

# The Ukraine War and its Food Security Implications in Sri Lanka

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## Background

The Ukraine War has had major implications for food security and food systems across the world given the important role both Russia and Ukraine play in global food, fertilizer, and energy markets. Russia and Ukraine together supply about 12% of global agricultural exports on a caloric basis and over 30% of global wheat exports.<sup>1</sup> Fertilizer and energy markets experienced rising prices and supply disruptions as well. The Russia-Ukraine conflict heavily impacted food security in Sri Lanka which is dependent on imports from the Caspian region. The impact of this shock has been compounded for Sri Lanka which has been suffering from a severe economic crisis due to a lack of foreign reserves, a debt default, high inflation, import restrictions, and shortages of critical goods and services.

These compound crises have halted Sri Lanka's progress on economic development and its achievement of the SDGs. Progress had been significant with the share of undernourished population declining from 16.7% in 2001 to 3.4% in 2020.<sup>2</sup> During the same period the prevalence of stunting declined from 20.6% to 16%.<sup>3</sup> The prevalence of wasting among children under age five declined from 15.9% in 2000 to 15.1% in 2016. Sri Lanka was ranked 65th out of 116 countries on the Global Hunger Index and 77th out of 113 countries on the Global Food Security Index in 2022 suggesting the need for some improvements in the food system.

The latest food security assessment by the World Food Program (WFP) notes that about 30% of the population of 22 million (6.26 Mn people) are food insecure.<sup>4</sup> Further, most households are regularly employing food-based coping strategies such as eating less preferred and less nutritious food and reducing the amount of food they eat. Further, an estimated 200,000 households are using emergency livelihood coping strategies that are likely to severely impact their income-generating activities and it is anticipated that more people are turning to these coping strategies as the crisis deepens. Against this

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<sup>1</sup> <https://www.cgiar.org/news-events/news/do-no-harm-measured-policy-responses-are-key-to-addressing-food-security-impacts-of-the-ukraine-crisis/>

<sup>2</sup> <http://www.statistics.gov.lk/LabourForce/StaticallInformation/Bulletins/SriLankaLabourForceSurveyAnnualBulletin-2019>

<sup>3</sup> Food and Agriculture Organization. (2022). FAOSTAT. <http://www.fao.org/faostat/en/#data/FS>

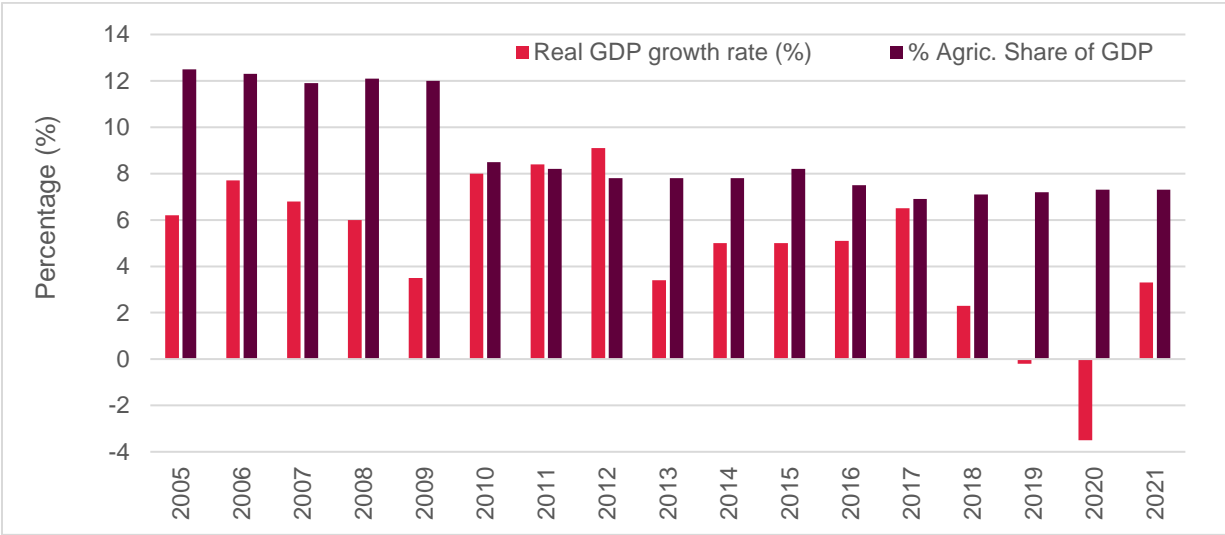
<sup>4</sup> <https://www.wfp.org/countries/sri-lanka>

backdrop, this policy brief explores the impacts of the evolving crisis in Ukraine on the nexus of poverty, agriculture, and food security in Sri Lanka and the possible avenues for mitigating the negative implications of export restrictions, rising import costs, and inflation.

