



OCTOBER 2022

Market Functionality Index

SRI LANKA ECONOMIC CRISIS 2022

Assessing the functionality of selected markets for cash-based assistance



World Food
Programme

SAVING
LIVES
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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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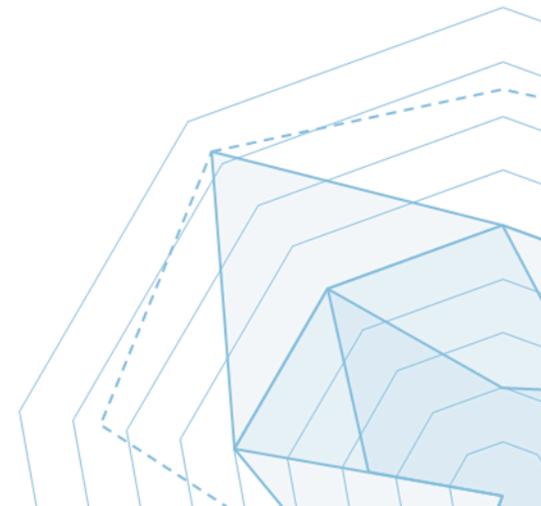
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Highlights



Markets are functional. While there remain variations from market to market, 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. Although in September traders reported availability issues for cereal items, the dimension is showing lower risk levels in October and greater availability of commodities.

Both the availability and prices dimensions may be negatively impacted in the coming months by the Northeast monsoon and the high demand during the festive period.



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.



Spikes and instability in prices continue to pose threats to market functionality in Sri Lanka. As with the previous months, markets are reporting concerns around price volatility. Over 80 percent of households are reporting issues in accessing food, according to WFP's latest [Household Food Security](#) surveys. Consequently, households are forced to adopt food and livelihood coping strategies to put food on the table. 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.



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.

A market functions well if:

- The features influencing the behaviours of buyers and sellers are stable and predictable
- The interactions between sellers and between sellers and buyers are transparent, and
- Supplies are sufficient, regular and predictable at affordable, stable and predictable prices

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 16 to 27 October across 37 markets. In this assessment, 707 traders were interviewed based on the MFI's standard sampling guidelines.



Context

The ongoing economic crisis in Sri Lanka continues to pose a major threat to food security. High prices of essential foods and unprecedented levels of inflation further push food out of reach for many, in various segments of society.

In October, the headline inflation was measured at 70.6 percent, from 73.7 percent in September (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

