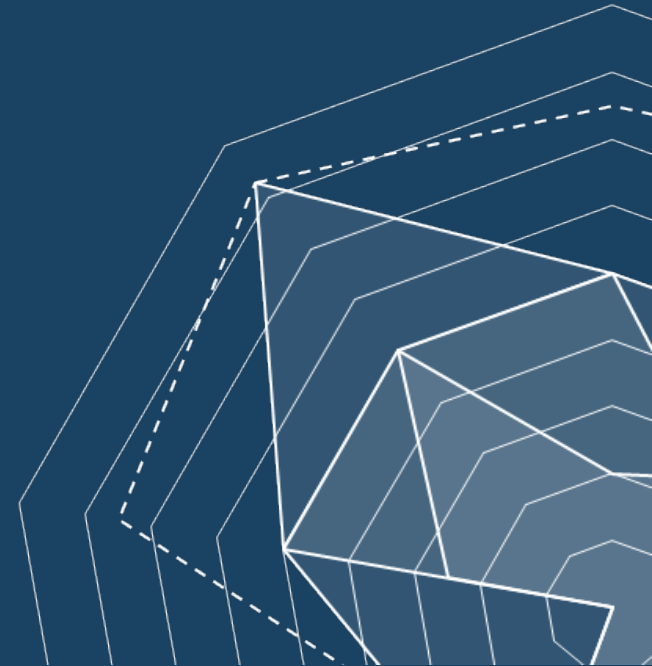
Mobilise third parties / local authorities to build retailer capacity and improve compliance with local food safety regulations.



Offer food safety / quality certification to targeted retailers as a capacity building activity.

* Food quality is the only one of these dimensions which fell slightly below a threshold of requiring mitigation measures

Annex



Summary Table (p.1)

Province	Market	Risk-Level	MFI	Assortment	Availability	Price	Resilience	Competition	Infrastructure	Service	Quality	Access & Protection
Central	Rikillagaskada	Low Risk	7.9	10.0	10.0	7.5	7.5	10.0	7.9	6.7	8.8	10.0
	Kandy	Medium Risk	6.5	5.0	8.3	5.0	8.8	8.3	5.0	8.3	8.8	10.0
	Economic Centre-Dambulla	Very High Risk	4.5	10.0	0.8	5.0	10.0	10.0	7.1	8.3	7.5	10.0
	Nuwara Eliya	Very High Risk	4.1	10.0	5.0	0.0	10.0	10.0	10.0	6.7	7.5	10.0
Eastern	Dehiattakandiya	Low Risk	6.3	10.0	10.0	7.5	10.0	10.0	10.0	3.3	8.8	10.0
	Ampara	Very High Risk	4.0	9.0	10.0	0.8	10.0	6.7	2.9	6.7	6.3	7.5
	Batticaloa	Very High Risk	3.4	7.0	5.8	0.0	8.3	5.0	7.1	6.7	7.5	10.0
	Trincomalee	Very High Risk	3.1	9.0	6.7	0.0	7.1	4.2	7.1	3.3	5.0	8.3
North Central	Galenbindunuwewa	High Risk	4.9	10.0	10.0	2.5	10.0	7.5	2.1	3.3	8.8	10.0
	Anuradhapura	Very High Risk	3.8	9.0	7.5	0.0	10.0	10.0	10.0	3.3	7.5	7.5
	Polonnaruwa	Very High Risk	3.2	6.0	10.0	0.0	8.8	1.7	5.0	3.3	8.8	10.0
	Thambuttegama	Very High Risk	3.4	8.0	10.0	0.0	7.5	5.8	7.9	3.3	3.8	10.0
North Western	Kurunegala	High Risk	4.1	9.0	8.3	2.5	8.8	10.0	2.9	1.7	6.3	5.0
	Nikaweratiya	Medium Risk	4.4	8.0	5.8	2.5	6.7	6.7	5.0	5.0	6.3	7.5
	Puttalm	Very High Risk	3.6	7.0	5.0	0.0	7.5	7.5	10.0	6.7	7.5	9.2
Northern	Mannar	High Risk	5.0	4.0	8.3	2.5	7.5	10.0	7.1	5.0	8.8	10.0
	Kilinochchi	Low Risk	6.0	10.0	10.0	10.0	7.9	10.0	5.7	3.3	6.3	10.0
	Mulaitivu	Low Risk	7.5	8.0	10.0	10.0	7.9	6.7	8.6	6.7	6.3	10.0
	Jaffna	Medium Risk	5.8	9.0	10.0	3.3	7.5	10.0	7.9	3.3	10.0	10.0
	Vavuniya	Medium Risk	5.0	8.0	10.0	2.5	7.9	9.2	4.3	3.3	10.0	8.3
Sabaragamuwa	Embilipitiya	Low Risk	7.5	9.0	10.0	6.7	7.5	10.0	8.6	6.7	6.3	10.0
	Rathnapura	Low Risk	6.6	7.0	10.0	7.5	9.6	7.5	7.9	5.0	7.5	8.3
	Kegalle	Very High Risk	4.2	10.0	8.3	0.0	9.6	10.0	8.6	6.7	7.5	10.0

