



POLICY BRIEF

FOOD PRICES: AN EFFECTIVE WAY OF SHIFTING DIETS TOWARDS HEALTHIER HABITS IN SRI LANKA

Food prices have an enormous potential to shift diets of consumers towards more healthy options. Yet, in Sri Lanka, pricing policies have not adequately considered this potential and have been used to serve different purposes. This policy brief examines prices and responsiveness to prices focused on the main food groups in Sri Lanka; discusses the role of subsidies and taxes as potential tools to effectively drive changes in Sri Lankan diets; and concludes with relevant policy recommendations.

Many countries have realized that it is too expensive to allow the free market to determine food prices and as a result, have intervened in controlling the price of many food items. Protecting farmers from import-competing commodities, stabilizing food prices and generating government revenue are the three most-stated objectives of controlling food prices. Apart from these objectives, recently, there was a renewed interest in employing pricing strategies i.e. food taxes and subsidies as a means to improve population diets. However, despite this recognition of the ability of the prices to shift diets towards more healthy options, the literature suggests that taxes and subsidies are still not widely implemented, and that due to their short-term nature, it is still not clear to which extent they can give the right signal to improve diets.

In many low and middle-income countries, the use of pricing strategies has been mainly driven by other objectives, not with the focus on improving population diets (Eyles *et al.*, 2012; Mollett, 1988). Sri Lanka is no exception to this. Food pricing strategies in Sri Lanka are commonly used as a temporary remedy to food crises and often changed in an unplanned manner (Weerahewa *et al.*, 2017). The Government has not paid sufficient attention to the nutritional outcome of pricing strategies in formulating food pricing policies. Therefore, many food pricing policies have failed to provide incentives to develop nutrition-sensitive agriculture strategies, including the ability to ensure the production of a variety of affordable, nutritious, culturally appropriate and safe foods, which are in line with the Food Based Dietary Guidelines, set out by the Sri Lankan Government (Ministry of Health, 2011).

RELATIVE PRICES OF FOOD: DO HEALTHY FOODS COST MORE THAN UNHEALTHY FOODS?

One factor that determines food choices are food prices, which then in turn impacts the nutritional status of a population. In Sri Lanka, the cost of energy-dense food (finger millet, cassava, sugar, edible oil) is relatively lower when compared to those of low-energy dense food (fruits). Through different pricing strategies, for example, retail price caps, lowering of import taxes and provision of input subsidy producers, the price of essential food items are kept at an affordable level for most of the Sri Lankan population. A majority of the time, rice, dhal, sugar, big onion, potato, canned fish, milk powder and chicken meat are declared by the Government as essential items (Consumer Affairs Authority, 2014). Animal-source foods such as meat (except chicken), fish (except canned fish) and dairy products (except milk powder), and other nutritious foods such as fruits and vegetables, are not considered as essential food items. Foods of animal-source are generally expensive and thus consumed in smaller portions, despite the recommendation to include these foods daily as per the Sri Lankan Food Based Dietary Guidelines (Ministry of Health, 2011). As seen in Table 1, a large proportion of household expenditure is spent on small portions of animal-source foods.

TABLE 1: MONTHLY HOUSEHOLD FOOD CONSUMPTION

Food item	Quantity consumed per month	Expenditure as a percentage of total food and drink expenditure
Meat	1.8 Kg	4.8%
Fish	4.1 Kg	9.5%
Dried fish	1.1 Kg	4.0%
Milk and Milk products	0.4 liters of fresh milk	8.2%*
Eggs	12 eggs	1.1%

Source: (Department of Census and Statistics, 2016)

*Includes consumption of milk powder

The relatively high cost of nutritious foods can affect nutrition outcomes. A significantly large proportion of the population remains food insecure and malnourished in Sri Lanka, with 15.1 percent of children under five years of age stunted (low height for age) and 45.3 percent of women of reproductive age considered as overweight (BMI $\geq 25\text{kg/m}^2$) and obese (BMI $\geq 30\text{kg/m}^2$) (Department of Census and Statistics, 2016). Due to the rising tide of over-nutrition leading to a higher rate of non-communicable diseases, and the prevalence of undernutrition and micronutrient deficiencies, Sri Lanka is in an urgent need to design robust pricing strategies. While the cost of healthy and unhealthy foods is not the only factor determining diets and nutrition outcomes, it is nevertheless an important one, and therefore these policies should aim to transform population diets towards a more healthier and nutritious one which is affordable for all.

