



SEPTEMBER 2022

Market Functionality Index

SRI LANKA ECONOMIC CRISIS 2022

Assessing the functionality of selected markets for cash-based assistance



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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Highlights

Market Functionality Index (MFI)

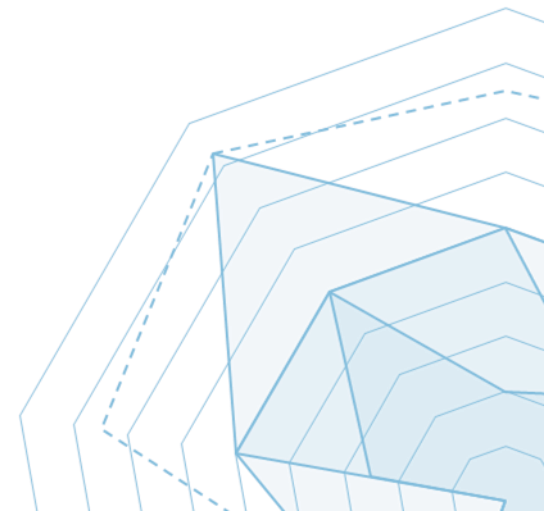
Context

Overview





Findings by MFI Dimension

- Assortment
- Availability
- Prices
- Supply Chain Resilience
- Competition
- Infrastructure
- Service
- Food Quality
- Access and Protection

Annex



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 vulnerable households' food accessibility and are pushing people to adopt food coping strategies, such as reducing number of meals and purchasing less expensive items. Volatile and unpredictable prices can undermine the economic decision-making for producers and importers.
-  **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 as needed.
-  **Other than prices, markets are relatively functional.** At an aggregate level, Sri Lanka's markets currently have a wide range of products, adequate physical availability of essential goods, a resilient supply chain and sufficient levels of hygiene and cleanliness. While there remain variations from market to market, with the exception of prices, most market functionality dimensions are showing lower risk levels for cash-based transfers.
-  **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

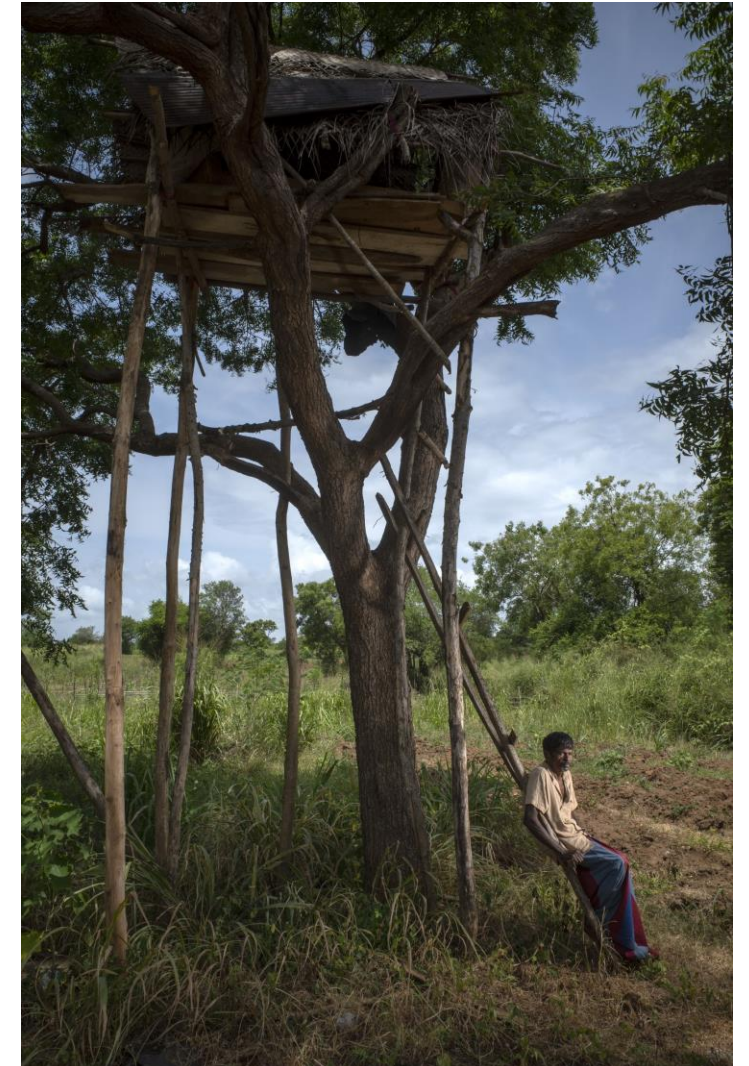
The [Market Functionality Index](#) methodology is WFP's standardized market assessment approach that aims to quantify market functionality in a score per marketplace, while also identifying weaknesses or areas of interventions to guarantee the continuity or effectiveness of the assistance.

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 September to 28 September across 36* markets. In this assessment, 647 traders were interviewed based on the MFI's standard sampling guidelines.



*Jaffna district markets were not assessed in the September round.

Context

Sri Lanka is facing a severe economic crisis, its worst since its independence in 1948. Skyrocketing prices continue to pose a threat to food security and there are major concerns that in the face of inaction, the situation could deteriorate even further.

In September, the headline inflation rate reached 73.7 percent, from 70.2 percent in August (based on the latest year-on-year National Consumer Price Index). This has an impact on different segments of the population.

