NOVEMBER 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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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 October traders reported greater availability of commodities compared to September, November is seeing availability issues once again. Both the availability and prices dimensions may be negatively impacted in the coming months by the Northeast monsoon, the high demand during the festive period and also due to the start of the lean season.

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.

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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. In November, 80 percent of households reported 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:

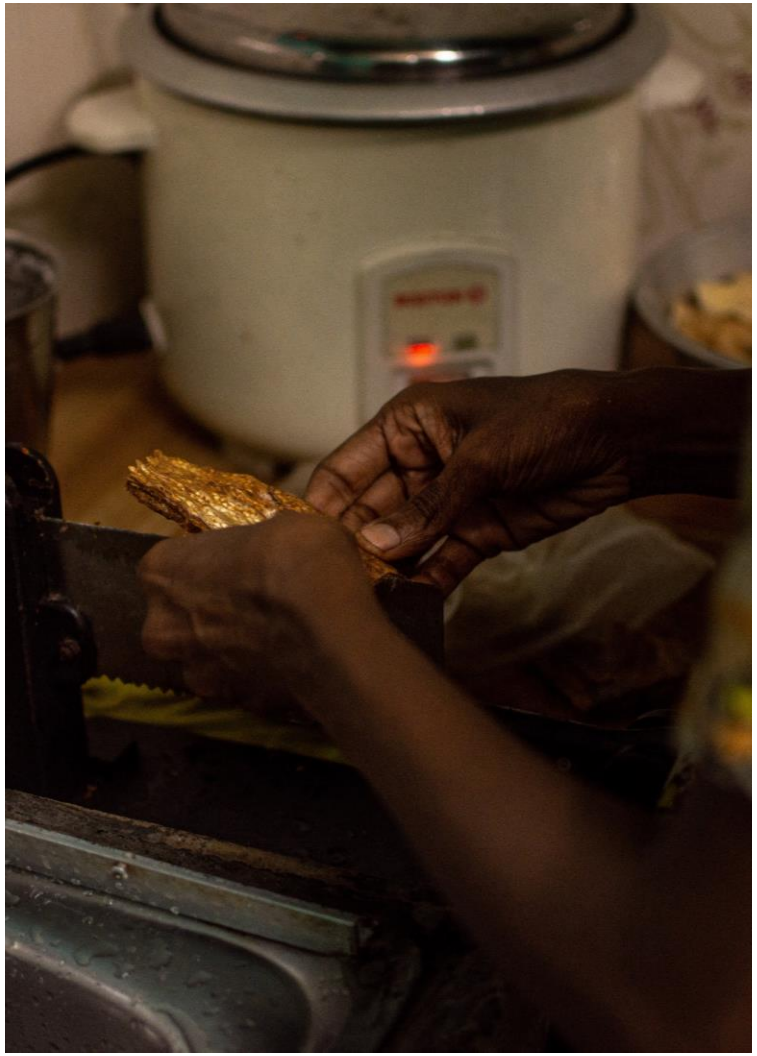
- The features influencing the behaviours of buyers and sellers are stable and predictable
- The interactions between sellers and between sellers and buyers are transparent, and
- Supplies are sufficient, regular and predictable at affordable, stable and predictable prices

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 19 to 30 November across 37 markets. In this assessment, 706 traders were interviewed based on the MFI's standard sampling guidelines.



Context

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

In November, the headline inflation was measured at 65 percent, from 70.6 percent in October (based on the latest year-on-year National Consumer Price Index). This has a significant 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.

