



World Food Programme

SAVING LIVES
CHANGING LIVES

JUNE 2023

Market Functionality Index

Assessing the functionality of selected markets for cash-based assistance



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(HARTI) and WFP, in alignment with the [MFI methodology](#).

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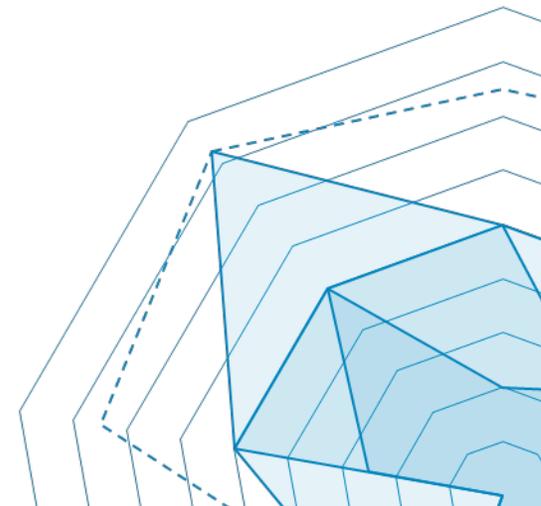
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Highlights



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.



Spikes and instability in prices pose threats to market functionality in Sri Lanka. In March 2023, 17 percent of households were moderately acute food insecure, according to the WFP-FAO Joint Crop and Food Security Assessment Mission. 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:

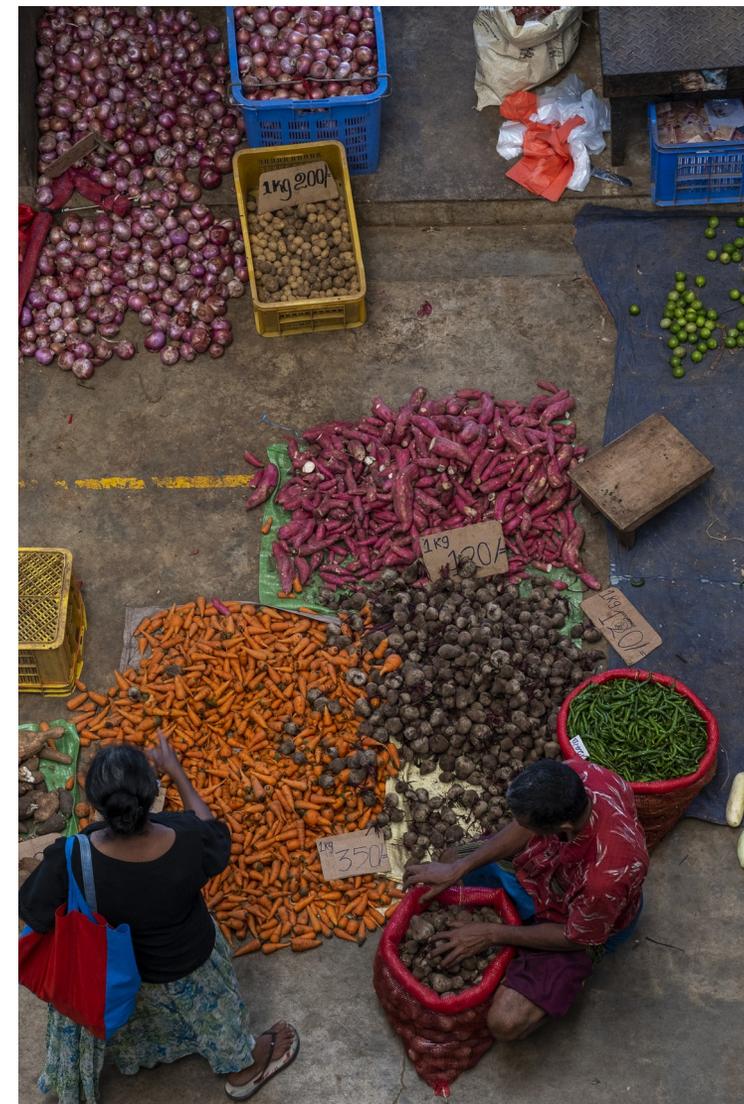
- The features influencing the behaviours of buyers and sellers are stable and predictable
- The interactions between sellers and between sellers and buyers are transparent, and
- Supplies are sufficient, regular and predictable at affordable, stable and predictable prices

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



Context

The economic crisis in Sri Lanka posed a significant 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 June 2023, headline inflation was measured at 10.8 percent, from 22.1 percent in May (based on the latest year-on-year National Consumer Price Index). This is likely to result in improved access to food for the households.