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 attain 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 Household Food Security Surveys](#)
[Insights and monitoring of household food security.](#)



[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

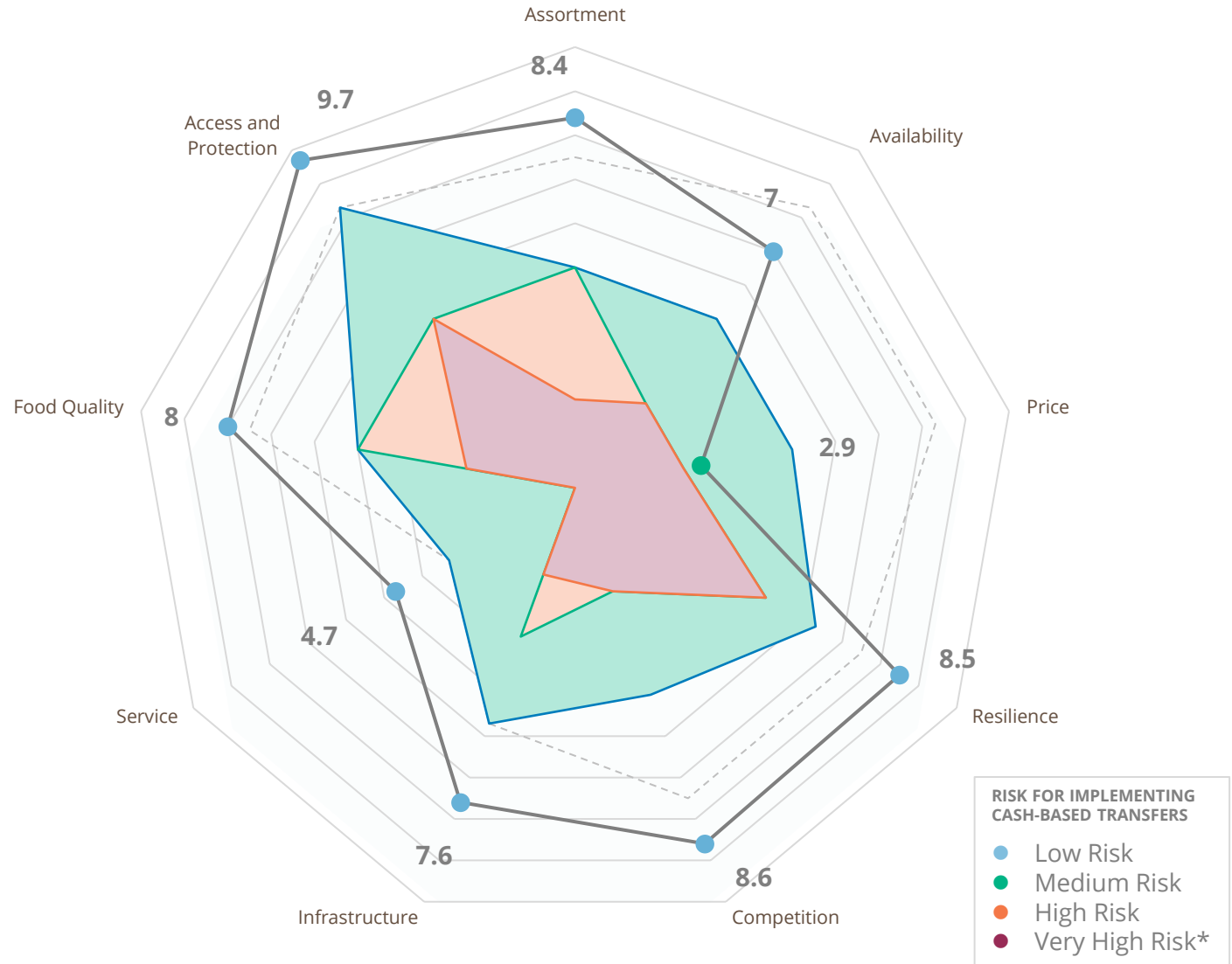
SRI LANKA: KEY FINDINGS



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	8.4
Availability	● Low	7.0
Price	● Medium	2.9
Resilience	● Low	8.5
Competition	● Low	8.6
Infrastructure	● Low	7.6
Service	● Low	4.7
Food Quality	● Low	8.0
Access and Protection	● Low	9.7



*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



50%

of 36 surveyed markets had a **high** or **very high** risk level associated with implementing cash-based transfers

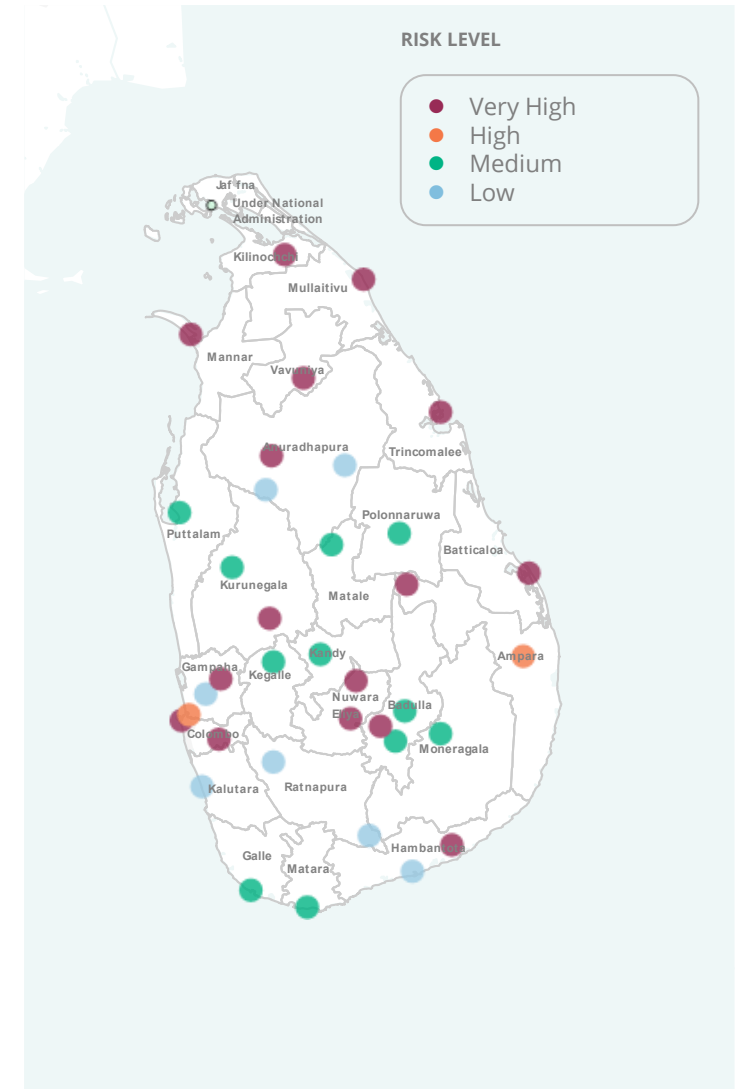
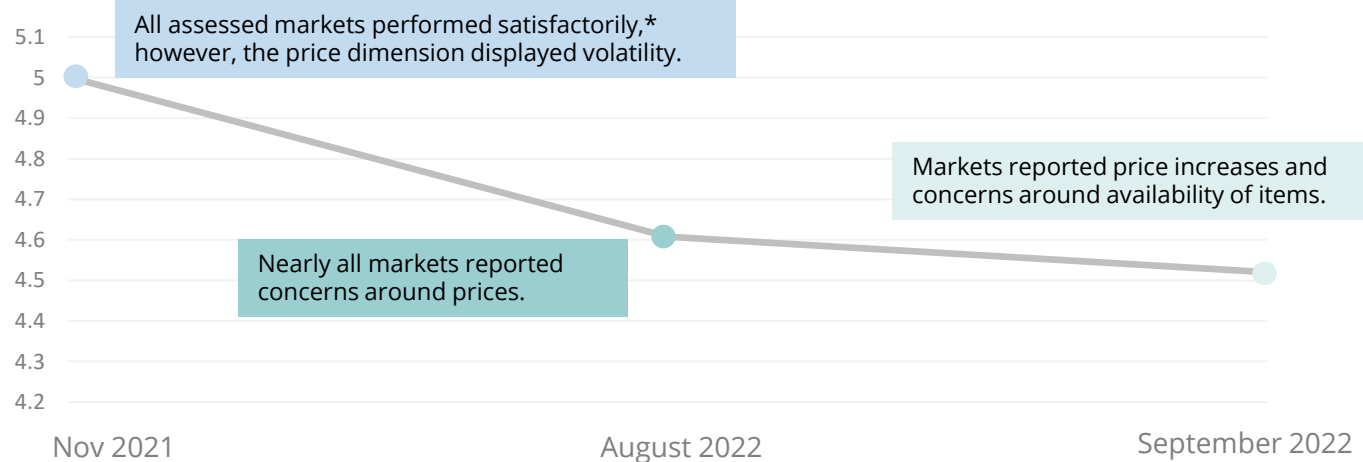
At the individual market level, the picture is more complex, with a wide degree of unpredictability reported by the majority of markets across variation in the levels of risk for cash-based transfers seen across markets.