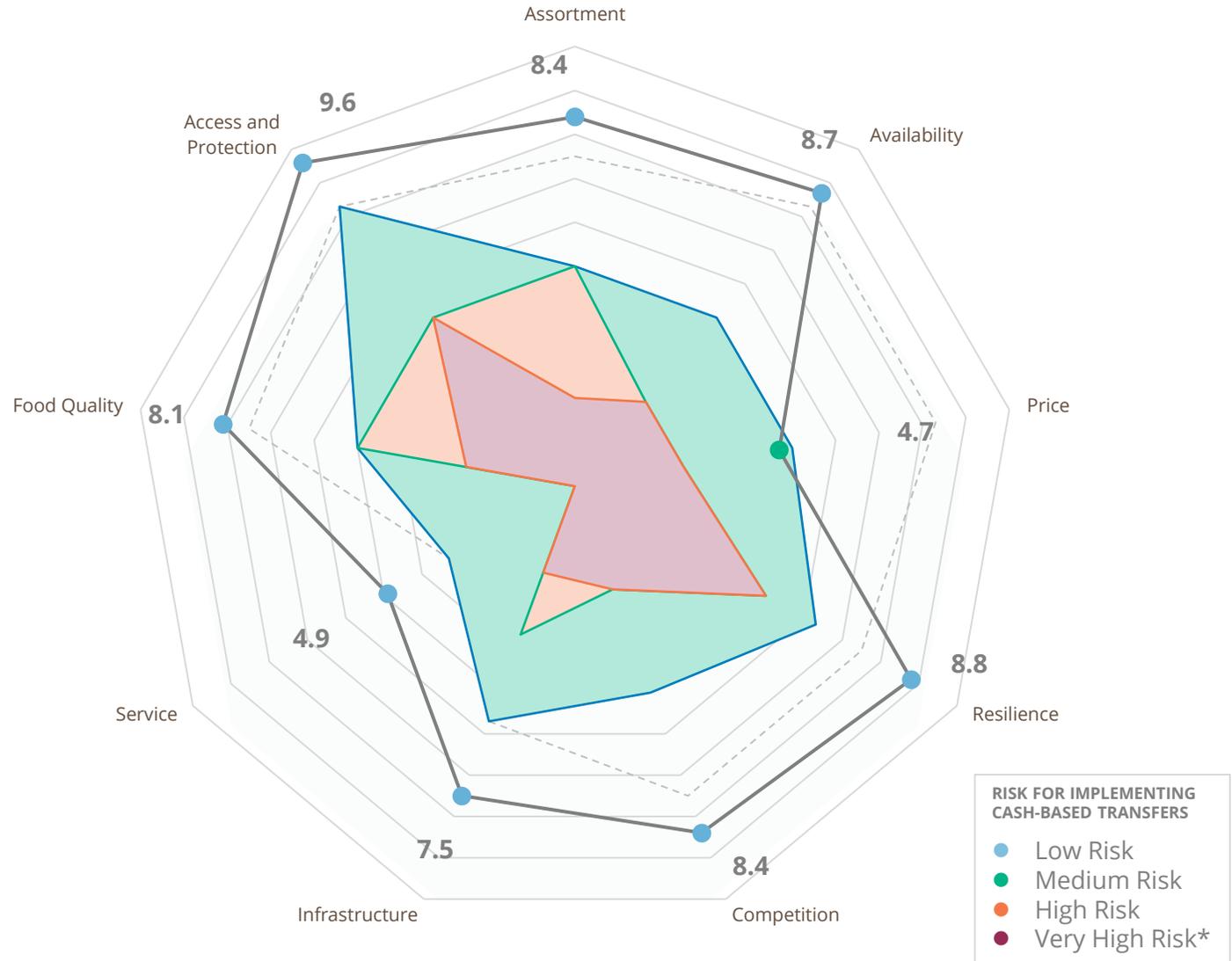
SRI LANKA: KEY FINDINGS



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	8.7
Price	● Medium	4.7
Resilience	● Low	8.8
Competition	● Low	8.4
Infrastructure	● Low	7.5
Service	● Low	4.9
Food Quality	● Low	8.1
Access and Protection	● Low	9.6



*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



19%

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

The price dimension continues to be the dimension reporting concerns, as with the previous months but reflected an overall improvement in October. The picture remains complex, with a wide degree of unpredictability reported by markets across variation in the levels of risk for cash-based transfers seen across markets.

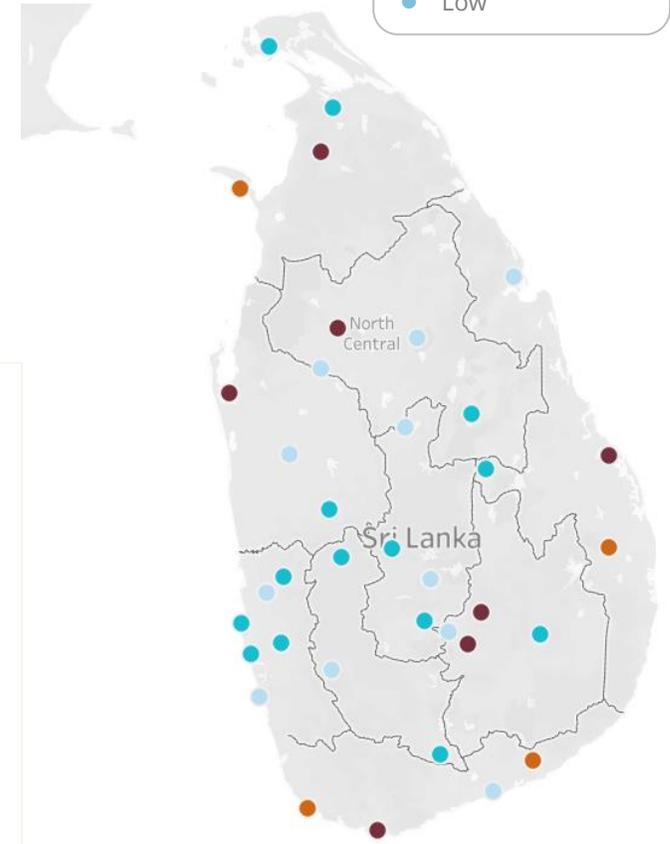
Seven markets were found to be at *very high* risk levels, while four markets were found to be at a high risk level.

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

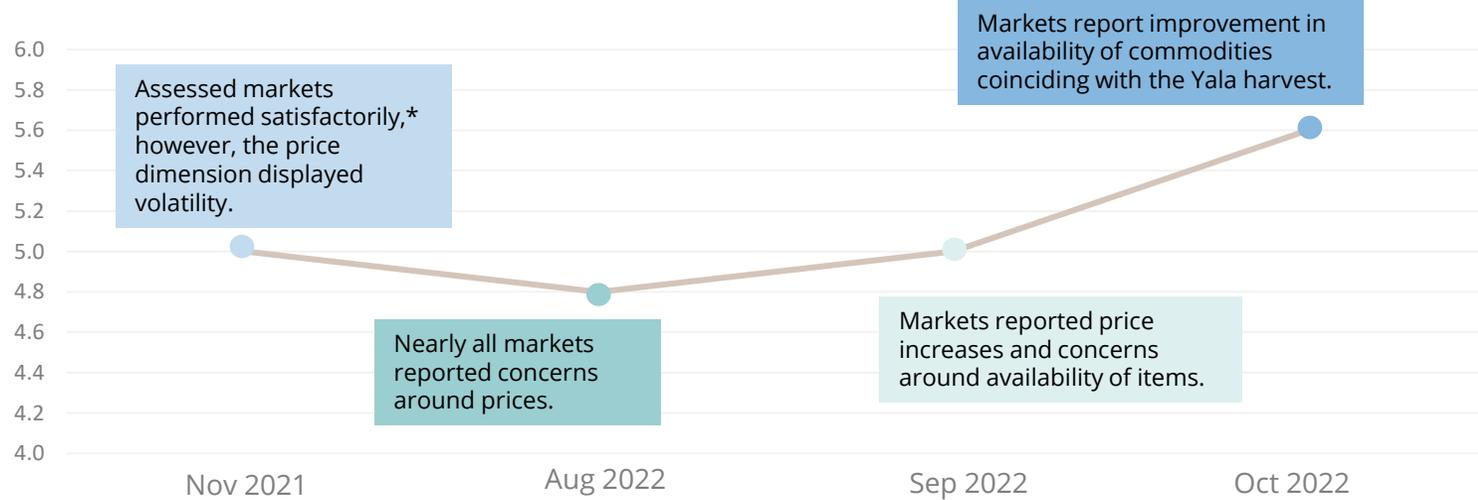
The Annex contains the full list of markets and scores.

