

Kashf Foundation Focus Notes Series  
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## Food Inflation and Impact on Low Income Households: Findings from Kashf's Research

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*This focus note shows findings from research undertaken by Kashf Foundation to understand the impact of food inflation on low-income households. Using data collected from low-income households across 10 districts, the research shows that rising food prices have put pressure on low-income households and they have had to change their spending patterns and priorities to cope with this pressure.*

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### INTRODUCTION

Low income households spend a higher percentage of their income on food compared to middle and high income groups which makes them especially sensitive to food inflation. An assessment of coping mechanisms used by low-income households to deal with inflationary pressure provides important insights into their economic resilience and well-being.

Consequently, Kashf has been undertaking a time series research since August 2018<sup>1</sup> to understand the impact of inflation on low-income households and the coping mechanisms employed to deal with the same in order to adapt products and services to help clients better cope with inflation. With the added pressure of Covid 19 and the measures undertaken to control its spread, low-income households have been put under even greater pressure.

To assess the compounding impact of inflation and Covid 19

on income, expenses and coping mechanisms, Kashf undertook a research with its clients in April 2021. This focus note presents the findings from the latest research which has been juxtaposed with two previous researches undertaken in October 2020 and March 2020.

### RESEARCH METHODOLOGY

For the study, a structured questionnaire was implemented telephonically with 300 randomly selected Kashf clients across 10 districts in April 2021. From each district, a rural, semi-urban and urban branch was selected to account for variances in perceptions and/or coping mechanism across types of locations.

Moreover, a price study was also undertaken to assess two main things; (1) whether the food prices published by the Pakistan Bureau of Statistics (PBS) for food items were in line with those in the markets serving Kashf clients, and (2) if the price controls set forth by the District Commissioner (DC)

Offices were being adhered to in the communities where Kashf clients reside.

For this purpose, Kashf created a basket of goods<sup>2</sup> comprising of essential food items and compared the prices published by the PBS and the DC Office to prices of the same commodities in general stores and markets in the communities close to the branches.

The study was undertaken in the following districts:

1. Mardan
2. Rawalpindi
3. Lahore
4. Gujranwala
5. Sargodha
6. Multan
7. Bahawalpur
8. Karachi
9. Sahiwal
10. Sindh

### DEMOGRAPHIC PROFILE OF RESPONDENTS

In terms of loan profile, the average loan size for the cohort was PKR 56,693 with 32% of the sample having loans amounting to less than PKR 40,000 and

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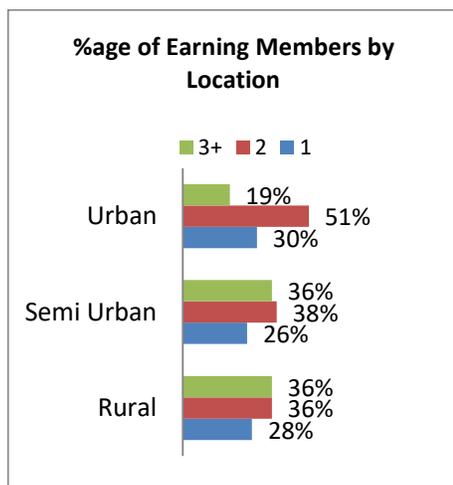
<sup>1</sup> Similar studies were done in August 2018, February 2019, August 2019, March 2020 and October 2020

<sup>2</sup> 20 kg wheat flour, 1 kg Super Basmati Rice, 1 litre Cooking Oil, 1 kg vegetable ghee, 1 kg beef, 1 kg mutton, 1 kg chicken, 12 eggs, 1 kg Masoor Daal, 1 kg Moong Daal, 200 grams Tea, 1 litre milk, 1 kg potatoes, 1 kg tomatoes, 1 kg onions and 1 kg sugar.

37% respondents having loans between PKR 40,000-60,000. This is in line with the sector average, which is PKR 58,238 for borrowers of microfinance banks and PKR 27,374 for borrowers of non-banking microfinance companies.

Loan utilization is also typical for the microfinance sector, with 23% of the respondents having used the loan for stitching/tailoring, followed by cloth trade (14%), animal trade (13%) and vehicle repair/purchase (12%).

