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Stabilizing Food Access in Sri Lanka: Trade-Finance Protection

Introduction

Food insecurity is often portrayed as a failure of a nation's domestic agricultural industry, but in the case of Sri Lanka's 2022 crisis, hunger was created in a fundamentally different way. Specifically, the nation experienced a financial crisis involving a balance-of-payments collapse that disrupted access to foreign currency and trade, destabilizing the currency and restricting imports for essential goods. Therefore, food insecurity emerged as a result of Sri Lanka no longer being able to reliably finance or import agricultural goods, not because they were unavailable globally (Ghoshal, 2022; World Bank, 2024).

The 2022 World Bank Development Report on Sri Lanka documents that by early 2022, Sri Lanka's usable foreign reserves had fallen to critically low levels, leaving the country unable to meet even short-term import obligations (World Bank, 2022). This external financial constraint resulted in the suspension of external debt servicing by April, which cut the nation off from international capital markets. As a result, importers lost access to letters of credit, which are essential for conducting international trade, as well as foreign currency. Immediately, shortages of fuel, medicine, food, and other essential goods emerged. Indeed, a World Bank report notes that the foreign exchange liquidity constraint "ultimately led to severe shortages of essential goods," contributing to rising poverty and food insecurity before domestic production could ramp up in response to the crisis (World Bank, 2023b).

This sequence of events is especially important to an analysis of Sri Lanka's agricultural issues. The evidence indicates that the crisis was not primarily caused by a failure of the nation's agricultural sector or any form of domestic shock (ex. a severe climate event). Rather, it resulted from disruptions in international trade and access to external goods from global markets. Moreover, when trade is the primary constraint, policies that focus exclusively on increasing agricultural output aren't adequately aligned with the underlying issues to effectively solve them.

When stabilizing food access in import-dependent economies during periods of economic stress, the protection of financial channels that link global supply with local consumers is a necessity. In the context of Sri Lanka, two policies are especially important. First, an Essential Food Import Basket Facility (EFIBF), which secures trade finance and foreign exchange for essential agricultural goods. The other is a targeted, time-limited import subsidy designed to soften sudden affordability shocks for lower-income households. Combined, these measures address the factors of availability and stability, while avoiding the shortcomings of blanket price controls or long-term production shifts that are unsuitable during crises.

Country Context and the Life of a Typical Family

Sri Lanka is a lower-middle-income island nation with a population of around 23 million, whose economic structure makes it sensitive to external shocks (O'Neill, 2025; IMF, 2025). The country imports nearly all of its fuel and a large share of its food and agricultural inputs. Moreover, the nation's foreign currency reserves depend heavily on exports and remittances (OEC, 2025). The World Bank reports that this structure leaves Sri Lanka vulnerable to sudden stops in capital flows and disruptions in external financing (World Bank, 2023b).

During Sri Lanka's crisis in 2022, this vulnerability materialized. As its reserves of foreign currencies began to deplete, the government introduced exchange controls and import restrictions to effectively ration foreign currency. The International Monetary Fund (IMF) later described that while these measures created temporary relief in terms of currency exchange rates, they also distorted prices and disrupted supply chains by reducing private-sector confidence (IMF, Asia & Pacific Dept., 2025). This had an outsized impact on essential goods, whose supply decreased, especially for the lowest-income families.

To understand how these macroeconomic dynamics translate into food insecurity, it is useful to consider the experience of a typical household. The average Sri Lankan family has four members, in accordance with the average household size of 3.7 persons reported by the nation's Central Bank. One adult has a career in services or light manufacturing, while the other may add to this income through informal work. Employment is often insecure, especially due to the reliance on the gray market, and wages increase slowly in comparison to inflation (Central Bank of Sri Lanka, 2025).

The household's diet's staple food is rice, which is complemented by vegetables and lentils, with limited but nutritionally significant spending on eggs, fish, milk, or other animal products when prices allow. A lot of food is purchased rather than produced, making the household dependent on market prices. Finally, transport costs influence nearly every item in the typical food basket of a household, meaning fuel shortages and price increases spill over to household spending very quickly (WFP Sri Lanka, 2025; WFP Sri Lanka, 2024).