RISK LEVEL

- Very High
- High
- Medium
- Low



Time trend of MFI



*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 essential items such as cereals, non-cereals and non-food items are easily obtainable.

The average country score of 8.4 remained unchanged from the previous month. Uva and Central province results indicate the highest levels of assortment of goods in the market. Western province saw an improvement of 1.0 point from September.

The risk level for 35 out of the 37 surveyed markets was low, except for two markets (Batticaloa and Mannar), where risk levels were high.

Cereal foods such as rice, bread and millet are the most commonly found items while the most commonly found non-cereals are roots and tubers, followed by fish and eggs, and milk and dairy products.

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

RISK-LEVEL: **LOW**



Province-Level Results

Province	Risk-Level*	Score
Central	● Low	9.3
Eastern	● Low	8.0
North Central	● Low	8.8
North Western	● Low	8.7
Northern	● Low	7.0
Sabaragamuwa	● Low	8.3
Southern	● Low	8.3
Uva	● Low	9.8
Western	● Low	8.7
Average	● Low	8.4



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



1. Assortment

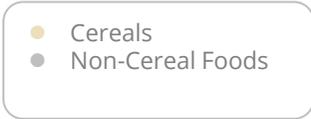
In general, a wide range of cereals, non-cereals and non-food items are easily obtainable at a market level.

Breadth of Products



SKU = Stock-keeping units

Products sold in shops



2. Availability

Key Findings

On the dimension of availability, the market risk level is low. While September saw a slight deterioration in terms of availability (7.0), there seems to be a sufficient quantity of goods back in the market in October (8.7).

Central and Northern provinces had lower availability of commodities in September, however the situation significantly improved in October, likely owing to the availability of the Yala harvest.

Out of 37 markets, one market (Polonnaruwa) reported very high risk levels associated with availability, compared to the month of September, which saw five markets in the very high risk level.

Cereal foods were more scarce across the markets, than non-cereals and non-food items. Forty four percent of traders reported scarcity of cereals, especially rice, millet and flour. Seventeen percent of traders reported running out of cereals. For non-food items, only two percent reported running out and 4 percent reported that they are scarce.

North Western province had the most pronounced scarcity of cereals, at 75 percent but this is a clear decrease from last month.

RISK-LEVEL: **LOW**



Province-Level Results		
Province	Risk-Level*	Score
Central	● Low	8.1
Eastern	● Low	10.0
North Central	● Low	6.9
North Western	● Low	7.2
Northern	● Low	9.2
Sabaragamuwa	● Low	10.0
Southern	● Low	8.8
Uva	● Low	7.5
Western	● Low	10.0
Average	● Low	8.7

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.



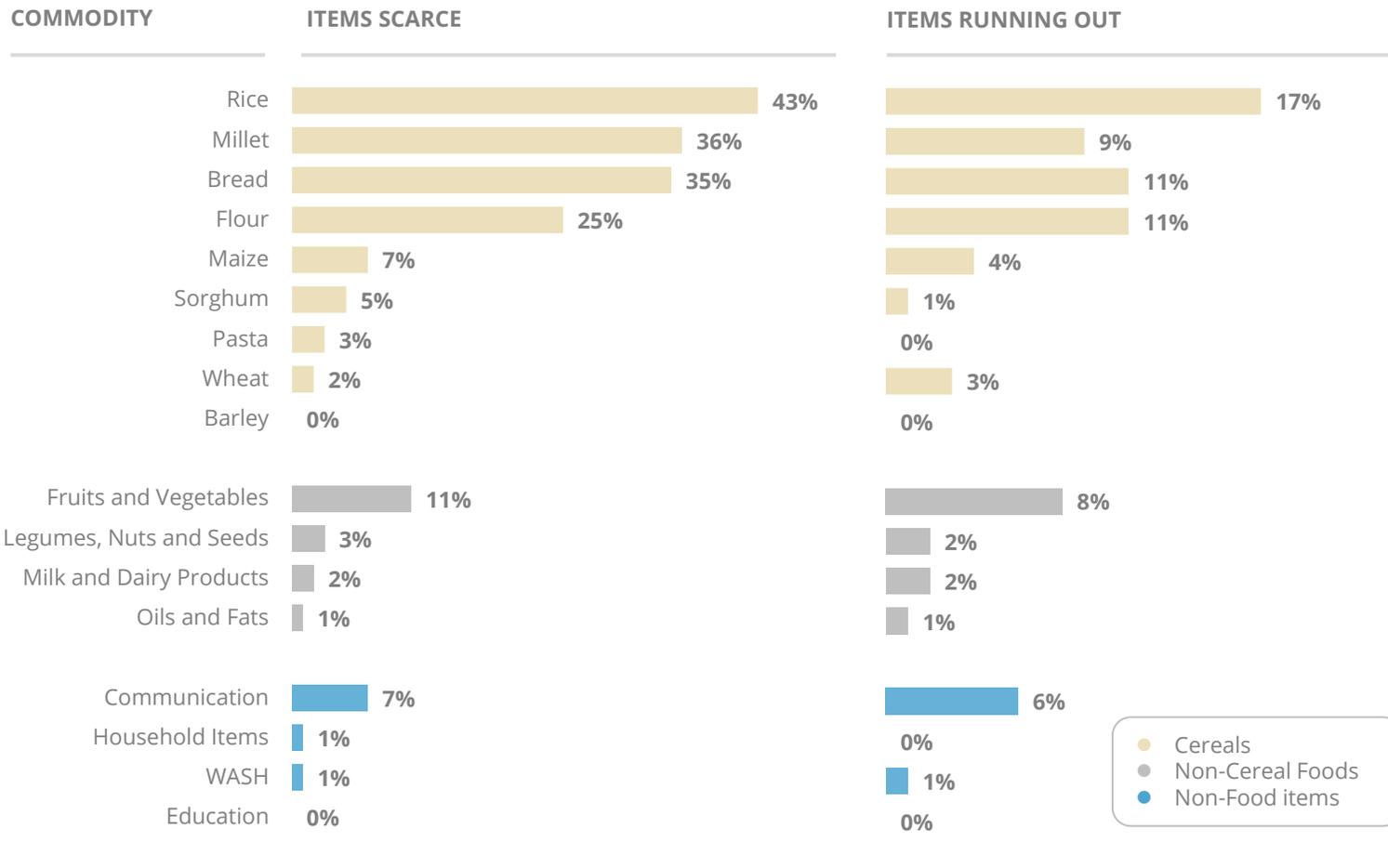
Set up Preferred Supplier Agreement (PSA) or Optimize Fresh Food Supply Chain (OFFSC)