● Very High Risk
 ● High Risk
 ● Medium Risk
 ● Low Risk
 ● Low Risk (above mitigation measure threshold)

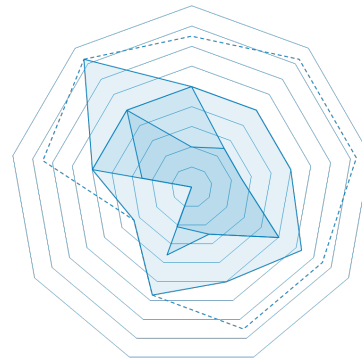
The sample was selected based on the existing price monitoring system with HARTI. This sample is not statistically significant at the provincial level.

Summary Table (p.2)

Province	Market	Risk-Level	MFI	Assortment	Availability	Price	Resilience	Competition	Infrastructure	Service	Quality	Access & Protection
Southern	Hambantota	Medium Risk	4.5	6.0	10.0	2.5	10.0	9.2	6.4	1.7	6.3	10.0
	Galle	Very High Risk	3.5	7.0	10.0	3.3	10.0	1.7	2.1	3.3	1.3	8.3
	Matara	Very High Risk	4.5	7.0	1.7	5.0	7.9	10.0	5.7	6.7	10.0	8.3
	Tissamaharama	Very High Risk	3.7	10.0	10.0	0.0	7.5	10.0	2.1	5.0	7.5	10.0
Uva	Badulla	Medium Risk	5.4	10.0	5.8	2.5	8.8	10.0	8.6	6.7	8.8	10.0
	Monaragala	Medium Risk	4.4	8.0	5.0	2.5	6.3	5.0	5.7	5.0	10.0	5.0
	Bandarawela	Very High Risk	4.6	10.0	10.0	0.8	10.0	8.3	8.6	5.0	7.5	10.0
	Keppetipola (DEC)	Very High Risk	4.2	10.0	8.3	0.0	10.0	10.0	10.0	5.0	7.5	10.0
Western	Meegoda(DEC)	High Risk	3.5	4.0	10.0	2.5	7.9	10.0	7.1	0.0	6.3	10.0
	Veyangoda(DEC)	High Risk	5.5	10.0	5.8	5.8	6.7	4.2	9.3	5.0	3.8	10.0
	4th Cross Street Economic Centre -	Low Risk	6.0	9.0	10.0	6.7	7.5	10.0	9.3	3.3	7.5	10.0
	Peliyagoda	Medium Risk	4.6	6.0	10.0	6.7	7.5	5.0	9.3	1.7	7.5	9.2
	Gampaha	Medium Risk	4.7	8.0	7.5	2.5	9.6	6.7	6.4	3.3	6.3	8.3
	Kalutara	Very High Risk	3.0	4.0	0.0	5.0	6.2	5.0	5.0	5.0	8.8	10.0
Average				8.1	8.0	3.3	8.4	7.9	6.9	4.7	7.3	9.2

● Very High Risk
 ● High Risk
 ● Medium Risk
 ● Low Risk
 ● Low Risk (above mitigation measure threshold)

The sample was selected based on the existing price monitoring system with HARTI. This sample is not sufficient to generalize results at a provincial level.



Explore the data in more detail
through this [dashboard](#).

Acknowledgments:

This report was developed by WFP in September 2022, with thanks to HARTI for data collection.

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World Food Programme

SRI LANKA

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