In total, 44 percent of markets were found to be at *very high* risk levels, while only 5 percent were at high risk levels.

The price dimension was the main factor influencing these high risk levels, with price increases across the regions.

The Annex contains the full list of markets and scores.

Time trend of MFI



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

*In November 2021, only four dimensions were assessed: availability, assortment, resilience and price. Sampling methodology differs from the previous rounds.

Findings

BY MFI DIMENSION



1. Assortment

Key Findings

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

In almost all 36 markets, the level of risk for assortment was low or medium.

Sixty four percent of traders reported a high product breadth of over 1,000 distinct items – also known as the number of stock-keeping units. Only six percent reported having less than 50 stock-keeping units.

A wide range of cereals can be found in the markets; rice, flour and maize are the most commonly available cereals. The most commonly available non-cereals are roots and tubers, followed by fish and eggs.

RISK-LEVEL: **LOW**



Province-Level Results

Province	Risk-Level*	Score
Central	● Low	9.3
Eastern	● Low	8.3
North Central	● Low	8.5
North Western	● Low	8.7
Northern	● Low	7.8
Sabaragamuwa	● Low	8.3
Southern	● Low	7.8
Uva	● Low	9.8
Western	● Low	7.7
Average	● Low	8.4



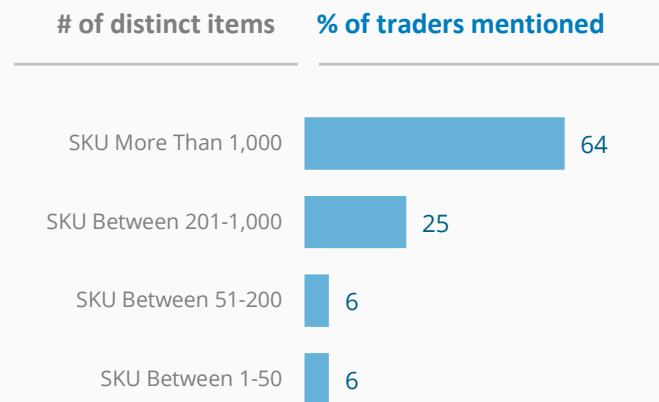
*Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.



1. Assortment

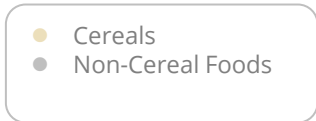
Overall, there was a wide range of essential products available across markets.

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** – indicating that in general, markets have sufficient quantities of goods. This marks a slight deterioration from August.

In almost all 36 markets, the level of risk was low. However, five markets fell into the *very high risk* category: Economic Centre Dambulla, Nuwara Eliya, Batticaloa, Mannar and Vavuniya.

Across the markets, cereals were slightly more unavailable than non-cereal foods and non-food items; 25 percent of traders reported running out of cereals, while 64 percent reported that cereals are scarce, up from 34 percent the previous month. In contrast, for non-food items, only six percent reported running out and 12 percent reported that they are scarce.

This scarcity was not consistent across the country, with scarcity of cereals most pronounced in the Northern, North Western and Central regions. Southern and Uva provinces reported an increase of scarcity in cereals, 71 percent and 75 percent respectively.

