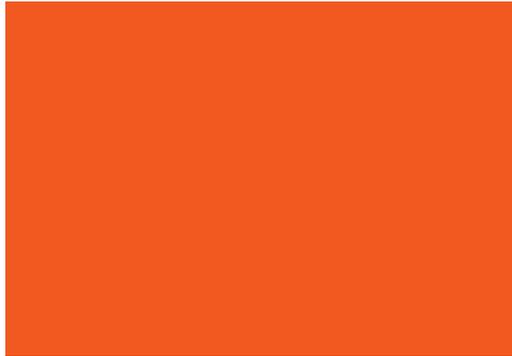


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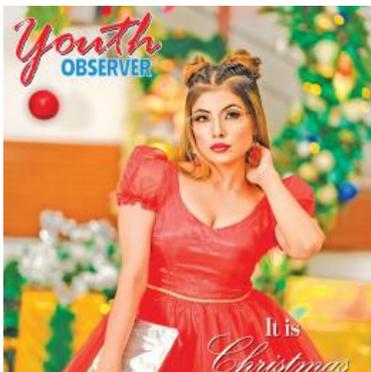


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## Sri Lanka's food crisis: causes and consequences

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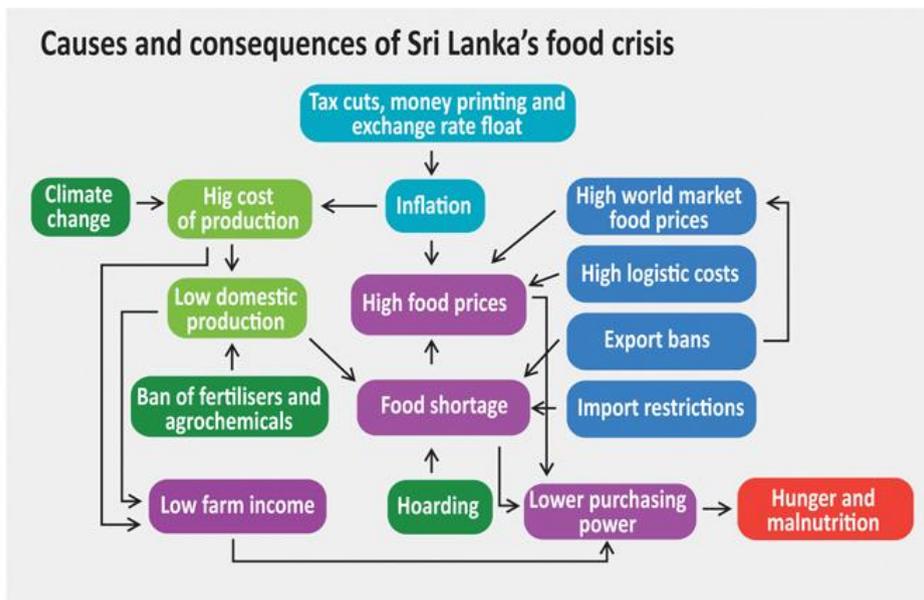
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This food crisis is a humanitarian issue and short-term relief can be prioritised to fulfil people's immediate food needs.

Relief notwithstanding, the real and sustainable solution to the recurring food inflation and food shortages lies in managing the demand and supply of food in the long run.

Sri Lanka's ongoing economic crisis and the pandemic-induced stress on the economy have been substantial. The associated measures to deal with the fallout included imposing several import restrictions with bans, import control licences, credit basis requirements and price restrictions. Amidst the restrictive trade policies, domestic rice production was hampered drastically due to an ill-conceived push towards organic agriculture, which led to the rash ban on chemical fertiliser imports.

All these restrictions and policy blunders further exacerbated food shortages, pushing inflation rates to an all-time high and seriously jeopardising Sri Lanka's food security. In this context, reaching Goal 2 of the Sustainable Development Goals (SDGs) of zero hunger by 2030 is a significant challenge for Sri Lanka. Against this backdrop, this Policy Insight examines the primary causes and consequences of the country's food crisis. It also offers policy recommendations to overcome the food crisis and progress towards reaching SDG 2.

#### Soaring food costs

Continuously rising food prices and food security challenges are nothing new to Sri Lanka. However, the country has not faced a crisis of this magnitude in food availability for a few decades, despite experiencing issues in food access, utilisation and stability. Widespread shortages are evident in many essential food items like flour, milk powder and rice, and high food inflation owing to macroeconomic reasons and domestic sectoral policy decisions.

What Sri Lanka is experiencing today is not just a food crisis. It is a multidimensional economic crisis compounded by food insecurity due to rising food prices and shortages threatening lives and livelihoods. Inflation measured through the Colombo Consumers Price Index (CCPI) for all items surged by 29% in the first six months of 2022 compared to the same period in 2021. In contrast, the food price inflation alone grew by a staggering 45% during the same period.

By contrast, the Food and Agriculture Organization's food price index (FAO FPI) rose by 25% over the same period showing that Sri Lanka's food inflation has been propelled by the rise in both the world market prices and domestic inflation. Food inflation has risen exponentially and reached an alarmingly high 80% in June 2022.

#### Rising malnutrition rates

Even before the economic crisis and the pandemic, malnutrition rates across Sri Lanka were already high. However, the current economic crisis is likely to aggravate this. The latest food security assessment by the World Food Programme (WFP) notes that about 30% of the population (6.26 mn people) are food insecure. Further, most households (61% of the surveyed) regularly employ food-based coping strategies such as eating less preferred and less nutritious food and reducing the amount of food they eat.