### Poverty, Food Security, and Agriculture

Sri Lanka witnessed its highest growth recorded during the past several decades with an impressive 9.1% real GDP growth in 2012 (Figure 1). With political instability and a regime change in 2019, economic growth slowed from 2.3% recorded in 2018 to -0.2%. This further dipped to -3.5% in 2020 due to the COVID-19 pandemic but growth picked up in 2021 recording a value of 3.5% as the COVID-19 situation improved. However, this was far below the average growth rate of 6% recorded from 2005 through 2018 due to the compounding effects of COVID-19, the Ukraine-Russia War, and the ongoing economic crisis.

**Figure 1: Real GDP growth and Agriculture’s share of GDP**



Source: Department of Census and Statistics and Central Bank of Sri Lanka

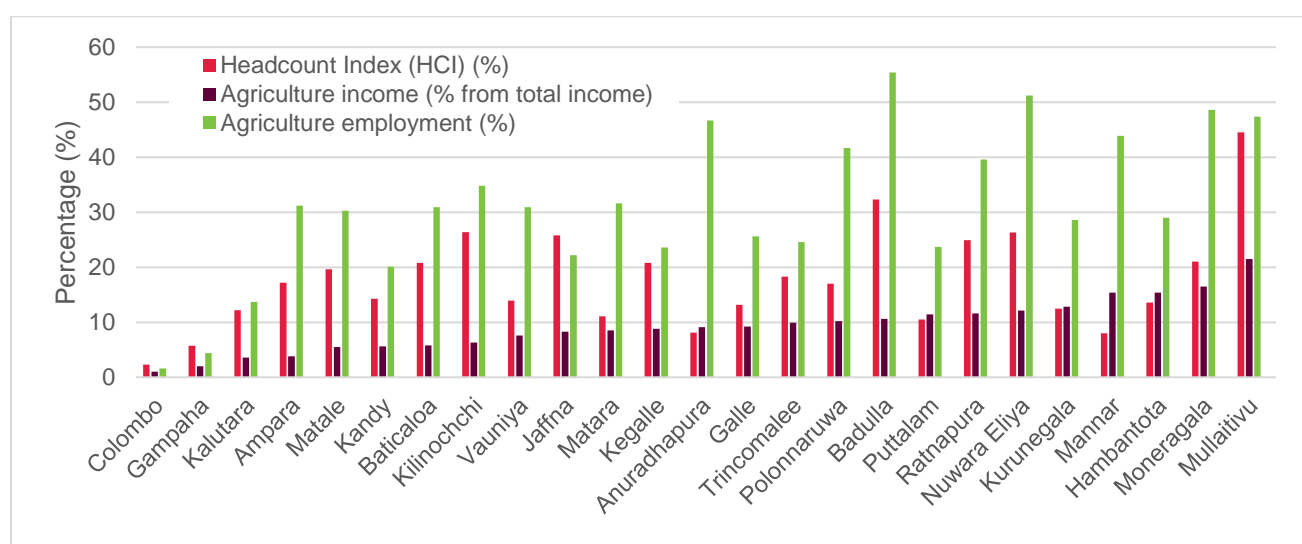
In 2021, the World Bank data showed that more than 30% of Sri Lanka’s population worked in the agricultural sector and generated 7.4% of GDP.<sup>5</sup> Poverty is predominant in the agriculture sector and the Poverty Headcount Index (HCI) in the agriculture sector is 20.6% compared to 13.5% and 8.3% in the industry and services sectors respectively (Table 1). Figure 2 further shows that the districts with a larger share of agriculture income and employment have relatively higher poverty incidence. With the current economic crisis, it is speculated that the level of poverty will increase from 13.1% in 2021 to 25.6% in 2022, which is equivalent to over 2.5 million people falling into poverty during the period.<sup>6</sup>

<sup>5</sup> <https://5.8borgenproject.org/poverty-eradication-in-sri-lanka/>  
<sup>6</sup> <https://blogs.worldbank.org/endpovertyinsouthasia/resilience-sri-lankas-strength-navigate-uncertain-future>