HOW RESPONSIVE ARE WE TO FOOD PRICES?

The potential of pricing strategies to improve population diets depends on the price responsiveness of consumers to changes in price levels induced by subsidies and taxes, set out by the Government.

Both research and historical trends on food consumption have witnessed that the Sri Lankan population, particularly vulnerable groups such as the poor, are sensitive to food prices. History reveals that any government which fails to provide food at a reasonable price to the population will face tremendous consequences during elections because of the adverse effect prices pose on food and nutrition security. Furthermore, history uncovers that during periods of food shortage or food price surges, sizable proportions of the population suffer from food insecurity (Korale-Gedara *et al.*, 2012; Weerahewa *et al.*, 2012). For

example, during drought periods, research uncovered that rural households were unable to feed their children and thus adopted several coping strategies (Gunatilake, 2015). These strategies included reduction in the quantity of food either by way of skipping one meal (most often breakfast) per day or by having a small quantity of food per meal, borrowing money to meet their consumption needs, and as in some cases, children were sent to relatives who were able to take care of them (Gunatilake, 2015). To manage high prices of imported food, people have substituted wheat-based food items with rice-based food items (Koralagama & Sandika, 2012).



The estimated own-price elasticities of food categories provide evidence of consumers' responsiveness to food prices. Although people are in general sensitive towards prices of many food groups, their responsiveness to price changes in foods of animal source are higher (Nimanthika & Edirisinghe, 2014). Estimated own-price elasticities of foods of animal source are greater than 0.8, indicating a 10 percent rise in prices of these products decreasing consumption by at least 8 percent (Dharmasena, et al., 1990; Nimanthika & Edirisinghe, 2014; Tudawe, 2011; Nimanthika, et al., 2018). Responsiveness to price revisions of processed food is also high. Compared to this, people's responsiveness to changes in prices of cereals, vegetables and legumes are low (Nimanthika & Edirisinghe, 2014; Nimanthika, et al., 2018).

The above data shows how staple foods such as cereals, dhal, coconut oil, milk powder and sugar lack elasticity or are less responsive to price changes than animal-source foods, suggesting that the latter are considered luxury foods by a significant proportion of the population.

SUBSIDIES AS A POWERFUL TOOL TO SHIFT CONSUMPTION

Sri Lanka has a long history of recorded success in providing food subsidies. The "Universal Rice Ration Scheme" is one such programme which was introduced in the 1940s until 1978 in which rice, the main staple food in Sri Lanka, was provided to people at a subsidized price or free of charge. Several research studies have witnessed an increase in consumption associated with these food price subsidy policies in the country (Department of National Planning, 2016). However, the use of price subsidy to increase food consumption declined in Sri Lanka from post-1970s. Currently, the Government does not give food price subsidies directly

to consumers but it does subsidize food to vulnerable communities through nutrition interventions. "Poshana malla" is an example of subsidized food to pregnant and lactating mothers, who obtain a coupon that can be redeemed at the outlets of the Cooperative Wholesale Establishment (SATHOSA). With this coupon, they can purchase nutritious foods including whole grains, legumes, eggs, dried and tinned fish worth Rs. 2,000 per month (USD 12) throughout the last six months of pregnancy and for the first four months post-delivery (Department of National Planning, n.d.). School-meal programmes, an initiative supported by the Government, is another example of food subsidy. Primary school children of selected government schools are allocated with 23 Rupees/day (USD 0.13) to enable access to a nutritious meal (Drake *et al.*, 2014). These are examples of how the Government can effectively influence consumption towards healthier and nutritious options for vulnerable groups.

AN ALTERNATIVE WAY TO UTILIZE SUBSIDIES

Provision of subsidies to food producers, such as farmers, can also be effectively used to promote the consumption of healthy foods, through an increase in domestic food production availability (Wickramasinghe *et al.*, 2009). A fertilizer subsidy on paddy has helped to increase the area under cultivation and productivity of paddy and has kept the prices of rice at a low level (Wijetunga & Saito, 2017). Deviating from the long tradition of providing production incentives only to crop farmers, price subsidies were also offered to those employed in fisheries and the dairy industry to purchase capital in the past. The success of these production incentives has yet to be assessed.

