

# How do we deepen our understanding of what it takes for urban poor to meet their basic economic needs in today's market place?

## Asks CFSC

The 2011 year has begun with Tariff increases in electricity, water and road traffic fees. Are there enough gains from low food costs to outweigh costs of essential non-food items (electricity, water, charcoal and others)? Maize prices played a key role on the average cost of basic food items. In 2010, the *Centre For social Concern (CFSC)* has recorded reductions in the average cost of maize in the urban basic needs basket across the cities of Blantyre, Zomba, Lilongwe and Mzuzu compared to previous years. By December 2010, the cost of a 50 kg bag of maize was lowest in Zomba at MK 1,533 and highest in Blantyre at MK2,008. On the other hand, the average price for Lilongwe and Mzuzu were MK 1,626 and MK1860 respectively. Unlike in previous years for instance in 2009 the average cost price of a 50kg bag was also lowest in Zomba at MK2,145 and highest in Blantyre at MK 2,699. While the average prices for Lilongwe and Mzuzu were MK2,491 and MK2,381 respectively. See detailed figures in Table 1 below:

**Table 1: 2010 Maize prices versus 2009 Maize prices by city in (MKs) for a 50kg bag**

Month	Blantyre		Zomba		Lilongwe		Mzuzu	
	2010 Year	2009 Year	2010 Year	2009 Year	2010 Year	2009 Year	2010 Year	2009 Year
January	2,500	4,000	2,275	2,933	2,286	3,725	2,480	3,600
February	2,583	4,000	2,460	2,907	2,214	4,056	2,570	3,900
March	2,250	4,000	2,557	2,979	2,064	4,350	1,960	3,250
April	2,500	2,292	1,557	1,333	1,563	1,785	1,960	2,140
May	1,792	1,850	1,036	2,429	1,238	1,663	1,890	1,970
June	1,875	2,000	1,266	1,736	1,386	1,844	2,320	1,930
July	1,875	2,125	1,050	1,573	1,288	2,000	1,440	1,930
August	1,717	2,125	1,436	1,675	1,457	1,950	1,570	1,830
September	1,750	2,500	1,175	2,000	1,629	2,150	1,520	2,100
October	1,750	2,500	1,457	2,200	1,457	2,050	1,510	2,070
November	1,750	2,500	1,064	2,000	1,400	2,088	1,520	1,913
December	1,750	2,500	1,064	1,978	1,529	2,225	1,580	1,939
Average	2,008	2,699	1,533	2,145	1,626	2,491	1,860	2,381

The sustained reduction in the maize price is mainly attributed to high maize supply as a result of the recorded bumper harvest last year. The CFSC *Basic Needs Basket (BNB)*<sup>1</sup> recorded fluctuating costs of other food items such as beans, dried fish (usipa, utaka, kapenta), beef meat, eggs, vegetables, tomato, onion and bread.

Food prices are a critical element to the analysis of the cost of living and this is the case not only for urban poor dwellers but similarly for the rural poor dwellers. Both theoretically and empirically, it depends on whether the poor are selling or buying. Usually, high food prices are seen to benefit poor farmers who are net

<sup>1</sup> BNB, -a tool that measures the cost of basic food and essential non-food items for an average family of six in a specified city

food sellers<sup>2</sup>, and hurt poor food consumers in the urban areas who are net buyers. Thus, the higher incomes for food producing households may induce higher incomes for non food producing household through multiplier effect but then reducing the real incomes of these non food producing households through food expenditures.

From food security point of view, low food prices (low maize prices in this case) enable the both urban and rural poor to boost their food intake. However, this advantage needs to be weighed against lower agricultural rural incomes that reduce food security and transfer incomes from the rural poor to a richer urban dweller. There is need to establish as to who has benefited to low maize prices in the just ending year 2010: Are low food prices good or bad for poverty? Commendably, Malawi was not affected by the steep rise in global wheat prices as was the case in other countries such as Mozambique where the cost of bread increased by almost 30% ensuing violent protests towards the end of year 2010. CFSC therefore commends the Malawi government to continue to have some form of market regulation (established maximum and minimum prices for the maize product as it is already in existence) for maize being a strategic crop in this country.