**Table 1: Monetary poverty status by industry group-2019**

Economic Sector	Poverty line based on 2012/13 on NCPI	
	Headcount Index (HCI) (%)	Number of individuals
<b>Agriculture</b>	20.6	427,200
<b>Industries</b>	13.5	279,600
<b>Services</b>	8.3	316,500

Source: HIES-2019, Department and Census and Statistics

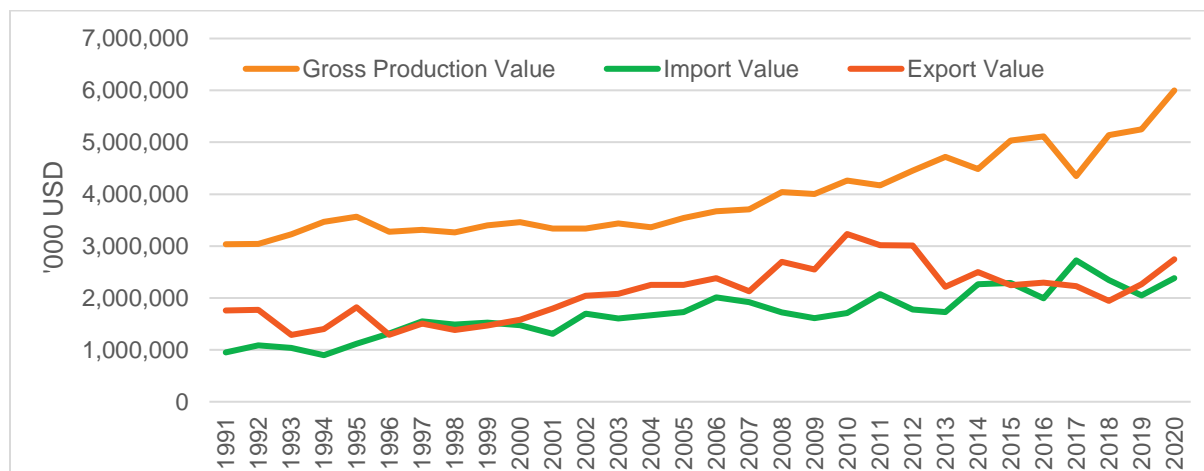
**Figure 2: Linkages between poverty and agriculture**

Source: HIES-2019, Department and Census and Statistics

### Food Supply Situation in Sri Lanka

The food supply in Sri Lanka is dependent on local production and imports of food crops, livestock products, and fish. Despite the share of agriculture in GDP declining over the years, gross agricultural production has doubled from USD 3 Billion in 1991 to USD 6 Billion in 2020 (Figure 3). However, the country spends a significant amount of foreign exchange to import food items. According to FAOSTAT, agricultural imports have doubled from USD 951 Mn in 1991 to USD 2,382 Mn in 2020. However, the growth in agricultural exports from USD 1,760 Mn in 1991 to USD 2,744 Mn in 2020 was more than sufficient to balance rising food imports.

**Figure 3: Value of Gross Agriculture Production, Imports and Exports**



Source: Food and Agriculture Organization, (2022). FAOSTAT.

Rice is the staple diet of Sri Lankans but the country is nearly self-sufficient with rice imports amounting to less than 5% of the total supply (Table 2). Imports of many other crops are also negligible due to domestic production with the exception of dhal, onions, wheat flour, and sugar. Sri Lanka spends a significant amount of money on fertilizer and fuel imports as well.

**Table 2: Total supply of major food commodities 2021 ('000 Mt)**

	Domestic production	Imports	Stock	Exports	Total supply	Domestic Production % of total
<b>Rice</b>	3,435	144	33	7	3,605	95
<b>Wheat</b>	0	1,323	13	100	1,237	0
<b>Sugar</b>	159	578	0	21	716	22
<b>Pulses</b>	45	267	0	11	300	15
<b>Vegetable oils</b>	43	185	0	19	209	21
<b>Vegetables</b>	2,296	324	0	18	2,602	88

Source: Food Balance Sheet 2021, Department of Census and Statistics.