Contradicting the objective of lowering food prices for consumers through ceiling prices at the retail level, the Government often distorts the market price through

price floors at the farm gate. Price floor on paddy and raw milk are the best examples. This intervention prevents the benefit gained from low production cost achieved through input subsidy promised to producers along the chain.

TABLE 2: FARM GATE PRICE OF PADDY AND RETAIL CAP ON RICE

	Farm gate price of 1kg of paddy as of 31st October, 2018	Maximum Retail price of 1kg of rice as of 31st October, 2018
Nadu rice	Rs. 38.00	Rs. 80.00
Kiri Samba/Samba	Rs. 41.00	Rs. 90.00
Raw rice		Rs. 78.00
Milk	Rs 70.00	Full cream milk powder: 1kg: Rs. 810.00 400G : Rs. 325.00

Source: (Consumer Affairs Authority, 2018)

ANOTHER POWERFUL TOOL: TAXES

From the perspective of consumers, taxes increase food prices. Thus, even in situations where these taxes could have other benefits, such as taxation of unhealthy foods, which has been shown to have a positive impact on consumers' health, no tax would be perceived by consumers as positive. In Sri Lanka, imports of many essential food items such as rice, dhal, potato, and sugar are charged relatively lower custom duties. However, imports were subjected to several non-tariff barriers, viz. National Building Tax (NBT), Ports and Airports Development Levy (PAL) and cess. These para-tariffs have almost doubled the prices of some imported commodities in the market, such as legumes, fruits and nuts.

However, with a carefully determined and differentiated tax, relative prices of food can be changed in such a way that healthy food consumption is encouraged

whilst unhealthy food consumption is discouraged. To achieve this target, taxes should differentially affect food prices of healthy and unhealthy foods. Taxes should favor healthy foods such as yogurt and milk foods over unhealthy foods such as foods that are high in fat, salt and sugar, which are consistent with the recommendations of the Food Based Dietary Guidelines.



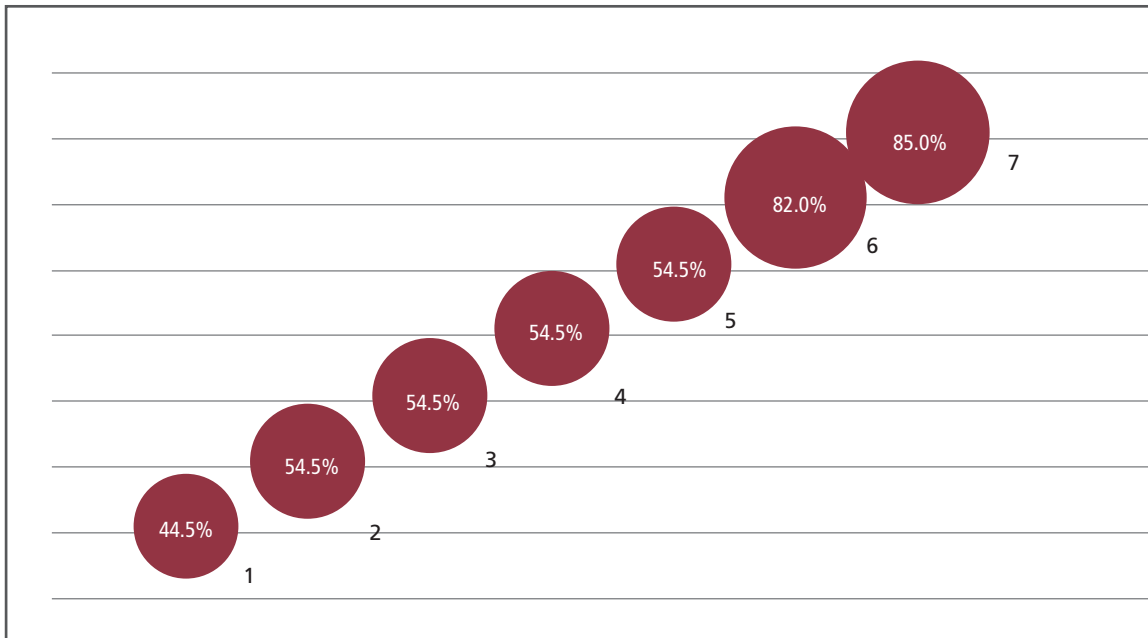
However, looking at the tax rates applied to food items, it is apparent that Sri Lanka has an undifferentiated tax rate, which does not qualify to be healthy or is in line with dietary recommendations (World Health Organization, 2015). More alarmingly, as depicted in Table 3 and Figure 1, the existing tax system has failed to provide the right message to consumers. Tax rates applied to certain healthy food items are higher than some of the taxes applied to unhealthy food items which bears a tremendous impact on human health and dietary patterns.