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 September, cereal foods such as rice, flour and bread are less scarce. The scarcity of millet has remained at 36 percent, signifying no improvement.



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.

Sixteen out of the 37 surveyed markets are reporting very high risk levels on the dimension of price. Although price volatility remains a concern, October saw a considerable decrease in markets reporting this as very high risk or high risk.

Cereal foods reportedly have the highest price instability, according to 60 percent of traders, followed by non-food items (58 percent) and non-cereal foods (55 percent). Traders reported significant price instability in all three categories.

Out of cereal foods, most traders reported price increases for rice, millet and bread.

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	4.6
Eastern	● Medium	3.3
North Central	● Medium	5.0
North Western	● Medium	3.9
Northern	● Medium	4.6
Sabaragamuwa	● Medium	5.0
Southern	● Medium	5.2
Uva	● Very High	2.5
Western	● Medium	6.8
Average	● Medium	4.7

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.



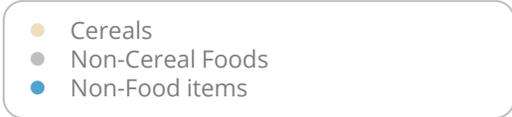
Adjust transfer values in line with close monitoring of prices and expenditure, as needed and where appropriate.



Adopt vouchers with capped prices agreed with traders.

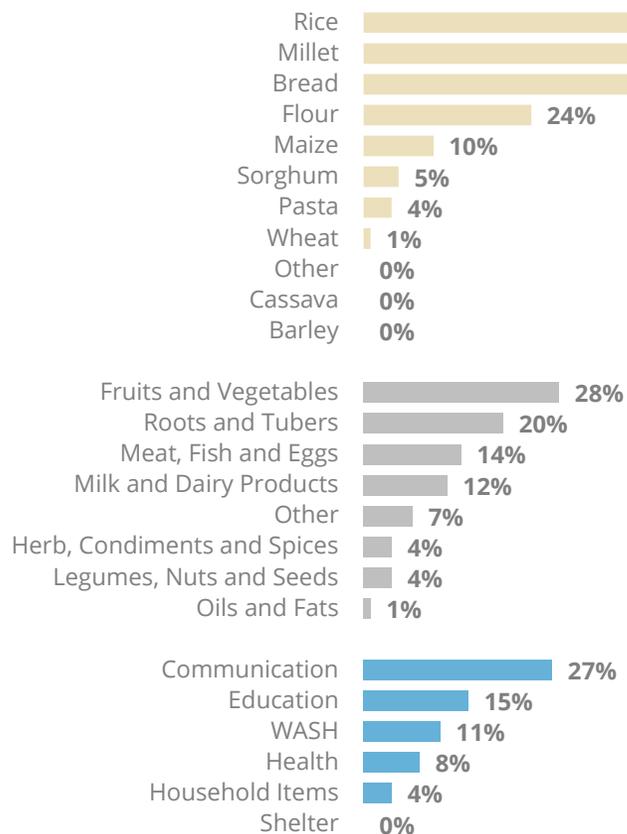
**Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.*

3. Prices

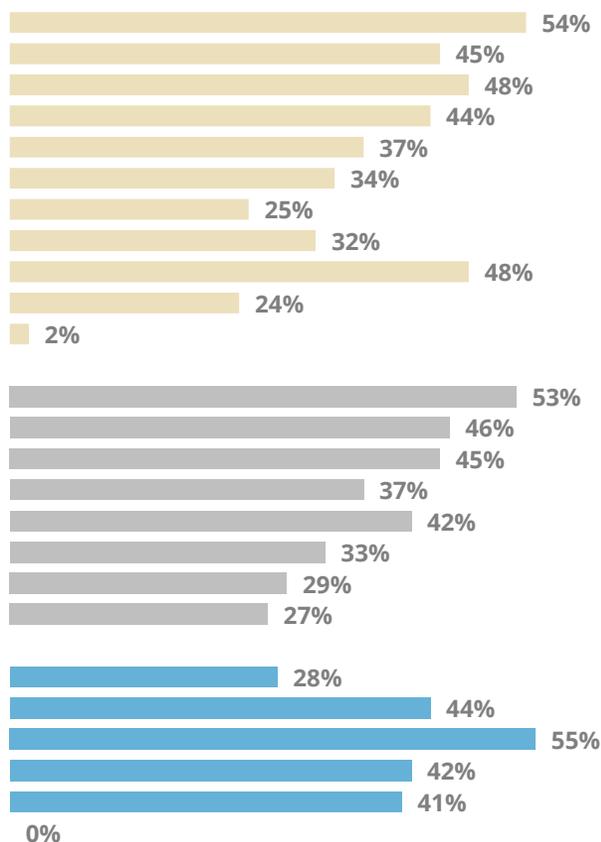


COMMODITY

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 two markets, namely, Jaffna and Monaragala were facing a medium risk level for supply chain resilience.

