The Revolutionary Government of Zanzibar

BACKGROUND PAPER:

GROWTH DRIVERS AND THEIR IMPLICATIONS FOR POVERTY REDUCTION

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MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
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MKUZA SECRETARIAT
REVOLUTIONARY GOVERNMENT OF ZANZIBAR.

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### LIST OF ACRONYMS

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<tr>
<td>ADSP</td>
<td>Agricultural Development Strategic Plan</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>BOT</td>
<td>Bank of Tanzania</td>
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<td>CBO</td>
<td>Community Based Organization</td>
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<td>CFCAA</td>
<td>Country Financial Accounting Assessment</td>
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<td>Civil Society Organization</td>
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<td>DADP</td>
<td>District Agricultural Development Programme</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>EPZ</td>
<td>Exports Processing Zone</td>
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<td>FBME</td>
<td>Federal Bank of the Middle East</td>
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<td>Faith-Based Organization</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HBS</td>
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<td>JAST</td>
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<td>MCL</td>
<td>Minimum Cost of Living</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MKUKUTA</td>
<td>Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Tanzania</td>
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<td>MSEs</td>
<td>Micro and Small Enterprises</td>
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<td>ODI</td>
<td>Overseas Development Institute</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PHDR</td>
<td>Poverty and Human Development Report</td>
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<td>Public Private Partnership</td>
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<td>P-P PPP</td>
<td>Pro-Poor Public Private Partnership</td>
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<td>PRS</td>
<td>Poverty Reduction Strategies</td>
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<td>RGoZ</td>
<td>Revolutionary Government of Zanzibar</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>Small and Medium Enterprises</td>
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<td>TFP</td>
<td>Total Factor Productivity</td>
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<td>ZSGRP</td>
<td>Zanzibar Strategy for Growth and Reduction of Poverty</td>
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<td>ZGS</td>
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EXECUTIVE SUMMARY

The Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP), also known by its Swahili acronym as MKUZA, is the second generation national development framework to implement Zanzibar’s Vision 2020. In line with Millennium Development Goals (MDGs) and other international agreed commitments and targets, MKUZA’s focus is on reduction of both income and non-income poverty; and to ensure the attainment of sustainable economic growth. The Zanzibar Growth Strategy (ZGS) is the implementation path of the growth and poverty reduction cluster in MKUZA, and its main focus is to boost economic growth in Zanzibar’s in general, and to enhance growth in other sectors of the economy.

In its current design, MKUZA has a harmonized terminal year of 2010, to allow for synchronization of its next phase. To inform a successor strategy, it became necessary to review the existing growth strategy with the view to sharpening the focus of the strategies to be implemented in the next stage of MKUZA. Thus, the main purpose of this review was to provide information to support the development of successor strategies for the next phase of MKUZA, particularly in relation to growth drivers and their implications for poverty reduction.

The scope of the review was to reflect on the thrust of the current framework on growth and poverty reduction, identify the strengths and weaknesses, and provide appropriate recommendations with respect to growth drivers to permit the design of a new framework with sharper focus on untapped potentials for broad-based growth and poverty reduction.

In terms of approach, we reached the consensus that most of the intervention strategies under the existing growth strategy were not yet implemented, and that the identification of strengths and weaknesses at this stage were quite difficult, if not premature. However, we examined the strategic objective under each growth driver in the ZGS in relation to the interventions aimed at achieving the objective and made informed judgments based on proven paths to success. Since the output of this study is expected to serve as a guide for the design of the next generation of strategies, we made concerted efforts to ‘discover’ any challenges that may have arisen in the implementation of the few interventions that became operational. We supplemented these by stakeholder consultations also aimed at identifying challenges encountered during the implementation of MKUZA over the last three years, and to solicit their inputs in terms of what
they perceive to be panacea for some of the problems arising from the implementation of strategies. Finally we presented our findings, and provided our recommendations for strategies that may be considered for the design of the next generation of strategies.

A number of studies in Zanzibar have suggested the existence of enormous potential for transforming both the agricultural sector and the economy. These studies have established that there is a pressing need for growth in agricultural production as a necessary condition to stimulate growth in other non-agricultural sectors. These studies also suggest that any effort to promote growth in agricultural output must include investments in increased productivity. Increased productivity in agriculture will be expected to initiate the process of structural transformation to make a lasting impact on poverty reduction. However, growth in agriculture is contingent upon the identification of appropriate markets for agricultural output domestically, regionally and globally. It is this requirement that propels tourism and trade as growth drivers, that is, the vehicles by which such markets could be established in order to make agriculture the centerpiece of a growth and poverty reduction strategy.

Presently, there is an apparent weak or, in some cases, lack of linkages between trade and tourism as growth drivers on one hand, and the supporting sectors, particularly agriculture, on the other. We propose that, while efforts are underway to establish the required markets for agricultural and manufacturing outputs, there should be concurrent efforts to develop productivity in agriculture and manufacturing in order to establish quick supply responses to market demands as these markets, particularly niche markets, begin to warm up to Zanzibar’s products. For this reason we propose that the government places strong emphasis on the development of certain tradable goods within agriculture to provide a stronger link to the two growth drivers mentioned above, and to serve as avenues through which agricultural productivity would be enhanced. There is also some evidence that they could provide the greatest impact on the other objective of reduction in poverty. The proposed tradable goods include non-traditional exports such as seaweed and spices, and horticultural products, as well as staple food crops, particularly for domestic markets. Available statistics indicate that Zanzibar consumes multiple quantities of almost all staple food crops produced at home, with the difference imported from mainland Tanzania.
The case for investing in agricultural productivity is strengthened by the evidence concerning the potential impact of growth originating from agriculture on the poverty reduction aspirations outlined in MKUZA. Evidence from China, Latin America, India, Rwanda and Ghana has been cited about the multiplier impact on poverty reduction of growth originating from agriculture. Thus, aspirations for pro-poor growth could best be accomplished once we pay the much needed attention to investments in agricultural productivity. Agriculture employs 60 percent of the labor force and yet its growth performance of 4.6 percent over the last seven years is considered dismal among the three main sectors of the economy. The question that remains to be answered is whether the government has the political will to transform agriculture, beginning with the critically minimum investment required to increase agricultural productivity. Many fingers point to the Kilimo Kwanza initiative as evidence of the political will of the government to do whatever is necessary to transform productivity in agriculture.

Proven strategies for transforming agriculture hinges on (a) improved access to agricultural financial services; focusing on microfinance and strengthened links between the formal and informal financial units; (b) improved infrastructure, focusing on small-scale irrigation projects in areas where agricultural activity is the mainstay. The commercialized and modernized agriculture for which Zanzibar is aspiring also requires an elaborate marketing infrastructure, both domestic and foreign, as avenues for absorption of the increased output that is expected to arise from increased productivity, and (c) ownership of core household assets including land, water, and human capital.

The assets of the rural poor are often squeezed by population growth, environmental degradation and expropriation by dominant interests. With average land holding of 1.9 hectares in rural communities and 1.7 in the urban areas, and a population growth rate of 3.1 percent, one would want to know the state of these core assets overtime, particularly in the rural communities, where core assets ownership determines the people’s ability to participate in agricultural markets, and secure livelihoods in subsistence farming.

The strategic geographical location of Zanzibar potentially confers comparative advantage on the island, but to exploit this advantage in trade requires the island to possess some strategic product or service with which to engage in trade. Comparative advantage only becomes real if the strategic position of Zanzibar enables the country to offer some product or service at lower costs
than competing countries. Therefore, the next MKUZA should aggressively promote investments in the development of tradable goods and services, by whose virtue the island’s location would truly confer comparative advantage. As mentioned earlier, for Zanzibar, such strategic products could be non-traditional exports whose potentials are yet to be tapped, or water transportation services for which it can build and maintain comparative and competitive advantages.

Persistent trade deficits continue to burden the economy of Zanzibar, and require a trade strategy that will sharply increase exports while limiting imports to essential inputs for domestic production and life’s imperatives such as medical supplies. This requires investments to increase the productivity of firms that produce for export, and it also requires strategies designed to assist MSEs to grow, including access to capital for expansion and innovation.