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 Survey](#)



[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

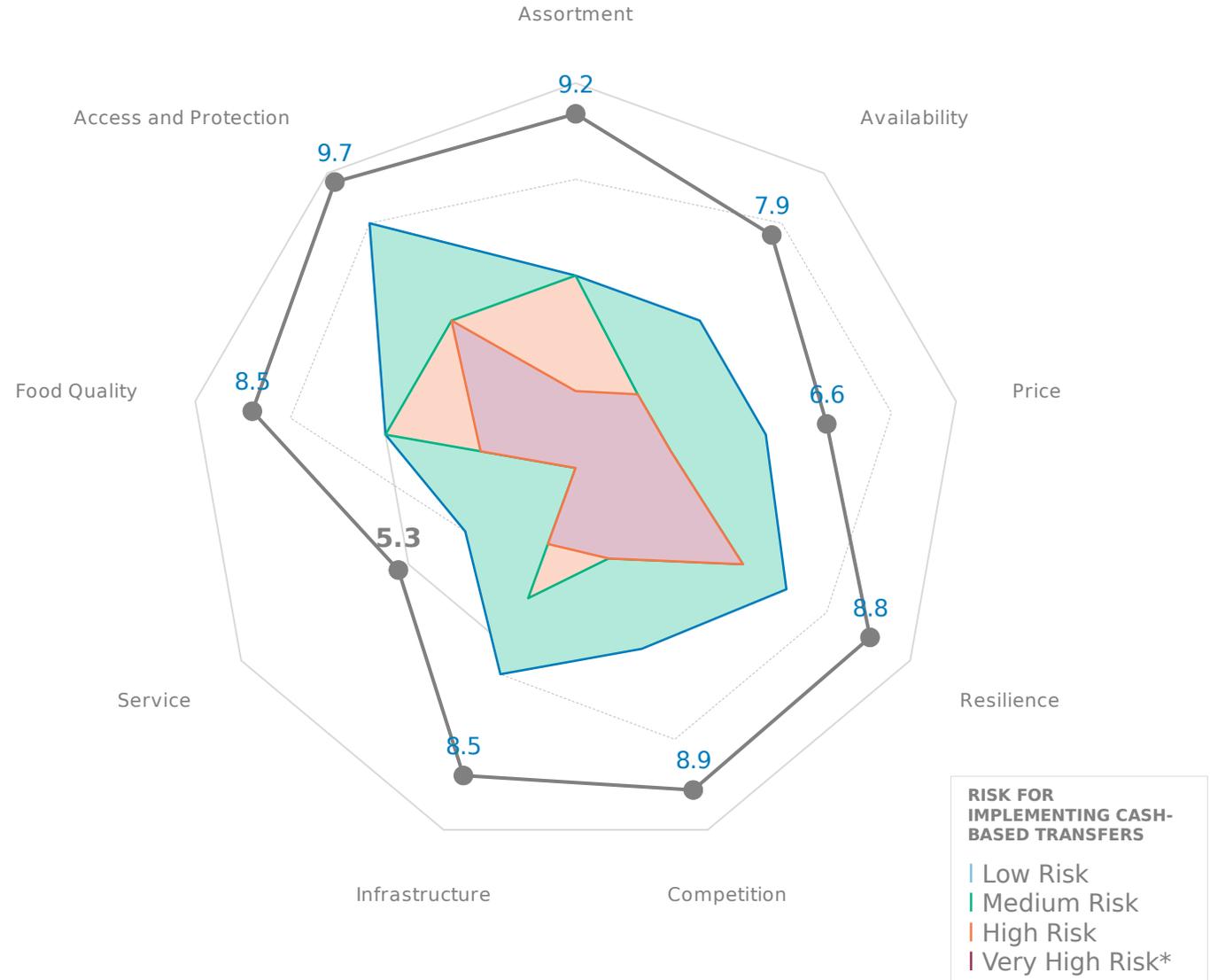
SRI LANKA: KEY FINDINGS



Overview

The Market Functionality Index is determined by where each of these dimensions falls in relation to certain risk thresholds. For Sri Lanka, no dimension falls beneath the low threshold for risk associated with implementing cash-based transfers.

