



The Impact of the Price Increases of Basic Goods and Services during the COVID 19 Pandemic

1.0 Introduction

After a short break, the Poverty Reduction Forum Trust (PRFT) resuscitated its Basic Needs Basket (BNB) report in February 2021. The BNB is a tool for gathering information on the bare minimum cost of living for a family of five to sustain a dignified life in an urban area. The BNB shows the cost of basic day-to-day necessities, including mealie-meal, sugar, salt and milk, housing and utility bills, required by an average family of five to live an acceptably decent and healthy lifestyle. Additionally, the BNB also tracks the changes in household incomes in order to highlight the gap between the cost of living and the typical disposable income of most families in the country's urban areas. PRFT works with community enumerators, residents associations and community based organisations in data collection and analysis of the results.

Through the project, PRFT develops BNB reports and policy briefs which are disseminated to various stakeholders to inform pro poor policies at local level and national level. The tool also guides households on a day- to -day planning to address their basic needs. The BNB tool is readily available for local authorities, government departments, communities, civil society, churches, private sector, employers and households on the PRFT website www.prftzim.org. The BNB is not meant to replace inflation, poverty datum line and other surveys done by the Zimbabwe National Statistical Agency (ZIMSTAT) but is rather complementary. For the month of February 2021, PRFT collected data in Harare suburbs of Epworth, Glen Norah, Hatcliffe, Hopley, Mabvuku, Mbare, Newlands and Ushewokunze.

2.0 Unsustainable Price Increase

Zimbabwe's inflation rose rapidly following the reintroduction of the Zimbabwe dollar first through Statutory Instrument 33 of 2019 which brought RTGS\$ in February 2019 and later with Statutory Instrument 142 of 2019 in June 2019 which declared the Zimbabwe dollar as the sole currency for legal tender purposes. Annual inflation peaked at 837.5% in July 2020 before declining to the February 2021 level of 321.6%. Government of Zimbabwe has pointed to the introduction of the Foreign Exchange Auction system on 23 June 2020 for the stabilisation in inflation and restored confidence. Additionally, the re-introduction of the use of foreign currency for domestic transactions may also have helped stabilise prices.

Despite inflation declining the cost of living is still very high and beyond the reach of the majority of the people. This situation is exacerbated by the COVID-19 which is threatening both formal and informal sources of livelihoods. The informal sector which constitutes about 80% of the working population has been the hardest hit by the COVID-19 pandemic. In response to the pandemic the Government of Zimbabwe has implemented phased lockdowns over the last 10 months, restricting movement of people and operation of informal markets. Social safety nets in the form of the ZWL \$ 18 billion Economic Recovery and Stimulus Package failed to meet the desired outcome of cushioning citizens from the myriad of economic and health challenges brought by COVID-19. Goods and services in some cases continue to be charged using the parallel exchange rate, ignoring the gazetted foreign currency exchange rate at the auction system.

The price increase is happening at a time when incomes for civil servants and most workers remain stagnant. An average civil servant's net taking for the month is ZWL\$ 18 000 which is far below PRFT's Basic Needs Basket cost of ZWL\$34, 498.48 for a family of five for the month of February 2021. The localised BNB cost of living for the month of February was ZWL\$32,350.00 in Ushewekunze; ZWL\$34,978.00 in Glenorah; ZWL\$51,470.00 in Newlands; ZWL\$27,199.00 in Hopely; ZWL\$34,756.00 in Hatcliffe; ZWL\$32,881.00 in Mbare; ZWL\$27,324.00 in Epworth; and ZWL\$35,029.00 in Mabvuku. The PRFT's Basic Needs Basket for the month of February established house rent and basic food items as key cost drivers. In high density suburbs, on average one room costs ZWL\$2,600.00 (USD\$20.00)¹ per month which is way beyond the reach of many, given the obtaining economic conditions during the COVID-19 pandemic. At the beginning of the year, Local Authorities such as City of Harare and Gweru City Council increased their user fees charges by more than 2000% in their 2021 budgets. The increases in rates and user fees has negative ramifications on an already struggling business community which in turn transfer the costs of doing business to the consumers.

The increase in cost of living has direct effects on household food security, worsening the already dire poverty situation. Despite the health challenges brought by COVID-19, households are being economically disempowered by the increase in cost of living to access health services. Gains from taxes such as the 2% tax on electronic transactions are not being seen in critical sectors such as health care particularly during the emergency times of COVID-19. This calls for increased investment and prudent spending of tax revenues in public health care which the majority of the poor who bear the burden of increasing cost of living rely on.

Preliminary indications point to the situation worsening in March 2021. For example in the wake of the unsustainable price increases of basic goods and services, teachers and State university employees have given a notice to embark on a nationwide industrial action starting Monday 22 March 2021 in protest over low wages². This comes at a time when children have lost considerable learning time due COVID-19 induced lockdowns and restrictions. The Government of Zimbabwe recently approved a 200% hike in university fees, which will result in students at State universities forking out between ZWL\$25 000 and ZWL\$40 000 per

¹ Prevailing black market exchange rate of 1:130 as at 28 February 2021

² <https://www.newsday.co.zw/2021/03/teachers-give-notice-to-strike/>

semester, up from ZWL\$9 000 in the last quarter of 2020. With current incomes it means that even teachers will fail to send their children to school.

3.0 Impact

The increase in cost of living if not remedied will likely result in the following outcomes for the public;

- Citizens will fail to pay utility bills and social service delivery will be further compromised
- Parents and teachers will fail to send their children to school and due to the learning time lost because of the COVID-19 induced lockdown, quality and grades of learners will drastically be reduced, negatively impacting future human resource capacity which is key for the development of the country
- Household debt entrapment likely to escalate to unsustainable levels where families will engage in perpetual borrowing from neighbours and friends in order to survive.
- School dropouts are likely to increase, increasing the risk of young adults engaging in social risk behaviour such as drug abuse

Recommendations

In light of the unstainable increase in prices of basic goods and services, the PRFT recommends that the following be taken into account;

- Strengthening of social safety nets to ensure they cushion the vulnerable populations from the economic shake ups taking place due to COVID-19
- Monitoring of foreign exchange auction system to ensure that prices of goods and services by companies that access foreign currency at the official exchange rate reflect the official exchange rate.
- The government of Zimbabwe should revise the education costs in line with the obtaining incomes levels of civil servants as the benchmark. The USD denominated school fees should be allowed to be payable using the prevailing interbank rate as opposed to the black market rate as is the case. The ministry of finance should put in place monitoring mechanisms and measures to ensure that social services fees pegged in USD should also be payable using the prevailing interbank rate.

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