



DECEMBER 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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Market Functionality Index (MFI)

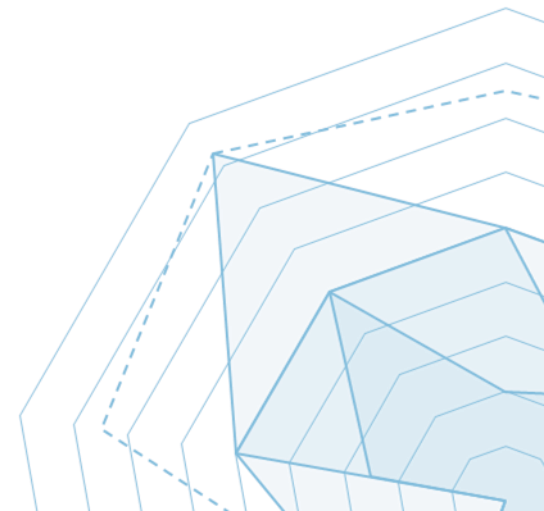
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Highlights



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. . 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.



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 December, 86 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.



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.



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 December 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 December, the headline inflation was measured at 59.2 percent, from 65.0 percent in November (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

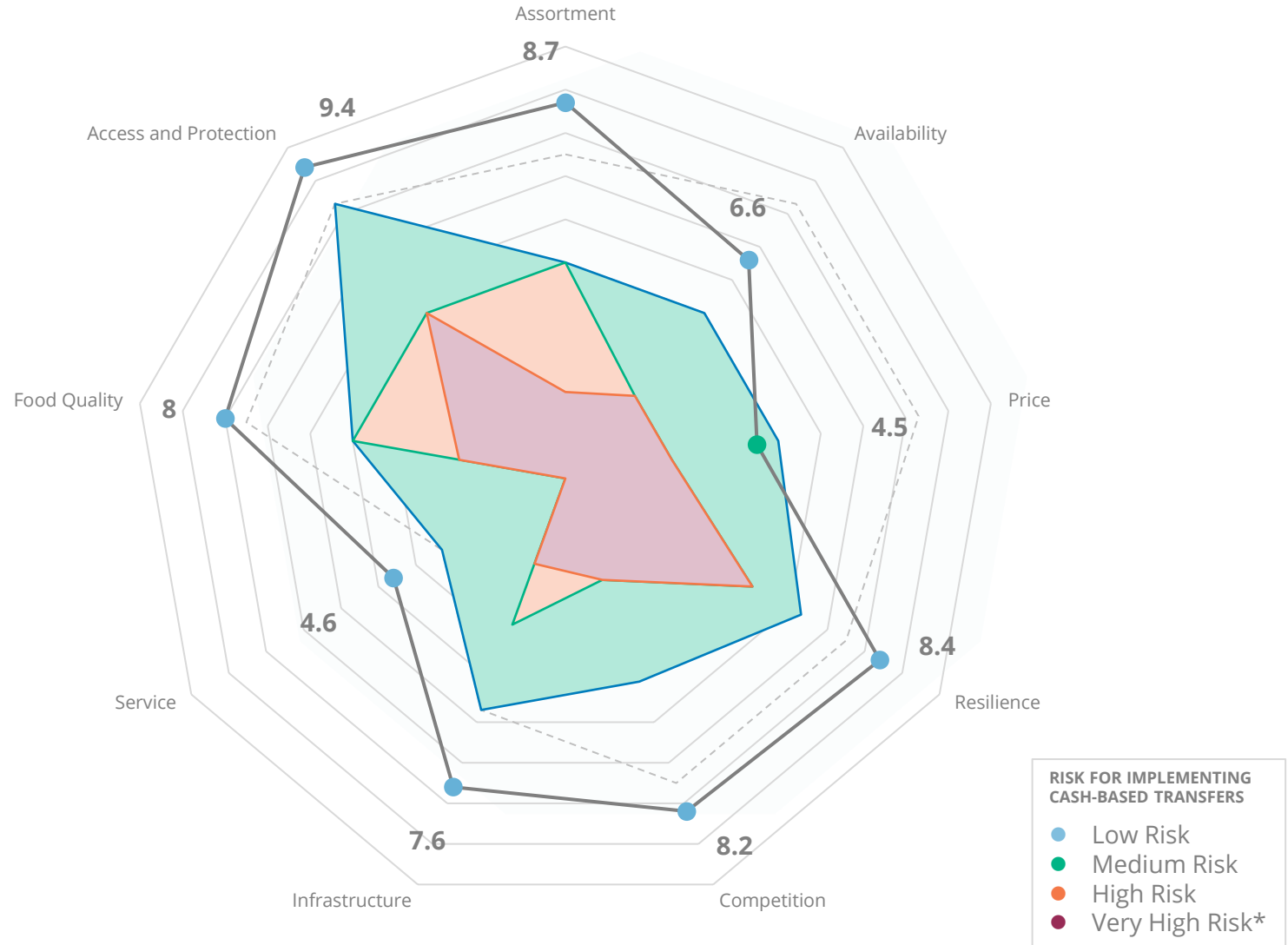
SRI LANKA: KEY FINDINGS



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	6.6
Price	● Medium	4.5
Resilience	● Low	8.4
Competition	● Low	8.2
Infrastructure	● Low	7.6
Service	● Low	4.6
Food Quality	● Low	8
Access and Protection	● Low	9.4