With respect to number of earning members per household, the average for the sample was 2, but the location wise analysis revealed that the percentage of households with more than 3 earning members was lower in urban areas compared to semi-urban and rural respondents. Compared to October 2020, the percentage of households with three and more earning members decreased from 29% to 19% in urban locations. This can be attributed to a deeper economic recession caused by the first wave lockdown on urban areas as seen by data published by the Pakistan Bureau of Statistics<sup>3</sup>.



The table on the right shows the monthly income and expenditure of respondents. It is juxtaposed against the same information collected from a similar set of respondents in October 2020 and March 2020 to understand the change experienced by respondents over the year. The table shows that though a large difference in income and expenditure was reported from March 2020 to October 2020 owing to lockdown and inflation respectively, no significant difference in these indicators was reported in the last six months.

	April 2021	October 2020	March 2020
<b>Avg. Monthly HH Income</b>	Rs.33,906	Rs.34,391	Rs.41,053
<b>Avg. Monthly Food Exp.</b>	Rs.15,703	Rs.15,803	Rs.12,583
<b>Food Expenditure/Income</b>	46%	46%	30%

The respondents reported spending 46% of their income on food in April 2021. Compared to pre-Covid levels (March 2020) this was an increase, however, compared to October 2020 the proportion of food expenditure as a function of overall income remained the same. This can be attributed to respondents already having exhausted their ability to spend on food items vis-à-vis other essential expenses such as medical care, education, utilities, loan repayments and transport.

A location wise analysis showed that rural households reported spending 44% of their income on food (which was 48% in October 2020); semi-urban households reported spending 45% of their income on food compared to 50% in October 2020; while urban households reported spending 50% of their income on food which has increased from 44% reported in October 2020. Moreover, respondents from rural and semi-urban areas reported an increase in the overall household income while urban respondents

reported lower average household income in April 2021 compared to October 2020. This further illustrates the deeper impact of the recession and food prices on urban households.

### CHANGE IN BUSINESS AND HOUSEHOLD INCOME

Containment measures for Covid 19, have impacted economic activity across the board, however, low-income households were disproportionately impacted. Low-income individuals often work in the informal economy with limited or no options for working remotely and have thus had to forego earnings as result of missing work due to illness, quarantine, or government mandated closures.

Respondents were asked how their businesses fared compared to six months ago, their responses from the current study have been compared to the responses from October 2020 where they were asked to compare their business performance to the pre-Covid times (March 2020). In both studies 69% of respondents reported a decrease in business activity over the last six months (April 2021 and October 2020), however, the percentage of respondents reporting a decrease of 51-100% over the last six months in April 2021 was 15%

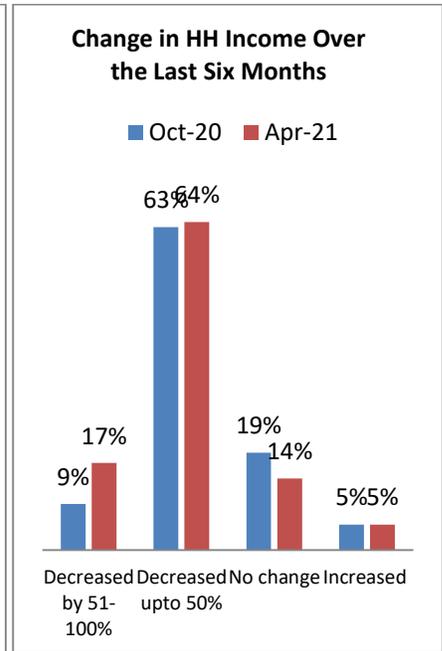
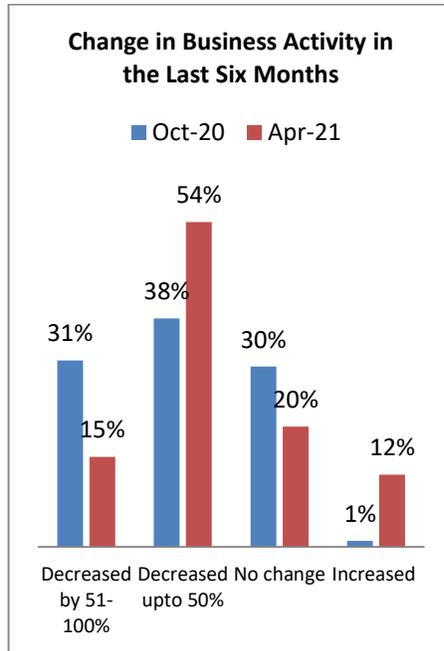
<sup>3</sup> Cheema & Rehman (2021)