## **2010 Cost of Living in Malawian Kwachas(MKs)**

Generally, during the previous year, Blantyre 's cost of living remains the highest registering an average cost of basic needs of about K51,589 per month from K49,536 in 2009. On the other hand, Zomba was the least expensive city during the previous year registering K41,649 per month cost of basic needs. As for Lilongwe and Mzuzu their average cost of basic needs per month were K50,460 and K45,632 respectively. [See details in Table 2 below.](#)

**Table 2: 2010 Cost of living (measured in Malawian Kwachas) in Malawian Cities**

Month	Blantyre		Zomba		Lilongwe		Mzuzu	
	2010 Year	2009 Year	2010 Year	2009 Year	2010 Year	2009 Year	2010 Year	2009 Year
January	54962	<b>50270</b>	49360	<b>43091</b>	51445	<b>49982</b>	47953	<b>50484</b>
February	58493	<b>49743</b>	51334	<b>43691</b>	52293	<b>51812</b>	48681	<b>43767</b>
March	55041	<b>49327</b>	51689	<b>95635</b>	55612	<b>50159</b>	46039	<b>45476</b>
April	51846	<b>47038</b>	44784	<b>41672</b>	55589	<b>45987</b>	44209	<b>42783</b>
May	50046	<b>49686</b>	41913	<b>44715</b>	45308	<b>49052</b>	47168	<b>41532</b>
June	51597	<b>49937</b>	42532	<b>41353</b>	46543	<b>47237</b>	50037	<b>40671</b>
July	52060	<b>48163</b>	42654	<b>42918</b>	50782	<b>48009</b>	47474	<b>41271</b>
August	51329	<b>48622</b>	43485	<b>43730</b>	46572	<b>47172</b>	47598	<b>39263</b>
September	51158	<b>49560</b>	42913	<b>45169</b>	51095	<b>47730</b>	41097	<b>42263</b>
October	46470	<b>49259</b>	39553	<b>44423</b>	50171	<b>46353</b>	42031	<b>41966</b>
November	47365	<b>51092</b>	38738	<b>45001</b>	50043	<b>49805</b>	43587	<b>40542</b>
December	48696	<b>51730</b>	41649	<b>46243</b>	50068	<b>51445</b>	41708	<b>44554</b>
Average	51,589	<b>49,536</b>	44,217	<b>48,137</b>	50,460	<b>48,729</b>	45,632	<b>39,168</b>

Overall, CFSC BNB in 2010 (see Table 3 for details) recorded an increase in the average cost of basic food items with Blantyre registering the highest on the scale at K26,397 and Zomba being the lowest at K22,898. However, it is important to note that after considering the ebbs and flows of the cost of basic needs the BNB does reveal that the reduction in the average cost of food item such as maize (see Table 4 below and

<sup>2</sup> Net food sellers (buyers) are those households which have sales (purchases) of defined food products (i.e Maize) greater than the purchases (sales) of similar products.

for details<sup>3</sup>) has been completely eroded by significant increases in the cost of non-food items with Lilongwe (K25,780) leading while Mzuzu (K18,957) was the least. The non-food items on the CFSC BNB is made up of a lean list of essential basic needs such as housing, energy (electricity and charcoal), water and sanitation, soap (wash and bath) and Jelly (e.g., Vaseline). The upward trend in the cost of basic needs was triggered by a significant increase in the prices of other non food items such rental costs on housing and other items.

**Table 3: Cost of food items and Non- food items for 2010 by city**

Month	Blantyre		Zomba		Lilongwe		Mzuzu	
	Cost of food (Mks)	Cost of non-food (MKs)	Cost of food (MKs)	Cost of non food (MK)	Cost of food (Mks)	Cost of non food (Mks)	Cost of food (Mks)	Cost of non-food (Mks)
January	28678	26284	26386	22974	26291	26002	29731	18222
February	32145	26348	28192	23142	29464	26148	30455	18226
March	28757	26284	28749	22940	29333	26256	27791	18248
April	25549	26297	22592	22192	21176	24132	25983	18226
May	23841	26205	19737	22176	22369	24174	27764	19404
June	25282	26315	20642	21890	25612	25170	30673	19364
July	25755	26305	20210	22444	22414	24158	28204	19270
August	25149	26181	21065	22424	25861	25234	26776	20822
September	24851	26307	20769	22144	24299	25872	22024	19073
October	24569	21901	21752	17801	22595	27448	22893	19138
November	25458	21907	20937	17801	22578	27490	24399	19188
December	26733	21963	23750	17899	23024	27274	23406	18302
Average	26,397	25,191	22,898	21,319	24,585	25,780	26,675	18,957

With the new tariff adjustments on water and electricity, bearing in mind that water is life and energy is an important household commodity, increases in the cost of electricity lead to a rise in household expenditure, that will affect overall household welfare thereby contributing to daily struggle of urban poor to meet other competing household needs. The increasing prices among certain utilities entail that there is a high probability that many household would substitute electricity with non environmental friendly alternatives such as charcoal in desperate need to offset part of the negative effects of the increase in electricity tariffs.