Dimension	Risk-Level*	Score
Assortment	Low	9.2
Availability	Low	7.9
Price	Low	6.6
Resilience	Low	8.8
Competition	Low	8.9
Infrastructure	Low	8.5
Service	Low	5.3
Food Quality	Low	8.5
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



8%

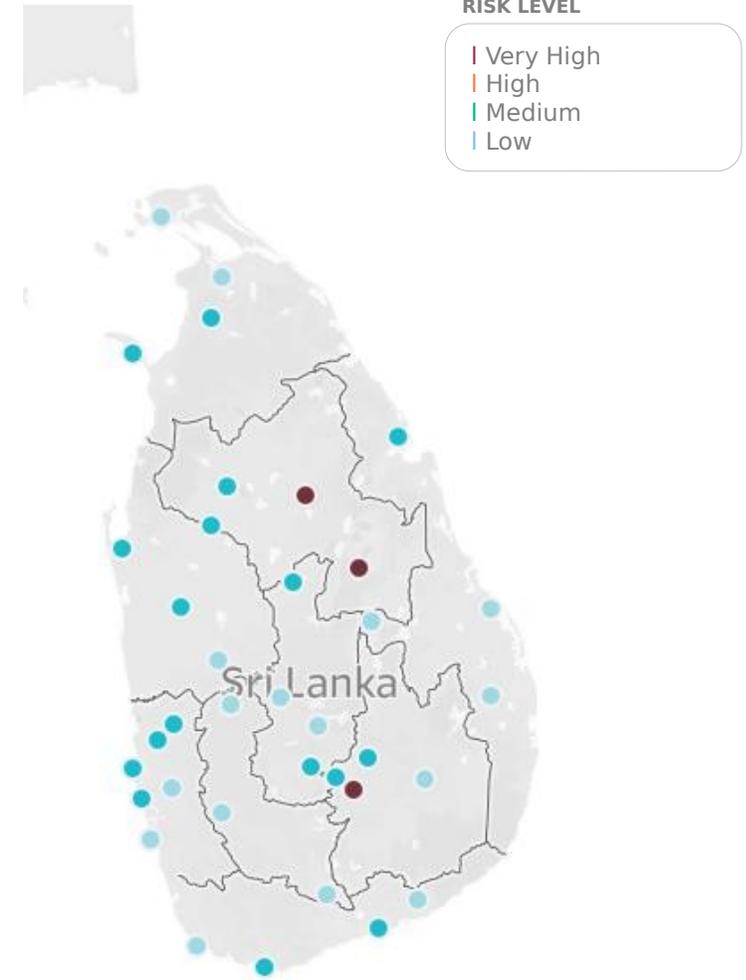
of 37 surveyed markets had a **very high** risk level associated with implementing cash-based transfers

The price dimension saw a sufficient improvement in May 2023, compared to 2022 and the trend has continued in June 2023. Issues of availability in a few surveyed markets continue, but overall, there seems to be satisfactory stocks of commodities.

For some markets, the overall picture remains unpredictable, with a wide degree of variability observed across multiple dimensions posing some risk for cash-based transfers in the areas where these markets are located.

Three out of the 37 surveyed markets were found to be at very high risk levels, namely, Trincomalee, Anuradhapura and Monaragala.

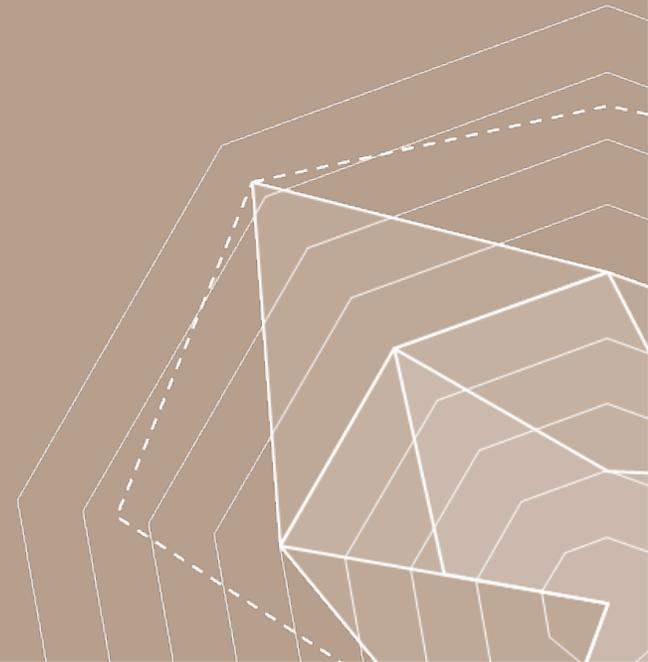
The Annex contains the full list of markets and scores.



**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

The average country score for the dimension of assortment was 9.2, which signifies **low** risk-levels and that essential items are easily obtainable.

All of the 37 surveyed markets reported low risk levels for assortment, with 21 markets scoring 10.0.

The most commonly found cereal foods were rice, wheat and cassava. The most commonly found non-cereals were fish and eggs followed by roots and tubers.

The percentage of traders that reported a high product breadth (also known as the number of stock-keeping units) of over 1,000 distinct items was 78 percent. Similar to May, none reported having less than 50 stock-keeping units.

Assortment of commodities has remained consistent with this round, as with all previous rounds.