*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



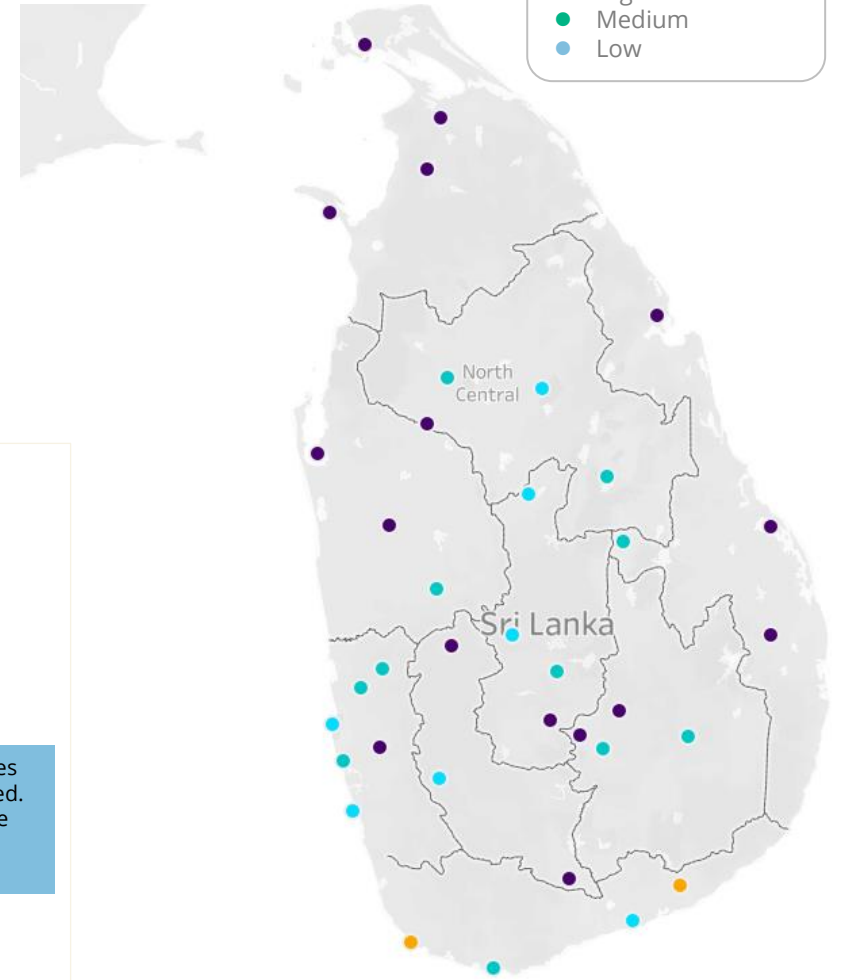
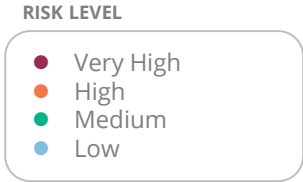
46%

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

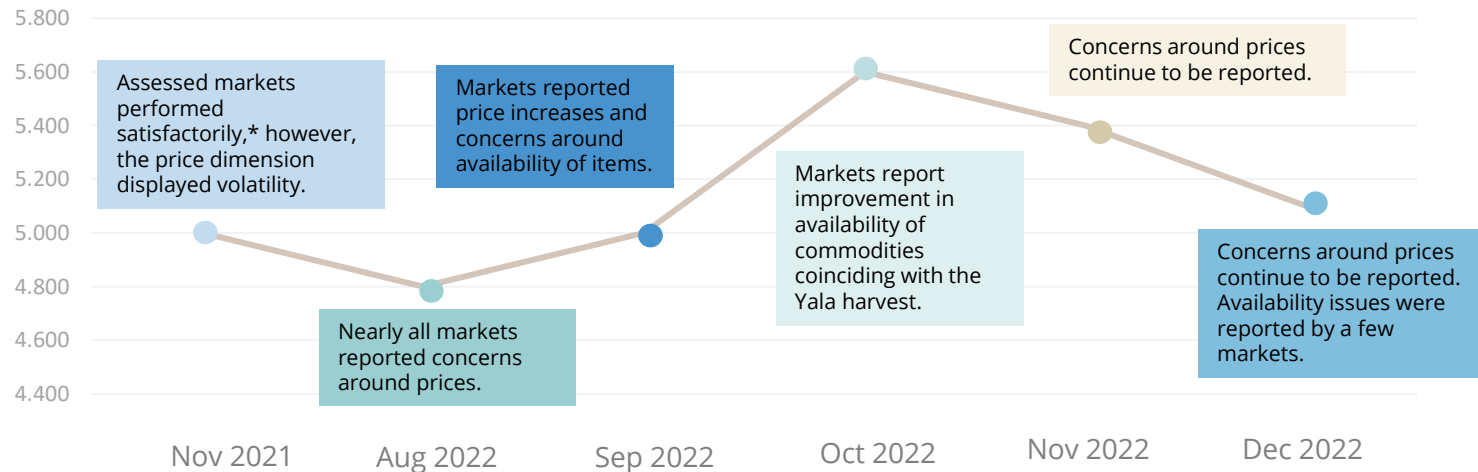
The price dimension continues to report concerns, and in December, availability issues were reported by a few markets. Price volatility seems to have increased, as a result, the overall MFI performance declined. The picture remains complex, with a wide degree of unpredictability reported by markets across variation in the levels of risk for cash-based transfers seen across markets.

Seventeen markets were found to be at *very high* risk levels, while two markers were found to be at a high risk level.

The Annex contains the full list of markets and scores.



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**. The average country score was 8.7, similar to November. This signifies that essential items are easily obtainable.

The highest levels of assortments of goods are found in the Central, Uva, Southern, and North Western provinces. Mannar was the only market where risk levels were high, out of the 37 surveyed markets, with a score of 4.0.

Cereal foods such as bread and rice are the most commonly found items. The most commonly found non-cereals are fish and eggs followed by roots and tubers.