Over a third of the assessed markets are able to quickly respond to and overcome supply chain issues and adjust to new, unfamiliar 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	9.7
North Central	● Low	9.7
North Western	● Low	8.6
Northern	● Low	7.3
Sabaragamuwa	● Low	9.2
Southern	● Low	8.2
Uva	● Low	8.4
Western	● Low	8.7
Average	● Low	8.8



**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**. Competition within a business environment characterizes an efficiently functioning market.

In almost all markets surveyed, the level of risk for competition was low. Seven markets were facing medium risk levels for competition, an increase of four from September.

The overall country and provincial average scores for competition remained constant from the previous month.

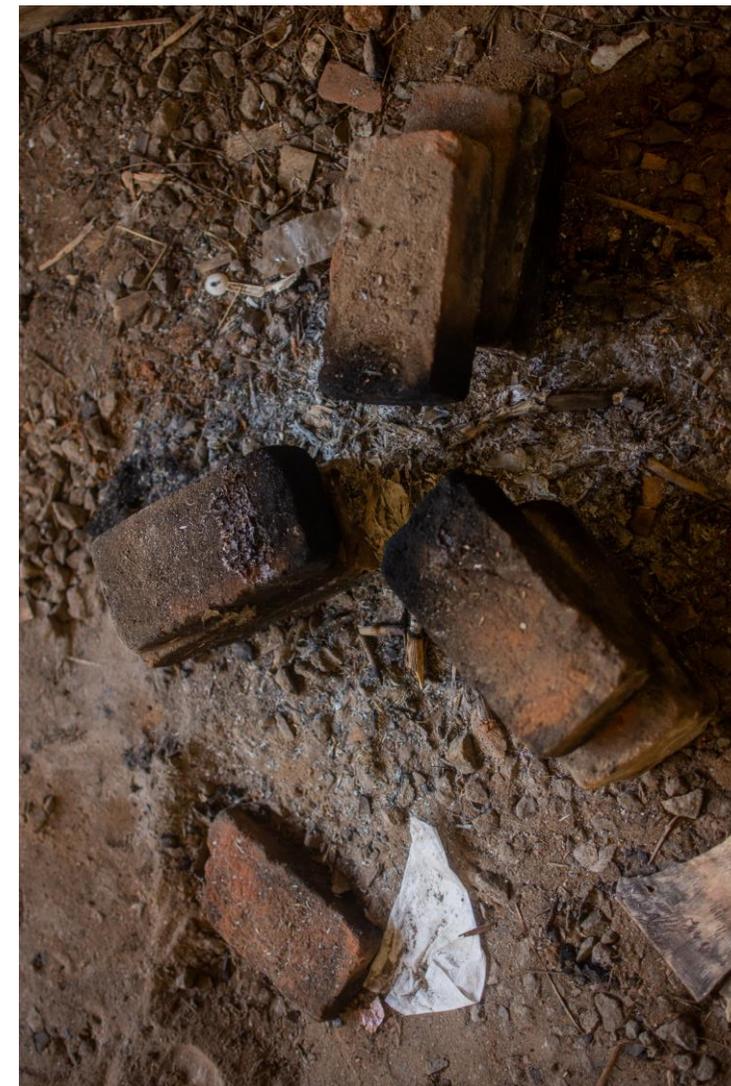
The competition dimension addresses two questions: 1) is there sufficient competition within the market? Are there more than 5 players? 2) Does a trader control the market/is there a monopoly?

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

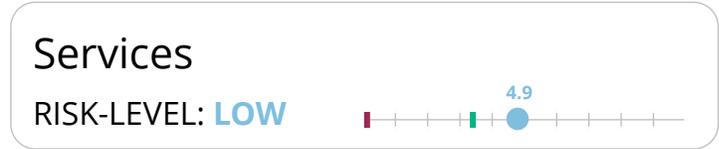
Overall, Sri Lanka’s risk-levels on the dimensions of infrastructure, services, food quality, and access and protection are **low**.

Infrastructure was considered low or medium risk in most markets. Tissamaharama was at a high risk level. In general, systems like sewage, transportation, and electricity/communication networks were generally conducive to functioning markets

The service dimension was considered low risk, indicating the service provided during shopping and checkout was satisfactory. Eleven markets were considered medium risk.

Food quality was a low risk for all 37 markets, indicating an adequate level of hygiene and cleanliness, material separation, and temperature and stock management.

Access and protection was considered low risk for most markets. Four markets were at medium risk levels. This is an indication 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	● 7.7	● 6.7	● 8.4	● 10.0
Eastern	● 7.3	● 5.0	● 7.8	● 9.4
North Central	● 8.4	● 3.7	● 8.1	● 10.0
North Western	● 7.4	● 4.4	● 7.3	● 8.6
Northern	● 7.0	● 4.4	● 8.4	● 9.6
Sabaragamuwa	● 7.9	● 6.1	● 8.3	● 9.4
Southern	● 5.4	● 5.0	● 7.8	● 10.0
Uva	● 8.0	● 5.4	● 8.1	● 10.0
Western	● 8.5	● 4.2	● 8.5	● 9.4
Average	● 7.5	● 4.9	● 8.1	● 9.6