Currently, there is not much active participation in trade on the part of firms in Zanzibar for several reasons. The smallness of a typical firm in Zanzibar (mostly SMEs) constrains its ability to export. The very few that manage to export are not competitive in the global market due to their high costs of production, arising from their low productivity. Thus, again, we should promote investments in productivity in the SMEs in the exports sector through pro-poor public private partnership. Given that the scope for growth in trade lies in agro-processing, the synergy between the agricultural sector and trade could not be enhanced in any better way than investing in productivity. The institutional environment is indispensable, and we support strategies to create the Business Information Centers, establish institutions to enforce quality standards, and develop capacity in trade and market negotiations. Finally, lack of access to capital is a major constraint to the growth of SMEs. Firms should have access to capital to permit them to develop niche products, and to respond quickly to global market conditions as the market begin to express their preferences for products originating from Zanzibar.

The general perception discerned from interviews with stakeholders, private businesses and individuals is that tourism is leaning toward becoming anti-poor. The reason is that it is not generating incomes for the poor or the local informal enterprise, it is not involving local tour operators, and the rural smallholder farmer is by-passed in the production and distribution of goods and services consumed by the tourism sector. Rather, goods that can be produced by local farmers with the appropriate incentives are imported. In some cases, hoteliers have contracted farmers outside Zanzibar to supply the food requirements of their hotels. Local tour operators cry foul about their exclusion from participation and patronage from tourists.
who arrive through package deals. To make matters worse, the average annual growth in tourist arrivals has declined since 2003, and there has been a worrisome decline in absolute number of arrivals since 2006.

A review of the literature suggests that in order for tourism to maximize its poverty reduction potential, national and international regulations for outbound tour operators from industrial countries should be revised to facilitate partnerships with domestic operations in destination countries. In a six-country study of pro-poor tourism (Ashley, Boyd and Goodwin, 2000) it was revealed that the key to making tourism more pro-poor lies in consumer awareness, and the ability of the poor to organize themselves at the community level in order to engage effectively in tourism, and to exert pressure on tourism businesses to be socially responsible.

Pro-poor tourism strategies are concerned specifically with impacts on poor people, although the non-poor may also benefit. Strategies focus less on expanding the overall size of tourism, and more on unlocking opportunities for specific groups within the industry (DFID, 1999). Pro-poor tourism is not restricted to community-based enterprises or to particular segment of the industry. Rather, it consists of a set of principles rather than a distinct form of tourism. Pro-poor initiatives represent practical steps that can transform strategies and principles into concrete action. An organization that is attempting to implement a pro-poor strategy at a tourist destination might provide employment or casual labour to the poor, or establish supply linkages with poor merchants or farmers and outsource some services, undertake training programmes or joint ventures with communities, among other options. The role of the government may be significant in enhancing or protecting poor people’s access to tourism markets through different policy instruments. These could include making it compulsory to use local guides, establishing and enforcing ethical codes for labour and trade practices as well as zoning regulations, and promoting ethical consumption through public awareness campaigns.

Some recommendations are put forward for the pursuit of strategies to make tourism products and services market-driven, and to make monitoring and evaluation a constant feature of the services provided. Exit interviews may need to be a permanent feature tourist services provided in order to gain knowledge about market trends, and to re-orient services to fulfill trend-based demands. We also recommend that any appearance of price discrimination be eschewed. The elasticity of demand implications of the differential prices paid by tourists for accommodation and other services could explain some of the decline in visits, because there are other competitors in the vicinity. Again the synergy between tourism and agriculture lies in their abilities to complement each other in an input-output
relationship. Tourism provides ready markets for agricultural products, and it could provide the impetus for investment in increased productivity in agriculture.

We also emphasize training for the personnel of all institutions involved in tourism, and with clear delineation of the responsibilities of the institutions that coordinate tourism. The curriculum at the Tourism Institute should reflect the needs of all major stakeholders in the industry. Furthermore, the institutions that coordinate tourism in Zanzibar should require major participants in tourism to endeavor set aside some proportion of contract businesses to local tour operators, while also setting aside some proportion farm products distribution to hotels, for smallholder farmers and farmer associations. It is the proven way to ensure the participation of local businesses and farmers in the tourism industry.

The manufacturing sector has the potential to drive economic growth in Zanzibar by capitalizing on the backward linkages provided by agriculture and leading in production and employment of the island’s labor force. Considerable opportunities exist in agro-processing, adding value to primary products for exports, as well as staple foods for domestic consumption and exports. Also, growth in tourism would provide markets for its goods domestically, regionally and globally if manufacturing can create and maintain competitive advantage in agro-processing for niche markets. However, firms in Zanzibar are confronted with some unique constraints and challenges.

The main challenges in manufacturing include the use of low level technology with low knowledge content; domination by micro and small-scale enterprises (MSEs); Low capital intensity in production (compared to comparable firms in mainland Tanzania and other countries in sub-Saharan Africa); low total factor productivity; and lack of access to finance for expansion.

These challenges essentially reveal the intervention strategies needed to address them. We recommend strategies that encourage local firms to invest in the use of state-of-the-art technologies in their product lines. We also recommend a strategy that encourages the firms, irrespective of size, to invest in the development of human capital. Furthermore, a strategy that will liberalize access to capital for expansion is urgently needed. Lastly but not the least, we need a strategy that promotes investment in productivity particularly in agro-processing. There is considerable room for growth in manufacturing through agro-processing, adding value to hitherto unprocessed primary products for both domestic consumption and exports. Specialization in processing would confer considerable comparative and competitive advantages to manufacturers.
Informal and formal economies are intrinsically linked. In real life, large formal enterprises are often involved in setting formal policies and regulations which are often biased towards formal firms, to the detriment of both informal enterprises and informal wage workers. However, to increase their competitiveness, firms in the formal economy typically try to reduce their input costs, including labour costs by promoting informal production and employment relationships with informal economic units and workers. Instead of attempting to formalize the informal economy, what is needed is a policy response that promotes equitable linkages between the two economies, and also balances the relative costs and benefits of working formally and informally. There is a role for all stakeholders, including both informal and formal firms in promoting socially responsible corporate practices, and involving organizations of informal workers in policy-making.

The potential role of the private sector as a partner in advancing economic progress in Zanzibar is very well acknowledged in MKUZA. For most of the strategic interventions in MKUZA, the Government has placed emphasis on creating the enabling environment for private sector activities to flourish. Under MKUZA, the private sector had been expected to take the leadership in capitalizing on opportunities made available by the respective interventions. Unfortunately, the sector has not demonstrated the capacity to take advantage of the opportunities availed to it. The size of the sector has remained small, and operations limited mainly due to the unfavorable financial environment in Zanzibar. There is a dire need for an investment bank or a development bank from which private sector firms can have reliable access to funds for expansion and innovation. There is the need for renewed private sector investments in manufacturing, particularly in agro-processing both from domestic and foreign sources. In this respect, the role of Zanzibaris in the Diaspora in terms of joint business ventures at home and/or remittances to support family businesses at home cannot be over-emphasized. These forms of contributions are already a force to reckon with in other countries in SSA.

Considerable strides have been made in governance, as elaborated in the MKUZA’s Annual Implementation Review (M-AIR) 2007/2008. However, certain challenges still remain. These challenges point to the inadequacy of human and institutional capacity, and require sustained human and institutional development programmes to equip MDAs and NSAs to deliver services effectively. The strengthening of the capacity of government institutions is indispensable in enhancing the ability of the government to implement its decentralization programme effectively.
There are several ways in which HIV/AIDS can frustrate efforts to promote economic growth and reduce poverty. In societies with high prevalence of HIV, it drastically reduces household incomes through morbidity or death, and loss of productivity and thereby deepening poverty. It also depletes household assets (which are sold to pay for treatment and other related expenses), and exhausts social safety nets, leading to an erosion of the traditional mechanisms that cushion farming households against transitory crop failures and food insecurity. By its epidemiological profile, Zanzibar’s HIV/AIDS situation is considered to be a low intensity generalized epidemic (RGoZ 2007; THMIS 2008). However, HIV infection can increase dramatically if it is not confronted adequately. Universally, mainstreaming HIV/AIDS in developmental activities has been found to be effective in promoting awareness and reducing infection rates.