which is lower compared to October 2020 where 31% respondents reported the same. This signifies that businesses suffered larger losses in the six months following the first lockdown in March 2020, and are now showing signs of recovery<sup>4</sup>.

In the April 2021 research, 20% of the respondents that reported no impact or increase in business activity were animal traders, followed by 10% respondents who were grocery/kiryana store owners (both businesses that were relatively insulated due their 'essential' nature).

Survey respondents were asked about their household income compared to the pre-lockdown levels. A high percentage of respondents reported that it was lower, in fact, about double the percentage of respondents reported decreased household income in the 51-100% bracket in April 2021 (17%) compared to October 2020 (9%).

Despite a larger percentage of respondents reporting improvement in business activity in April 2021 compared to October 2020, more respondents reported a decrease in the household income which indicates that despite micro-businesses improving, other income sources have been slower to revert back to their original levels. This could mean that jobs lost and/or incomes reduced have not reverted to their original levels. As a corollary it also signifies that micro-businesses contribute significantly to household income and have been more resilient in the face of Covid linked economic recession.



With the entire last year being dominated by Covid 19 and the cyclical nature of measures to curb its spread, it was important to assess if at any point in the last year, respondents had been able to fully recover incomes to pre-Corona level. When respondents were asked about this, 74% (78% urban respondents, 73% semi-urban and 66% rural) reported that their household income never fully recovered to the pre-lockdown level at any point during the last year.

**FOOD INFLATION AND CASH OUTLAYS**

Survey respondents were asked about the largest outlay with respect to their expenses. 84% of the respondents cited food expense as the largest expense. Moreover, all the respondents reported that the prices of food items had increased in the last six months, with 70% stating that the price increase was significant.

When asked about monthly food expenditure, 64% of the respondents reported spending between PKR 10,000 and 20,000 on food.

When asked about the food items that the respondents spend the most on, wheat flour, ghee and sugar were the food items that were most reported, by 35%, 25% and 20% respondents respectively. These were also the items that in client's opinion have experienced the most inflation.



<sup>4</sup> This has also been seen in data published by the PBS

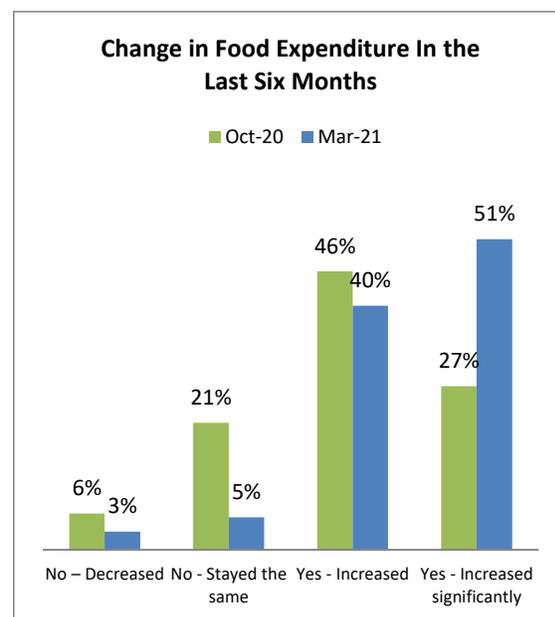
The Pakistan Bureau Statistics food price data shows a 23% increase in the price of ghee compared to six months ago (October 2020), but no inflation in the price of sugar and an 8% decrease in the price of wheat. Despite the prices of food items being relatively stable, the reason for the perceived price increase can be attributed to the price hikes over the last year, as the prices of basic food commodities experienced a significant increase from March to October 2020, with the average price of sugar increasing by 22% while that of wheat by 20%.