RISK-LEVEL: **LOW**






Province-Level Results

Province	Risk-Level*	Score
Central	● Medium	4.4
Eastern	● Low	7.5
North Central	● Low	6.5
North Western	● Low	6.7
Northern	● Medium	4.2
Sabaragamuwa	● Low	10.0
Southern	● Low	8.1
Uva	● Low	6.9
Western	● Low	8.5
Average	● Low	7.0

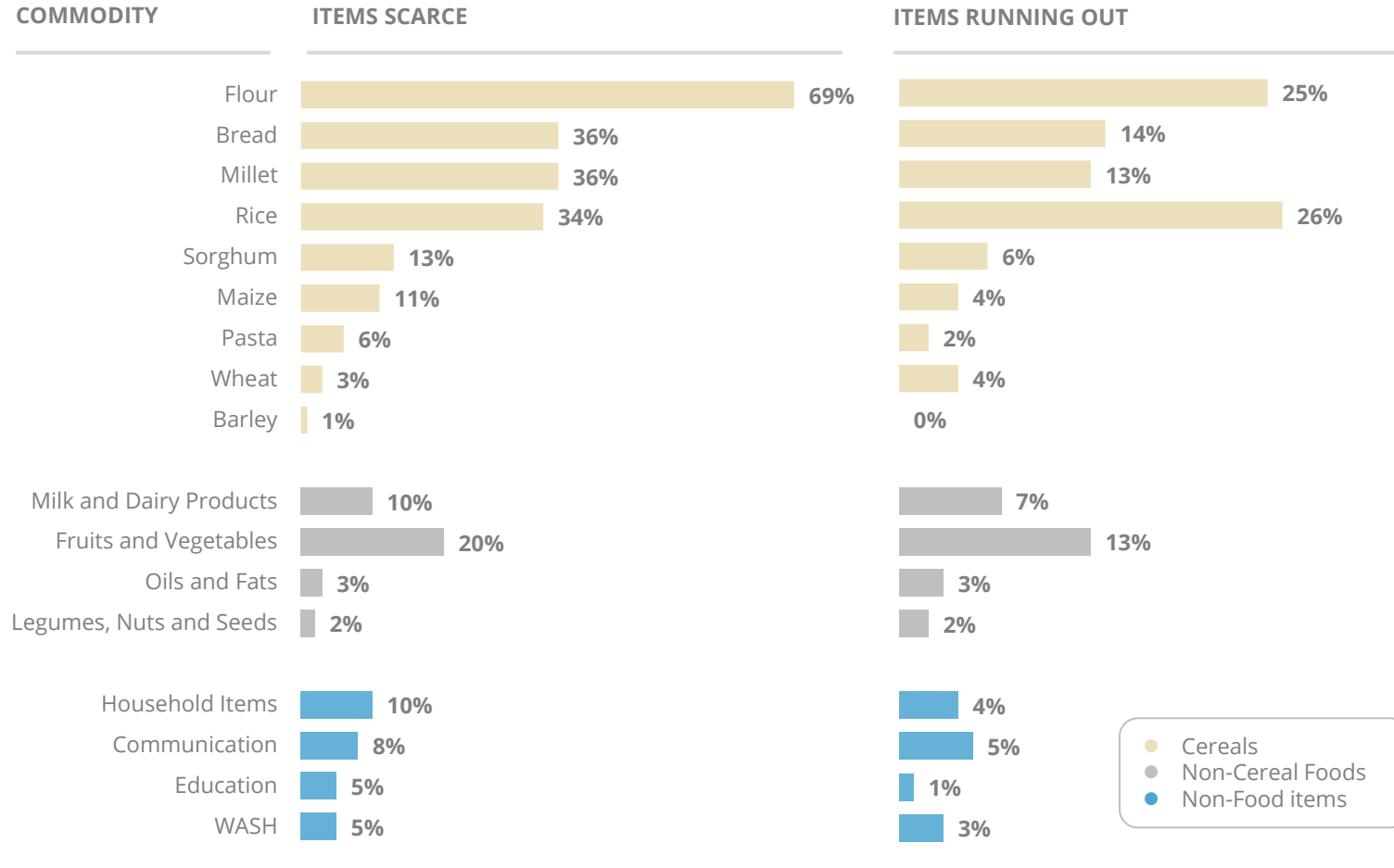
Recommendations and Mitigation Measures

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



Compared with August, there is a higher scarcity of flour, bread and millet whereas maize is more readily available and fewer traders reported running out.



3. Prices

Key Findings

Overall, Sri Lanka’s risk-level on the price dimension is **medium**. Price continues to be the most concerning risk dimension, and has continued to worsen from August.

Fifteen out of the 36 markets are facing *very high* levels of risk when it comes to prices, while seven markets are facing medium levels of risk. This implies a considerable increase in price volatility reported in September.

Traders most commonly reported an increase in prices for cereal foods (81 percent), followed by non-cereal items (73 percent) and non-food items (51 percent). Out of non-cereal foods, traders reported an increase mostly for fruits and vegetables. Rice and flour saw the most price increases in cereal foods reported by traders by 19 and 22 percent respectively compared with the previous month.

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	● Very High	2.5
Eastern	● Very High	1.0
North Central	● Medium	3.3
North Western	● Very High	1.9
Northern	● Very High	1.7
Sabaragamuwa	● Medium	5.0
Southern	● Medium	4.4
Uva	● Medium	2.9
Western	● Medium	3.3
Average	● Medium	2.9

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.



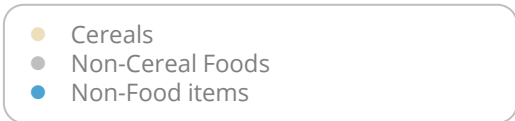
Adjust transfer values in line with close monitoring of prices and expenditure, as needed and where appropriate.



Adopt vouchers with capped prices agreed with traders.

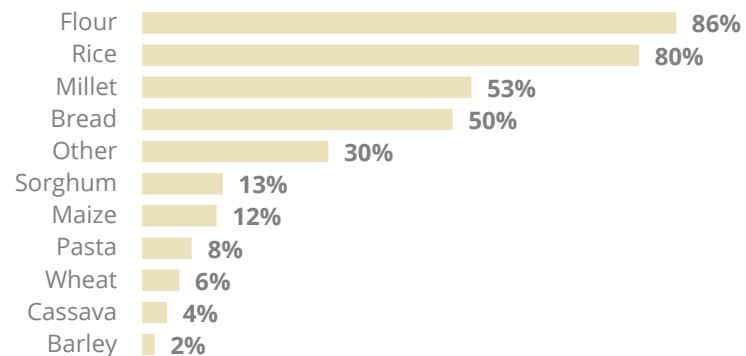
**Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.*