Because the poor tend to rely much more on environmental goods and services (such as firewood), and are less able to deal with the effects of environmental degradation and loss, the maintenance of good environmental status is core to meeting their basic needs and alleviating poverty over the short and medium term. Zanzibar’s Vision 2020 recognizes that sustainable environmental management is crucial for Zanzibar’s future. Natural capital is the major asset of the poor, and they are much more dependent on it. Therefore, in partnership with its development partners, Zanzibar can invest in building capacity of community-based cooperatives or organizations to manage natural resources. To ensure pro-poor results, particular attention should be paid to a meaningful participation of the poor in governance processes.

According to the 2002 Population Census, 52 percent of the 517,717 economically active population were women. Women also make up 70 percent of the agricultural labor force in rural Zanzibar. However, gender disparities in socio-economic, political and cultural realms are supported by evidence. Women are engaged mostly in the informal sector particularly in petty businesses that are hardly sustainable due to lack of financial capital or lack of entrepreneurial skills. Only 36 percent of employees in the formal economy are women, and the labour force participation ratio of women to men in the formal sector employment is 1:2. In the pursuit of higher education 275 women (39 percent) are enrolled out of a total of 703 students in the State University of Zanzibar. In terms of women’s representation in politics, the disparity is even more pronounced (see Table 3.1). Women constitute 23 percent of all Ministers, 17 percent of Deputy Ministers, 14 percent of Principal Secretaries, 0 percent of Regional Commissioners, and 20 percent of District Commissioners. Despite their productive role as 70 percent of the labour force in agriculture, they own less than 20 percent of the farm land. According to Zanzibar’s rural finance survey in 2006, women were 8 times less likely to obtain credit from banks and other financial institutions than men due to lack of requisite collateral.
Furthermore, women tend to bear more of the burden of HIV/AIDS in Zanzibar. While Zanzibar is considered a low prevalence country, compared to other countries in the SSA region, its 0.6 percent prevalence rate among sexually active adults (15-49 years of age), breaks down to 0.9 percent prevalence for women and 0.2 percent for men. Women show infection rates that are four to six times higher than their male counterparts (Situation and Response Analysis, 2003).

Given the total land area and the current level of population, Zanzibar is already considered to be the most densely populated part of East Africa. Its population growth rate of 3.1 percent per annum is viewed by many as a formidable barrier to growth and reduction in poverty. This calls for a concerted effort on the part of Government to implement a culturally acceptable population policy aimed at mitigating the adverse impact of population growth on economic growth and poverty reduction aspirations. RGoZ may need to consider mainstreaming a culturally-tested population policy in its growth and poverty reduction strategies.
CHAPTER 1: BACKGROUND

1.1 INTRODUCTION

Zanzibar has recorded consistently positive growth performance averaging 6.0 percent since 1995, with the growth rate reaching a peak of 9.3 percent in 2001. The projected growth rate for 2008 was 6.8 percent before the onset of the global economic crisis. Not surprisingly, the growth rate dipped to 5.4 percent in 2008. Economic growth has been driven mainly by the growth in the services sector which accounted for 43.9 percent of Zanzibar’s GDP in 2007, with agriculture and industry following in that order with 27.3 percent and 15.4 percent respectively (Socio-Economic Survey 2008). The source of dominance of the services sector has been the tourism industry which has grown considerably ever since reform measures were instituted by the Government of Zanzibar in the mid-1980s. Consequently, the overall growth of the services sector has been consistently high, reaching 10.4 percent in 2007 before mellowing to 6.4 percent in 2008. Nonetheless, both rates outpaced that of agriculture.

In spite of the apparent overall fine growth record for the economy as a whole, there is still a considerable gap between current actual growth rates and the target of 10 percent set in the Zanzibar Strategy for Growth and Poverty Reduction (ZSGPR also known by its Swahili acronym as MKUZA). A quick review of sectoral growth pattern reveals stark variations in the rates of growth within and between the leading sectors of the economy. Furthermore, for some sectors, growth rates have also lagged behind MKUZA target rates. For example, agriculture was projected to maintain stable sustainable growth from 2.4 percent in 2005 to 6 percent by 2010. In reality, agricultural growth since then has been anything but stable, from 19 percent between 2005 and 2006 to -0.4 percent in 2007, but again rebounded to 5.7 percent between 2007 and 2008.

To stimulate overall growth, the Revolutionary Government of Zanzibar (RGoZ) adopted a “quick win” approach with priorities focused on few selected areas. That notwithstanding, there is a general consensus that reinforcement is needed to augment these early attempts by strengthening cluster approach as opposed to sectoral approach to growth. Of greater concern is the fact that the growth registered since 1995, and more relevantly since the inception of MKUZA, has had little impact in reducing income poverty. The two basic components of income poverty- Basic Needs and Food Poverty- declined to 49 percent and 13 percent
respectively in 2004/2005 from their 1990/91 levels of 60 percent and 22 percent respectively. Although there are no corresponding figures for 2007/2008, indications are that no marked improvements have been observed in both components of income poverty. When compared with similar growth episodes in other countries in Sub-Saharan Africa (e.g., Ghana, Rwanda, and Uganda) Zanzibar’s experience raises questions about the quality of growth. While the average growth performance of 6.0 percent is not insignificant, there are concerns that there may be other growth drivers yet to be identified that could help to boost Zanzibar’s growth performance and to enhance its impact on poverty reduction.

The foregoing developments spurred debates on the need to revise the national growth strategy, by analyzing the growth drivers already identified in the initial implementation phase of MKUZA, to identifying additional growth drivers, if any, that may be expected to strengthen the economy’s growth trajectory, and to serve as guides for the design of successor strategies for the next phase of MKUZA. The latter has been Zanzibar’s guiding framework for growth and poverty reduction in the second half of the 2000s. This set of second-generation Poverty Reduction Strategies (PRSs) generated a strong agenda aimed at sustaining broad-based growth while also emphasizing quality of life, social well-being and good governance. In its current design, MKUZA has a harmonized terminal year of 2010, to allow for synchronization of the next phase. To inform a successor strategy, it became imperative to review the existing growth strategy with the view to sharpening the focus of the strategies to be implemented in the next stage of MKUZA. Therefore, the objective of this study is to provide the necessary inputs to the development of the next strategy for pro-poor growth.

1.2. THE CONTEXT

Zanzibar is a small island country in the Indian Ocean, consisting of two main islands, Unguja and Pemba, and several other smaller islets. With a combined land area of about 2,643 square kilometers\(^1\) (Unguja 1658 sq. km and Pemba 985 sq. km), Zanzibar is a semi-autonomous part of the United Republic of Tanzania. In 2005, some 1,072,000 people lived on the island, with the population growing at an average rate of 3.1 percent per year. Agriculture remains a very important economic sector in terms of its inputs into, and linkages with, other sectors, as well as being the source of livelihood for over 70 percent of the island’s population. Also, 99.7 percent

\(^1\) Revolutionary Government of Zanzibar, Zanzibar Food Security and Nutrition Programme, April 2008
of all agriculture households are involved in either sole crop production or mixed crop and livestock production.\(^2\) Overall, 43 percent of all households are engaged in agriculture. Currently, it contributes about 31 percent to Zanzibar’s Gross Domestic Product, second only to the services with a share of 43 percent (Socio-Economic Survey, 2008). Agriculture also employs about 40 percent of Zanzibar’s labor force, and brings home 70 percent of the island’s foreign exchange earnings.

Trends in the demographic characteristics of the island show a decline in household size over time, with urban and rural household sizes currently at 6 and 5 respectively. The population structure is young with 44 percent of the population below the age of 15\(^3\). When one adds those aged 15 to 19, the proportion of the population below the age of 20 rises to 56 percent. The economically active population (15-64) constitutes some 53 percent of the population. However, the mean age dependency ratio fell from 1.7 in 1991 to 0.99 in 2005.

The 2004/05 HBS reported that overall, a quarter of adults in Zanzibar had no education. A significant proportion of households are illiterate, with some 33 percent of household heads with no education. The range of illiteracy is wide from 14 percent in Margharibi district to 70 percent in Micheweni. Most heads of households are self employed, and the commonest single economic activity is working in agriculture.

Female heads of household are more likely than males to work in agriculture, and less likely to be employees. Information on individuals’ main economic activities shows that the most common activity is farming and livestock keeping particularly in rural areas. Other self-employment activity is higher in urban areas, and males are more likely to be self employed outside farming than females. About 85 percent of rural households owned hoes and other farming tools, and about 60 percent of rural households reported owning a land for agriculture or grazing. On the average, households own about 2 acres, with rural households owning slightly more (1.9 acres) than urban households (1.7 acres). The distribution of households by landownership and use for agricultural purposes is shown in the table below.