These developments mean that 40% of households are not consuming adequate diets. Moreover, an estimated 200,000 households are using emergency livelihood coping strategies that are likely to impact their income-generating activities severely. It is anticipated that more people will resort to these coping strategies as the crisis deepens. The immediate cause of hunger and malnutrition is low purchasing power by households, mainly due to high food prices (food inflation), food shortages and decreased income which cripple people's ability to put sufficient and nutritious food on the table (See Infographic).

#### The Russia-Ukraine war

Conflicts remain a crucial driver of food insecurity in the world. After the Covid-19 outbreak, the Russia-Ukraine war has shaken commodity markets and food prices while threatening global food security. Russia and Ukraine are important food import sources for Sri Lanka; together, these accounted for about 9% of Sri Lanka's food imports in 2020. Sri Lanka imported 45% of its wheat requirement (equivalent to USD 164 mn) from Russia and Ukraine in 2020. Together, these countries accounted for nearly 53% of imports of peas (USD 11 mn) and 25-75% of total imports of maize, sunflower oil, soya beans, coriander and chickpeas (exceeding USD 1 mn each). Sri Lanka spent USD 5.6 mn importing fertilisers from these markets, equivalent to 2% of the total fertiliser imports.

Covid-19 affected global oil prices, but price hikes made headlines, with crude oil prices soaring following Russia's invasion of Ukraine in February 2022. International crude oil price (Brent) surged by around 12% to USD 110.49 a barrel by July 2022, from USD 98.56 a barrel in February 2022, after hitting a high of USD 133.18 in March 2022. The oil price shock worsened Sri Lanka's economic woes triggering inflation pressures. Fertiliser prices, too, surged drastically. Urea prices increased from USD 202/Metric Tonne (MT) in June 2020 to USD 328/MT in April 2021 and stood at USD 925/MT in April 2022.

Sri Lanka is a net food, fertiliser and fuel-importing country. The volatility of global oil prices, rising international food and intermediate input prices and high logistic costs coupled with the compounded impact of a steep currency depreciation drastically contributed to food price inflation.

### **Flawed domestic policies**

Aside from global developments, domestic factors had a sizeable impact on Sri Lanka's food inflation. Reduced foreign currency earnings were mainly due to a massive drop in tourism revenue and remittances following the pandemic. The foreign currency shortage forced the government to impose import restrictions on several food commodities. The measures adopted included import bans, import control licences, credit basis requirements and special commodity levies (SCL).

Under the new import regulations, food commodities such as fruits, vegetables, coconut products, rice, cereal, oilseed products and sugar are not permitted to be imported using finance terms such as payment in advance, open account, and letters of credit. Products such fish, meat, milk products, vegetables, wheat, rice, cereal, starches, oils and coconut products may be imported but only under 90 days or 180-day postponed payment terms. The total coverage of the food imports to the country, which are under quantitative and price import restrictions, is about 89% based on 2017 values.

Supply-side shocks negatively affected food production, which is a major component of the food inflation. One of the significant supply shocks that affected food production and contributed to food shortages and food inflation was the sudden ban on chemical fertilisers in April 2021. While it sought to minimise threats to soil health and water pollution caused by the overuse of chemical fertilisers, the attempt to become the first 100% organic country in the world was misplaced. While the ban was lifted in November 2021, the damage from this flawed policy decision had already occurred, giving rise to a string of adverse events on food security.

When the ban was imposed, the Yala cultivation season in 2021 had already started with the available fertiliser. Therefore, no observed impact was found on paddy cultivation relative to the previous Yala season. However, even with the lifting of the ban, paddy production (39%) and paddy yield (35%) dropped significantly in the Maha 2021/2022 season relative to the previous Maha season due to a shortage of fertiliser.

Since then, exorbitant fertiliser prices in the world market and export restrictions set out by fertiliser-producing countries have exacerbated the problem. This has severely impacted Sri Lanka's food security, requiring the country to import and seek support from several countries to fill the production gap. Among these were rice imports estimated roughly at 800,000 MT. The implications of continuing fertiliser shortages in the Yala 2022 season, which have already occurred, will likely be significant unless swift action is taken.

### **Recommendations**

This food crisis is a humanitarian problem and short-term relief can be prioritised to fulfil people's immediate food needs.

Relief notwithstanding, the real and sustainable solution to the recurring food inflation and food shortages lies in managing the demand and supply of food in the long run. Thus, the long-term solutions to the food crisis should materialise from developing domestic agriculture, the primary driver of food security, to increasing the local production of a diverse group of nutritious foods and strengthening the food system to face future shocks. Accordingly, considering the lowest cost options, the following interventions are suggested to meet the current food crisis and help ensure a more resilient food system.

Introduce a food ration scheme covering essentials like rice, wheat flour and dhal to help the poor and marginalised who are the most vulnerable.

Strengthen nutritional assistance programmes – such as the school meal, thriposha, and poshana malla programs.

Import and properly distribute fertiliser, seeds and fuel for essential crop sectors giving preference to producers of nutritious food on a priority basis.

Establish community gardens and continue to promote home gardening by distributing seeds and planting materials at a subsidised rate.

Enhance storage capacity and maintain a buffer stock of essential food items.

Improve the productivity of available cultivations through investment in research and development (R&D) throughout the value chain over the long term.

Create a facilitatory environment to promote private sector participation and public-private partnerships (PPPs) to create efficient and stable modern value chains.

Establish a coherent, holistic food-monitoring programme to ensure the country is better prepared for weathering crises.

This Policy Insight is based on the comprehensive chapter Food Security and Zero Hunger during Food Crises in the 'Sri Lanka: State of the Economy 2022' report – the annual flagship publication of the Institute of Policy Studies of Sri Lanka (IPS).

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