3. Prices

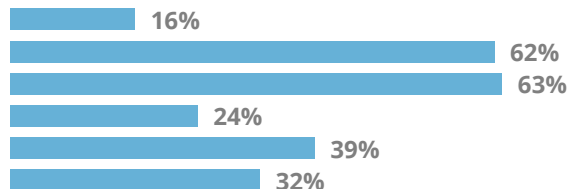
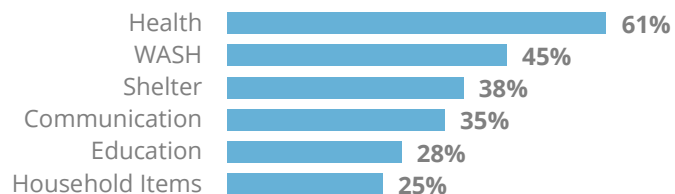
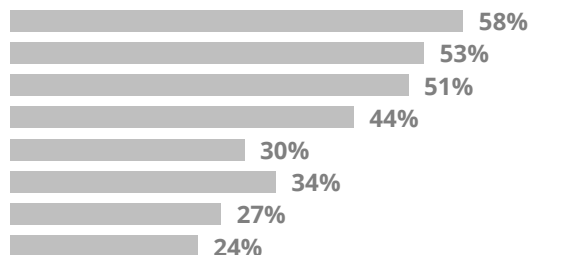
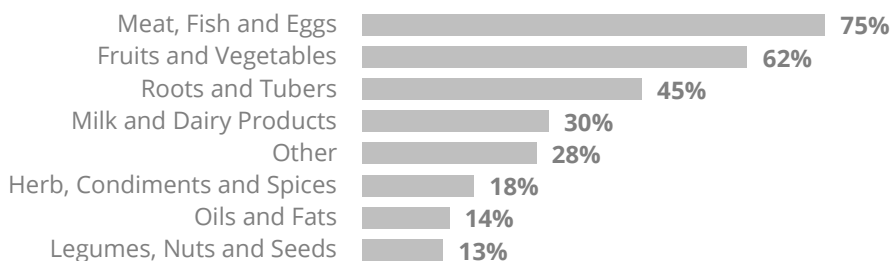
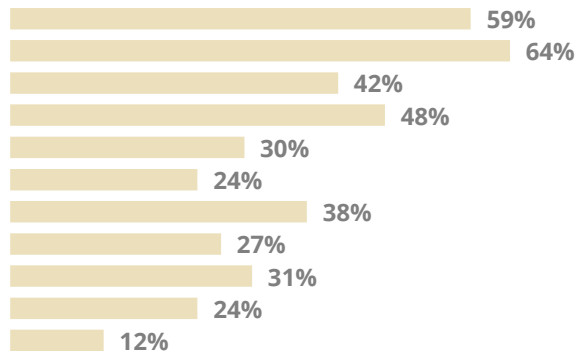


COMMODITY

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**. Only one market, Batticaloa, is facing a medium risk level for supply chain resilience, in all other markets the level of risk for supply chain resilience was low.

Regular supplies are key to market functionality. In general, over a third of the assessed markets are able to quickly respond to and overcome supply chain issues such as fuel shortages, and adjust to new situations.

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	10.0
Eastern	● Low	7.7
North Central	● Low	9.1
North Western	● Low	7.8
Northern	● Low	7.0
Sabaragamuwa	● Low	8.8
Southern	● Low	8.2
Uva	● Low	8.8
Western	● Low	8.9
Average	● Low	8.5



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

5. Competition

Key Findings

Generally, Sri Lanka’s risk-level on the dimension of competition is **low** – meaning that generally, the business environment is favourable to fair competition across the 36 markets.

In almost all markets surveyed, the level of risk for competition was low. Only three markets (Monaragala, Bandarawela and Veyangoda DEC) are facing medium risk levels for competition.

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	9.8
Eastern	● Low	7.5
North Central	● Low	7.5
North Western	● Low	9.2
Northern	● Low	9.2
Sabaragamuwa	● Low	9.4
Southern	● Low	9.4
Uva	● Low	7.5
Western	● Low	8.6
Average	● Low	8.6



**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 low or medium risk in most markets, meaning that systems like sewage, transportation, and electricity/communication networks were generally conducive to functioning markets. Only one market (Tissamaharama) was at a high risk level.

The service dimension was considered low risk for most markets – indicating the service provided during shopping and checkout was satisfactory. Eight markets were considered medium risk and no markets were considered at high or very high risk.

Food quality was a low risk for almost all markets, indicating an adequate level of hygiene and cleanliness, material separation, and temperature and stock management. There were no markets which were considered high or very high risk.

Access and protection was considered low risk for all markets and had the highest score among all dimensions. 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 – 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	● 6.7	● 8.1	● 10.0
Eastern	● 6.4	● 5.4	● 7.5	● 9.8
North Central	● 8.0	● 2.5	● 8.0	● 10.0
North Western	● 7.4	● 4.4	● 7.8	● 8.6
Northern	● 7.9	● 4.6	● 7.8	● 9.6
Sabaragamuwa	● 9.0	● 4.4	● 8.3	● 9.4
Southern	● 5.7	● 4.6	● 7.8	● 10.0
Uva	● 7.9	● 5.4	● 8.1	● 9.8
Western	● 8.7	● 4.4	● 8.3	● 9.6
Average	● 7.6	● 4.7	● 8.0	● 9.7

Recommendations and Mitigation Measures

The following are mitigation measures related to food quality*



Contract traders that operate with adequate food safety standards.