\(^2\) Zanzibar Food Security & Nutrition Situational Analysis, June 2006. MALE/MOHSW
\(^3\) Household Budget Survey 2006
Table 1.1: The Distribution of households by land ownership in Zanzibar.

<table>
<thead>
<tr>
<th>Description of Household</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own land for Agriculture</td>
<td>59.5</td>
<td>20.5</td>
<td>45.2</td>
</tr>
<tr>
<td>Use land for Agriculture but not own</td>
<td>42.6</td>
<td>11.8</td>
<td>31.3</td>
</tr>
<tr>
<td>Both use land owned and not owned for agriculture</td>
<td>18.6</td>
<td>4.8</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Source: HBS, 2006

Using consumption expenditure information to provide a measure of income poverty, the two components of income poverty and the poverty lines are as follows: Food Poverty Line (TZS 12,573) and Basic Needs Poverty Line (TZS 20,185). The income poverty profile is shown in Table 1.2. In Zanzibar, 13 percent of the population lives below the food poverty line, and almost half of the population (49 percent) live below the basic needs poverty line. Food poverty is highest in Micheweni (21 percent) and Wete (18 percent) Districts, and in addition to these Districts with 13 percent and 15 percent respectively, basic needs poverty is also highest in Magharibi (17 percent) and Mjini (16 percent) Districts as well.

Table 1.2: Distribution of Poor Persons by Type of Poverty and Area

<table>
<thead>
<tr>
<th>Description</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>640,098</td>
<td>415,827</td>
<td>1,055,925</td>
</tr>
<tr>
<td>Percentage of Total Population</td>
<td>60.6</td>
<td>39.4</td>
<td>100</td>
</tr>
<tr>
<td>Number of Food Poor Persons</td>
<td>101,975</td>
<td>37,176</td>
<td>139,150</td>
</tr>
<tr>
<td>Percentage of Food Poor Persons</td>
<td>73.3</td>
<td>26.7</td>
<td>100</td>
</tr>
<tr>
<td>Number of Basic Needs Poor Persons</td>
<td>349,563</td>
<td>168,556</td>
<td>518,119</td>
</tr>
<tr>
<td>Percentage of Basic Needs Poor Persons</td>
<td>67.5</td>
<td>32.5</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: 2004/05 Zanzibar Household Budget Survey (HBS).

1.3 STUDY OBJECTIVES AND SCOPE OF WORK

The main purpose of the review is to provide information to support the development of successor strategies for the next phase of MKUZA. Therefore, the exercise is to reflect on the thrust of the current framework on growth and poverty reduction, in order to create a new
framework with sharper focus on untapped potentials for broad-based growth and poverty reduction. The specific objectives of this review are:

- To identify a compelling set of criteria which can be used to identify new growth drivers;
- To identify and promote additional drivers of growth in terms of development cluster by sectors, locations, value chain, policy drive, etc. and implications of such drivers on pro-poor and distribution issues;
- To identify complementary strategies or major shifts needed to support such growth drivers (i.e. generation of skills, compositions, etc.); and
- To provide recommendations for the creation of a more focused strategy that will unlock growth potentials and achieve significant improvements in poverty reduction outcomes.

The scope of the review consists of a set of actionable tasks strategically designed to address the broad objectives outlined above. These tasks include:

- The review of the current Zanzibar Growth Strategy;
- Assessment of trends of historical, present, future projection of growth of the Zanzibar economy;
- Assessment of underlying driver factors (with respect to policy factor, geo-political factors, natural and created comparative advantages, etc.) of such growth trends and core assumptions, especially in relation to future projections in a rapidly globalizing world. Since agriculture will continue to be a priority area in the medium term, the analysis will provide an indication and explanation of the role of agriculture (as a backbone of the economy) in the next strategy;
- Analysis of drivers of growth, forward and backward linkages or spatial linkages and their relation to labour absorption (employment creation, skills demand, and skills supply responses and constraints). Among the issues to be analyzed is whether those drivers of growth will directly impact the poor or whether the benefits will indirectly trickle down through the redistribution effects;
- Description of technological and structural changes needed for the identified growth drivers (e.g., sources of energy, nature of the transportation layout, other infrastructure, ICT, etc. The analysis will endeavour to establish the human resource development strategy that the country will need;
- An examination of the informal economy in Zanzibar, the main source of livelihood for the youth and women in Zanzibar. Issues to be addressed include how to formalize informal activities in Zanzibar, and how to promote descent jobs in the informal economy;
An assessment of the extent of social disparities between men and women (i.e., in terms of assets ownership and decision making framework) affect equity and equality in Zanzibar;

An assessment of political will as one of the growth drivers.

Recommendations with respect to measures for addressing identified shortfalls and proposition of ways to improve implementation effectiveness of the successor strategy.

1.4. LITERATURE REVIEW: ANALYZING GROWTH AND ITS IMPACT ON POVERTY

There are a number of tools used by researchers in investigating the relationships that exist between growth on one hand, and the changes in poverty and inequality on the other. A brief introduction of these tools has been provided by Andy McKay (2005) as part of the “Operationalizing Pro-Poor Growth” (OPPG) work programme, a joint initiative of AFD, BMZ (GTZ, KfW Entwicklungsbank), DFID and the World Bank. A more thorough, detailed and analytic explanation is provided in the methodological note prepared by Fiestas and Cord (2004), as well as the background paper by Ravallion (2004). While these tools have been used in several country analyses, their application requires detailed understanding of the country context, and the other country-specific analysis.

It is important to recognize that there are both macro and micro concepts of growth, and both are relevant in discussing pro-poor growth. At the macro level, growth is viewed as a change in GDP or GDP per capita, measured generally at country level as part of national accounts. Being aggregate data, this can generally be disaggregated by productive sector (e.g., agriculture, industry and services) or type of expenditure (consumption or investment). To examine the distributional impact of growth (e.g. location, income group, household characteristics), will require micro level data, usually derived from household surveys that measure income and consumption. In understanding the distributional pattern of growth we are specifically looking at the relationship between macro-level economic growth and changes in individual household incomes or consumption levels. Sometimes, policy-makers wish to know about the sectoral pattern of growth (i.e., which sectors are expanding or contracting more quickly). This enables an understanding of the sectors that are driving growth or accounting for the decline. It is also important for policy-makers to be aware of the spatial pattern of growth in a country, given the potential political sensitivity and its relevance for poverty reduction.
The most important goal for developmental effort has become poverty reduction, which can be achieved through economic growth and its distributional impact on the poor. Overall, the relation between growth and poverty is a complex one, and is also determined by the level and changes in inequality. Pro-poor growth is concerned with the interrelation between growth, poverty, and inequality. Growth is pro-poor if the change in inequality that accompanies growth reduces the total poverty, or in the language of development economics, if the total elasticity of poverty is greater than the growth elasticity of poverty (Kakwani et al., 2004).

Ravallion and Chen (2003) proposed a measure of pro-poor growth in relation to the ordinary growth rate by the simple equation:

\[
\text{Rate of Pro-Poor growth} = \text{Distributional correction} \times \text{Ordinary growth rate}
\]

When poverty reduction is the objective for which economic growth is one of the instruments (as is the case with MKUZA), then the “rate of pro-poor growth”, defined as the mean growth rate of the poor, is the right way to measure growth consistently with that objective.