### ***Risks of the Ukraine War for the Sri Lankan Food System***

Sri Lanka is a net food, fertilizer, and fuel-importing country. Therefore, the volatility of global oil prices, rising international food and intermediate input prices, and high logistics costs, coupled with the compounded impact of a steep currency depreciation have contributed to food price increases. The impact of the war in Ukraine came primarily through of fuel, fertilizer, and food prices. Price hikes made headlines with crude oil prices soaring following Russia's invasion of Ukraine in February 2022. Immediately after the Russian invasion on 24 February, the Brent spot price of a crude oil barrel reached the historical high USD 133 on 08 March with a staggering 34% rise following the invasion (Figure 4). The oil price shock worsened Sri Lanka's economic woes since it is connected with several important sectors of the economy.

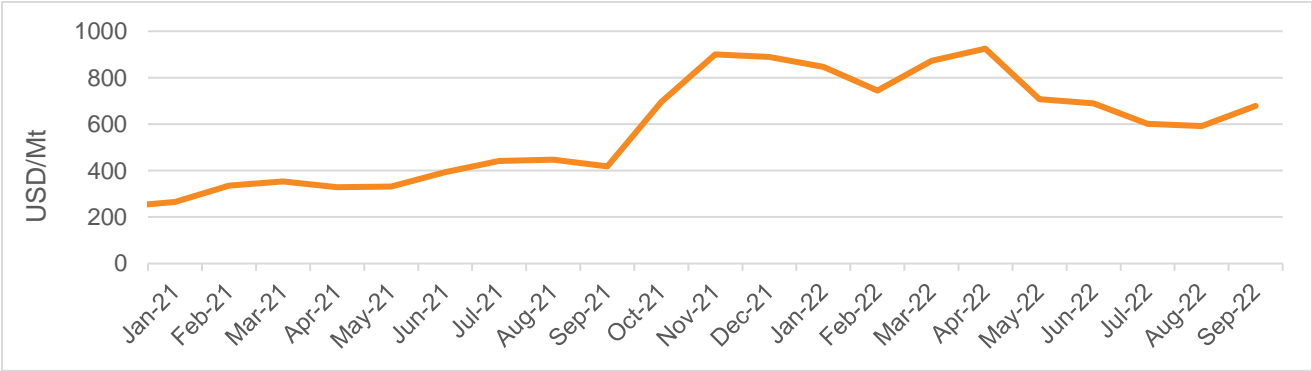
**Figure 4: Fluctuation of Brent Crude Oil Prices**



Source: Macrotrends 2022. Brent Crude Oil Prices-10-year daily chart. <https://www.macrotrends.net/2480/brent-crude-oil-prices-10-year-daily-chart>

Fertilizer prices surged drastically too. Urea prices increased to an all-time high of USD 925/MT in April 2022 from less than USD 300/MT before 2021 (Figure 5). According to the FAO/WFP Crop and Food Security Assessment Mission (CFSAM) report, the 2022/23 “Maha” season requires 291,154 Mt of Urea and a further 81,610 Mt of TSP. Accordingly, there were concerns that many farmers would significantly reduce the area planted with paddy crops if the elevated costs of agricultural inputs prevailed or increased further during this season as happened in the 2022 “Yala” season. Despite the slight reduction of urea prices in the world market, the government might face payment difficulties in the 2022/23 Maha season due to the ongoing foreign currency shortage, and hence it will need to find alternative mechanisms to fulfill fertilizer requirements.

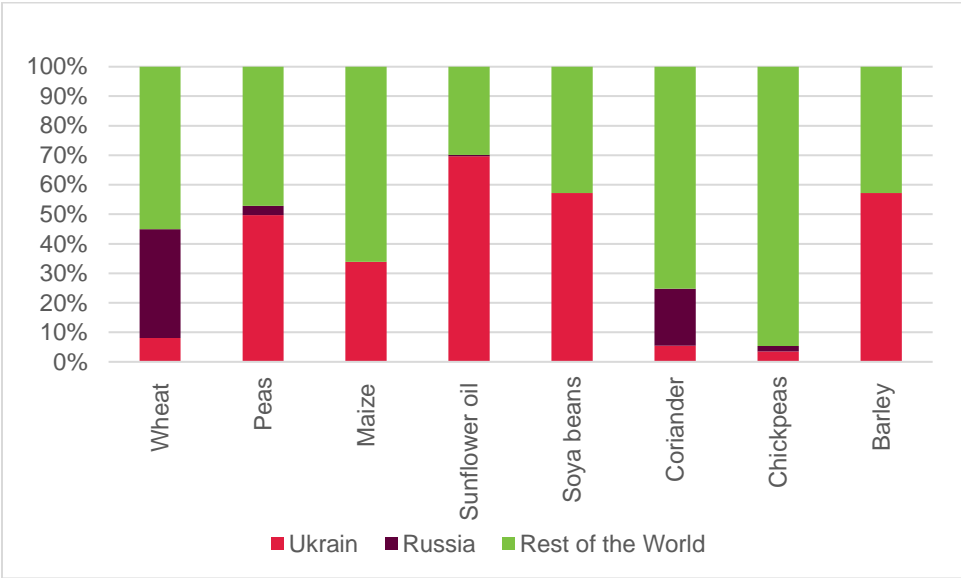
**Figure 5: Fluctuation of Urea Prices**