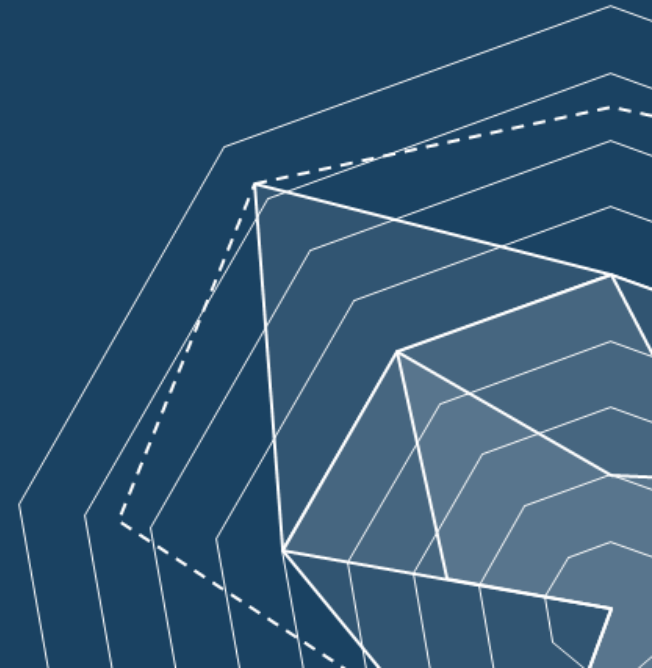
Mobilise third parties / local authorities to build retailer capacity and improve compliance with local food safety regulations.



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	Very High Risk	4.5	10.0	7.5	0.8	10.0	10.0	6.4	5.0	8.8	10.0
	Kandy	Medium Risk	6.0	7.0	5.8	4.2	10.0	9.2	7.1	5.0	8.8	10.0
	Economic Centre-Dambulla	Medium Risk	5.5	10.0	2.5	5.0	10.0	10.0	6.4	10.0	7.5	10.0
	Nuwara Eliya	Very High Risk	3.9	10.0	1.7	0.0	10.0	10.0	10.0	6.7	7.5	10.0
Eastern	Dehiattakandiya	Very High Risk	4.5	10.0	10.0	0.8	10.0	7.5	8.6	3.3	8.8	10.0
	Ampara	High Risk	5.1	8.0	10.0	2.5	10.0	6.7	3.6	6.7	8.8	9.2
	Batticaloa	Very High Risk	3.0	7.0	1.7	0.0	4.2	6.7	7.1	6.7	6.3	10.0
	Trincomalee	Very High Risk	4.0	8.0	8.3	0.8	6.7	9.2	6.4	5.0	6.3	10.0
North Central	Galenbindunuwewa	Low Risk	5.7	10.0	7.5	5.0	10.0	5.8	7.1	3.3	8.8	10.0
	Anuradhapura	Very High Risk	3.8	7.0	7.5	0.0	10.0	10.0	10.0	1.7	8.8	10.0
	Polonnaruwa	Medium Risk	4.5	10.0	5.0	2.5	8.8	8.3	6.4	1.7	8.8	10.0
	Thambuttegama	Low Risk	5.2	7.0	5.8	5.8	7.5	5.8	8.6	3.3	5.7	10.0
North Western	Kurunegala	Very High Risk	3.8	10.0	5.8	0.8	7.5	10.0	5.7	1.7	7.5	7.5
	Nikaweratiya	Medium Risk	4.8	9.0	7.5	2.5	5.8	7.5	6.4	5.0	7.1	9.2
	Puttalm	Medium Risk	5.4	7.0	6.7	2.5	10.0	10.0	10.0	6.7	8.8	9.2
Northern*	Mannar	Very High Risk	3.7	4.0	1.7	0.8	5.4	10.0	8.6	5.0	8.8	10.0
	Kilinochchi	Very High Risk	3.6	10.0	5.8	0.0	7.9	10.0	6.4	3.3	7.5	10.0
	Mulaitivu	Very High Risk	4.0	8.0	7.5	0.8	7.9	6.7	8.6	5.0	6.3	10.0
	Vavuniya	Very High Risk	4.5	9.0	1.7	5.0	6.7	10.0	7.9	5.0	8.8	8.3
Sabaragamuwa	Embilipitiya	Low Risk	6.9	9.0	10.0	5.0	7.5	10.0	10.0	6.7	7.5	10.0
	Rathnapura	Low Risk	5.8	6.0	10.0	7.5	10.0	8.3	8.6	3.3	8.8	8.3
	Kegalle	Medium Risk	5.5	10.0	10.0	2.5	8.8	10.0	8.6	3.3	8.8	10.0

*Jaffna market was not surveyed in the September round.

● 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.

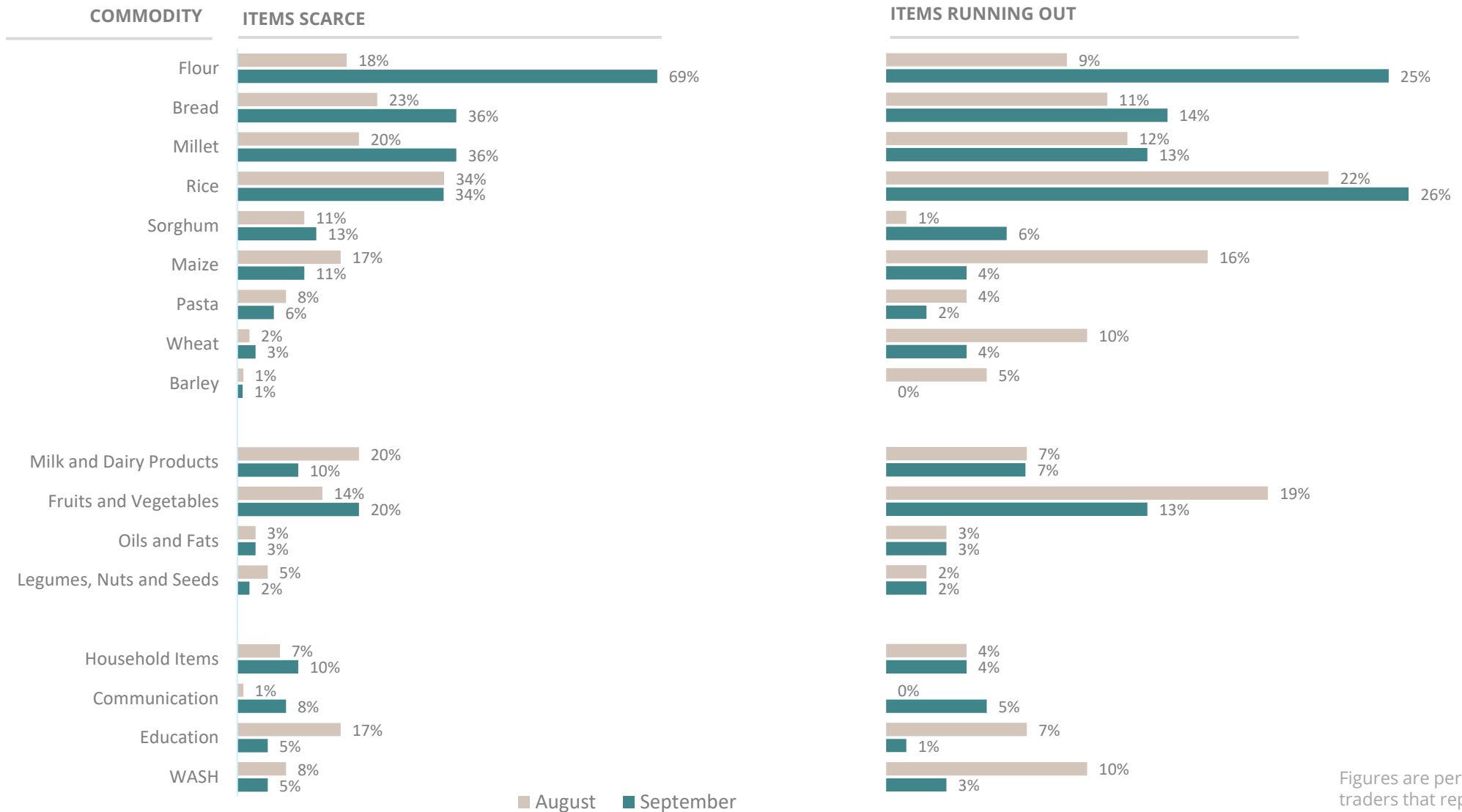
Summary Table (p.2)