RISK-LEVEL:
LOW



Province-Level Results

Province	Risk-Level*	Score
Central	Low	9.6
Eastern	Low	8.8
North Central	Low	9.5
North Western	Low	9.0
Northern	Low	9.0
Sabaragamuwa	Low	9.0
Southern	Low	9.5
Uva	Low	10.0
Western	Low	9.0
Average	Low	9.2



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



1. Assortment

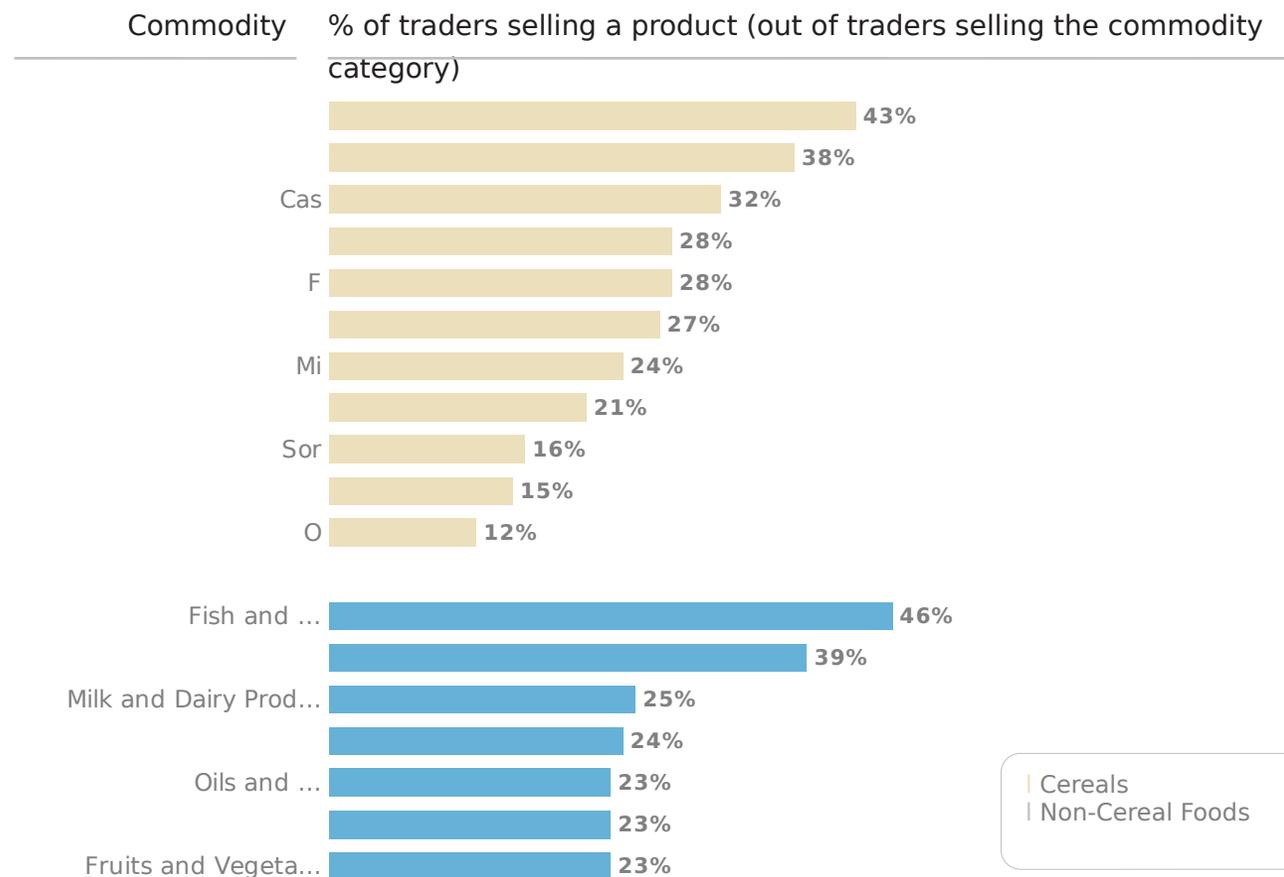
Most markets had a wide range of cereals, non-cereals and non-food items that are easily obtainable at a market level.

Breadth of Products



SKU = Stock-keeping units

Products sold in shops



| Cereals
| Non-Cereal Foods

2. Availability

Key Findings

The market risk level is **low** on the dimension of availability. In 2022, several markets reported availability issues, however, in 2023, there seems to be sufficient restoration of stocks in the markets. In June, the overall country score was 7.9, similar to May.

Monagarala, Trincomalee and Anuradhapura markets reported very high risk levels for availability, scoring 1.7, 0.0 and 1.7 respectively. Two markets, namely, Galenbindunuwewa and Gampaha, reported medium risk levels on the dimension of availability.

