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POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

BUILDING RESILIENT AGRICULTURAL VALUE CHAINS IN THE COVID-19 ERA

Disruptions from COVID-19

The agriculture sector makes a significant contribution to social and economic development in Sri Lanka, particularly in the areas of food and nutrition security as well as employment. The COVID-19 pandemic has deepened existing vulnerabilities in agriculture, food and nutrition security. Movement restrictions, especially during the first wave in March 2020, brought economic activities to a standstill, hitting household incomes. In addition, agricultural supply chains too were crippled in the early days of the lockdown.

The disruption of supplies created a backsliding effect, spreading towards the producers at the end of value chains which resulted in a shortage of agriculture inputs, income losses for farmers and low farm gate prices. Consumer ability to buy food was affected by a collapse of food distribution due to restricted transport and storage facilities and the closure of major wholesale and retail markets. In addition, the containment measures eroded people's access to food – particularly in poor and marginalised households – and led to price spikes[1].

The government took several early initiatives to help food producers, distributors and consumers during the first lockdown imposed in March 2020. Although these efforts were welcomed, they became insufficient with the second and third waves of COVID-19. The trends indicate that pandemic shocks may have medium to long-term impacts on food systems with far-reaching consequences. Hence, the challenge is to find policy solutions to mitigate the impact of COVID-19 in the short and medium-term and strengthen the resilience of the food systems in the future.

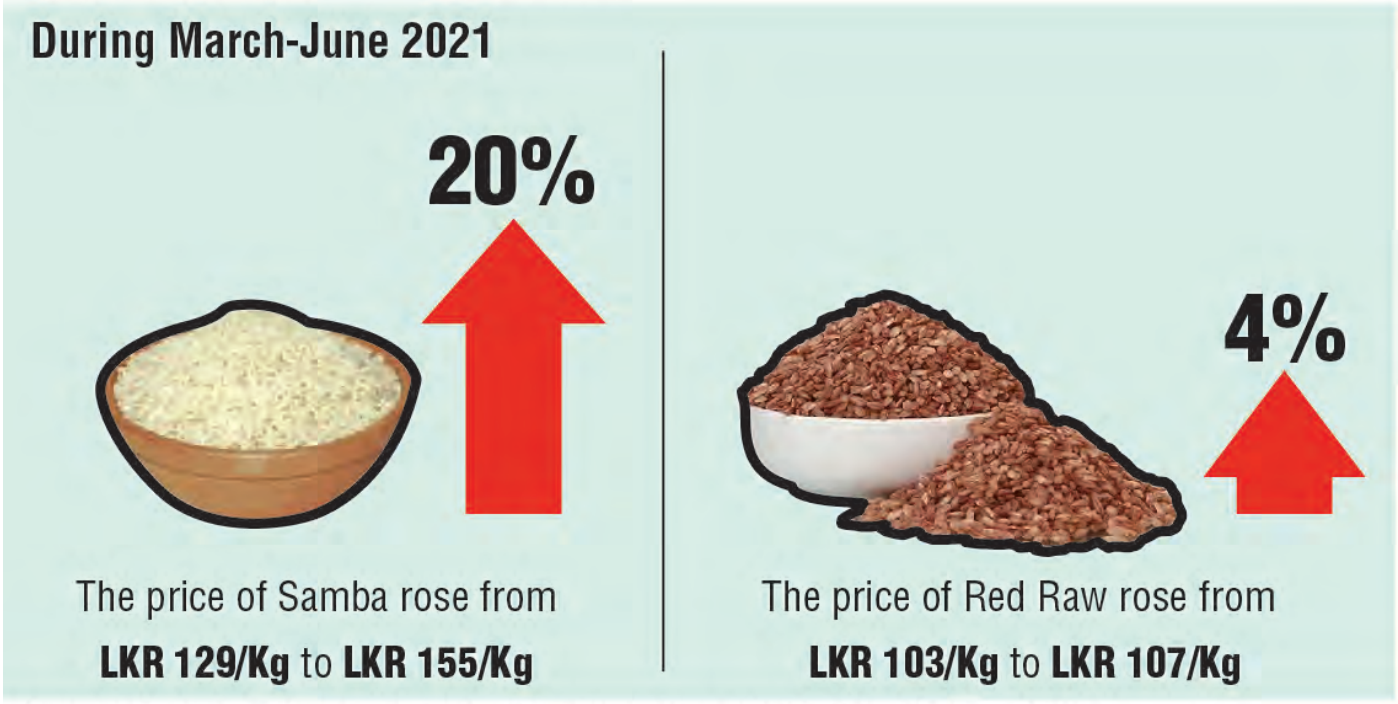
Food Prices during COVID-19

Despite measures to ensure food security, markets across Sri Lanka saw price spikes for food commodities due to the logistical challenges posed by the pandemic and the resultant lockdown. The National Consumer Price Index (NCPI) for food increased by 11% from March 2020 to May 2021 as opposed to an overall price inflation of only 6% during the same period. Year-on-year rise in food prices was mostly on a declining trend until January 2021 with occasional increases. But the trend started to reverse in the middle of the second wave. Importantly, food inflation averaged at 10.6% during all three waves of the pandemic as opposed to 5.5% overall inflation during the same period.