A common empirical finding in the recent literature is that changes in inequality at the country level have virtually no correlation with rates of economic growth (Ravallion and Chen, 1997; Ravallion, 2001; Dollar and Kraay, 2002). Amongst growing economies, inequality tends to fall as often as it rises across 117 spells between successive household surveys for 47 countries. The finding is that growth tends to be distribution neutral on average, i.e. growth has an extremely weak link to the changes in inequality that occurs. The correlation coefficient was only 0.06 between annualized changes in the Gini index and annualized rates of growth in mean household income or consumption as estimated from the same surveys. The fact that growth tends to be distribution neutral on average makes it not surprising that there is a finding in the literature that absolute poverty measures tend to fall with economic growth (World Bank, 1990, 2000; Ravallion, 1995; Ravallion and Chen, 1997; Fields, 2001; and Kraay, 2003). The elasticity of the $1/day poverty rate to growth in the 47-country survey is around -2, i.e., a 1% growth will produce 2% reduction in poverty.
1.5. METHODOLOGY

In this desk review, we relate the record of economic growth in Zanzibar to the distributional patterns that have been documented. We follow the practice of examining the impact of growth by analyzing disaggregated sectoral pattern of growth, as well as spatial and other sub-national disaggregation. A case study of the growth experience of Korea analyzes changes in poverty and how it has been affected by the economic growth of Korea (Kakwani et al., 2004). The study looked at the annual growth record in relation to the percentage poor, the poverty gap ratio, and the severity of poverty ratio. The data was based on Family Income and Expenditure Surveys that were conducted every year, and utilized the Minimum Cost of Living (MCL) basket developed in 1994 by the Korean Institute for Health and Social Affairs (KIHASA) as the poverty line. While we would have liked to replicate such an analysis to describe the changes that have occurred in poverty in relation to Zanzibar’s growth experience, paucity of data, particularly the absence of annual budget surveys that make available annual consumption expenditures, compels us to limit our analyses to the disaggregated data that can be easily accessed. The 2004/2005 Household Budget and the Socio-Economic Survey 2008 served as the primary sources of disaggregated data. The Zanzibar Economic Bulletin also provides valuable information on the current state of the economy of Zanzibar. Coming closer home, we examine the experience of Zanzibar by drawing on the poverty reduction experiences of other countries in Sub-Saharan Africa. In this respect we draw on parallel examples from Ghana, Rwanda, and Uganda.

One of the steps in developing a robust and prioritized growth strategy is the identification of growth drivers, and the formulation of appropriate strategies around those drivers. The PHDR 2007 proposed a clear methodology for identifying growth drivers based on national comparative and competitive advantages, along with scale and impact. By this methodology, two growth drivers and two supporting sectors were identified as the basis for the formulation of the growth strategy currently under review, i.e., Zanzibar’s Growth Strategy (ZGS). The task in this study, inter alia, is to review the ZGS and other strategic documents with the view to uncovering bottlenecks that may have constrained the unleashing of the growth potentials of these drivers as a precondition for poverty reduction. The study shall be guided by the PHDR methodology in assessing the selected growth drivers. In the process, there will be opportunities to suggest a compelling set of criteria which can be used to identify new growth drivers (if any), and to identify and promote such new drivers in terms of development clusters, locations, value chain, policy drive, etc., and to examine their implications on pro-poor growth and distribution issues. Finally, if any new drivers are identified, our tasks will include prescription of complementary strategies needed to support such growth drivers.
2.1. THE ZANZIBAR GROWTH STRATEGY

The development of MKUZA benefited from the review of the achievements and challenges that were experienced during the implementation of ZPRP. These included:

i. Rising but cyclical rates of growth of the real GDP;
ii. A close association between real GDP growth and the performance of the agricultural sector;
iii. A single-digit inflation rate that had been rising over the past decade;
iv. Growth that was far from being broad-based and pro-poor
v. A trade sector that was consistently in deficit, with exports largely consisting of agricultural products, and services dominated by dominated by tourism; and
vi. An economy that attracted limited direct foreign investment.

In the context of these challenges, the Government of Zanzibar set out to develop a growth strategy to complement MKUZA which would also be consistent with the socioeconomic developmental goals as articulated in the Zanzibar Vision 2020, i.e., to eradicate abject poverty and attain sustainable human development. Thus the Zanzibar Growth Strategy (ZGS) embodies the desire to address the challenges outlined above, and to move the society towards sustainable, pro-poor growth with progress in human development.

In its current form, the Zanzibar Growth Strategy (ZGS) is a result-oriented strategy which is built on a comprehensive framework for promoting economic growth. It is an implementing path for Cluster 1 in the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP), also known by its Swahili acronym as MKUZA. Its main focus is to boost economic growth in Zanzibar’s economy in general, and to enhance growth in key growth sectors. The ZGS is designed to inform implementation of the initiatives within MKUZA that are aimed at promoting economic growth. The development of MKUZA itself was informed by the review of achievements and challenges faced by its predecessor, the Zanzibar Poverty Reduction Plan (ZPRP). Thus, the experience gained in the implementation of ZPRP did shed some light on the goals for which MKUZA was designed. The expediency of positive and accelerating economic
growth, a stable macroeconomic environment, and the development of priority sectors as foundations for poverty reduction efforts became apparent, and MKUZA was aimed at achieving three broad goals of (a) broad-based, sustainable growth, (b) improved social well-being, and (c) promotion of good governance.

It has been stated elsewhere that the strategic objective of ZGS is to realize rapid, broad-based growth that is shared broadly in the society, and has the qualities of significant poverty reduction. The policies and strategies that were adopted were based on three key processes:

- Capital accumulation through investment in human and physical capital, including infrastructure;
- Technological progress through innovation and technological learning that will lead to the introduction of new products and services, as well as new improved methods of production; and
- Structural transformation that brings about changes in the composition of production within and between sectors, as well as changes in the pattern of linkages between sectors.

While the growth strategy was designed in the context of a market economy and private sector-led development, it recognized the role of government in creating the enabling environment for the market to work efficiently. This implies the creation of policies, programs and institutions that are critical in attracting the investment and enhancing productivity increases that will drive and sustain economic growth. Because productivity increases are linked to human capital, effective policies for human development constitute a vital component of the Zanzibar Growth Strategy. The strategic interventions are designed specifically to address constraints faced by the key players in the Zanzibar economy, including those who currently operate in the informal economy, and to strengthen public sector institutions with the intention of making the market work better for all.

Under competitive conditions, sustainable growth can be achieved if the economy is competitive and capable of withstanding local, regional, and global competition. Given the small size of the economy of Zanzibar, along with its small domestic market, it is apparent that a fuller use of the external market was needed to complement the domestic market in order to achieve high and sustainable pro-poor growth. Therefore, there was the need to identify lead sectors (growth
Growth drivers and their implications for poverty reduction

drivers), on which the growth strategy would be based, with other sectors providing the supportive role. The two sectors selected to provide the leadership role were trade and tourism. The selection was based on Zanzibar’s comparative advantage (in the short-run) conferred by its strategic geographical position in the region, along with the rich history of Zanzibar, and also the desire to promote competitiveness by focusing on Zanzibar’s comparative advantage conferred by these natural endowments. The objective is to transform the comparative advantage into competitive advantage over time through the development of the appropriate market linkages, as well as the development of the human capacity required to sustain such competitiveness. Overall, consideration was to be given to the efficient use of Zanzibar’s natural resource endowments in order to preserve its comparative advantage over time.

One of the tasks in this study is to analyze these growth drivers in the context of the strategic objectives of broad-based, pro-poor growth, and to identify and promote additional drivers of growth and their implications on the said objectives. The task also includes the identification of the appropriate complementary strategies or major shifts needed to support such growth drivers.

The paper begins this task in the next section by examining the historical, present and future course of growth in Zanzibar, accompanied by in-depth analysis of trends in sector proportions in Zanzibar’s GDP, as well as the trends in the dominant growth drivers within each sector. The objective is to identify activities that hold the potential to drive their respective sectors towards accelerated growth. The identification of any new growth drivers will be in accordance with the PHDR methodology based on comparative and competitive advantages. In addition, other criteria with short term and medium-long term potentials towards the strategic goals of structural transformation, human development and capital accumulation will be used in an attempt to identify other growth drivers. In doing so, emphasis will also be placed on synergies between the clusters upon which MKUZA is built. In discussing the new growth drivers, evidence from other growth and poverty reduction experiences on the continent and elsewhere will be brought to bear on the discussion.

2.2. THE HISTORICAL, PRESENT, AND FUTURE COURSE OF GROWTH

Table 2.1 shows that for the past fourteen years (1995-2008), the economy of Zanzibar has shown positive growth from 3.4 percent in 1995 to 6.3 in 2007 and to 5.4 in 2008. There were some obvious fluctuations as well. The rate of growth declined from the peak of 9.3 percent in
2001 to 4.9 percent in 2005, rising back to 6.3 in 2007 before dipping to 5.4 in 2008. With the exception of the periods 1999 -2000 and 200-2001 when the growth rate declined by some 105 percent and rebounded by another 158 percent respectively, the fluctuations have been within a narrow range. In accordance with the objectives of MKUZA, the growth rate was projected to reach 10 percent by 2010 in order to support 50 percent reduction in poverty by the year 2010.