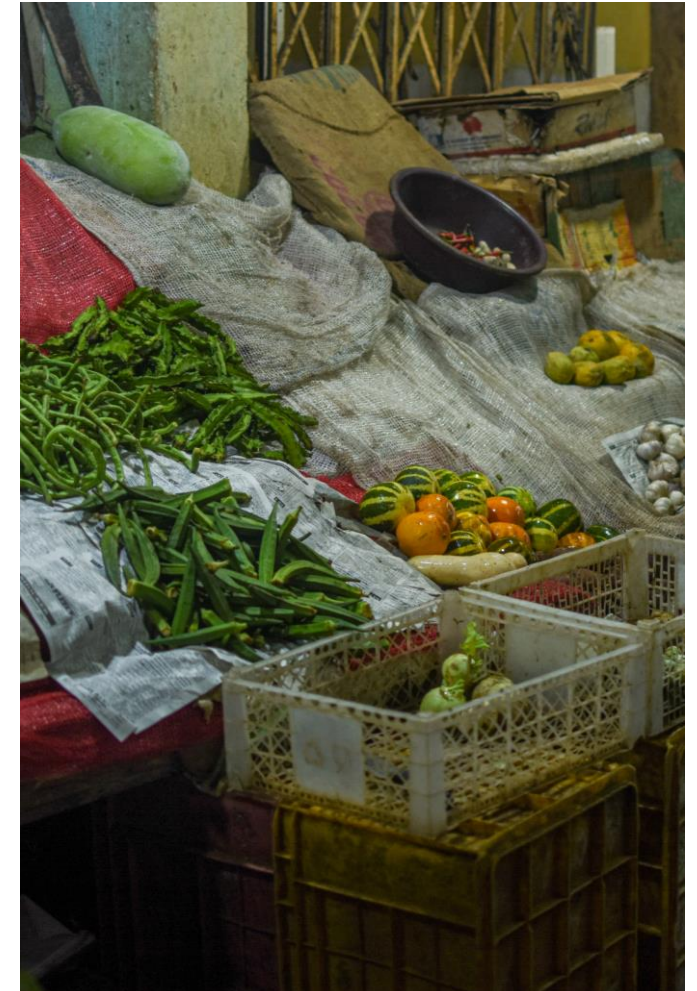
Sixty six percent of traders reported a high product breadth of over 1,000 distinct items – also known as the number of stock-keeping units. Only 5 percent reported having less than 50 stock-keeping units.

RISK-LEVEL: **LOW**



Province-Level Results

Province	Risk-Level*	Score
Central	● Low	9.3
Eastern	● Low	8.5
North Central	● Low	8.0
North Western	● Low	9.0
Northern	● Low	7.8
Sabaragamuwa	● Low	8.3
Southern	● Low	9.0
Uva	● Low	10.0
Western	● Low	8.5
Average	● Low	8.7



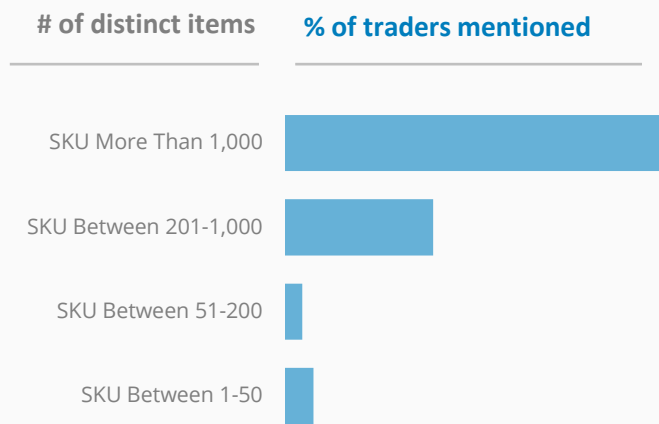
*Risk levels refer to the level of risk on this dimension associated with implementing cash-based transfers.



1. Assortment

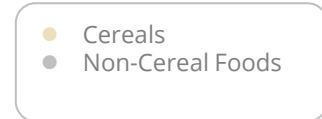
Most markets had a wide range of cereals, non-cereals and non-food items that are easily obtainable at a market level.

Breadth of Products



SKU = Stock-keeping units

Products sold in shops



2. Availability

Key Findings

The market risk level is low on the dimension of availability. While a sufficient quantity of goods in the market, there was a visible deterioration in terms of availability in December (6.6), This is the lowest score for availability since monitoring began in August, and coincides with the lean season.

Northern province had the lowest score value related to the availability of commodities in December, followed by Uva. The highest availability of essential items was reported in Western province.

Three of the 37 surveyed markets had high risk levels, namely, Badulla, Batticaloa, and Thambuttegama. This is a marginal increase from November, when only two markets were categorized high risk.

A large number of traders (60 percent) reported higher levels of scarcity for cereal foods, followed by non-cereal foods, reported by 57 percent of traders. For non-cereal items, fruits and vegetables were reported to be running out.

Highest scarcity of cereal foods were reported by traders in North Western, Northern and Uva provinces.

RISK-LEVEL: **LOW**





Province-Level Results


Province	Risk-Level*	Score
Central	● Low	7.3
Eastern	● Low	5.8
North Central	● Low	6.3
North Western	● Low	5.8
Northern	● Medium	5.0
Sabaragamuwa	● Low	8.1
Southern	● Low	7.3
Uva	● Low	5.0
Western	● Low	8.3
Average	● Low	6.6

Recommendations and Mitigation Measures

The following are mitigation measures related to availability:

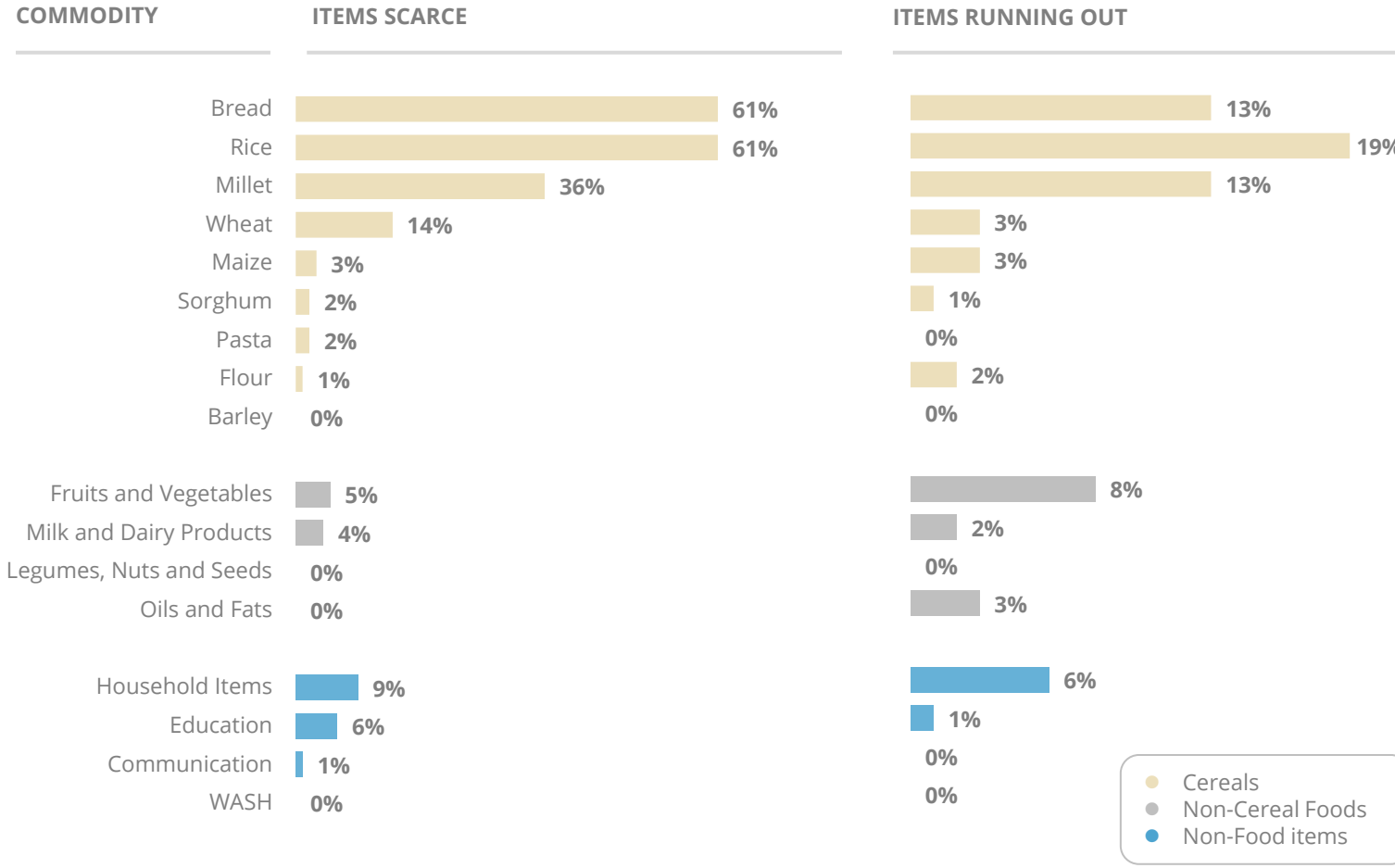
 **Utilize vouchers** to allow contracted traders to rely on secured business flow, thus allowing them to position adequate stocks in advance.

 **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



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





3. Prices

Key Findings

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

Out of the 37 surveyed markets, 15 reported very high risk levels on the dimension of price, and 15 markets reported medium risk levels. This is a significant increase from November, indicating that price volatility very much remains a concern.

The highest price increase was for cereal foods, 66 percent of traders reported price increases for rice. Price instability is reported in all three categories of essential items. Compared to November, a larger number of traders are reporting price increases in Health items.

Following the trend from prior months, 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	5.0
Eastern	● Medium	2.5
North Central	● Low	5.8
North Western	● Medium	3.6
Northern	● Medium	4.8
Sabaragamuwa	● Medium	2.8
Southern	● Low	7.3
Uva	● Very High	2.3
Western	● Low	5.1
Average	● Medium	4.5

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.



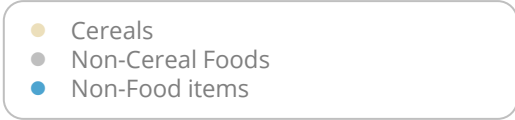
Adjust transfer values in line with close monitoring of prices and expenditure, as needed and where appropriate.