Province	Market	Risk-Level	MFI	Assortment	Availability	Price	Resilience	Competition	Infrastructure	Service	Quality	Access & Protection
Southern	Hambantota	Low Risk	5.3	5.0	7.5	5.8	7.9	7.5	7.1	3.3	7.5	10.0
	Galle	Medium Risk	6.8	10.0	7.5	7.5	10.0	10.0	5.0	5.0	8.8	10.0
	Matara	Medium Risk	5.1	6.0	7.5	2.5	7.5	10.0	8.6	5.0	7.5	10.0
	Tissamaharama	Very High Risk	4.6	10.0	10.0	1.7	7.5	10.0	2.1	5.0	7.5	10.0
Uva	Badulla	Medium Risk	5.4	10.0	5.0	2.5	8.8	10.0	9.3	6.7	8.8	10.0
	Monaragala	Medium Risk	6.0	9.0	5.0	5.0	6.3	5.0	5.7	5.0	8.8	9.2
	Bandarawela	Medium Risk	5.6	10.0	10.0	3.3	10.0	5.0	6.4	5.0	7.5	10.0
	Keppetipola (DEC)	Very High Risk	4.6	10.0	7.5	0.8	10.0	10.0	10.0	5.0	7.5	10.0
Western	Meegoda(DEC)	Very High Risk	3.9	6.0	10.0	0.0	9.6	10.0	10.0	1.7	8.8	10.0
	Veyangoda(DEC)	Very High Risk	3.8	8.0	7.5	0.8	6.7	4.2	6.4	5.0	7.5	10.0
	4th Cross Street	Very High Risk	4.9	8.0	7.5	1.7	10.0	9.2	10.0	3.3	8.8	10.0
	Economic Centre - Peliyagoda	High Risk	4.8	4.0	10.0	7.5	7.5	10.0	9.3	1.7	8.8	9.2
	Gampaha	Low Risk	6.5	10.0	5.8	5.0	9.6	8.3	7.1	6.7	7.5	8.3
	Kalutara	Low Risk	7.3	10.0	10.0	5.0	10.0	10.0	9.3	8.3	8.8	10.0
Average				8.4	7.0	2.9	8.5	8.6	7.6	4.7	8.0	9.7

● 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.