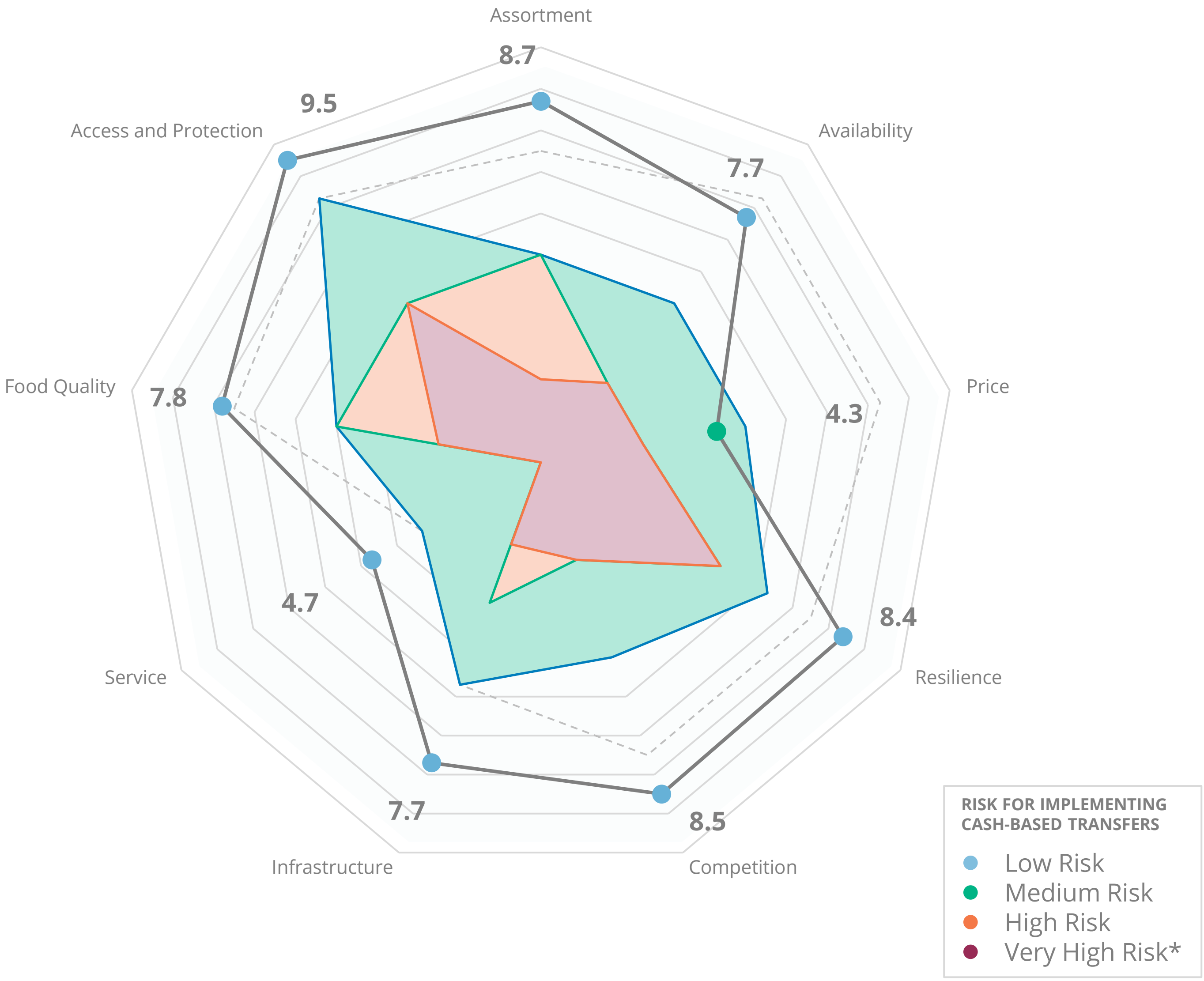
Overview

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	8.7
Availability	● Low	7.7
Price	● Medium	4.3
Resilience	● Low	8.4
Competition	● Low	8.5
Infrastructure	● Low	7.7
Service	● Low	4.7
Food Quality	● Low	7.8
Access and Protection	● Low	9.5



**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

32%

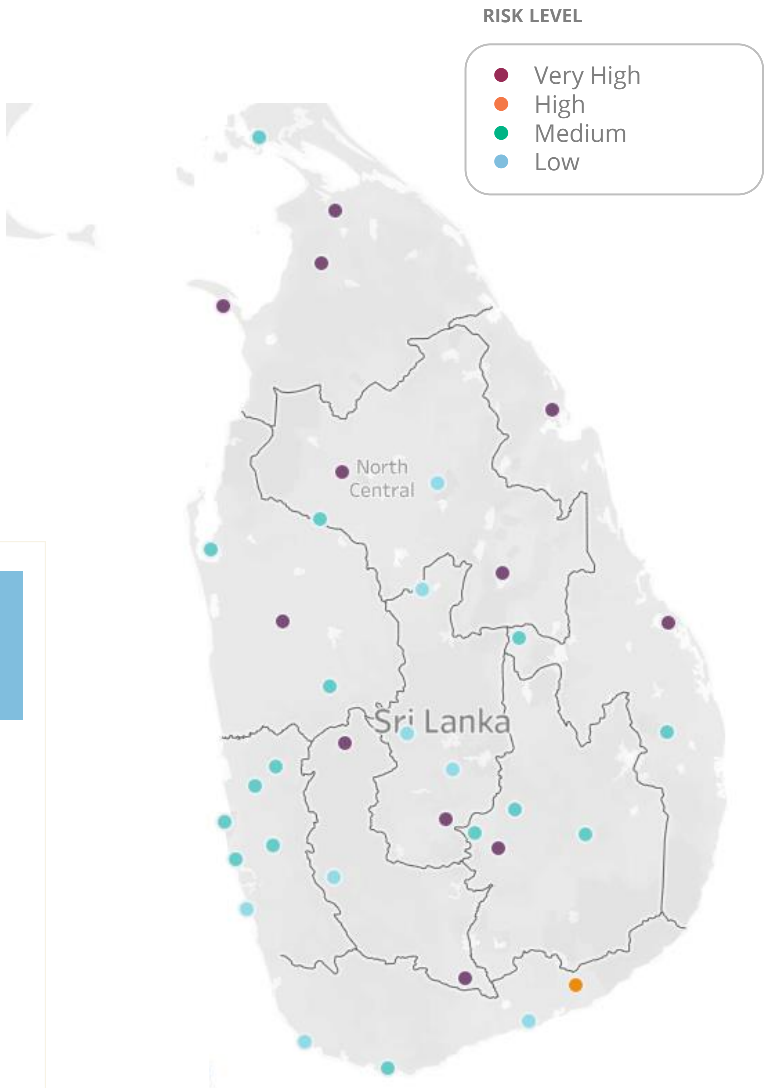
of 37 surveyed markets had a *very* high risk level associated with implementing cash-based transfers

The price dimension continues to report concerns, as with the previous months. Although an overall improvement was reported in October, price volatility seems to have increased in November. The picture remains complex, with a wide degree of unpredictability reported by markets acrovariation in the levels of risk for cash-based transfers seen across markets.

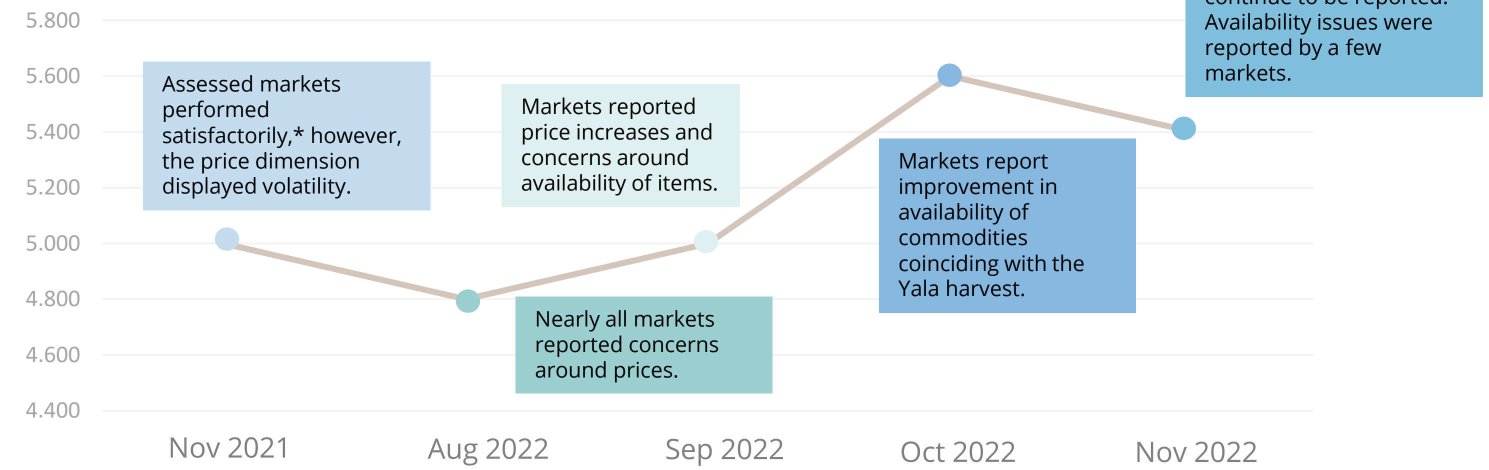
Twelve markets were found to be at *very* high risk levels, while one market was found to be at a high risk level.

While price dimension was the main factor influencing these high risk levels, the availability dimension is also showing marginal deterioration from October.

The Annex contains the full list of markets and scores.