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.*

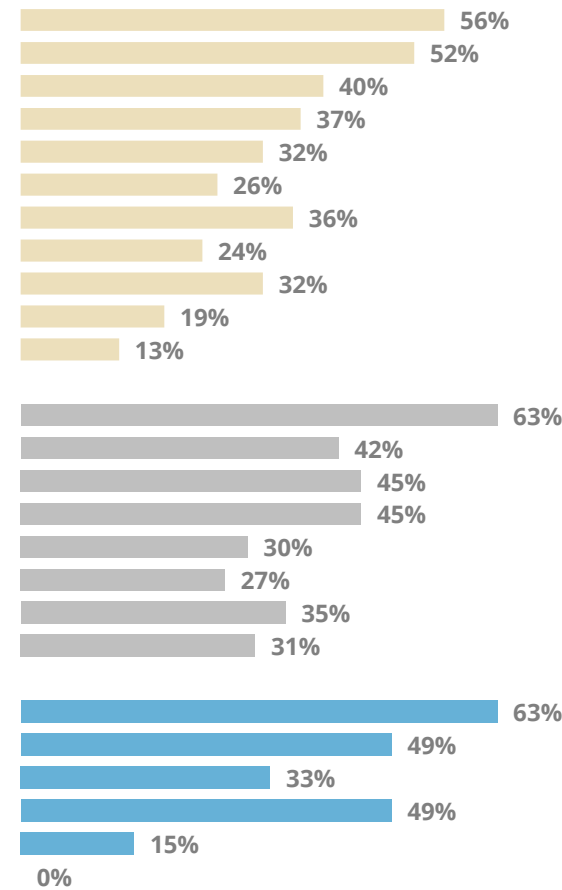
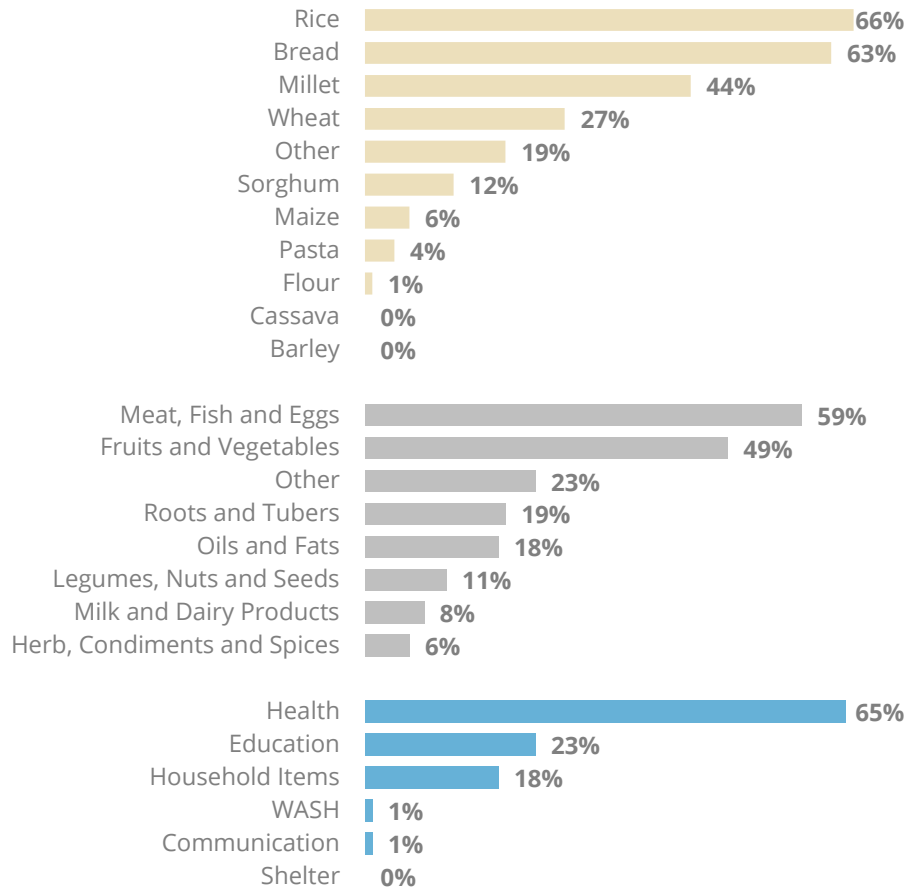
3. Prices



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**. Out of the 37 markets, only two markets, namely, Trincomalee 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	7.0
North Central	● Low	9.5
North Western	● Low	7.1
Northern	● Low	7.5
Sabaragamuwa	● Low	9.2
Southern	● Low	8.3
Uva	● Low	8.4
Western	● Low	8.5
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

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, Vavuniya, reported a very high risk level, with a score of 0.0. Similar to November, five markets were facing medium risk levels for competition in December.

The overall country score for competition was 8.2.

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	6.3
North Central	● Low	9.4
North Western	● Low	9.7
Northern	● Low	7.5
Sabaragamuwa	● Low	8.9
Southern	● Low	8.8
Uva	● Low	7.5
Western	● Low	8.6
Average	● Low	8.2



**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

Sri Lanka’s risk-levels on the dimensions of infrastructure, services, food quality, and access and protection are **low**, apart from very slight fluctuations noticed in the previous months.

Infrastructure was considered low or medium risk in most markets. Only one market, Tissamaharama reported a high risk level and four markets reported medium risk levels, a decrease from November. 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. In December, 14 markets were considered medium risk, an increase of three from November.

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. Only two markets were at medium risk levels, a reduction from November. 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	● 8.0	● 5.0	● 8.1	● 10.0
Eastern	● 8.9	● 5.4	● 8.4	● 9.2
North Central	● 8.1	● 3.3	● 7.9	● 10.0
North Western	● 7.1	● 3.9	● 7.5	● 8.6
Northern	● 7.7	● 3.3	● 8.1	● 10.0
Sabaragamuwa	● 8.6	● 5.6	● 7.9	● 9.4
Southern	● 5.5	● 4.6	● 8.1	● 10.0
Uva	● 7.9	● 5.8	● 8.1	● 10.0
Western	● 8.3	● 4.7	● 8.8	● 9.7
Average	● 7.6	● 4.6	● 8.0	● 9.4

Recommendations and Mitigation Measures

The following are mitigation measures related to food quality*



Contract traders that operate with adequate food safety standards.