For instance, Blantyre and Lilongwe in the previous year registered the highest average price of K2,057 for a 50 kg bag of charcoal while Zomba registered K1,160 being the lowest by December, 2010. With the current development, expect increased demand resulting from the shift in household consumption patterns and also no hope for urban vulnerable household to embrace the plight of using electricity. Thus, the cost of tariffs of water, electricity and road traffic may have multiplier effects on household sector which is a hub in the "circular flow of Income" in an open economy like Malawi. But what should be done looking at the rising cost of basic needs? It is a known fact that most urban low income households do not have "adequate wages/salaries" and will continue to face difficulties in their household budget decisions. Such households cannot afford their housing and food and child care, much less other expenses and are forced to choose between basic needs. CFSC encourages two basic approaches to close the income gap: reduce costs and raise incomes.

### Short term strategies to reduce costs

(1) Subsidies and work support on part of employers are called for to apply a "greater equity principle". Such work support include a substantial health insurance for their workers and the families with the cost

<sup>3</sup> see the attached monthly survey figures for the year 2010 for detailed figures of both food items and non food items

partially financed by employer. Child support payments for absent, non custodian parents and even in cases where non custodian parents income are low.

(2) The self sufficient high income households are encouraged to be on forefront uplifting the lives of the urban poor by applying a "greater equity principle" based on their faiths for mutual interdependence of community institutions through (a) merely sharing of basic necessities (lende mkukakhana) (b) Raising income in form of informal networks of friends through "Chipelenganyo"<sup>4</sup> strategy and extended family which already common in Malawi and neighbours.

#### **Medium term and long term strategies to raise incomes**

- (1) Continued support of local entrepreneurs/small scale businesses: Micro enterprise development boosts up incomes of low income households because it is an Income generating strategy. As such , CFSC recommends that the Youth Enterprise Development Fund (YEDEF) be implemented without favour and partiality to benefit the very vulnerable youth in these low income households.
- (2) Promote Individual development accounts(IDA) or family savings accounts (FSA) programs to be managed by community based organisations through a local financial institution. Majority of low income household do not have savings ; there is completely total absence of savings as they live hand to mouth. Through IDA or FSA a public or private entity provides a matching contribution towards regular savings made by a family and can be withdrawn for specific reason such as the down payment for higher education or start up capital for a small business.
- (3) Wherever possible employers need to bring direct assistance to the working poor through a tax reform: consider introducing Earned Income tax credit and Child care Tax credit for at least two children for those workers earning K10,000 and below.
- (4) Increase women's access to non-traditional jobs that earn high wages such banking officers, construction industry etc because they will offer great career and training opportunities to open up a new pool of skilled workers and a diverse workforce.
- (5) Institute a labor market reform: the current minimum wage (K129.30 per day for Urban and K95.45) is totally inadequate.
- (6) While meeting basic needs may look more urgent, nevertheless, to achieve "true self sufficiency " increasingly requires investments that enhance skills and adaptability, technological advancement with broad based education beyond classroom walls to provide flexibility to move into new, innovative or non traditional jobs and careers in today's global village. Specific strategies may be expanding and enhancing Adult basic education in form of Skills training through general basic and job specific education development to increase productivity and efficiency benefiting employers and employees.

In short a lot of creativity is required resulting in break through strategies if the poor are to benefit of the economic miracle Malawi is allegedly experiencing now.

The Director and all staff members of the CFSC would like to sincerely thank you for your feedback and words of encouragement throughout the 2010 year. We are looking forward to more of your support in using the BNB which is undergoing modifications as a tool of promoting social justice to achieve wealth and resource equity for all. We wish you all a Happy and Successful 2011. Look out for Centre For Social Concern Newsletter to be released soon!!

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<sup>4</sup> Chipelenganyo is a mutual agreement of two or more parties (persons) to give some amount of money to one individual at once in a rotating way for a specified time to make sure everyone receives the same amount also.