Though the prices of these commodities did not experience a further hike, but people have continued to pay the inflated price of these commodities ever since and thus the perception. The price of mutton and milk increased by 4% and 3% in April compared to October 2020.

The table on the right shows prices of 14 essential commodities collected by PBS in the first week of April 2021. They have been compared with prices collected in the first week of October 2020 and March 2020 respectively.

Respondents were asked if their food expenditure has changed in the last six months, 73% respondents in

October and 91% in April said that their expenditure has increased. Though income and expenditure assessment of the sample collected in October 2020 and April 2021 showed little difference in these indicators, the response could be attributed to the change experienced in these indicators since the pandemic, which has continued to have an impact on the client's household income and food expenditure. Respondents that reported no change or decrease in food expenditure were those who controlled or decreased the expenditure on food by employing several coping mechanisms to stay in budget due to limited income.



Food Items	National Average			
	%Change Oct 2020 - April 2021	Apr-21	Oct-20	Mar-20
<b>Chicken Broiler (1 kg)</b>	54%	264	172	NA
<b>Vegetable Ghee (1 kg)</b>	23%	302	246	251
<b>Eggs Farm (1 dozen)</b>	6%	168	158	94
<b>Beef (1 kg)</b>	4%	489	472	434
<b>Mutton (1 kg)</b>	4%	1023	985	897
<b>Milk Loose (1 ltr)</b>	3%	107	103	94
<b>Sugar (1 kg)</b>	0%	97	97	79
<b>Lipton Tea (190 gram)</b>	0%	230	229	NA
<b>Daal Masoor (1 kg)</b>	-2%	157	160	NA
<b>Daal Moong (1 kg)</b>	-3%	234	242	234
<b>Wheat Flour (20 kg)</b>	-8%	962	1044	872
<b>Potatoes (1 kg)</b>	-39%	42	70	40
<b>Onions (1 kg)</b>	-54%	34	74	73
<b>Tomatoes (1 kg)</b>	-63%	47	128.29	35

**COPING MECHANISMS TO DEAL WITH INFLATIONARY PRESSURE**

Survey respondents were asked about the coping mechanisms employed by them to deal with the inflationary pressure in the midst of low income. The responses were collated against the responses received by the respondents in October 2020. In October, coping strategies employed by respondents to get through the pandemic are indicative of a situation where access to resources and business/employment opportunities are limited. With savings of the households being exhausted early on in the pandemic, a shift towards regressive coping mechanisms was observed.

However, in April 2021, a decrease in extreme coping mechanisms, like reduction in the quality and quantity of food and taking children out of school, was observed. One reason could be that people had brought about significant decrease in the quality of their life in order to manage within limited income in the last year and are now only maintaining the status quo.

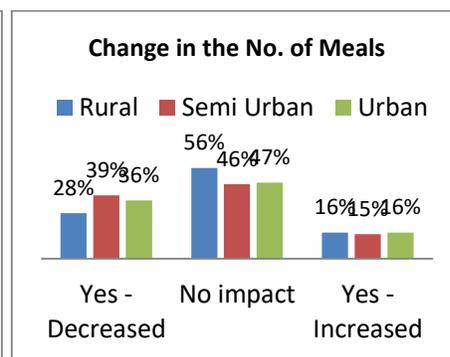
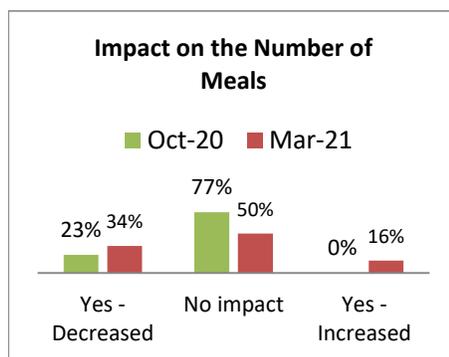
However, people being able to work more hours or start a job/business in April 2021 were reported more frequently by respondents than in October 2020 possibly an indication of the economy opening up. Though there has been a decrease in people taking children out of school there has been an increase in the percentage of respondents sending children to domestic work (those who might have taken children out of school in the last year) most likely