Nearly half of the surveyed traders reported a high scarcity of rice and wheat among cereal foods. Among non-cereal foods, fruits and vegetables were reported by 9 percent of traders as being scarce and quickly running out.

The highest scarcity of cereal foods and non-cereal foods was reported by traders in North Central, North Western, and Uva provinces, similar to last month.

RISK-LEVEL:
LOW



Province-Level Results

Province	Risk-Level*	Score
Central	Low	8.7
Eastern	Low	6.5
North Central	Low	5.4
North Western	Low	8.6
Northern	Low	9.7
Sabaragamuwa	Low	9.2
Southern	Low	8.8
Uva	Low	10.0
Western	Low	8.5
Average	Low	7.9

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.



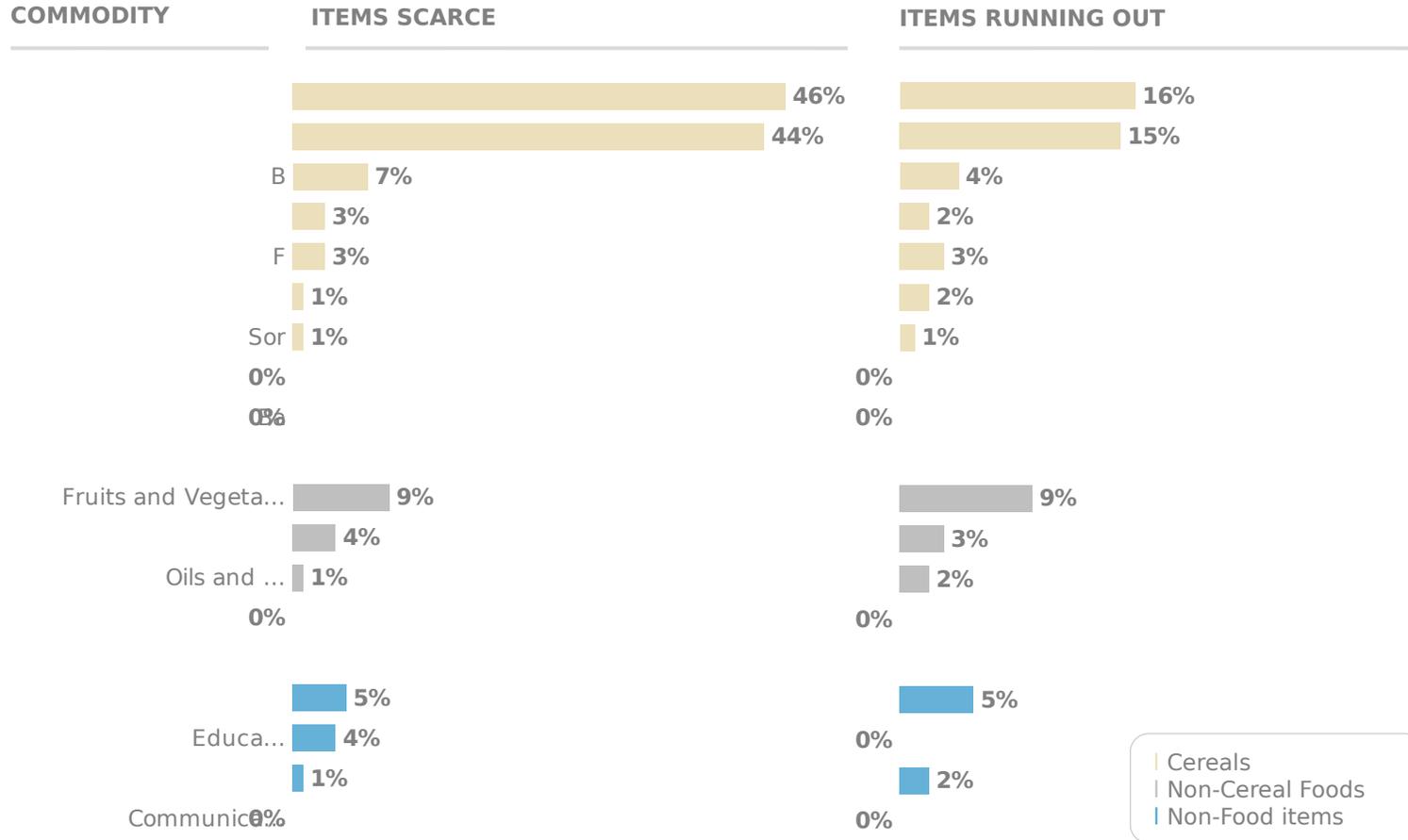
Set up Preferred Supplier Agreement (PSA) or Optimize Fresh Food Supply Chain (OFFSC)



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 June, rice, wheat and fruits and vegetables were significantly scarce. Among non-food items, household items were reported to be the most scarce.