When the rupee depreciated sharply in 2022 and fuel shortages disrupted transport and distribution, food prices quickly increased. A World Bank poverty report on Sri Lanka shows that food inflation significantly outpaced nominal wage growth, which eroded the real value of household incomes (World Bank, 2023a). According to a study affiliated with the Sri Lankan Ministry of Health, households responded to this by reducing dietary diversity by substituting with cheaper foods, and postponing spending on healthcare and education. This reduced immediate hunger but created longer-term risks, especially for children and pregnant women, whose nutritional needs are more sensitive to dietary quality than the number of calories consumed (Selvarasa & Kalainathan, 2025).

Moreover, a household survey conducted by the World Food Programme (WFP) in late 2023 found that around 24 percent of Sri Lankan households were moderately food insecure (WFP Sri Lanka, 2024). Importantly, the WFP described this insecurity as driven primarily by economic access rather than physical unavailability. In other words, markets were functioning, but households lacked the purchasing power or financial access to maintain a healthy diet.

Trade, Currency, and Food Security

Sri Lanka's crisis demonstrates how international trade and finance mechanisms translate into household hunger in a few related ways. First, import dependence exposes the food system to global prices and freight costs. FAO assessments of food security in small island developing states (SIDS), alongside World Bank analyses of Sri Lanka's import structure, show that when global commodity prices rise or shipping costs increase, domestic food prices can change quickly, especially where domestic substitutes are limited (FAO, 2025; World Bank, 2023). In Sri Lanka, staples such as wheat flour and lentils are almost entirely imported, making domestic prices especially sensitive to external shocks and global logistics disruptions.

Then, currency depreciation can amplify these shocks. A report from the Asian Development Bank (ADB) corroborates that Sri Lanka's currency depreciation during the crisis greatly increased the domestic cost of imported food (Utsav et al., 2023). Even after global prices stabilized, the weaker rupee continued to limit the purchasing power of Sri Lankan households. This mechanism is particularly damaging for urban and semi-urban households that rely almost entirely on markets for food and have limited capacity to smooth consumption through savings or self-production.

Moreover, governmental rationing of foreign exchange and import controls introduce uncertainty into the import process. The IMF has emphasized that while such measures can relieve short-term balance-of-payments pressure, they can often negatively impact domestic prices and reduce social welfare when applied broadly (IMF Asia & Pacific Dept., 2025). In Sri Lanka, importers faced unpredictable access to letters of credit, leading to unreliable shipments and markups in price as a precaution. In other words, retailers, uncertain about future supply, passed these costs on to consumers (Ghoshal, 2022).

Sri Lanka's own institutions have also acknowledged the importance of prioritizing essentials. The Central Bank of Sri Lanka has stated that measures intended to ensure foreign exchange availability for food and other essentials helped relieve market instability during the crisis (Communications Department, CBSL, 2022). However, these measures were largely discretionary – in other words, they implemented in an ad-hoc way. Therefore, the absence of clear rules of implementation logically created space for delays and uneven access. The policy challenge, ultimately, is not whether to prioritize essential imports, but how to do so transparently, predictably, and in a way that directly supports material food security outcomes.

Distributional effects further reinforce this case. Low-income households spend a disproportionately large share of income on food, making them especially vulnerable to price spikes. Even short periods of reduced dietary diversity can have lasting effects on child development and health outcomes (WHO, 2025). Addressing food insecurity under these conditions requires policies that stabilize both availability and affordability, rather than focusing solely on aggregate supply.

Policy Options: Protecting Trade Access and Affordability

Sri Lanka's recent experience points toward the need for trade-related policy tools that function during economic stress while respecting both fiscal and institutional constraints. As described, the inability to secure foreign exchange for imports quickly created shortages and price spikes for essential

goods, while broad import and exchange controls, though temporarily stabilizing reserves, created significant costs when applied indiscriminately. Two complementary policies respond to these documented failures by narrowing the scope of intervention while increasing predictability.