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	7.0	10.0	10.0	5.8	10.0	10.0	6.4	5.0	8.8	10.0
	Kandy	Medium Risk	5.4	7.0	10.0	2.5	10.0	9.2	7.1	6.7	8.8	10.0
	Economic Centre-Dambulla	Low Risk	8.2	10.0	7.5	7.5	10.0	10.0	7.1	10.0	7.5	10.0
	Nuwara Eliya	Medium Risk	5.2	10.0	5.0	2.5	10.0	5.0	10.0	5.0	8.8	10.0
Eastern	Dehiattakandiya	Medium Risk	5.0	10.0	10.0	5.0	10.0	5.0	10.0	1.7	8.8	5.0
	Ampara	High Risk	5.3	8.0	10.0	3.3	10.0	3.3	3.6	8.3	7.5	7.5
	Batticaloa	Very High Risk	3.7	5.0	10.0	0.0	10.0	6.7	10.0	5.0	6.3	10.0
	Trincomalee	Low Risk	6.6	9.0	10.0	5.0	8.8	6.7	5.7	5.0	8.8	10.0
North Central	Galenbindunuwewa	Low Risk	6.7	10.0	7.5	7.5	10.0	5.0	7.9	5.0	8.8	10.0
	Anuradhapura	Very High Risk	4.0	8.0	7.5	0.0	10.0	10.0	10.0	3.3	8.8	10.0
	Polonnaruwa	Medium Risk	4.8	10.0	2.5	2.5	8.8	8.3	6.4	3.3	7.5	10.0
	Thambuttegama	Low Risk	6.0	7.0	10.0	10.0	10.0	7.5	9.3	3.3	7.5	10.0
North Western	Kurunegala	Medium Risk	4.5	10.0	5.8	4.2	8.8	10.0	6.4	1.7	7.5	7.5
	Nikaweratiya	Low Risk	6.5	10.0	10.0	6.7	7.1	9.2	5.7	5.0	5.7	9.2
	Puttalm	Very High Risk	4.4	6.0	5.8	0.8	10.0	10.0	10.0	6.7	8.8	9.2
Northern*	Mannar	High Risk	5.1	4.0	10.0	2.5	7.5	10.0	8.6	3.3	8.8	10.0
	Kilinochchi	Medium Risk	4.9	10.0	7.5	2.5	7.5	10.0	4.3	3.3	6.3	10.0
	Mulaitivu	Very High Risk		6.0	10.0	2.5	7.9			5.0		
	Jaffna	Medium Risk	6.1	9.0	10.0	10.0	5.0	10.0	8.6	3.3	8.8	10.0
	Vavuniya	Low Risk	6.5	7.0	10.0	7.5	7.9	5.0	6.4	5.0	10.0	8.3
Sabaragamuwa	Embilipitiya	Medium Risk	5.6	9.0	10.0	2.5	7.5	10.0	9.3	8.3	7.5	10.0
	Rathnapura	Low Risk	7.0	6.0	10.0	10.0	10.0	10.0	7.9	5.0	8.8	8.3
	Kegalle	Medium Risk	5.5	10.0	10.0	2.5	10.0	10.0	6.4	5.0	8.8	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.

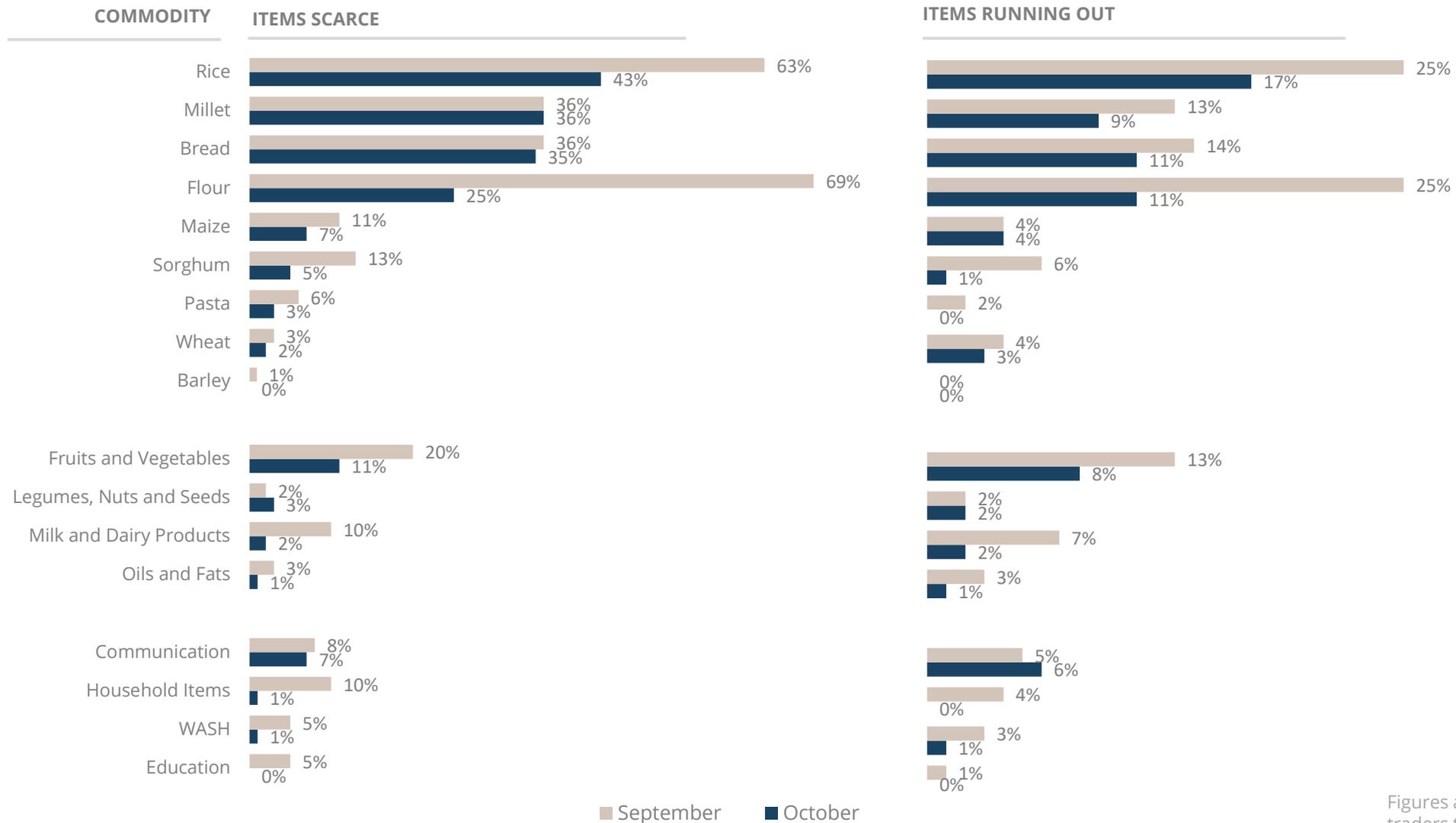
Summary Table (p.2)