Furthermore, imports of healthy foods such as fruit and nuts, leguminous vegetables and dairy foods such as yogurt and cheese have been subjected to cess which has not been applied to many of the other food imports.

TABLE 3. DIFFERENTIAL TAX RATES ON SELECTED FOOD COMMODITIES

Food item	General duty	Vat	PAL	NBT	Cess
Milk and cream, not concentrated nor containing added sugar or other sweetening matter					
Blank application (irrespective of the fat content)	30%	15%	7.5%	2%	0%
Milk and cream, not concentrated nor containing added sugar or other sweetening matter					
Full cream milk powder, low fat milk powder, skimmed milk powder	20%	15%	7.5%	2%	0%
Sweetened condensed milk	30%	15%	7.5%	2%	0%
Yogurt, butter, dairy spread, cheese	30%	15%	7.5%	2%	0%
Rice	30%	15%	7.5%	2%	0%
Leguminous vegetables	30%	15%	7.5%	2%	30%
Fruits and nuts	30%	15%	7.5%	2%	25%-30%
Sugar	Rs. 12 per Kg	0%	7.5%	2%	0%
Salt	30%	15%	7.5%	2%	0%

Source: (Sri Lankan Customs, 2019)



1: Milk and cream, concentrated or containing added sugar or other sweetening matter
 2: Milk and cream (no added sugar) 3: Rice 4: Yogurt, butter and dairy spread 5: Salt
 6: Fruits and nuts 7: Legumious vegetables

Figure 1: Differential Tax rates on selected food commodities

Source: (Sri Lanka Customs, 2019)

To substantially improve the health of Sri Lankans and potentially save billions in health care spending, the Government needs to increase taxes on unhealthy food products and allow subsidization of nutritious foods to tip the pricing structure in favor of choosing nutritious options.



THE WAY FORWARD: POLICY RECOMMENDATIONS

The policy options available to promote healthy consumption through pricing strategies are numerous. As agriculture employs approximately one third of the population, policy options must be adopted to improve diets without compromising the welfare of the agriculture community. Furthermore, robust policies must be developed to ensure that nutritious diets are affordable for the average citizen to effectively tackle malnutrition in Sri Lanka.

In this context, some recommendations for policy makers would be:

Reform prevailing food taxes: In Sri Lanka, most of the taxes are designed to generate revenue rather than influence consumption. Ideally, differentiated taxes are needed to promote healthy food and discourage unhealthy food consumption. Tariff rates applied to healthy food can be curtailed while the tax rates applied to unhealthy foods can be increased. Revenue generated through tax on unhealthy food can be used to subsidize healthy food and support health promoting programmes, especially in schools. More precisely, tax on fast food and foods high in fat, sugar and salt can be increased while the tax on leguminous vegetables and processed dairy products can be curtailed. These reforms will not only improve population diets but will also reduce the burden of non-communicable diseases and government health expenditure.

Change the model of food price subsidy: Rather than using untargeted price subsidy and production input subsidy, focus could be diverted to use subsidies to support only the most vulnerable groups through conditional cash transfers, food coupons and food vouchers. With careful design, these can be effectively used to promote the consumption of healthy foods. The use of these vouchers can be conditioned upon the selection of healthy foods in recommended proportions in line with the Food Based Dietary Guidelines. However, to achieve this objective, the primary health care system of Sri Lanka needs to be further strengthened to reach the vulnerable communities, at a lower cost.

Focus on more price responsive commodities: The effectiveness of any of the proposed pricing strategies depends on the responsiveness of the consumption to such prices. In the Sri Lankan context, consumers are more sensitive to prices of animal-source foods. Therefore, in order to achieve clear and more efficient results when applying pricing strategies, these products can be taken as the prime target for their interventions.

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