Time trend of MFI



Assessed markets performed satisfactorily,* however, the price dimension displayed volatility.

Nearly all markets reported concerns around prices.

Markets reported price increases and concerns around availability of items.

Markets report improvement in availability of commodities coinciding with the Yala harvest.

Concerns around prices continue to be reported. Availability issues were reported by a few markets.

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

RISK-LEVEL: **LOW**

Key Findings

Sri Lanka's risk-level on the dimension of assortment is **low** – the average country score was 8.7. This signifies that essential items are easily obtainable.

Central, Uva and North Central province results indicate the highest levels of assortment of goods in the market.

Out of the 37 surveyed markets, 36 had low risk levels for assortment. Mannar was the only market where risk levels were high.

Similar to last month, cereal foods such as rice, bread and millet are the most commonly found items. The most commonly found non-cereals are roots and tubers, followed by fish and eggs, and fruits and vegetables.

Sixty eight 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.

Province-Level Results

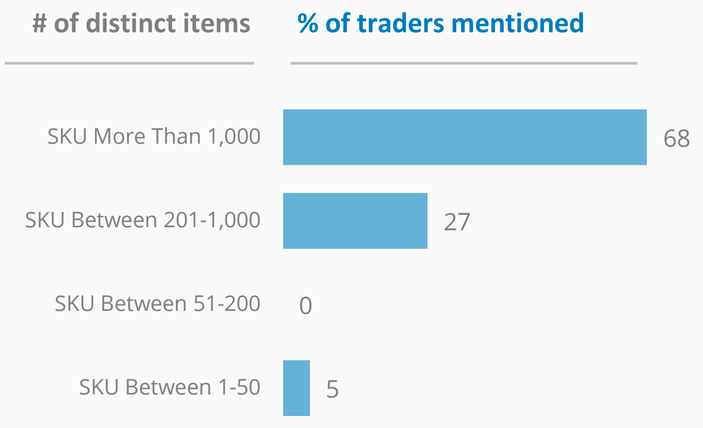
Province	Risk-Level*	Score
Central	● Low	9.3
Eastern	● Low	8.3
North Central	● Low	9.3
North Western	● Low	9.0
Northern	● Low	7.8
Sabaragamuwa	● Low	8.7
Southern	● Low	9.0
Uva	● Low	10.0
Western	● Low	8.0
Average	● Low	8.7

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

1. Assortment

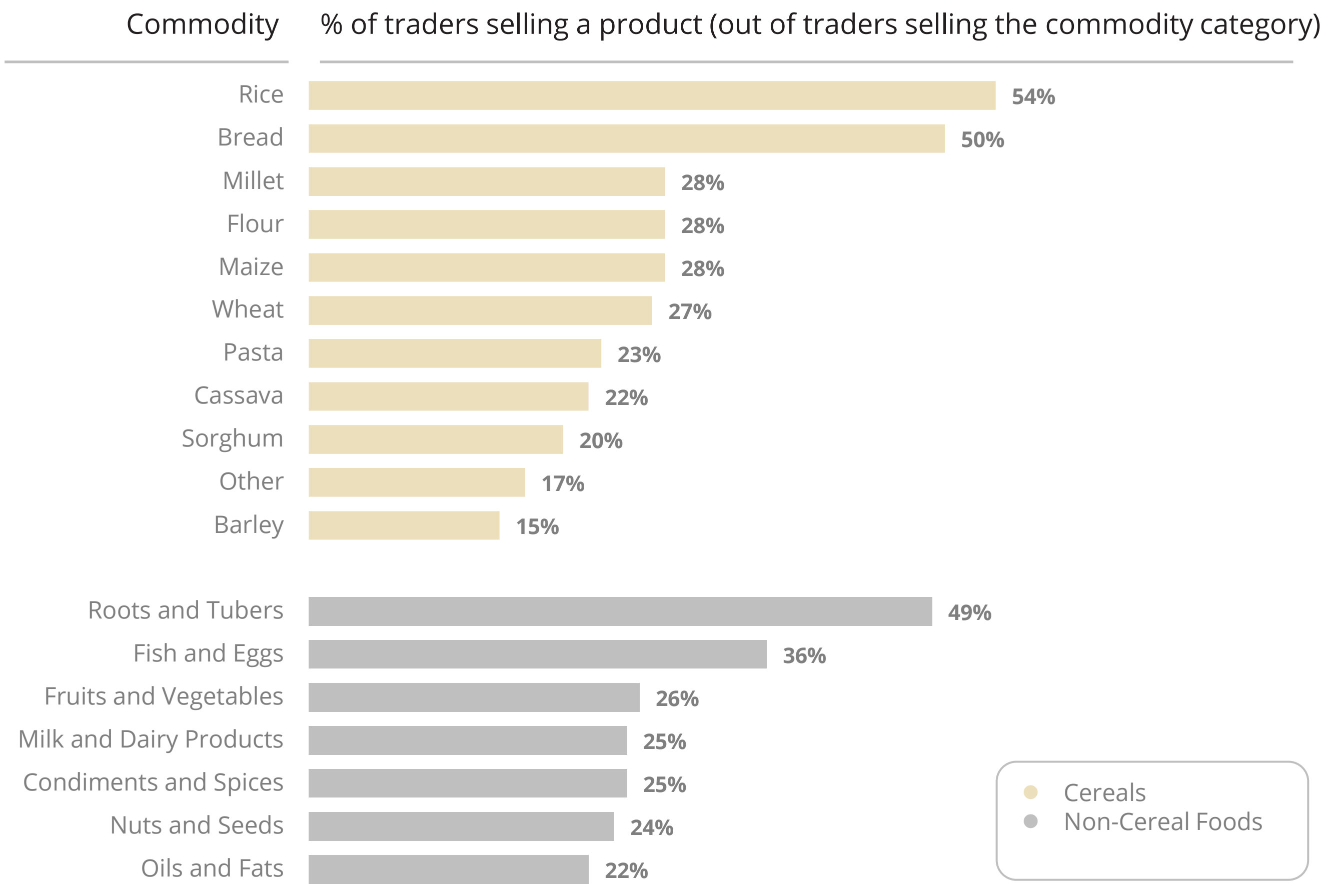
Most markets had a wide range of cereals, non-cereals and non-food items that are easily obtainable at a market level.

Breadth of Products



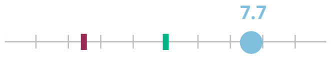
SKU = Stock-keeping units

Products sold in shops



2. Availability

RISK-LEVEL: **LOW**



Key Findings

The market risk level is low on the dimension of availability. While a sufficient quantity of goods was back in the market in October (8.7), there was a slight deterioration in terms of availability in November (7.7), although not as bad as in September (7.0).