Province	Market	Risk-Level	MFI	Assortment	Availability	Price	Resilience	Competition	Infrastructure	Service	Quality	Access & Protection
Southern	Hambantota	Low Risk	6.6	7.0	7.5	7.5	7.9	10.0	7.1	5.0	7.5	10.0
	Galle	High Risk	6.3	10.0	10.0	10.0	10.0	10.0	3.6	5.0	8.8	10.0
	Matara	Very High Risk	4.3	6.0	10.0	0.8	7.5	10.0	8.6	5.0	7.5	10.0
	Tissamaharama	High Risk	4.8	10.0	7.5	2.5	7.5	10.0	2.1	5.0	7.5	10.0
Uva	Badulla	Very High Risk	4.0	10.0	5.0	0.0	8.8	10.0	7.9	6.7	8.8	10.0
	Monaragala	Medium Risk	5.2	9.0	5.0	4.2	6.3	3.3	7.1	5.0	8.8	10.0
	Bandarawela	Very High Risk	4.3	10.0	10.0	0.8	10.0	5.8	7.1	5.0	7.5	10.0
	Keppetipola (DEC)	Low Risk	7.0	10.0	10.0	5.0	8.8	10.0	10.0	5.0	7.5	10.0
Western	Meegoda(DEC)	Medium Risk	5.5	8.0	10.0	2.5	8.8	10.0	10.0	3.3	8.8	10.0
	Veyangoda(DEC)	Medium Risk	5.8	8.0	10.0	5.8	6.7	4.2	6.4	5.0	7.5	10.0
	4th Cross Street	Medium Risk	5.3	9.0	10.0	7.5	8.8	10.0	10.0	1.7	10.0	10.0
	Piliyandala	Medium Risk	4.9	7.0	10.0	10.0	8.3	10.0	8.6	1.7	7.5	6.7
	Gampaha	Low Risk	7.1	10.0	10.0	10.0	10.0	8.3	7.1	5.0	8.8	10.0
	Kalutara	Low Risk	7.2	10.0	10.0	5.0	10.0	10.0	8.6	8.3	8.8	10.0
Average				8.4	8.7	4.7	8.8	8.4	7.5	4.9	8.1	9.6

● 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.