The price of rice shows a seasonal variation over the months of a year which is similar in all years. This seasonal price variation continued

[1] *Institute of Policy Studies of Sri Lanka. (2020). Sri Lanka State of the Economy 2020. Colombo: Institute of Policy Studies of Sri Lanka.*

Rice Price Fluctuations



Source: Based on Economic and Social Statistics of Sri Lanka, CBSL (2021)

more or less throughout the COVID-19 pandemic as well, but with minor deviations. At the beginning of the first wave, an absolute curb on movements created panic-buying. From March to April 2020, the price of the varieties identified as Samba rose by 12% from LKR 98/Kg to LKR 110/Kg while the Red Raw price rose by 7% from LKR 91/Kg to LKR 97/Kg. However, within a few days, better communication on the modality of movement of people and essential supplies was made more effective, relieving the buying spree. During the second wave (October-December 2020), the price of both Samba and Red Raw rose to the highest recorded in recent years. The price of Samba and Red Raw in December 2020 was LKR 141/Kg and LKR 108/Kg, respectively. Since then, both prices declined up to February 2021 and started to shoot up with the third wave in March 2021. During March-June 2021, the price of Samba rose by 20% from LKR 129/Kg to LKR 155/Kg while the Red Raw price went up by 4% from LKR 103/Kg to LKR 107/Kg.

In addition, wide fluctuations were experienced in vegetable prices since early 2020 due to unfavourable weather and supply chain disruptions caused by COVID-19-related mobility restrictions. Most of the vegetable prices have more than doubled (cabbages, beans, snake gourds, tomatoes and carrots) as of January 2021 compared to a year earlier.

Food Supply during COVID-19

The impact of COVID-19 on food availability depends largely on domestic food production since over 70% of the food availability is sourced domestically, and the domestic crop production has seen only minimal disruptions. Further, no significant change in food imports due to the COVID-19 has been observed. In fact, the share of food and beverages (F&B) in total imports was 10% in 2020 which is a significant increase from 7% recorded in 2018 and 2019.

During January-May 2021, the contribution of F&B to total imports was 9% which is equivalent to the average share recorded in the last three years. Therefore, it is likely that there will not be a significant reduction in the level of food imports even with import price increases.

Macro-level food availability has not been a challenge throughout the pandemic so far but the crisis has created several micro-level problems for the food system participants including labour mobility restrictions; limited access to inputs such as seed, fertiliser and agrochemicals; higher prices of different inputs – seed and chemicals in particular; and a relatively lower output price.

Access to food has also become a challenge from time to time due to price fluctuations as well as distribution issues. A key challenge in the food system is that producers are poorly connected with markets and intermediaries gain arbitrage opportunities. By contrast, rural producers receive lower prices due to lack of market information, poor infrastructure, small-scale production, weaker bargaining positions and lengthy marketing channels. Inefficient resource management by farmers, inadequate availability of good quality seeds, inadequate use of modern irrigation techniques, seasonality of production, high post-harvest losses due to inappropriate handling, storage and transportation are other major constraints in the food system.

Conclusion and Policy Recommendations

Despite the sufficient availability of food at the national level, COVID-19 has revealed the high vulnerability of food systems to pandemic shocks. Pandemics are in fact becoming a chronic source of shocks. Thus, the challenge is not only to get by the current shock, but to strengthen the overall food system to face future shocks based on evidence-based policy responses.

Without addressing structural issues pertaining to the food system, the overall agricultural landscape and agro-processing industry ecosystem, it is unlikely that short-term and medium-term interventions can help create a resilient food system.

In that light, the following interventions are recommended to help ensure food system resilience: ensure a smooth supply of inputs; enable efficient public and private procurement systems; establish farm-market linkages between farmers and buyers; enhance agri-extension services and information dissemination; increase use of e-commerce platforms; review agriculture financing services; continuously monitor food systems; ensure quality of products; address industry issues relating to processing; and strengthen food-related social security programmes.

** This Policy Insight is based on the comprehensive chapter on "Building Resilient Agricultural Value Chains during COVID-19" in the 'Sri Lanka: State of the Economy 2020' report – the annual flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the Publications Unit of IPS located at 100/20, Independence Avenue, Colombo 07 and leading bookshops island wide. For more information, contact 011-2143107 / 077-3737717 or email: publications@ips.lk.*

100/20, Independence Avenue,
Colombo 7,
Sri Lanka
T: +94 11 2143100 / 2665068,
F: +94 11 2665065