Northern province had the lowest score value related to the availability of commodities in November, followed by Uva and North Western. Southern province had the highest availability of essential items.

Nuwara Eliya and Batticaloa reported very high risk levels associated with availability. This is a slight increase from October, when only Polonnaruwa reported very high risk levels.

Cereal foods were more scarce across the markets, than non-cereals and non-food items. For non-cereal items, fruits and vegetables were reported to be running out and scarce by 8 percent of traders.

Traders (74 percent) in the Northern province reported a scarcity of cereals.

Province-Level Results

Province	Risk-Level*	Score
Central	● Low	**7.7**
Eastern	● Low	**7.5**
North Central	● Low	**7.3**
North Western	● Low	**6.7**
Northern	● Medium	**5.0**
Sabaragamuwa	● Low	**10.0**
Southern	● Low	**9.4**
Uva	● Low	**6.7**
Western	● Low	**9.3**
Average	● Low	**7.7**

Recommendations and Mitigation Measures

The following are mitigation measures related to availability:

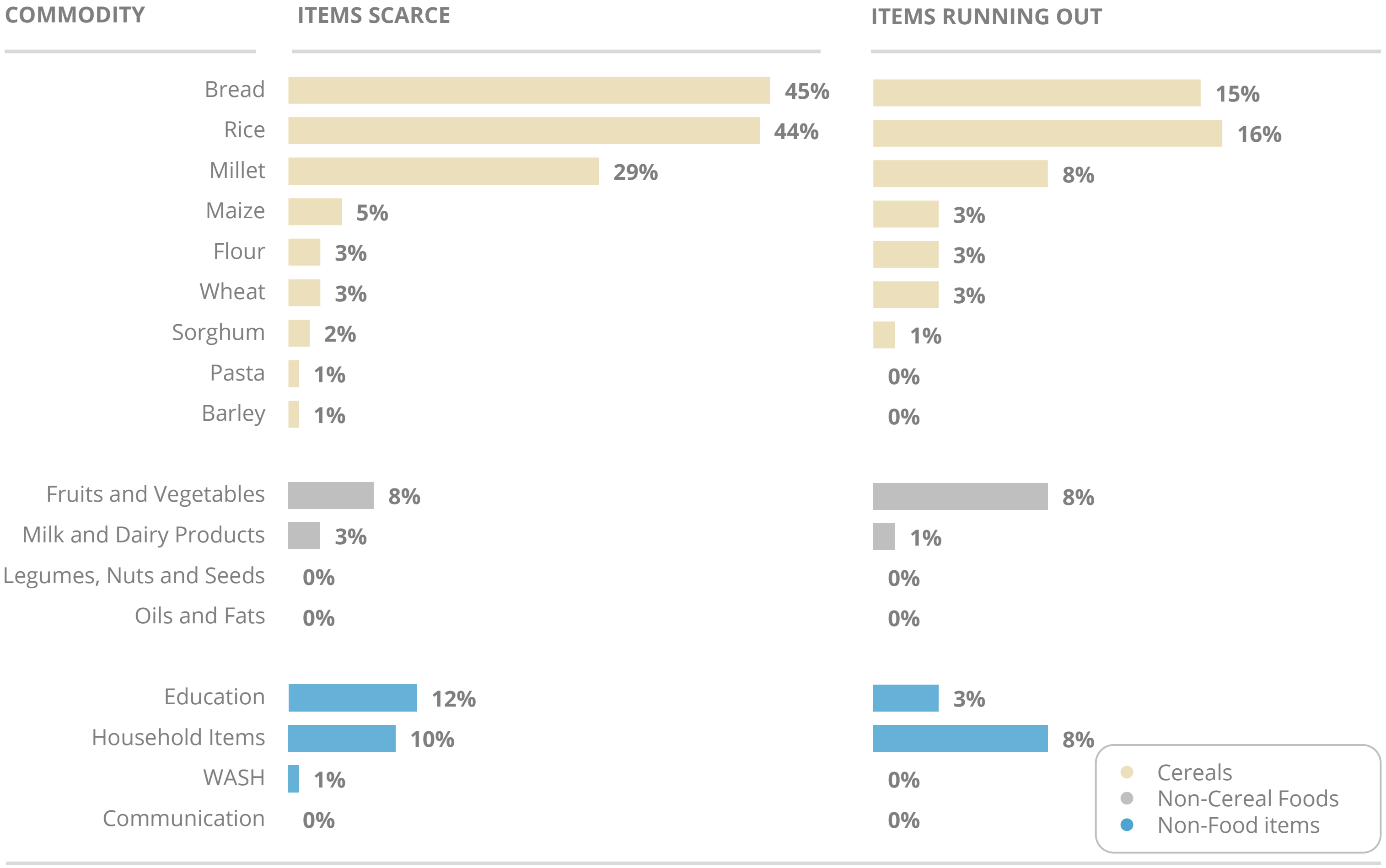
Utilize vouchers to allow contracted traders to rely on secured business flow, thus allowing them to position adequate stocks in advance.

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 October, there is a higher scarcity of bread and rice. Education and household items were also scarce.

3. Prices

RISK-LEVEL: **MEDIUM**

Key Findings

Price continues to be the most concerning risk dimension. Sri Lanka's risk-level on the price dimension is **medium**.

Fourteen out of the 37 surveyed markets reported very high risk levels on the dimension of price and ten markets reported medium risk levels. Price volatility remains a worry, and November saw a higher number of markets reporting this as a medium risk.

The highest price increase was for non-cereal foods, as reported by 78 percent of traders, followed by cereal foods (51 percent) and non-food items (31 percent). Similar levels of price instability was reported by traders in all three categories.