The first is the establishment of an Essential Food Import Basket Facility (EFIBF). The facility would define a narrow set of welfare-critical staples based on household consumption patterns, import dependency, and nutrition relevance, such as affordable rice varieties, wheat flour, lentils, and cooking oil. This approach aligns with World Bank guidance on protecting "essential imports" during balance-of-payments crises and with FAO recommendations to prioritize calorie- and protein-dense staples in import-reliant food systems (FAO, 2025; World Bank, 2023b). The goal here isn't to shield the food system from supply and demand entirely, but to prevent the incredibly unstable import cycles that were a key driver of scarcity and excess price volatility during the crisis.

The principles of design matter more here than the specific administrative structure. Eligibility rules must be narrow and stable over time to avoid the uncertainty that affected import restrictions during the crisis. Implementation should also be related to objective indicators, such as reserve thresholds or sustained increases in staple food inflation. By directly tying intervention to measurable macroeconomic stress rather than political will, EFIBF targets the channel through which external shocks affect food availability.

The second policy is a targeted, time-limited import subsidy for selected staples, designed to address the access dimension of food security once availability is stabilized. Once again, the 2023 WFP household survey in Sri Lanka indicated that post-crisis food insecurity was driven mainly by affordability constraints, even after physical shortages were reduced (WFP, 2024). Accordingly, the subsidy is meant to respond to crises rather than to be permanent. It helps households manage sharp price increases without trying to hold market prices down over the long term, in line with IMF guidance on using temporary social protection during periods of economic adjustment (IMF, 2024).

Targeting is important for both economic efficiency and fiscal sustainability. The policy avoids the market-wide distortions that are created by blanket subsidies by restricting support to particular staples and channel. By addressing a specific margin of vulnerability, the subsidy enhances EFIBF and guarantees that better supply conditions result in significant access for low-income households.

Recommendation and Implementation

These regulations work together to create a trade protection strategy that addresses the specific ways in which food insecurity was caused by Sri Lanka's economic crisis. They don't treat hunger as a purely social phenomenon, and rather address the points at which international trade stresses turn into shocks to food access. By lowering uncertainty in trade finance and foreign exchange allocation, the Essential Food Import Basket Facility stabilizes imports and promotes availability in markets for the most essential agricultural goods. Targeted import subsidies, on the other hand, work on the demand side, preserving the access of the most vulnerable households' to money during severe shocks and lowering their reliance on unhealthy coping mechanisms like skipping meals or worsening the quality of their diets

To ensure the policy is executed with economic discipline, implementation should be institutionally coordinated, but ultimately led domestically. For instance, the Ministry of Finance would be responsible for approving subsidy envelopes and making sure that all interventions adhere to stabilization guidelines. Moreover, in order to prevent redundancy, the Central Bank would oversee participating banks and incorporate the facility into the existing frameworks for managing foreign exchange. While customs authorities would assist in verifying import volumes and unit costs, trade and consumer affairs authorities would keep an eye on retail prices and distribution channels. Finally, a publicly-available reporting system and independent auditors would increase transparency and strengthen the legitimacy of the policy.

Overall, results should be the main focus of monitoring. For example, the average customs and port clearance times and the variations in retail prices across districts are important indicators for the import basket. Independent audits can also determine how much the subsidies actually reduce retail prices, and should be accompanied by regular food security surveys carried out by the WFP. These measures ensure that the strategy is assessed based on its impact on real household welfare, and not theoretical policy.

Conclusion

The crisis in Sri Lanka shows that food insecurity during macroeconomic shocks is frequently a failure of market access rather than a failure of production in import-dependent economies such as Sri Lanka's. Even when there is a surplus of food available worldwide, households may experience food insecurity if foreign exchange collapses and international trade gets disrupted.

Therefore, the trade and financial infrastructure that links local access to global supply must be the main focus of an effective policy response. Combining targeted and time-bound staple import subsidies with a rules-based Essential Food Import Basket Facility provides a responsible and realistic way to safeguard food security. Using the policies outlined, Sri Lanka can decrease the vulnerability of its population, as well as increase national resilience to future crises.

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