Source: <https://www.indexmundi.com/commodities/?commodity=urea&months=360>

Russia and Ukraine together accounted for about 9% of Sri Lanka’s food imports in 2020. As shown in Figure 6, Sri Lanka imported 45% of its wheat requirement (equivalent to USD 164 Mn) from Russia and Ukraine in 2020. The cost of wheat reached its historical highest USD 12.94 per bushel on 07 March 2022, increasing 47% from the day before the invasion (Figure 7) impacting the Sri Lankan economy and food security. These countries together also accounted for nearly 53% of total imports of peas (USD 11 Mn).

**Figure 6: Sri Lanka's Food Imports from Russia and Ukraine**



Source: UN Trade Map

**Figure 7: Fluctuation of Wheat Prices**



Source: Macrotrends 2022. Wheat Prices-10-year daily chart. <https://www.macrotrends.net>

Food and fertilizer export restrictions were instituted in several countries globally. As of May 2022, more than 20 countries including India, Indonesia and China had imposed food export bans and licensing for goods including wheat, sugar and palm oil.<sup>7</sup> Such measures increased global prices and had disastrous consequences for vulnerable people in food-importing countries like Sri Lanka who are already affected by the COVID-19 pandemic. To maintain food security, Sri Lanka is forced to buy essential commodities like food, fertilizer, and fuel at higher prices putting pressure on already dwindled foreign exchange reserves. Also, currency depreciation and weaker exchange rates have already added extra pressure on consumer prices. The severe macroeconomic crisis with weaker exchange rates, high inflation, reduced tourism and remittances incomes, and debt default have already caused acute shortages and

<sup>7</sup> <https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/135857/filename/136071.pdf>

spikes in the prices of essential products, including food, fertilizer, and fuel causing major disruptions to agricultural production and rural livelihoods.

Overall, Russia and Ukraine accounted for 2.2% of exports in 2020 and both countries are vital export destinations for Sri Lanka's black tea. Russia and Ukraine purchase about 18% of Sri Lanka's fermented black tea exports. Rising fuel prices may reduce consumers' purchasing power and lower the demand for goods exported by Sri Lanka including tea, spices, and seafood. For example, cumulative exports from January to October showed a decrease of 24.36 million Kgs (10%) from 235.97 million Kgs in 2021 to 211.61 million Kgs in 2022.<sup>8</sup> Russian is also the second leading importer of Ceylon tea and these imports dropped by 9% from 22.68 million kgs in 2021 to 20.66 million Kgs in 2022.

### ***Government Policy Responses***

Given the existing economic situation, Sri Lanka has adopted a variety of strategies to increase food security in terms of availability, accessibility, and utilization. Food availability was mainly addressed by promoting and facilitating local food production to reduce imports which in the current circumstances was counterproductive. Cash transfers and price controls were the most commonly enforced measures to ensure food accessibility and food utilization.

The country has an extensive social protection system with several state-run social assistance programs providing general income support to vulnerable households as well as nutrition-related in-kind food assistance. Samurdhi is the main welfare scheme and it provides cash transfers, microfinance, and various community and livelihood development activities. Samurdhi was complemented by three main categorical cash transfer programs to provide modest monthly benefits to individuals over 70, people with disabilities, and people who suffer from chronic kidney disease of unknown cause. The government spent a substantial budget on mitigating the impact of COVID-19 on the poor and vulnerable through targeted cash transfers through the above existing welfare schemes. To mitigate the impact of the economic crisis, cash payments have been provided to the same target beneficiaries in May 2022.