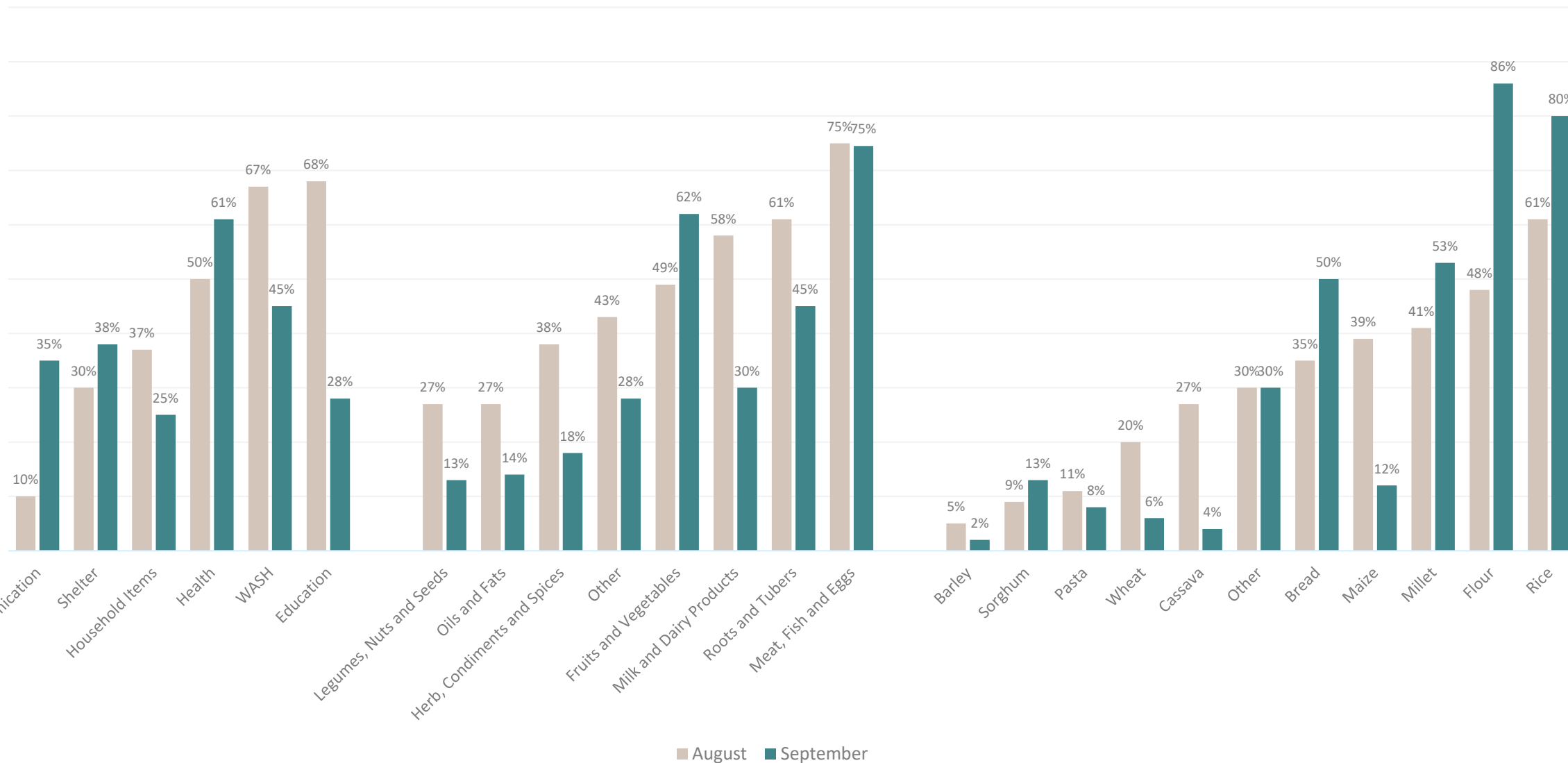
Availability



Figures are percentages of commodity traders that reported issues in each commodity.

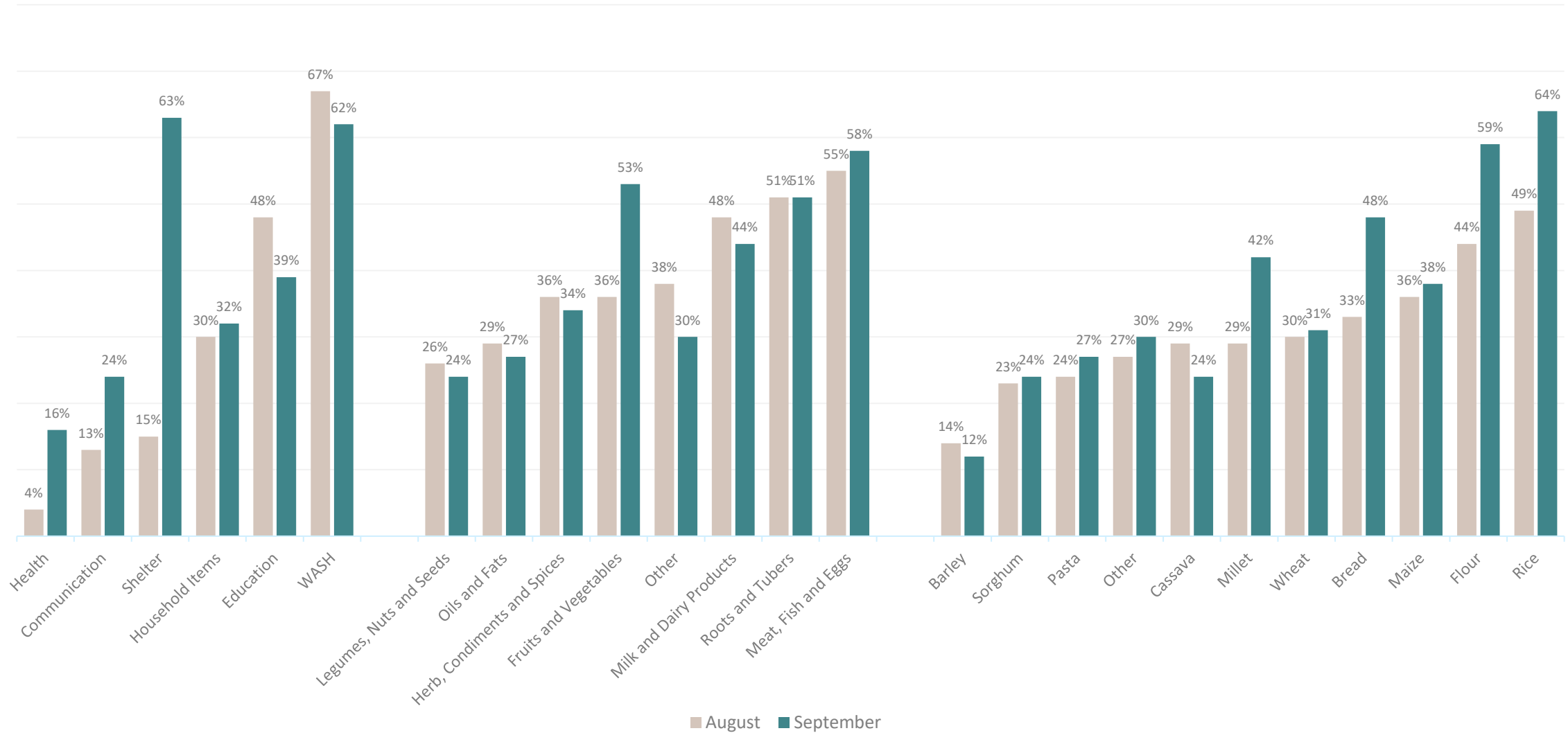
Price

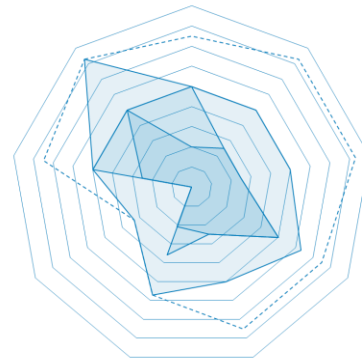
Percentage of traders that reported commodity price increases



Price Stability

Percentage of traders that reported instability of commodity prices





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

Acknowledgments:

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