Similar to October, 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	● Low	6.2
Eastern	● Medium	2.9
North Central	● Medium	4.4
North Western	● Medium	4.4
Northern	● Medium	4.0
Sabaragamuwa	● Medium	3.6
Southern	● Low	5.8
Uva	● Very High	2.3
Western	● Medium	5.0
Average	● Medium	4.3

Recommendations and Mitigation Measures

The following are mitigation measures related to prices:

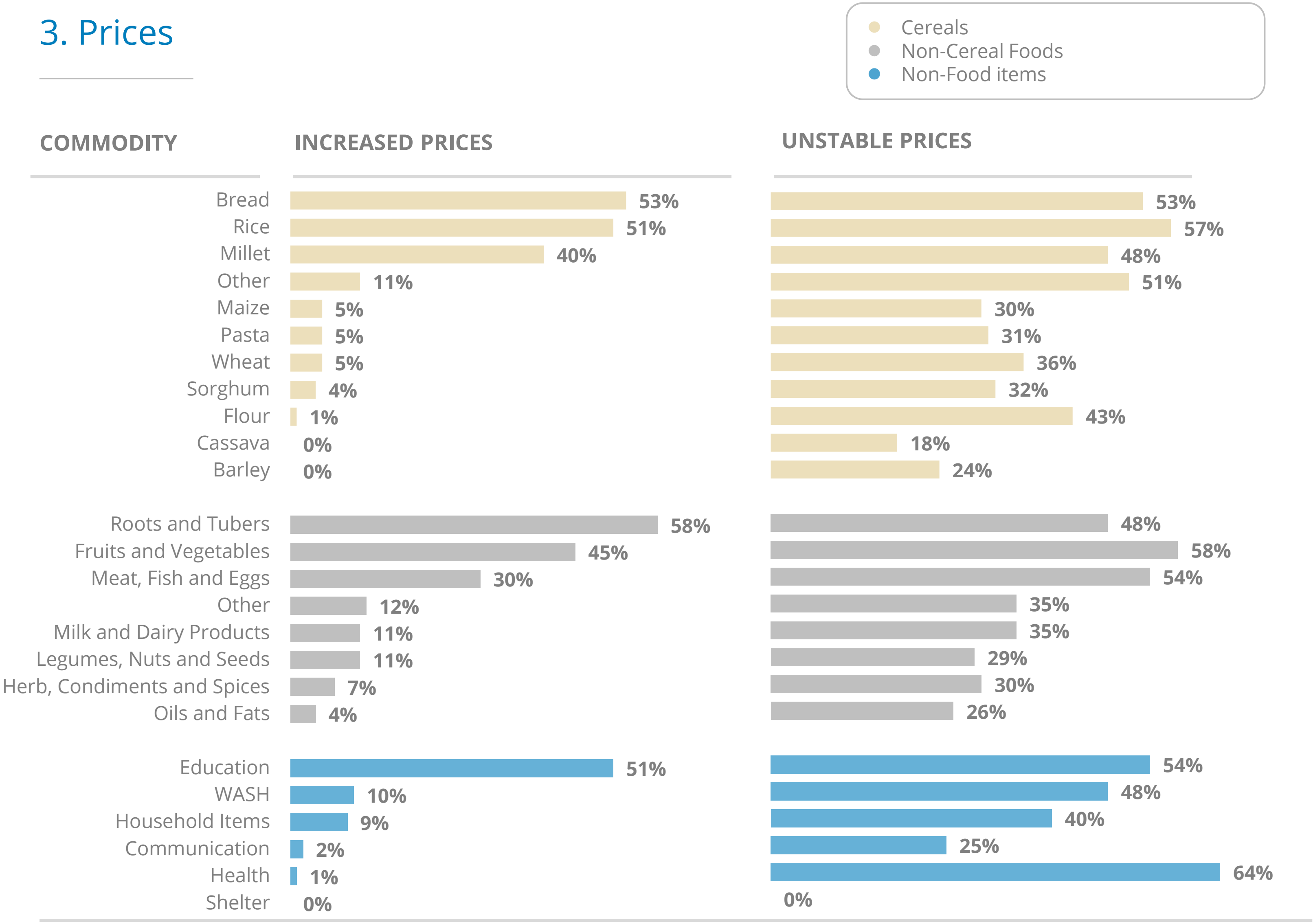
Strengthen evidence by establishing a market monitoring system and calculating monthly expenditure baskets with frequent review.

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.

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

3. Prices


● Cereals
● Non-Cereal Foods
● Non-Food items
COMMODITY
INCREASED PRICES
UNSTABLE PRICES
Bread 53% 53%
Rice 51% 57%
Millet 40% 48%
Other 11% 51%
Maize 5% 30%
Pasta 5% 31%
Wheat 5% 36%
Sorghum 4% 32%
Flour 1% 43%
Cassava 0% 18%
Barley 0% 24%
Roots and Tubers 58% 48%
Fruits and Vegetables 45% 58%
Meat, Fish and Eggs 30% 54%
Other 12% 35%
Milk and Dairy Products 11% 35%
Legumes, Nuts and Seeds 11% 29%
Herb, Condiments and Spices 7% 30%
Oils and Fats 4% 26%
Education 51% 54%
WASH 10% 48%
Household Items 9% 40%
Communication 2% 25%
Health 1% 64%
Shelter 0% 0%

230/-
230/-
QUALITY SORTEX RICE
CYCLE B
Real Taste with

4. Supply Chain Resilience

RISK-LEVEL: **LOW**

Key Findings

Overall, Sri Lanka's risk-level on the dimension of supply chain resilience is **low**. Out of the 37 markets, only two markets, namely, Batticaloa 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?

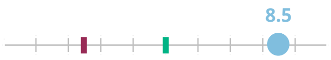
Province-Level Results

Province	Risk-Level*	Score
Central	● Low	10.0
Eastern	● Low	7.1
North Central	● Low	9.4
North Western	● Low	7.1
Northern	● Low	7.6
Sabaragamuwa	● Low	9.2
Southern	● Low	8.9
Uva	● Low	8.4
Western	● Low	8.4
Average	● Low	8.4

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

5. Competition

RISK-LEVEL: **LOW**



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. Only one market, Ampara, reported a very high risk level. Five markets were facing medium risk levels for competition, a decrease of two from October.

The overall country score for competition (8.5) remained similar to the previous month (8.6).

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?

Province-Level Results

Province	Risk-Level*	Score
Central	● Low	10.0
Eastern	● Low	5.4
North Central	● Low	8.8
North Western	● Low	10.0
Northern	● Low	9.4
Sabaragamuwa	● Low	7.8
Southern	● Low	8.5
Uva	● Low	7.9
Western	● Low	8.7
Average	● Low	8.5

**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

Similar to the previous months, 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. Eight markets reported medium risk levels, and no market reported high or very high risk levels. 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. Similar to October, eleven markets were considered medium risk.

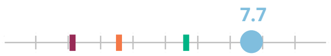
Food quality was a low risk for all 37 markets, indicating an adequate level of hygiene and cleanliness, material separation, and temperature and stock management.

Access and protection was considered low risk for most markets. In November, 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.