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</thead>
<tbody>
<tr>
<td>GDP current prices</td>
<td>85.4</td>
<td>111.5</td>
<td>136.4</td>
<td>149.4</td>
<td>165.9</td>
<td>190.5</td>
<td>222.3</td>
<td>255.9</td>
<td>286.7</td>
<td>344.3</td>
<td>394.9</td>
<td>510.0</td>
<td>586.4</td>
<td>747.9</td>
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<tr>
<td>GDP constant 2001 prices</td>
<td>146.6</td>
<td>170.1</td>
<td>180.0</td>
<td>182.8</td>
<td>196.4</td>
<td>203.5</td>
<td>222.3</td>
<td>241.4</td>
<td>255.6</td>
<td>272.0</td>
<td>287.5</td>
<td>301.8</td>
<td>322.2</td>
<td>338.4</td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>3.4</td>
<td>4.5</td>
<td>5.8</td>
<td>6.2</td>
<td>7.4</td>
<td>3.6</td>
<td>9.3</td>
<td>8.2</td>
<td>5.9</td>
<td>6.4</td>
<td>4.9</td>
<td>6.0</td>
<td>6.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Pop.(,000)</td>
<td>790</td>
<td>814</td>
<td>836</td>
<td>864</td>
<td>889</td>
<td>916</td>
<td>944</td>
<td>982</td>
<td>1,011</td>
<td>1,041</td>
<td>1,072</td>
<td>1,104</td>
<td>1,137</td>
<td>1,171</td>
</tr>
<tr>
<td>Per capita USD</td>
<td>175</td>
<td>229</td>
<td>259</td>
<td>266</td>
<td>241</td>
<td>260</td>
<td>265</td>
<td>276</td>
<td>273</td>
<td>303</td>
<td>327</td>
<td>368</td>
<td>414</td>
<td>534</td>
</tr>
<tr>
<td>Per Capita TZS</td>
<td>108</td>
<td>137</td>
<td>163</td>
<td>173</td>
<td>187</td>
<td>208</td>
<td>235</td>
<td>261</td>
<td>284</td>
<td>331</td>
<td>368</td>
<td>462</td>
<td>516</td>
<td>639</td>
</tr>
</tbody>
</table>


Using the Actual Rate of Progress (ARP) calculation, we looked at three base year scenarios to determine if the target rate of 10 percent is achievable. Using 1995 as base year, and 2008 as the current year, we calculate that at the 1995 growth rate of 3.4 percent, the 10 percent targeted rate would require a rate of progress (the annual growth performance increment) of 0.769 percent to reach the target rate. Based on the current year (2008) actual growth, the actual rate of progress (APR) is 0.045. At this actual progress rate, the achievable rate of growth in 2010 is 5.5 percent. When the base year is shifted to the year 2000, the required rate of progress rises to 1.25 percent, as the actual rate of progress also rises to 0.0625. At this actual progress rate, the projected growth rate in 2010 is 5.6 percent. Finally, with 2005 as the base year, the projected growth rate is still 5.5 percent. Therefore, one can safely conclude that, short of any unforeseen external shock that may cause a near miraculous jump like that which was observed between 2000 and
2001, it is unlikely that the projected growth rate of 10 percent is achievable within the given time frame.

The driving forces behind the observed growth performance are deducible from Table 2.2 below. The increasing share of activity by the services sector is evident in the table. The share of the sector peaked in 2003 at 52 percent, but it began to taper-off beginning in 2006.

**Table 2.2: Sector Proportion in GDP (%) 1995-2008.**

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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>22</td>
<td>22</td>
<td>20</td>
<td>20</td>
<td>22</td>
<td>23</td>
<td>25</td>
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<td>23</td>
<td>23</td>
<td>30</td>
<td>28</td>
<td>31</td>
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<tr>
<td>Forestry, Fisheries</td>
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<tr>
<td>Industry</td>
<td>18</td>
<td>16</td>
<td>15</td>
<td>13</td>
<td>13</td>
<td>11</td>
<td>11</td>
<td>12</td>
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<td>13</td>
<td>14</td>
<td>15</td>
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<tr>
<td>Services</td>
<td>44</td>
<td>47</td>
<td>48</td>
<td>48</td>
<td>47</td>
<td>49</td>
<td>48</td>
<td>49</td>
<td>52</td>
<td>51</td>
<td>51</td>
<td>44</td>
<td>44</td>
<td>43</td>
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<tr>
<td>Adjustment to market prices</td>
<td>16</td>
<td>15</td>
<td>16</td>
<td>19</td>
<td>18</td>
<td>17</td>
<td>16</td>
<td>14</td>
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<td>13</td>
<td>13</td>
<td>12</td>
<td>13</td>
<td>12</td>
</tr>
</tbody>
</table>

*Source: Socio-economic Surveys 2006, 2008. OCGS*

The share of the services sector has remained relatively stable (around 44 percent) in the last three years, and may have actually begun to decline. However, one may speculate that the apparent decline to 43 percent in 2008 is the result of the weak growth in tourism. On the other hand, the share of agriculture (including forestry and fisheries) which seemed to be declining, in accordance with development theory, suddenly began to pick up in 2006 at 30 percent from 23 percent in 2005. During that period, industrial growth also maintained its average share of GDP at 13 percent. The relative shares of activities within each sector in the last six years (2003 to 2008), as well as the average shares of activities within the sector are captured in Table 2.3 to give an indication of the main activities that have gained economic significance in recent years.

The re-emergence of crops cultivation as a potential growth driver within the agricultural sector is worth noting. In fact Table 2.4 shows that in the referenced period, crops cultivation grew at a rate of 7.1 percent, and contributed approximately 9 percent of the overall growth in the economy. With its strong performance in the last couple of years, and given the right incentives, access to markets, access to extension services etc, crops production could propel agriculture
from support -sector status to a bona fide growth driver in the economy of Zanzibar, as has been observed in many “agriculture-based” economies (World Bank 2007). Fishing and livestock remain a distant second and third respectively to crops production within the agricultural sector.

Within the industry sector, manufacturing and construction seem to be the most significant activities. However, Table 2.4 paints a different picture in terms of growth in recent times. Whereas construction demonstrated a strong growth and maintained its 6 percent share of activity, it is mining and quarrying that grew at the rate of 15 percent, and contributed approximately 14 percent to overall growth in the economy. However, paradoxically, its average share was only 0.8 percent. In the services sector, transport and communications, trade and repairs, and hotels and restaurants continued to maintain their relative shares of activity at 8 percent, 9 percent and 7 percent respectively, but as Table 2.4 reveals, it was growth in transport and communications that dominated growth in that sector with a 17.4 percent growth rate, and accounted for approximately 6 percent of overall growth in the economy. Hotels and restaurants followed closely with a growth rate of 9.4 percent, and real estate and business services in a distant third with a growth rate of approximately 5 percent. These sectoral growth patterns are instrumental in determining the level and the rate of future growth. More importantly, they provide insight to the selection of potential growth drivers for the economy of Zanzibar.

2.3. ANALYSIS OF GROWTH DRIVERS

It is helpful to begin with a brief diatribe on the process of economic growth, in an attempt to lay the theoretical basis for assessing the growth drivers around which the Zanzibar Growth Strategy has been designed. The drivers will be discussed in the context of the growth profile described in the previous sections, in relation to the results achieved, and the challenges faced in Cluster I as outlined in the MKUZA-AIR.