Coping Mechanism	Trend (Oct to March)	Apr-21	Oct-20	Mar-20
Reduction in the quality of food consumed	Decreased	15%	19%	1%
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Cut back on household expenses	Decreased	11%	17%	20%
Loan from friends and family	Constant	16%	16%	12%
Loan from another MFI	Increased	2%	0%	0%
Working more hours	Increased	20%	9%	19%
Spend from saving	Increased	8%	5%	7%
Managing from income	Decreased	1%	5%	20%
Starting a new business/job	Increased	8%	3%	9%
Taking children out of school/tuition	Decreased	1%	3%	0.50%
Sale of assets	Constant	2%	2%	0%
Support from friends/family	Not Reported	0%	1%	0%
Defaulting on utility bills	Not Reported	0%	1%	0%
Delay in seeking medical treatment	Constant	1%	1%	0%
Income has also increased	Not Reported	0%	1%	2%
Defaulting on school fee	Not Reported	0%	1%	0%
Sending children for domestic work	Increased	2%	0%	0.50%

because of loss of other income sources.

Unfortunately, such changes in household dynamics are usually not reversible and would result in permanent halt to the education of children. The table below shows the change in the coping mechanisms employed by respondents to deal with the inflationary pressure over the last year.

When asked about the impact on the number of meals they have in a day, while no respondents said it has increased in October 2020, 16% respondents reported increase in April 2021. The decrease in the number of meals was more frequently reported in urban and semi-urban regions than in rural areas, probably because of rural areas being more food secure due to higher



engagement in agriculture and livestock.

Respondents were not optimistic about the food prices in the next six months either. 37% respondents said that the food prices are going to increase while 51% feared that they will increase significantly.

sale of assets and taking children out of school, clearly spell out the desperation of low-income households to remain afloat in the face of great economic stress. The status quo necessitates increased responsibility on the part of governments, civil society, and private actors to devise solutions and strategies to support low-income households.

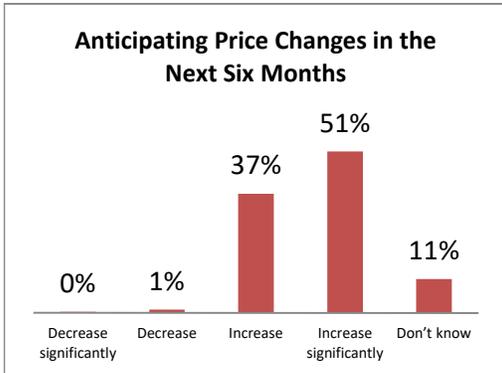
Pakistani NBMFCs to provide relief on repayments for a month without any fees/penalties. Moreover, in the first month of the lockdown, Kashf also provided relief for the most marginalized households via a targeted ration program.

Current strategies to enable clients to respond to income and expenditure shocks include:

- Back to business trainings to help clients leverage over digital channels for sales and receipts;
- Extension of credit lines to clients with diminished cash-flows due to business failure caused by Covid linked lock-downs via a specially designed recapitalization loan;
- An increase in the loan amount upper capping for Emergency Loans which existing clients can draw upon to deal with emergency expenditures such as utility bills, schools fees, and household expenses;
- Research and development to introduce consumption smoothing loans for low-income households to equip them to deal with rising prices.

Microfinance providers, given their access to low income families, can especially help provide recourse and interventions to empower and enable low-income households to enhance their resilience. Information collection, and dissemination, is pivotal to creating the impetus for human centered innovations that can possibly reduce the severity of the situation for low-income households. Research findings should be put in the center of the design of products and services.

As a socially responsible organization, Kashf Foundation has been mapping the impact of food inflation, and now Covid 19, on low-income households to optimize its products, services and processes to better serve its client base. From the onset of the crisis, Kashf has been cognizant of the need for adding relief and creating flexibilities for its clients. Consequently, Kashf was the one of the first



### CONCLUSION AND WAY FORWARD

Food inflation coupled with the impact of Covid 19 has adversely impacted the resilience of low income households; increased food prices in the face of decreased and irregular household income has resulted in low-income households resorting to potentially hazardous coping mechanisms which can severely impact their well-being and quality of life. Coping mechanisms ranging from reducing the quantity and quality of food consumed to the



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