Communication
&
OPEN

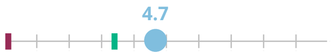
Infrastructure

RISK-LEVEL: **LOW**



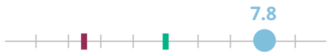
Services

RISK-LEVEL: **LOW**



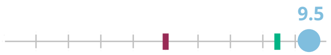
Food Quality

RISK-LEVEL: **LOW**



Access and Protection

RISK-LEVEL: **LOW**



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

Province-Level Results

Province	Infrastructure	Services	Food Quality	Access / Protection
Central	● 7.5	● 6.3	● 8.1	● 10.0
Eastern	● 7.0	● 5.4	● 7.2	● 8.5
North Central	● 8.6	● 3.3	● 7.5	● 10.0
North Western	● 7.1	● 3.9	● 7.5	● 8.6
Northern	● 7.3	● 3.3	● 6.9	● 9.6
Sabaragamuwa	● 8.1	● 5.6	● 7.9	● 9.4
Southern	● 6.2	● 5.0	● 8.1	● 10.0
Uva	● 8.0	● 5.4	● 8.1	● 10.0
Western	● 8.6	● 4.4	● 8.8	● 9.4
Average	● **7.7**	● **4.7**	● **7.8**	● **9.5**

Recommendations and Mitigation Measures

The following are mitigation measures related to food quality*

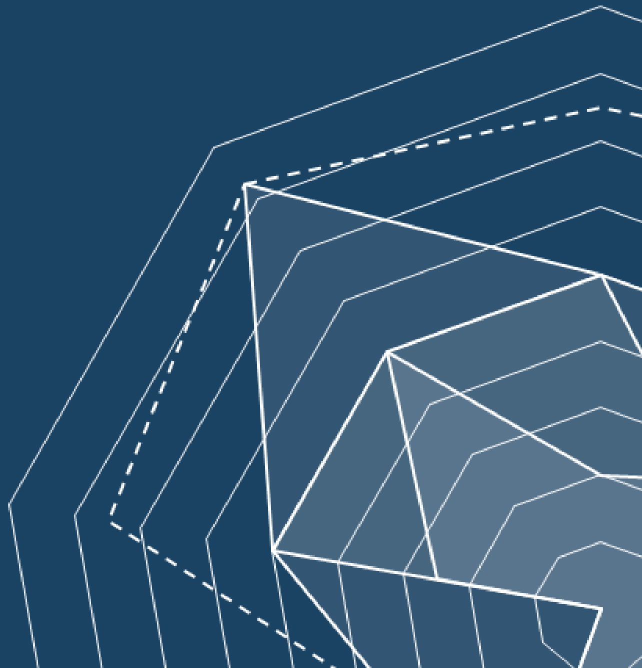
Contract traders that operate with adequate food safety standards.

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	8.3	10.0	10.0	7.1	5.0	8.8	10.0
	Kandy	Low Risk	6.8	7.0	10.0	5.8	10.0	10.0	6.4	5.0	8.8	10.0
	Economic Centre-Dambulla	Low Risk	8.0	10.0	10.0	8.3	10.0	10.0	6.4	10.0	7.5	10.0
	Nuwara Eliya	Very High Risk	4.3	10.0	0.8	2.5	10.0	10.0	10.0	5.0	7.5	10.0
Eastern	Dehiattakandiya	Medium Risk	5.0	10.0	10.0	5.0	7.5	7.5	10.0	1.7	8.8	10.0
	Ampara	Medium Risk	4.9	8.0	10.0	3.3	10.0	2.5	5.0	8.3	6.3	7.5
	Batticaloa	Very High Risk	3.4	6.0	1.7	0.8	6.3	5.0	7.1	6.7	5.0	10.0
	Trincomalee	Very High Risk	4.7	9.0	8.3	2.5	4.6	6.7	5.7	5.0	8.8	6.7
North Central	Galenbindunuwewa	Low Risk	6.8	10.0	7.5	6.7	10.0	7.5	7.9	5.0	8.8	10.0
	Anuradhapura	Very High Risk	4.8	8.0	7.5	1.7	10.0	10.0	10.0	1.7	8.8	10.0
	Polonnaruwa	Very High Risk	4.4	10.0	10.0	0.8	10.0	7.5	8.6	3.3	7.5	10.0
	Thambuttegama	Medium Risk	5.5	9.0	4.2	8.3	7.5	10.0	7.9	3.3	5.0	10.0
North Western	Kurunegala	Medium Risk	4.7	10.0	5.8	8.3	7.5	10.0	6.4	1.7	7.5	7.5
	Nikaweratiya	Very High Risk	4.2	10.0	5.8	1.7	3.8	10.0	5.7	3.3	6.3	9.2
	Puttalm	Medium Risk	5.9	7.0	8.3	3.3	10.0	10.0	9.3	6.7	8.8	9.2
Northern*	Mannar	Very High Risk	3.8	4.0	5.8	0.8	7.5	10.0	8.6	3.3	6.3	10.0
	Kilinochchi	Very High Risk	3.7	10.0	5.8	0.8	7.5	10.0	4.3	1.7	5.0	10.0
	Mulaitivu	Very High Risk		7.0	5.8	0.8	7.9			5.0		
	Jaffna	Medium Risk	4.9	9.0	4.2	10.0	6.7	10.0	7.9	1.7	8.8	10.0
	Vavuniya	Medium Risk	5.5	9.0	3.3	7.5	8.3	7.5	8.6	5.0	7.5	8.3
Sabaragamuwa	Embilipitiya	Very High Risk	4.0	9.0	10.0	0.0	7.5	10.0	8.6	6.7	6.3	10.0
	Rathnapura	Low Risk	7.0	7.0	10.0	10.0	10.0	8.3	8.6	5.0	8.8	8.3
	Kegalle	Very High Risk	4.4	10.0	10.0	0.8	10.0	5.0	7.1	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.