Economists have conceptualized the process of economic growth around three basic models:

(a) Specialization and trade model;
Table 2.3: Sectoral Pattern of Growth in Zanzibar, 2003-2008

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>ACTIVITY</th>
<th>2003</th>
<th>2008</th>
<th>AVG. SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>Crops</td>
<td>12.4</td>
<td>21.5</td>
<td>16.4</td>
</tr>
<tr>
<td></td>
<td>Livestock</td>
<td>4.4</td>
<td>4.6</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>Fishing</td>
<td>4.3</td>
<td>4.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Construction</td>
<td>4.8</td>
<td>7.3</td>
<td>6.6</td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>5.9</td>
<td>4.3</td>
<td>4.9</td>
</tr>
<tr>
<td></td>
<td>Mining &amp; Quarrying</td>
<td>0.8</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Services</td>
<td>Transport and Comm.</td>
<td>8.2</td>
<td>8.3</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td>Trade &amp; Repairs</td>
<td>9.7</td>
<td>8.3</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>Hotels &amp; Restaurants</td>
<td>5.6</td>
<td>7.4</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Source: Socio-economic Survey, 2008. OCGS, Zanzibar

Table 2.4: Sectoral growth rates in Zanzibar, 2003-2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>5.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Crops</td>
<td>7.1</td>
<td>8.8</td>
</tr>
<tr>
<td>Livestock</td>
<td>3.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Forestry &amp; Hunting</td>
<td>3.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Fishing</td>
<td>3.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Industry</td>
<td>9.9</td>
<td>37.5</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>15.1</td>
<td>13.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Electricity &amp; Water Supply</td>
<td>5.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Construction</td>
<td>18.3</td>
<td>16.8</td>
</tr>
<tr>
<td>Services</td>
<td>5.1</td>
<td>19.3</td>
</tr>
<tr>
<td>Trade &amp; Repairs</td>
<td>3.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>9.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>17.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>9.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Real Estate &amp; Business Services</td>
<td>4.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Public Administration</td>
<td>-2.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>Education</td>
<td>4.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Health</td>
<td>7.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Other Social &amp;Personal Services</td>
<td>4.3</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Socio-economic Survey, 2008. OCGS, Zanzibar
(b) Investment (in machines) model; and
(c) Increasing returns to knowledge model.

At different points in the history of economic thought, each model has been advocated as the fastest road to growth and affluence, and yet all three have contributions to make to the body of knowledge in economic growth. Adam Smith was highly optimistic about prospects for raising the standard of living through the higher productivity that results from specialization, and because specialization requires trade, low trade barriers were required so that manufacturers can access larger markets. Competition – the invisible hand - then induces greater specialization, raising labour productivity and living standards. This trade- intensive strategy for economic growth requires many transactions, often at long distances and over time. The institutions that defend property rights and lower transaction costs have come to be recognized as the foundations of a market economy. Therefore, economic governance is considered to be an essential starting point for economic growth, not something to be tackled later.

The success of the industrial revolution in the 19th century, first in Britain and then in France and Germany, added technological change to strategies for growth. Such change was seen as embodied in machines that used mechanical power. It was recognized that not all countries could invent and produce machines, but all were free to import them and reproduce the factory system that was making Europe so rich and powerful. This “capital fundamentalism” model placed a premium on the accumulation of saving and investing in machines that embodied the latest technologies. Investment and production did not have to rely on profit motives, but instead they could be directed by national planners. This model was used for Germany in the late 19th century and Soviet Union in the mid-20th century. But the “machine model” could go only so far. It raised productivity but did not create a self-sustaining growth. The machines were good at producing a fixed set of products but not at adapting to changing technologies and consumer desires. Only markets and capitalism could accomplish these tasks.

With accelerating scientific innovation in advanced countries, productivity growth came to depend more on knowledge than on machines, and fast growing developing countries like Brazil, Israel, the Republic of Korea and Taiwan had institutions that could support the absorption of Western knowledge, rather than just machines, and move towards modern economic growth.
Economies without these institutions, including the Soviet bloc, nearly all of Africa and most of the Islamic world could not move towards modern economic growth. Consequently, they slipped into economic stagnation or decline. Some have slipped further into chaos and conflict. The model of growth that explains this performance is based on increasing returns to knowledge, as opposed to diminishing returns to machines as they occur when used in fixed quantities as the labor force is increased.

Returns to knowledge increase because of spillovers to additional users. Large pay-offs for new knowledge, especially when there is patent protection, encourage entrepreneurs to develop it or adapt findings from research centres or universities. Economic growth is, therefore, seen as an endogenous response to incentives throughout the economic system, but self sustaining growth is often difficult to generate from the standpoint of a developing country because generating knowledge and developing sophisticated human capital depends at least as much on institutions that ensure strong property rights and low transactions cost.

The foregoing discussion identifies the sources of economic growth as trade with its attendant specialization, investment in machines (or capital accumulation), and investment in knowledge with the view to increasing productivity. The latter factor may induce structural changes in the economy and engender labor productivity growth that spills over to other sectors of the economy, with the potential to eliminate labor productivity gaps between economic sectors. The Zanzibar Growth Strategy identified trade and tourism, as the first-tier growth drivers, with agriculture and industry (manufacturing) as support sectors. Agriculture and Industry were regarded as supportive sectors capable of providing the synergies required to boost the growth performance of the two drivers. The choice of these growth drivers must have been based on a comprehensive analysis of Zanzibar’s comparative and competitive advantages in accordance with the PHDR methodology. The other criteria that must be considered are scale and impact. By scale it means the comparative and competitive advantages need to be sufficiently large to make a real difference in terms of growth. In addition, the driver needs to produce significant impact relative to job creation and poverty reduction.
For most low-income countries, including Zanzibar, comparative advantage will initially determine the choice of the appropriate growth drivers since competitive advantage, which is developed over time, depends on an advanced level of technical and managerial expertise, which is currently lacking in most sectors in Zanzibar. According to the ZSGRP, trade and tourism were chosen as the growth drivers on the basis of Zanzibar’s comparative advantage (in the short-run) conferred by its strategic geographical position in the region, along with the rich history of Zanzibar. To gain competitive advantages in these sectors, Zanzibar needed to develop the advanced level of technical and managerial skills required to build and sustain such advantages in both growth sectors. This poses considerable challenges for policy makers in Zanzibar. These challenges will be discussed as we examine each growth driver in detail. For now, it may be useful to discuss developments that have taken place in relation to each of the growth drivers, citing any achievements and challenges, and exploring what may be required to realize their full potentials.

The choice of trade (and to some extent, tourism) as growth drivers may also be rooted in some of the key principles underlying neoliberal growth strategies (Brohman 1996, p50):

- With low levels of domestic demand in many low income countries, growth in a range of economic sectors is largely dependent upon gaining access to global markets through outward-oriented strategies;
- Multiplier effects associated with foreign trade and tourism may facilitate long-term growth by expanding overall production and employment;
- Earnings from trade and tourism may foster macroeconomic stability by contributing to a more favorable balance of payments;
- Such earnings may also provide foreign exchange for imported goods, particularly capital goods needed to increase the production of the economy;
- Rising volume in the external sector and increased competition within global markets are believed to create the economic efficiencies associated with increasing scale economies and technological diffusion.

Given these theoretical arguments, rapid economic growth among especially East Asian export-oriented Newly Industrialized Countries (NICs), as well as a series of other country studies
showing strong correlations between an outward-orientation and economic performance, is interpreted as empirical evidence supporting the externally-led growth hypothesis.

2.3.1 TRADE

History suggests that Zanzibar has been a trading centre and a gateway to East Africa since the 1880s. It developed from a centre of slave trade to a trade centre in other commodities with links to other parts of the world. The economy of Zanzibar was initially heavily dependent on the exports of cloves, but it is gradually becoming less dependent on clove production and clove products. However, this natural resource still makes up a large share of exports and employment. In 2008, cloves accounted for 53 percent of total exports compared to 75 percent in 2005, and the two major export markets for clove are India (38.5%) and Singapore (34.1%)\(^4\). Exports are gradually undergoing diversification to include other non-traditional exports, led by seaweed which accounted for 20 percent of the value of exports in 2008. It is the general consensus that the potentials of non-traditional exports have not yet been exploited both in terms of increased production, value addition, and the broadening of the product mix. Persistent trade deficits continue to hound Zanzibar’s economy and require a trade strategy that will sharply increase exports while also limiting imports to essential inputs for domestic production.

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>17.1</td>
<td>14.2</td>
<td>12.7</td>
<td>15.4</td>
<td>21.2</td>
<td>30.2</td>
</tr>
<tr>
<td>Imports</td>
<td>71.5</td>
<td>79.6</td>
<td>120.7</td>
<td>87.5</td>
<td>107.7</td>
<td>93.4</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>-54.4</td>
<td>-65.4</td>
<td>-108</td>
<td>-72.1</td>
<td>-86.5</td>
<td>-63.2</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Survey, 2008.OCGS, Zanzibar

Operating under the Zanzibar Investment Promotion Authority (ZIPA), the Freeport facilities and the Export Processing Zones (EPZ) are both providing a range of business services to exporters and importers in facilitating trade to and from East and Central African region. However, Zanzibar recognizes that it has yet to take advantage of its strategic position in the region to provide services to the East African Community countries and those of the Great Lakes. It

recognizes that exporting to neighbouring countries is the vehicle by which it would build the necessary capacity over time to service other markets in the developed world.