3. Prices

Key Findings

Sri Lanka’s risk-level on the price dimension is **low**.

Out of the 37 surveyed markets, 16 markets reported medium risk levels, while no market reported high risk levels. While price volatility remains a concern, there is a noticeable improvement in this dimension in May and June 2022.

The percentage of traders who reported they are noticing price increases in non-cereal foods was 61 percent, with increases particularly in: fruits and vegetables, and meat, fish and eggs.

Price instability was reported by traders for all three categories in June 2023. The highest price instability was reported for meat, fish and eggs by over 50 percent of traders.

Compared to May, in June, 10 percent of traders reported price increases in health items. Amongst non-food items, household items were reported to have to highest instability.

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?

RISK-LEVEL: **LOW**



Province-Level Results

Province	Risk-Level*	Score
Central	Low	6.5
Eastern	Low	6.3
North Central	Medium	5.0
North Western	Low	5.8
Northern	Low	7.0
Sabaragamuwa	Low	5.8
Southern	Low	8.5
Uva	Medium	4.2
Western	Low	8.2
Average	Low	6.6

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.

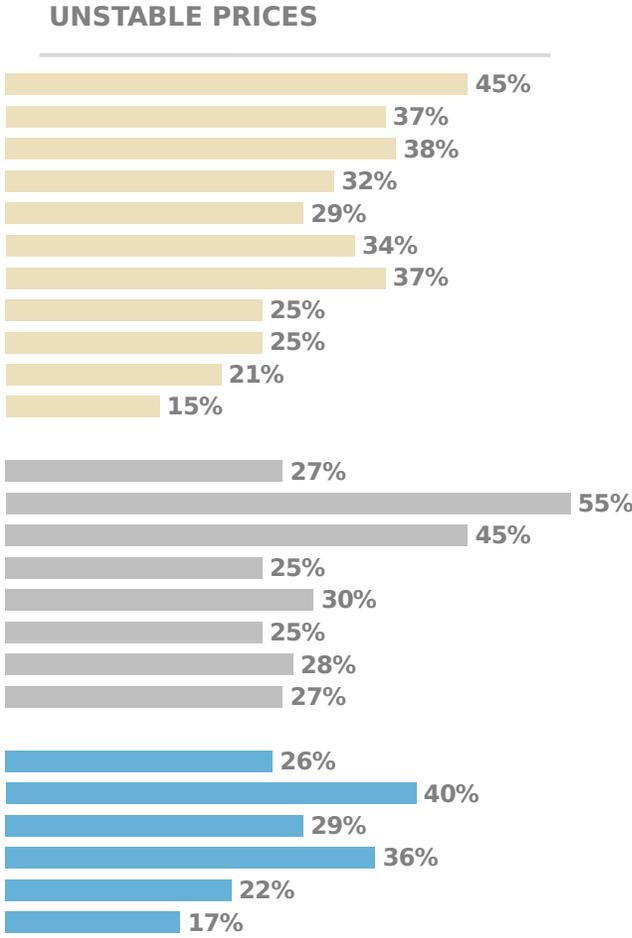
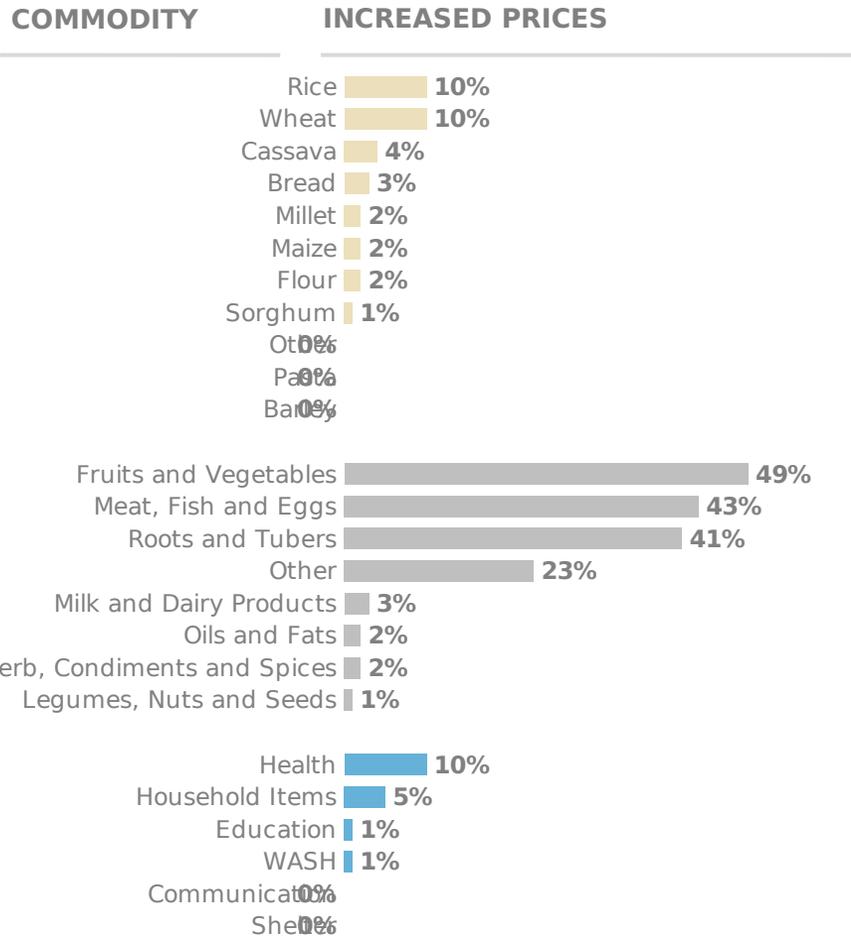