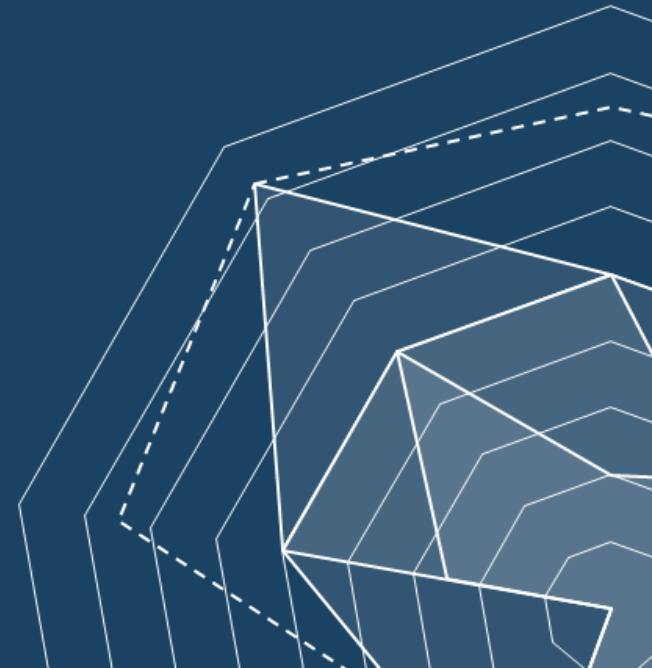
Mobilise third parties / local authorities to build retailer capacity and improve compliance with local food safety regulations.



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	Medium Risk	6.0	10.0	8.3	4.2	10.0	10.0	8.6	3.3	8.8	10.0
	Kandy	Low Risk	6.1	7.0	10.0	10.0	10.0	9.2	6.4	3.3	8.8	10.0
	Economic Centre-Dambulla	Low Risk	7.4	10.0	5.8	5.8	10.0	10.0	10.0	8.3	7.5	10.0
	Nuwara Eliya	Very High Risk	3.8	10.0	5.0	0.0	10.0	10.0	7.1	5.0	7.5	10.0
Eastern	Dehiattakandiya	Medium Risk	5.0	10.0	10.0	3.3	8.8	7.5	10.0	1.7	8.8	10.0
	Ampara	Very High Risk	4.5	10.0	5.8	0.8	10.0	5.0	10.0	8.3	8.8	10.0
	Batticaloa	Very High Risk	4.3	6.0	1.7	5.0	3.8	6.7	10.0	6.7	7.5	10.0
	Trincomalee	Very High Risk	3.5	8.0	5.8	0.8	5.4	5.8	5.7	5.0	8.8	6.7
North Central	Galenbindunuwewa	Low Risk	5.7	8.0	7.5	7.5	10.0	7.5	6.4	3.3	8.8	10.0
	Anuradhapura	Medium Risk	4.7	7.0	5.8	2.5	10.0	10.0	10.0	1.7	8.8	10.0
	Polonnaruwa	Medium Risk	6.0	10.0	10.0	3.3	10.0	10.0	7.9	3.3	8.8	10.0
	Thambuttegama	Very High Risk	4.7	7.0	1.7	10.0	7.9	10.0	7.9	5.0	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	4.1	10.0	5.8	1.7	3.8	9.2	5.0	3.3	6.3	9.2
	Puttalm	Very High Risk	4.4	7.0	5.8	0.8	10.0	10.0	10.0	6.7	8.8	9.2
Northern*	Mannar	Very High Risk	3.9	4.0	5.8	0.8	7.5	10.0	8.6	3.3	7.5	10.0
	Kilinochchi	Very High Risk	3.6	10.0	3.3	0.8	7.5	10.0	4.3	1.7	6.3	10.0
	Mulaitivu	Very High Risk		7.0	5.8	2.5	9.2			5.0		
	Jaffna	Very High Risk	4.8	9.0	4.2	10.0	3.8	10.0	9.3	1.7	8.8	10.0
	Vavuniya	Very High Risk	4.0	9.0	5.8	10.0	9.6	0.0	8.6	5.0	10.0	10.0
Sabaragamuwa	Embilipitiya	Very High Risk	4.9	9.0	10.0	1.7	7.5	10.0	8.6	6.7	6.3	10.0
	Rathnapura	Low Risk	6.6	6.0	8.3	5.8	10.0	8.3	8.6	5.0	8.8	8.3
	Kegalle	Very High Risk	4.4	10.0	5.8	0.8	10.0	8.3	8.6	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.

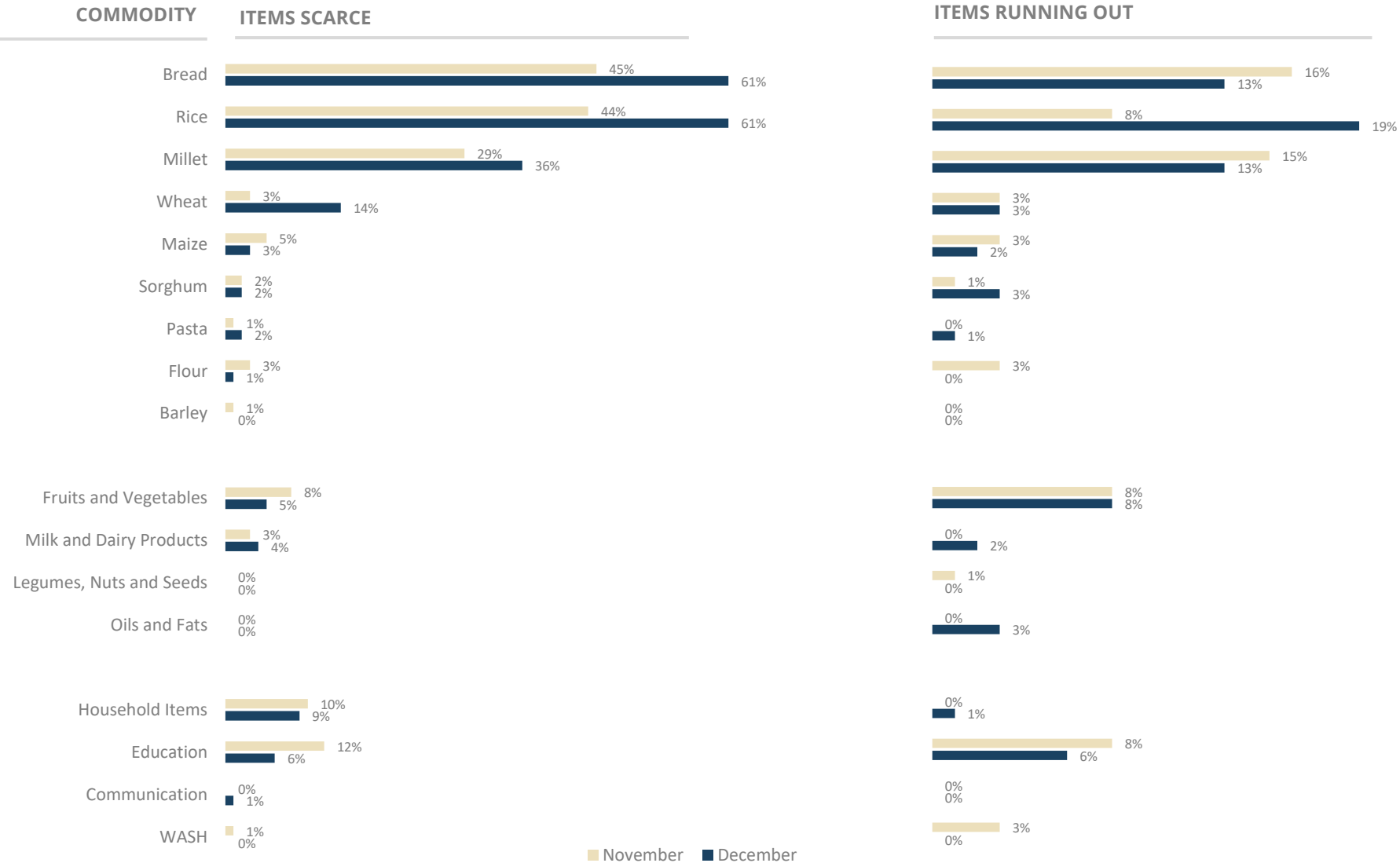
Summary Table (p.2)