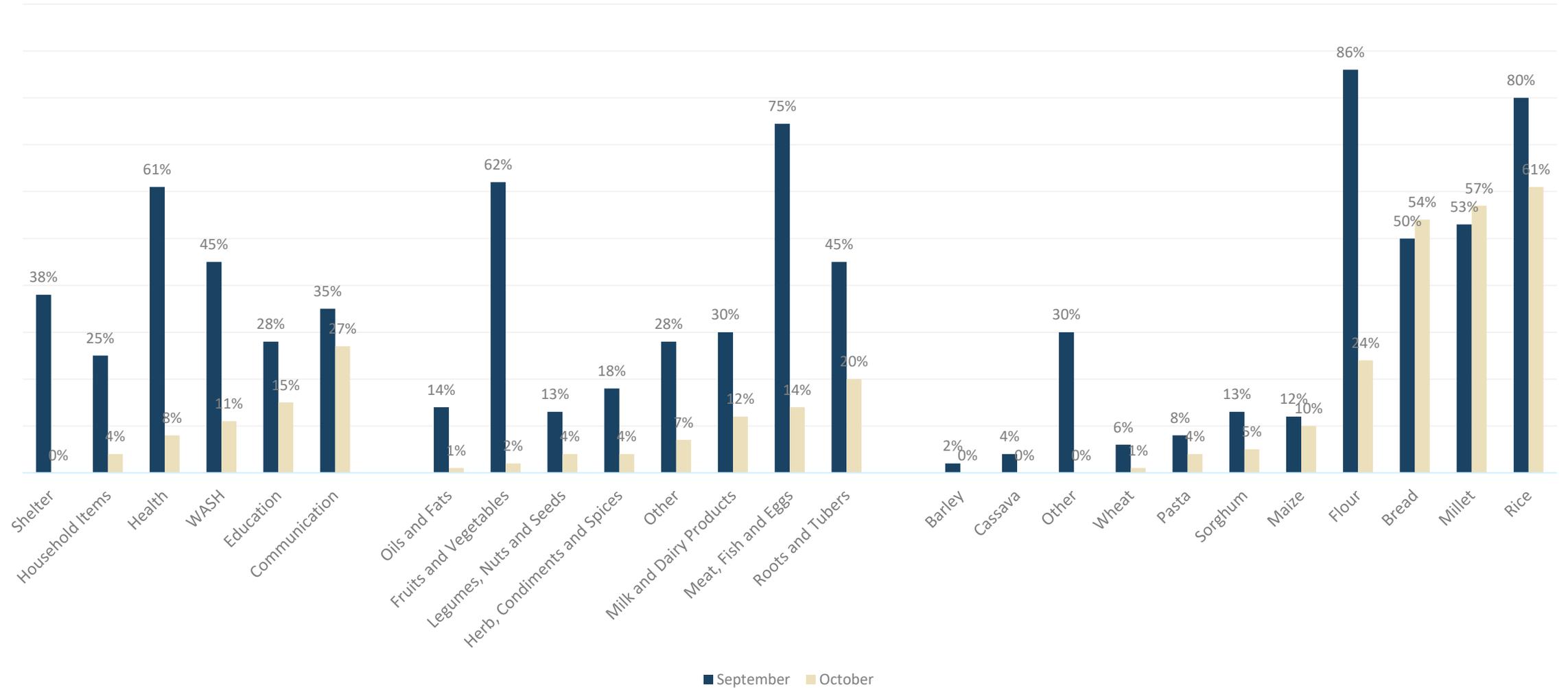
Availability



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

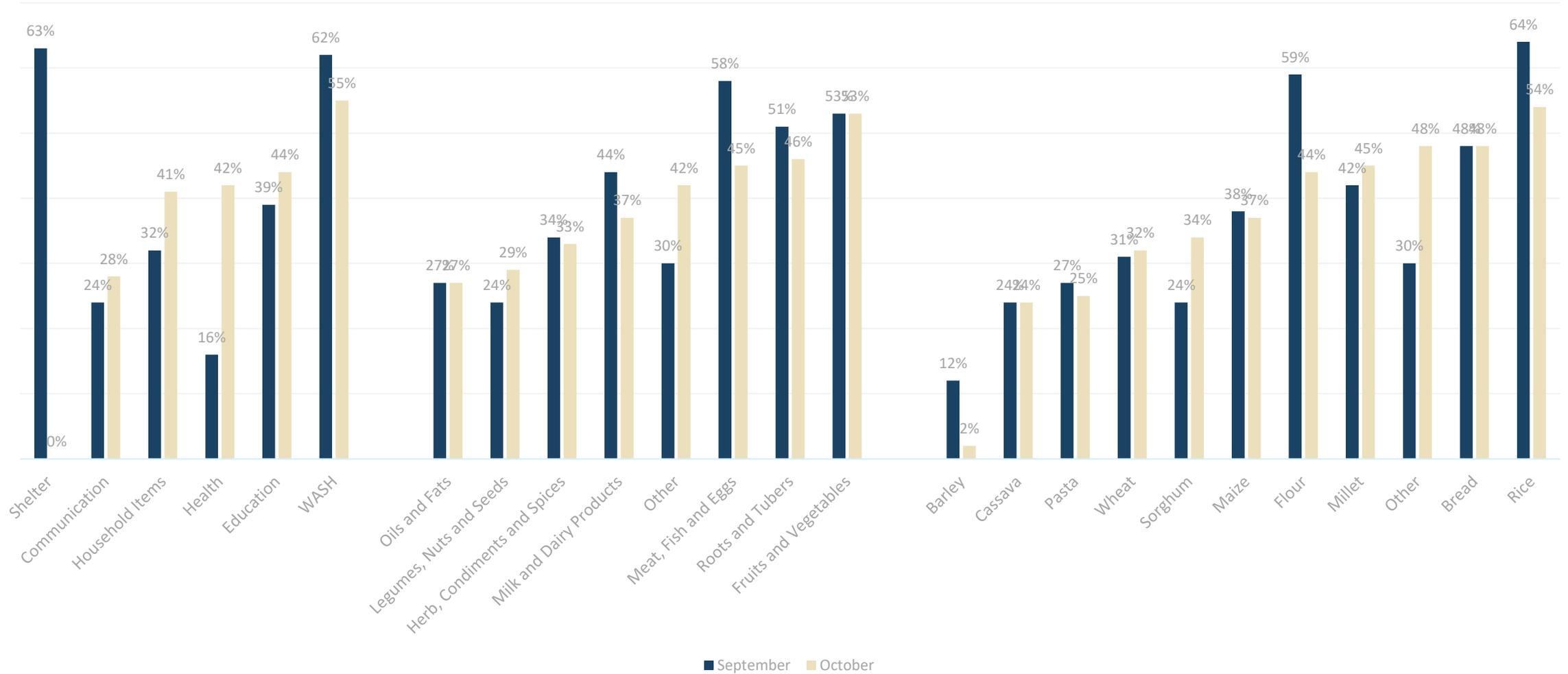
Price

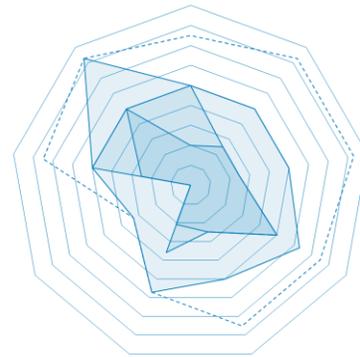
Percentage of traders that reported commodity price increases



Price Stability

Percentage of traders that reported instability of commodity prices





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

Acknowledgments:

This report was developed by WFP Research, Assessment & Monitoring Unit in November 2022, with thanks to HARTI for data collection.

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wfp.colombo@wfp.org