Adopt vouchers with capped prices agreed with traders.

**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



4. Supply Chain Resilience

Key Findings

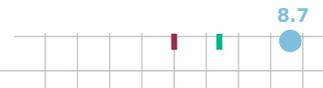
Sri Lanka’s risk-level on the dimension of supply chain resilience is **low**. None of the surveyed markets reported a high or very high risk levels.

The overall country score for supply chain resilience for the month of June stood at 8.7.

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	8.1
North Central	Low	9.4
North Western	Low	7.8
Northern	Low	8.5
Sabaragamuwa	Low	9.2
Southern	Low	8.2
Uva	Low	9.2
Western	Low	8.7
Average	Low	8.7



*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.

The level of risk for competition was low in almost all the surveyed markets. Three markets reported medium risk levels for competition in June, namely Vavuniya, Monaragala and Veyangoda.

The overall country score for competition was 8.9.

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	9.8
Eastern	Low	7.7
North Central	Low	9.6
North Western	Low	8.9
Northern	Low	8.3
Sabaragamuwa	Low	9.4
Southern	Low	10.0
Uva	Low	8.3
Western	Low	8.1
Average	Low	8.9

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

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

Key Findings

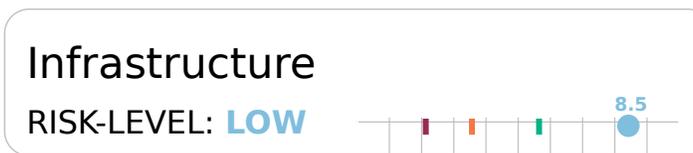
Sri Lanka’s risk-levels on the dimensions of infrastructure, services, food quality, and access and protection are **low**, apart from very slight fluctuations noticed in the previous months.

Infrastructure was considered low or medium risk in most markets. Four markets reported medium risk levels, while no market reported high risk levels. 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. Like in May, eight 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 is maintained.