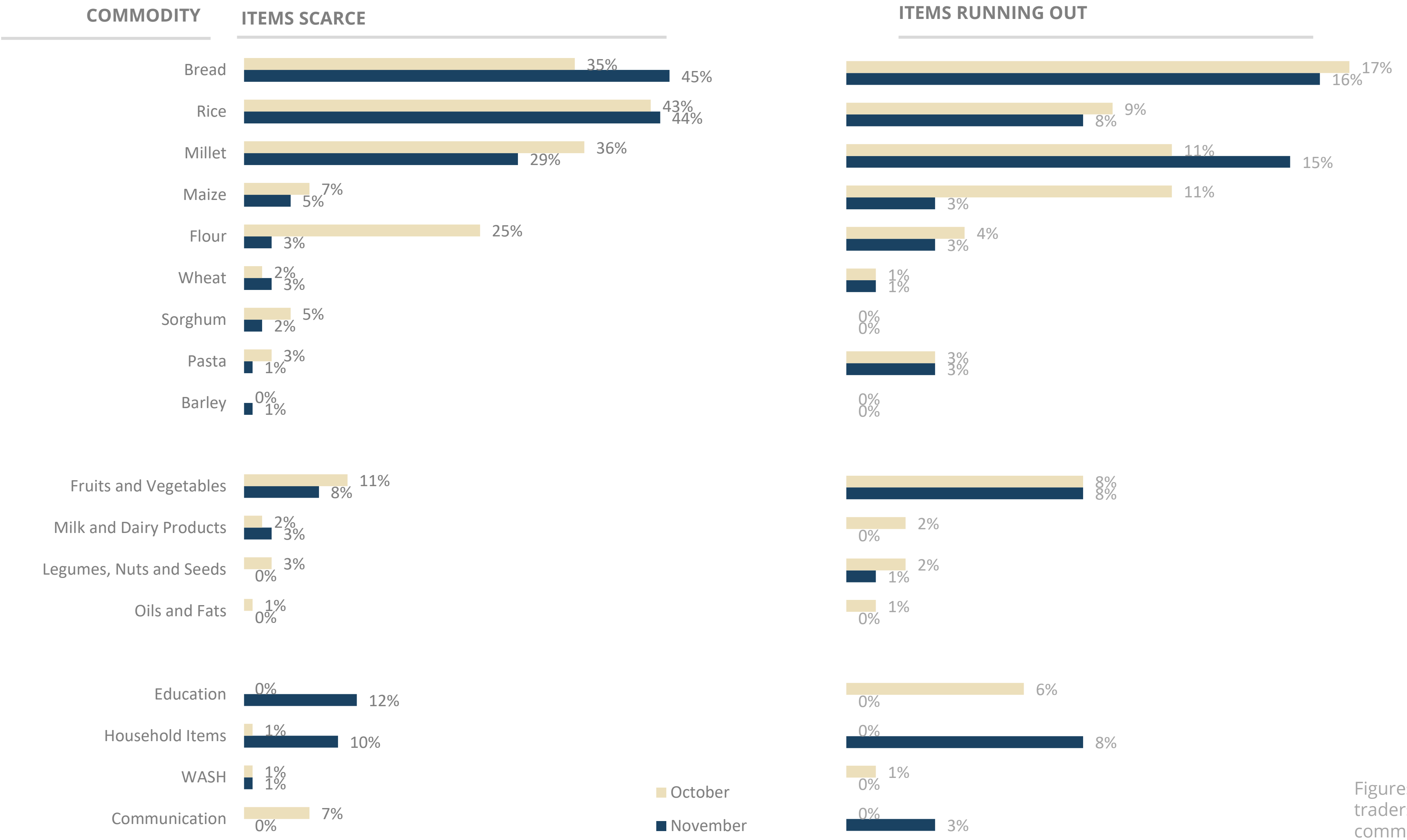
Summary Table (p.2)

Province	Market	Risk-Level	MFI	Assortment	Availability	Price	Resilience	Competition	Infrastructure	Service	Quality	Access & Protection
Southern	Hambantota	Low Risk	**6.5**	8.0	7.5	5.8	7.9	9.2	7.1	5.0	7.5	10.0
	Galle	Low Risk	**6.9**	10.0	10.0	5.8	10.0	10.0	5.7	5.0	8.8	10.0
	Matara	Medium Risk	**5.9**	8.0	10.0	3.3	10.0	10.0	8.6	5.0	7.5	10.0
	Tissamaharama	High Risk	**5.8**	10.0	10.0	8.3	7.5	5.0	3.6	5.0	8.8	10.0
Uva	Badulla	Medium Risk	**5.6**	10.0	7.5	2.5	8.8	10.0	9.3	6.7	8.8	10.0
	Monaragala	Medium Risk	**4.8**	10.0	5.0	2.5	6.3	5.0	7.1	5.0	8.8	10.0
	Bandarawela	Very High Risk	**4.2**	10.0	8.3	0.8	10.0	6.7	5.7	5.0	7.5	10.0
	Keppetipola (DEC}	Medium Risk	**5.8**	10.0	5.8	3.3	8.8	10.0	10.0	5.0	7.5	10.0
Western	Meegoda(DEC)	Medium Risk	**5.7**	6.0	7.5	3.3	7.5	10.0	10.0	5.0	8.8	10.0
	Veyangoda(DEC)	Medium Risk	**5.7**	8.0	8.3	5.0	6.7	4.2	5.7	5.0	7.5	10.0
	4th Cross Street	Medium Risk	**5.2**	9.0	10.0	5.0	8.3	10.0	10.0	1.7	10.0	10.0
	Piliyandala	Medium Risk	**5.0**	6.0	10.0	8.3	8.3	10.0	8.6	1.7	8.8	9.2
	Gampaha	Medium Risk	**5.8**	9.0	10.0	3.3	9.6	8.3	7.9	5.0	8.8	7.5
	Kalutara	Low Risk	**7.3**	10.0	10.0	5.0	10.0	10.0	9.3	8.3	8.8	10.0
Average				8.7	7.7	4.3	8.4	8.5	7.7	4.7	7.8	9.5

