



January Basic Needs Basket Statement

GOVERNMENT SHOULD ADDRESS ISSUES OF HIGH UTILITY PRICES AND UNEMPLOYMENT FOR SUSTAINABLE URBAN POVERTY ERADICATION

Following the media reports on price trends of basic commodities in view of the recent introduction of bond coins and decline in the price of fuel, the Poverty Reduction Forum Trust has conducted an in-depth evaluation of the price changes through its Basic Needs Basket survey. The PRFT undertakes monthly Basic Needs Basket survey, a social research tool with two components namely the Food and non food Price Monitoring survey and the Household Income and Expenditure survey. In monitoring prices and household incomes, the PRFT aims to provide information that can be used to inform social and economic policy planning and programming.

In its analysis, PRFT has observed a decline in the prices of basic commodities in the month of January and this can be attributable to several factors which include the recent introduction of the bond coins by the Reserve bank of Zimbabwe, the reduction in prices of fuel and the ongoing price competition among retailers. In Mutare, the surveys indicate that on average, the price of petrol decreased from \$1.52 in November 2014 to around \$1.32 per litre in January 2015 whilst in Bulawayo, the petrol price fell from around \$1.54 per litre to around \$1.41 during the same time frame. Although the price of fuel has gone down by 8% to 10%, the Basic Needs Basket analysis shows that the effect of this change on the prices of basic commodities is insignificant as reflected by the marginal changes in the average cost of the Basic Needs Baskets in the five urban areas. For example, the cost of BNB for a family of five (which excludes the cost of transport, education, health, personal care, etc.) is now \$517.84 in Harare, \$470.49 in Bulawayo, \$470.51 in Mutare, \$518.81 in Gweru and \$523.93 in Shurugwi. On average, the basic cost of living figures in November 2014 were \$ 518.68, \$470. 98, 471.28, \$522.05 and \$528.47 in the same towns, respectively. The effect of fuel price change to the general price trend of local manufactured commodities can be insignificant because Zimbabwe manufactures still face high costs of production emanating from high water tariffs, use of obsolete equipment and power cuts. For local manufactured goods, these costs constitute a higher proportion of the total costs than the fuel cost contribution.

Whilst PRFT appreciates the positive welfare implications as a result of the introduction of the bond coins, households can hardly realise maximum benefit in the face of increasing unemployment and high household expenditure drivers such as accommodation and utility prices. The policy benefits can be very short term in nature if there are no long term solutions to critical problems of employment and uncertainty of income streams. In its surveys, PRFT has observed that high rentals and lack of reliable income opportunities has forced households to cut their expenditure on nutritional food items such as milk which is required for healthy

development especially in children.. In his presentation of Monetary Policy recently, the Reserve Bank Governor has alluded to the fact that high utility pricing has remained one of key challenges to consumer's welfare in urban Zimbabwe. The results from the Poverty Income Consumption Expenditure Survey (PICES) of 2011/12 carried out by the National Statistics Agency (ZIMSTAT) indicate that 38% of urban households, and almost 47% of people living in urban areas in Zimbabwe are classified as poor. Urban households require money on monthly basis to access costly services such as water, electricity, and accommodation and hence, there is greater need for households to have a secure and consistent income to meet these costs. The analysis of the PRFT's household expenditure surveys conducted in high density suburbs of Gweru, Shurugwi, Mutare and Bulawayo, have established that from an average household income \$368 earned in January, households had to fork out at least an average amount of \$80 on water and electricity costs.

As a result of uncertainty in future incomes, households face a dilemma of spending all their money on basic requirements and remain with nothing to spend on the same items in the future. Households who were interviewed during PRFT's surveys indicated that the economic situation has taught them to be very cautious on spending and they have not made significant changes to their expenditure on food requirements following the price reductions. These observations show that expectations about the future have shaped consumption patterns of households. Livelihoods in urban areas have continued to be hinged on unsustainable income opportunities. Most households are earning a living through street vending and this business is under siege due to low demand accelerated by late payment of civil servants and retrenchments taking place in the country. The decline in the growth of the economy is further compounding human poverty as witnessed by contracting manufacturing sector culminating in high levels of unemployment and deteriorating social service delivery. The unemployment level, which is closely linked to income generation and expenditure patterns, has been estimated to be above 80% and the labour organization, Zimbabwe Congress of Trade Unions estimated that 4,172 people have lost their jobs during the first nine months in 2014.

Recommendations

Whether they are subsistence farmers, salaried workers or self-employed entrepreneurs, poor people derive most of their income from work. It is therefore imperative that the government supports the Private sector as it is key in achieving economic development and economic growth and an important provider of jobs. Increasing jobs improves the livelihoods of people in a sustainable and inclusive way. In terms of budgetary allocation, the government therefore needs to prioritise sectors in which poor people are mostly found such as agriculture, small and micro enterprises. Given the link between macroeconomic policy and development, The Poverty Reduction Forum Trust continues to recommend long term policies to address deindustrialization and unemployment in Zimbabwe. One policy option which remains key and relevant is for the government to make modalities to its indigenization policy so that it gives the country more room to attract foreign direct investment which is needed to resuscitate industries. PRFT reiterates that the welfare challenges of consumers should not only be addressed from the demand side but also from the supply side. Supply side policies remain

very critical and firms' myriad cost challenges should be addressed in a sustainable manner. There is need to bring confidence in the industrial sector so as to boost employment which is critical in bringing certainty in household incomes.

Poverty Reduction Forum Trust is in support of the government's move to set up a National Competitiveness Commission with the aim of interrogating and finding solutions to cost drivers such as utility prices. However, PRFT calls for transparency and accountability in the commission so as to ensure improved industry's production capacity and welfare of households through sustainable utility pricing model.

PRFT is a non for profit think tank specialising in poverty research and social and economic policy advocacy For more information about Poverty Reduction Forum Trust (PRFT) and the BNB initiative please contact us on Number 59, Mendel Road , Avondale, Harare; Tel: +263 4 307472; Email: info@prftzim.org; Website: www.prftzim.org