The government had been providing a 50 kg fertilizer bag at 350 rupees. However, increased global prices and currency depreciation have increased the import price of fertilizer. Despite the lifting of the ban on chemical fertilizer and agrochemical imports, the shortage of fertilizers persists due to the foreign exchange crisis and global fertilizer shortages owing to the Russia-Ukraine war. The Indian government extended a Line of Credit (LOC) of USD 55 million to Sri Lanka for the procurement of Urea Fertilizer in June. As a part of the USD 46 million funding to procure essential fertilizer to one million farmers across the country, the US handed over the first shipment of 9,300 metric tons of urea fertilizer to the Ministry of Agriculture to distribute to more than 193,000 smallholder paddy farmers in several districts in early December.<sup>9</sup> The World Bank has made up to US\$110 million of emergency finance available to support smallholder paddy farmers through importation of urea. The Asian Development Bank and United States Agency for International Development are supporting emergency imports of MOP and TSP, some of which may be available for the Maha season. The government decided to supply fertilizer at 10,000 rupees per 50 kg bag for paddy cultivation with over 75% subsidy to boost rice production amid a looming food shortage after an ill-sighted fertilizer policy.

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<sup>8</sup> <https://teasrilanka.org/market-reports>

<sup>9</sup> <https://lk.usembassy.gov/united-states-provides-9300-metric-tons-of-fertilizer-to-paddy-farmers-in-sri-lanka/>



Also under the 2022 “Maha” procurement drive, the government decided that the Paddy Marketing Board would purchase supplies at competitive prices and a compensation of LKR 25/kg would be paid to paddy farmers who faced reductions in “Maha” output to help sustain their income levels. Also, the government reached import agreements with Myanmar to buy 150,000 Mt of rice between 2022 and 2023. A plan was approved to import 200,000 Mt of Nadu rice and 100,000 Mt of short-grain rice to ensure sufficient rice supplies in the local market. To help stabilize markets and ensure food security, these short-term initiatives would be helpful. However, the government needs to ease the burden on consumers through price support programs. In this regard, effective from June 1, 2022, the Finance Ministry has relaxed restrictions (Import Control License) imposed on a total of 369 HS Codes through a Gazette Extraordinary published on March 9, 2022.

### ***Conclusion and Policy Suggestions***

Despite the various short-term solutions available to ease the current crisis, the real and sustainable solution lies in managing the demand and supply of food in the long run through policy reforms. Sri Lanka should focus on safeguarding access to vital raw materials like fertilizer and fuel and food commodities like wheat and maize. Since current foreign exchange crisis has constrained Sri Lanka’s ability to face such shocks, resolving the foreign exchange crisis through revived tourism, remittances inflow and exports is a top priority. Also, Sri Lanka should explore alternative ways of funding food and raw material purchases. Accordingly, considering the lowest cost options, the following interventions are suggested to cope with the current food crisis and help ensure a more resilient food system.

- Introducing a targeted food ration scheme covering essentials like rice, wheat flour and dhal to help the poor and marginalized who are the most vulnerable would be beneficial. The importation of these essential food items must be prioritized while cutting down on some non-essential food imports given limited financial resources while seeking food aid from donor countries and organizations. Also, promoting underutilized alternative crops such as cassava, finger millet, sorghum, black gram, and cowpea could cut down the costs of imports.
- Existing nutritional assistance programs such as the school meal, thriposha, and poshana malla programs could be further strengthened. These programs can further be augmented by coupling with school garden programs to use locally grown food in school meals.
- Importation and proper distribution of fertilizer for essential crop sectors could be rolled out as an immediate requirement on a priority basis. To improve fertilizer use efficiency, Sri Lanka should promote adoption of good agricultural practices including site specific application.
- Evidence from the developing countries like India, Indonesia, Cambodia, and Nepal suggest that home gardens can be a versatile option to address food insecurity in various challenging situations.<sup>10</sup> Therefore, current home gardening program can be promoted by giving incentives like seeds and planting materials at a subsidized rate.
- The Food Commissioner’s Department should maintain a rice buffer stock of 100,000 MT as per the Cabinet decision dated 27th April 2008, however, this hasn’t happened in recent years.<sup>11</sup> The country has experienced the adverse impacts of the absence of buffer stocks during recent crisis periods. Therefore, Sri Lanka needs to strengthen its storage capacity and maintain a

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<sup>10</sup> <https://agricultureandfoodsecurity.biomedcentral.com/articles/10.1186/2048-7010-2-8>

<sup>11</sup> <https://www.parliament.lk/uploads/documents/orderpapers/1654689845098691.pdf>



buffer stock of essential food items through a national food bank with nodal points at the provincial level. This can be supplemented by a digital monitoring system so that actual requirements can be properly calculated.

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