Province	Market	Risk-Level	MFI	Assortment	Availability	Price	Resilience	Competition	Infrastructure	Service	Quality	Access & Protection
Southern	Hambantota	Low Risk	5.7	9.0	5.8	8.3	7.9	10.0	7.1	3.3	7.5	10.0
	Galle	High Risk	5.9	10.0	5.8	7.5	10.0	10.0	3.6	5.0	8.8	10.0
	Matara	Medium Risk	5.6	7.0	7.5	3.3	7.9	10.0	8.6	5.0	7.5	10.0
	Tissamaharama	High Risk	5.5	10.0	10.0	10.0	7.5	5.0	2.9	5.0	8.8	10.0
Uva	Badulla	Very High Risk	4.3	10.0	1.7	0.8	8.8	10.0	7.9	8.3	8.8	10.0
	Monaragala	Medium Risk	6.1	10.0	5.0	5.0	6.3	5.0	6.4	5.0	8.8	10.0
	Bandarawela	Medium Risk	5.1	10.0	7.5	2.5	10.0	5.0	7.1	5.0	7.5	10.0
	Keppetipola (DEC)	Very High Risk	4.4	10.0	5.8	0.8	8.8	10.0	10.0	5.0	7.5	10.0
Western	Meegoda(DEC)	Very High Risk	4.5	7.0	10.0	0.8	7.5	10.0	10.0	5.0	8.8	10.0
	Veyangoda(DEC)	Medium Risk	5.8	9.0	8.3	4.2	7.9	4.2	6.4	5.0	7.5	10.0
	4th Cross Street	Low Risk	6.1	9.0	7.5	7.5	7.9	10.0	10.0	3.3	10.0	10.0
	Piliyandala	Medium Risk	5.1	7.0	10.0	10.0	8.3	10.0	7.9	1.7	8.8	9.2
	Gampaha	Medium Risk	5.4	9.0	4.2	3.3	9.6	8.3	6.4	5.0	8.8	9.2
	Kalutara	Low Risk	7.2	10.0	10.0	5.0	10.0	9.2	9.3	8.3	8.8	10.0
Average				8.6	6.7	4.5	8.4	8.4	7.8	4.5	8.2	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.