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

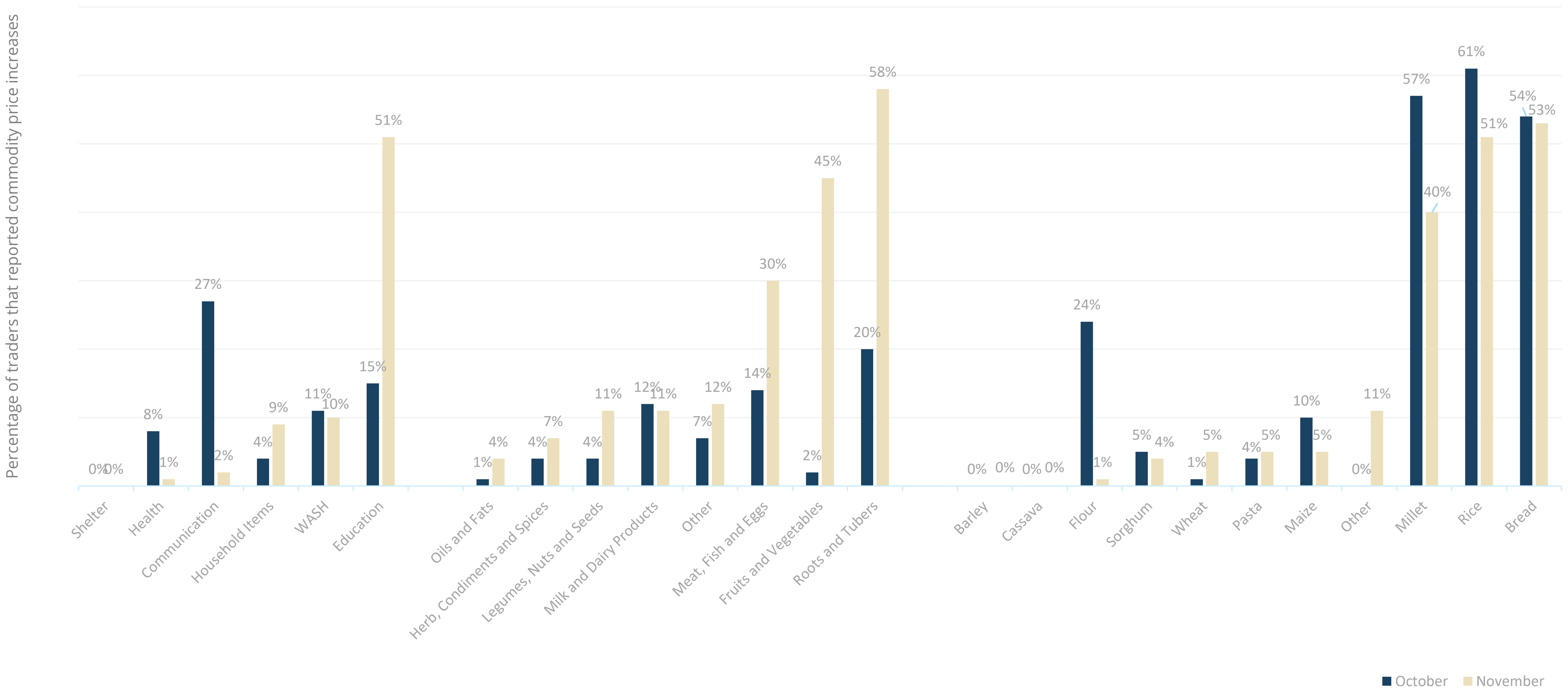
The sample was selected based on the existing price monitoring system with HARTI. This sample is not sufficient to generalize results at a provincial level.

Availability

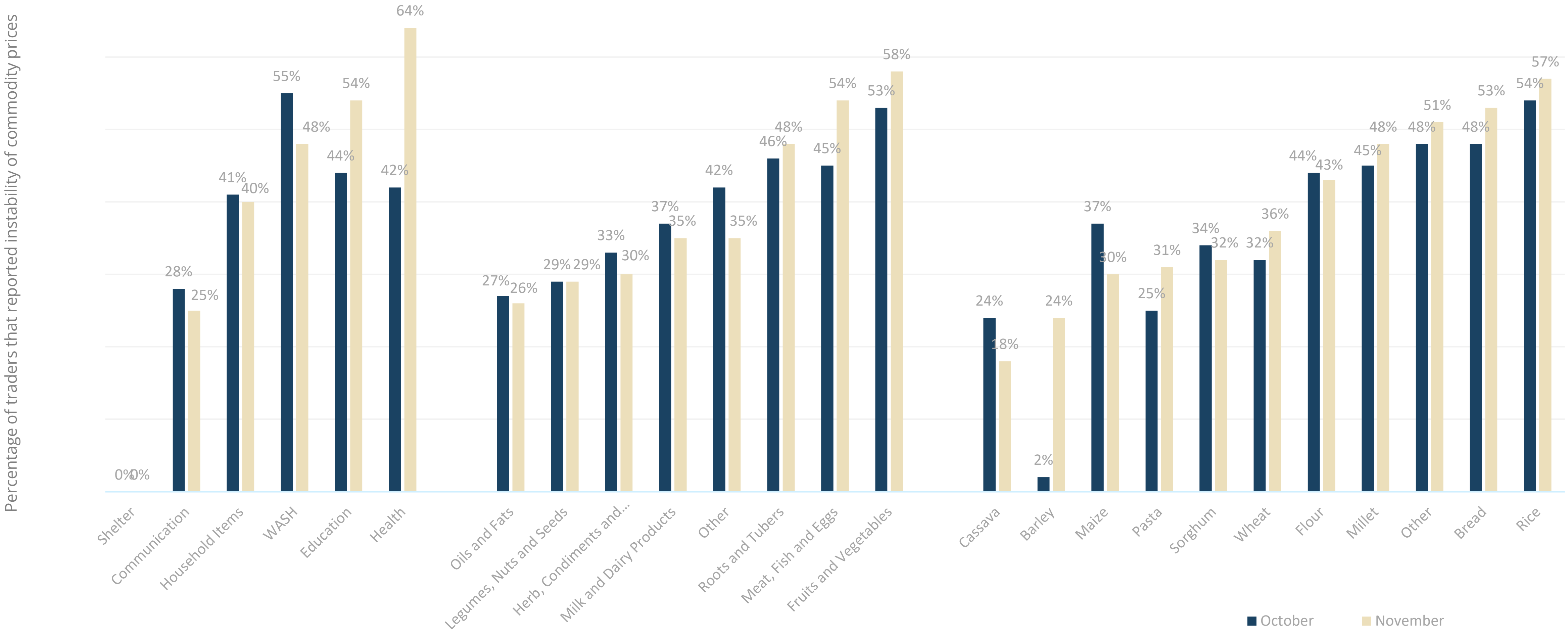


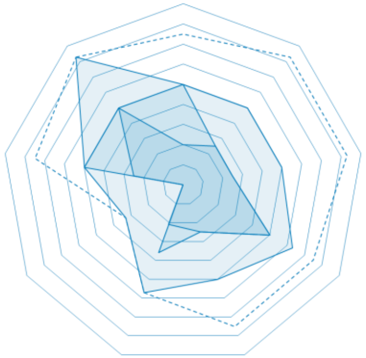
Figures are percentages of commodity traders that reported issues in each commodity.

Price


Percentage of traders that reported commodity price increases
0%
0%
8%
1%
27%
2%
4%
9%
11%
10%
15%
51%
1%
4%
4%
7%
4%
11%
12%
11%
7%
12%
14%
30%
2%
45%
20%
58%
0%
0%
0%
0%
24%
1%
5%
4%
1%
5%
4%
5%
10%
5%
0%
11%
57%
40%
61%
51%
54%
53%
Shelter
Health
Communication
Household Items
WASH
Education
Oils and Fats
Herb, Condiments and Spices
Legumes, Nuts and Seeds
Milk and Dairy Products
Other
Meat, Fish and Eggs
Fruits and Vegetables
Roots and Tubers
Barley
Cassava
Flour
Sorghum
Wheat
Pasta
Maize
Other
Millet
Rice
Bread
October
November

Price Stability





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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