Access and protection was considered low risk for most markets. Four markets were at medium risk levels. 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	9.4	6.7	8.8	10.0
Eastern	10.0	5.8	8.4	9.6
North Central	9.6	3.7	8.4	10.0
North Western	8.8	3.9	8.8	8.9
Northern	8.0	5.3	7.8	10.0
Sabaragamuwa	● 8.3	6.1	8.8	9.4
Southern	6.2	4.6	8.8	10.0
Uva	8.1	5.0	8.8	10.0
Western	8.5	5.6	8.3	9.3
Average	 8.5	 5.3	 8.5	 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	Low Risk	10.0	10.0	5.8	10.0	10.0	7.9	5.0	8.8	10.0	10.0
	Kandy	Low Risk	9.0	10.0	10.0	10.0	9.2	10.0	5.0	8.8	10.0	9.0
	Matale	Medium Risk	10.0	7.5	4.2	10.0	10.0	9.3	8.3	8.8	10.0	10.0
	Economic Centre-Dambulla	Medium Risk	10.0	10.0	4.2	10.0	10.0	10.0	10.0	8.8	10.0	10.0
	Nuwara Eliya	Low Risk	9.0	5.8	8.3	10.0	10.0	10.0	5.0	8.8	10.0	9.0
Eastern	Dehiattakandiya	Low Risk	10.0	10.0	5.0	8.8	5.8	10.0	3.3	8.8	10.0	10.0
	Ampara	Low Risk	10.0	5.8	10.0	10.0	10.0	10.0	8.3	8.8	10.0	10.0
	Batticaloa	Medium Risk	6.0	10.0	5.0	6.3	7.5	10.0	6.7	6.3	10.0	6.0
	Trincomalee	Very High Risk	9.0	0.0	5.0	7.5	7.5	10.0	5.0	10.0	8.3	9.0
North Central	Galenbindunuwewa	Medium Risk	10.0	4.2	3.3	10.0	8.3	10.0	5.0	8.8	10.0	10.0
	Anuradhapura	Very High Risk	10.0	1.7	3.3	10.0	10.0	10.0	1.7	8.8	10.0	10.0
	Polonnaruwa	Medium Risk	8.0	10.0	3.3	10.0	10.0	10.0	5.0	8.8	10.0	8.0
	Thambuttegama	Low Risk	10.0	5.8	10.0	7.5	10.0	8.6	3.3	7.5	10.0	10.0
North Western	Kurunegala	Medium Risk	10.0	7.5	10.0	7.5	10.0	6.4	1.7	8.8	7.5	10.0
	Nikaweratiya	Medium Risk	10.0	8.3	4.2	5.8	6.7	9.3	3.3	10.0	9.2	10.0
	Puttalam	Medium Risk	7.0	10.0	3.3	10.0	10.0	10.0	6.7	7.5	10.0	7.0
Northern*	Mannar	Low Risk	8.0	10.0	5.0	7.5	10.0	8.6	6.7	10.0	6.9	8.0
	Kilinochchi	Medium Risk	10.0	10.0	5.0	7.5	10.0	4.3	1.7	5.0	10.0	10.0
	Mulaitivu	Low Risk	8.0	8.3	5.0	10.0	6.7	8.6	6.7	6.3	10.0	8.0
	Jaffna	Low Risk	10.0	10.0	10.0	7.5	10.0	10.0	6.7	10.0	10.0	10.0
	Vavuniya	Low Risk	9.0	10.0	10.0	10.0	5.0	8.6	5.0	8.8	10.0	9.0
Sabaragamuwa	Embilipitiya	Low Risk	9.0	10.0	5.8	7.5	10.0	9.3	6.7	8.8	10.0	9.0
	Rathnapura	Low Risk	8.0	10.0	8.3	10.0	8.3	8.6	5.0	8.8	8.3	8.0
	Kegalle	Medium Risk	10.0	7.5	3.3	10.0	10.0	7.1	6.7	8.8	10.0	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	6.0	10.0	7.5	8.3	7.9	10.0	7.1	3.3	8.8	10.0
	Galle	Medium Risk	6.6	10.0	7.5	10.0	10.0	10.0	4.3	5.0	8.8	10.0
	Matara	Low Risk	6.9	8.0	10.0	5.8	7.5	10.0	9.3	5.0	8.8	10.0
	Tissamaharama	Medium Risk	6.6	10.0	10.0	10.0	7.5	10.0	4.3	5.0	8.8	10.0
Uva	Badulla	Low Risk	6.7	10.0	5.8	5.8	8.8	10.0	7.9	5.0	8.8	10.0
	Monaragala	Very High Risk	4.4	10.0	1.7	3.3	10.0	5.0	6.4	5.0	8.8	10.0
	Keppetipola (DEC)	Medium Risk	6.0	10.0	7.5	3.3	8.8	10.0	10.0	5.0	8.8	10.0
Western	Meegoda(DEC)	Low Risk	7.2	8.0	10.0	8.3	10.0	10.0	10.0	5.0	8.8	10.0
	Veyangoda(DEC)	Medium Risk	5.9	8.0	7.5	5.8	8.8	4.2	5.7	6.7	7.5	10.0
	4th Cross Street	Medium Risk	6.0	9.0	10.0	10.0	6.3	10.0	9.3	3.3	6.3	10.0
	Peliyagoda	Medium Risk	6.7	9.0	10.0	8.3	7.5	7.5	7.1	5.0	10.0	6.7
	Gampaha	Medium Risk	5.8	10.0	3.3	8.3	9.6	6.7	8.6	5.0	8.8	9.2
	Kalutara	Low Risk	9.0	10.0	10.0	8.3	10.0	10.0	8.6	8.3	8.8	10.0
Average			9.2	7.9	6.6	8.8	8.9	8.5	5.3	8.5	9.7	

| Very High Risk

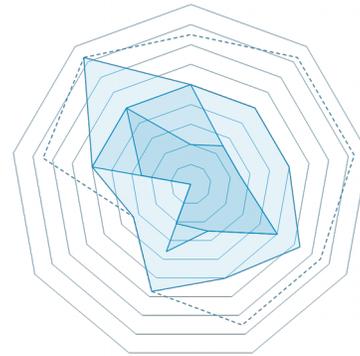
| High Risk

| 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.



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

Acknowledgments:

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

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