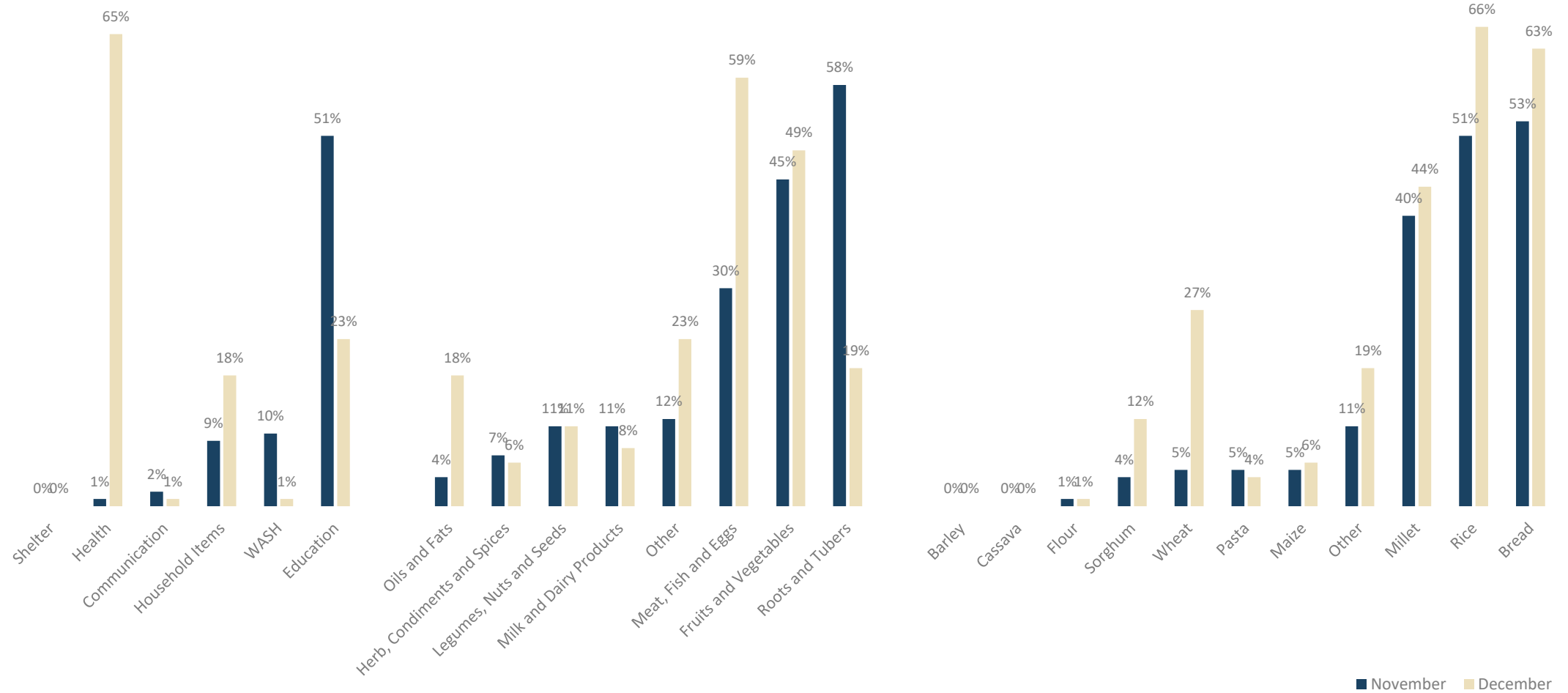
Availability



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

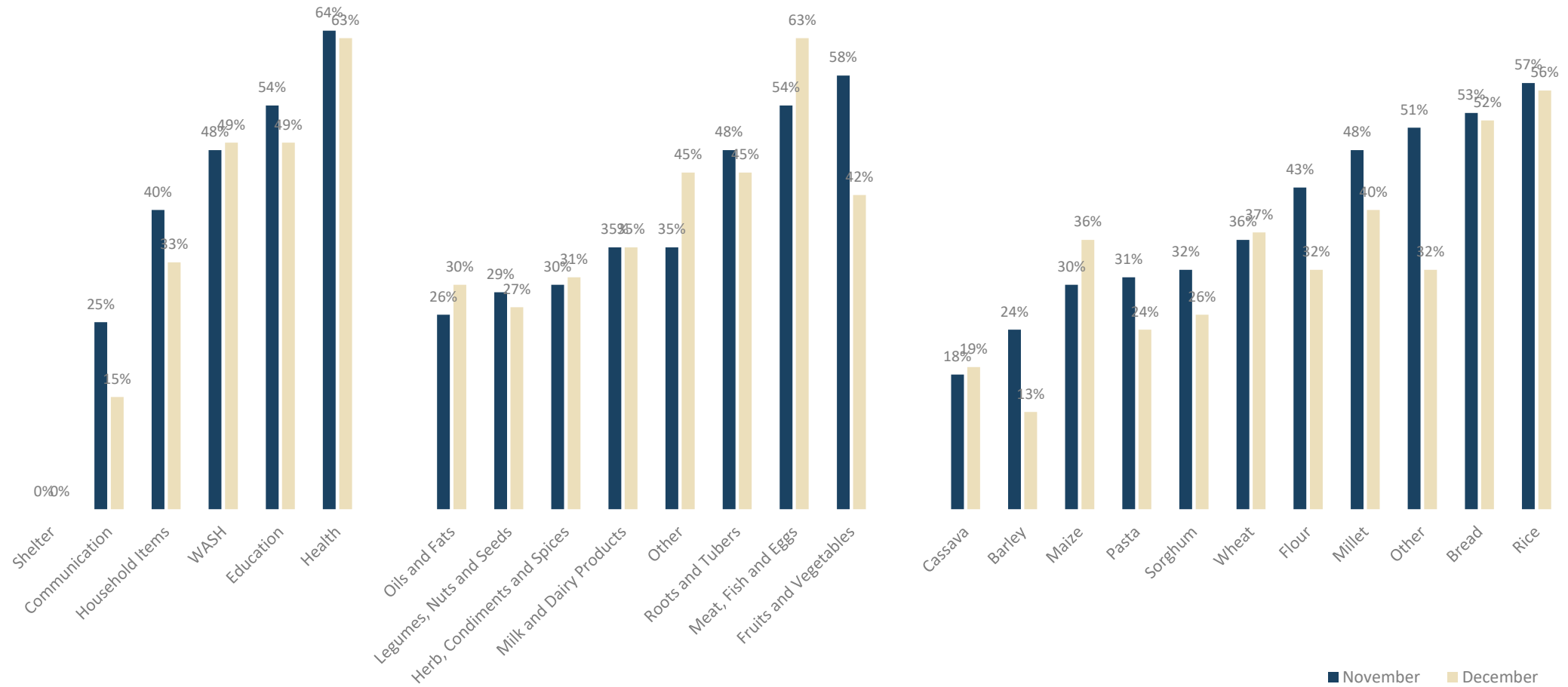
Price

Percentage of traders that reported commodity price increases

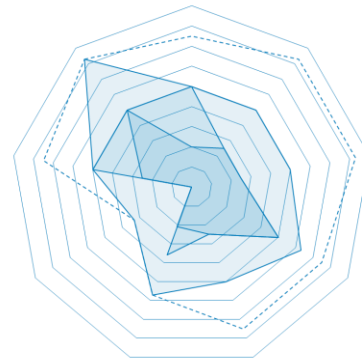


Price Stability

Percentage of traders that reported instability of commodity prices



■ November ■ December



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

Acknowledgments:

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

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