The strategic position of the island potentially confers comparative advantage on Zanzibar in trade, but to exploit this advantage in trade requires the island to produce in sufficient quantities, some strategic product or service with which to engage in trade. The strategic objective of trade as stated in the Zanzibar Growth Strategy is: “To take advantage of the strategic geographical position of Zanzibar through its integration in the global economy by providing efficient trade services based on high degree of competitiveness”. From this statement one can discern the means by which comparative advantage would be acquired, but what is missing is the end use of this comparative advantage. It is acknowledged that providing efficient trades services has the end result of lower shipping costs, but then one needs to know the goods to be shipped at lower costs. Therefore, the strategic statement should explicitly include a statement about the strategic export products which the efficient services are supposed to render them competitive.

For Zanzibar that strategic product could be non-traditional exports whose potentials have not yet been exploited, and water transportation service for which it can obviously build and maintain comparative advantage. Over the long-run, competitive advantage will need to be developed in the traded product or service, and as the ZGS puts it, this will need appropriate investments in infrastructure and facilities to support modern production activity. It will also require investments in human capital to enhance productivity in all sectors that support the trade sector. There is no evidence in the Growth Strategy or the MKUZA-AIR that would suggest that such investment in human capital has begun in earnest.

A major constraining factor to growth in Zanzibar’s trade sector is one that is pervasive in other sectors- low productivity. Thus, firms that manage to export may not be highly competitive on international markets. According to a World Bank study on micro and small enterprises (MSEs) in both Zanzibar and mainland Tanzania, whereas the median firm in mainland Tanzania produces over $2000 of value added per worker, the median firm in Zanzibar produces just under $1000 of value added per worker (World Bank, 2007). This low productivity can be attributed to a number of factors. One of such factors is the small size of firms in Zanzibar. Manufacturing
is dominated by MSEs, most of which are limited by their sheer sizes to reap any economies of scale in production. Another factor explaining the low productivity is the low capital intensity of a typical firm compared to similar-sized firms in other countries in Sub-Saharan Africa (SSA). In the World Bank study cited above, it was estimated that the median MSE in Zanzibar has less than $300 of capital per worker, compared to $1400 in mainland Tanzania and over $3000 of capital per worker in Kenya and Senegal. Even when the smaller size and lower capital intensity are controlled, total factor productivity remains lower for the average firm in Zanzibar than in mainland Tanzania, and even much less than those in most productive low-income countries in SSA.

A closer review of the number projects approved between 2003 and 2008 reveals that there were no projects approved in the field of (international) trade, although other projects were approved for other sectors that may have implications for trade. The number of projects approved for tourism in 2008 increased 27-fold from the 2003 level; and that of manufacturing rose 8.5 times; transport and communication increased 15 times while that of agriculture increased 7 times. No projects were approved that explicitly tackled the challenges facing Zanzibar in its trade with its trading partners. One may advance the argument that the investments that will occur in other sectors like agriculture and tourism will provide positive externalities for the trade sector. Indeed, if that argument is valid, it would suggest that we look to other sectors for potential growth drivers instead of trade.

In order to classify trade as a growth driver, one also needs to conduct an analysis with respect to scale and impact. To establish that trade is a growth driver in Zanzibar one must demonstrate that Zanzibar has a large resource base to make an impact in the world market for its tradable goods. Secondly, we need to show that trade can engender poverty reduction in Zanzibar. Zanzibar export mainly agricultural and marine products, therefore this litmus test can be effectively discussed as we examine the role of agriculture as a potential growth sector. However, we will address the issue of impact by drawing on the experience of another country in SSA.

The growth and poverty reduction experience of Ghana clearly demonstrates the poverty reduction effects of growth originating from trade. A large majority of Ghana’s export farmers
are located in the rural forest zone, many of whom are smallholder farmers cultivating small quantities of cocoa, the major export crop, or other non-traditional exports (McKay and Aryeetey, 2004). Between 1991/92 and 1998/99, the pattern of growth that occurred varied significantly by sector, and this very much reflected the pattern of income poverty reduction seen over the period. Both growth and poverty reduction were concentrated in Accra, the capital, and the rural forest zone, and were highest among export crop farmers. At the same time, other regions of the country saw very little poverty reduction, if any, and partly as a result, inequality levels increased (McKay & Aryeetey 2004). Various factors explained the poverty reduction, including improvements in the cocoa sector, large inflow of remittances especially in the forest zone and the growth in Accra of profitable non-farm self employment activities in trading, construction, and transport and communications.

Based on this experience from Ghana, one can deduce the poverty reduction implications of Zanzibar’s trade with the outside world, including mainland Tanzania. The development of non-traditional exports sector may be the crystal ball for poverty reduction in Zanzibar. Like Ghana, most of the non-traditional export crop farmers live in rural areas, and proceeds from increased production of non-traditional exports could raise incomes in rural areas, and also create increases in non-farm self-employment activities in the rural communities. The latter is one escape route from poverty for the rural poor. Furthermore, the increased government revenue deriving from increased exports would increase government spending on social services such as health and education, in both rural and urban communities, and will likely lead to improvements in non-income dimensions of poverty.

2.3.2 TOURISM

Four primary motivations drive tourism development:

- Private commercial gain;
- Macroeconomic growth objectives;
- Environmental and/or cultural conservation; and
- Rural development.

Commercial gain is probably the single most important objective underlying tourism development, and the private sector therefore is a leading force in the industry. Governments,
especially those that have adopted neo-liberal economic policies consider tourism as a powerful engine of macroeconomic growth and job creation, and therefore encourage the industry’s development (Brohman, 1996). NGOs and some governments are increasingly pushing ‘small-scale’ niche tourism (e.g. ecotourism and cultural tourism) as a means of funding environmental, wildlife, and cultural projects. Finally, governments, NGOs, communities, and some international donors have recently begun to explore tourism’s potential as a springboard for rural development and poverty reduction (Cattarinich, 2001).

Tourism is an industry driven primarily by commercial interests. While this implies some limitations to its pro-poor potential, it does have a number of characteristics and advantages over other sectors. Considering the size of the industry and how it already affects the lives of millions of people, a marginal improvement could generate substantial benefits (DFID 1999,). For example, because the customer comes to the product, there are opportunities to make additional sales. In contrast, a factory producing shirts cannot sell the customer a cup of tea and a boat ride as well. Also, there is evidence that tourism is more labour-intensive than manufacturing, and employs a higher proportion of women. Furthermore, tourism products can be built on natural resources and culture which are assets owned by some of the poor.

While the poorest (i.e., the destitute and the very ill) are unlikely to benefit directly from tourism, the less poor such as street vendors, casual labourers and craftsmen could benefit from a restructuring of the industry. In turn, benefits could be redistributed on to poorer relatives and neighbours, thus benefiting more people indirectly.

Research on tourism in developing countries has mostly focused on the general economic, environmental and socio-cultural impacts of the industry. The industry has many potentially beneficial impacts, but in practice, these have been frequently outweighed by the negative consequences for local populations (Brohman, 1996; Burns, 1999; Iwersen-Siotsidis and Iwersen, 1996; Lea, 1988; Sinclair, 1998). According to John Brohman (1996), tourism has contributed to mal-development in many developing countries. Also, governments and aid agencies have promoted enclave-oriented mass tourism due to its perceived macroeconomic benefits. In practice, however, the foreign domination of the industry’s most lucrative
components (i.e., marketing and client procurement, international transportation, and food and accommodation) has resulted in substantial leakages:

‘on the average, about 55% of tourism expenditure remains outside the destination country, rising to 75% in specific cases such as The Gambia and Commonwealth Caribbean, but as little as 25% for large economies such as India’ (Ashley, Boyd and Goodwin, 2000.; Brohman, 1996; and Sinclair, 1998).

Tourism in Zanzibar

Tourism is the fastest growing sub-sector within the services sector in Zanzibar’s economy, and it one of the most important sectors with great potentials for growth. The list of tourist attractions that could potentially engender growth in tourism is too long to recount here, but a few examples will suffice for our purposes. 

Stone Town with its wealth of historical buildings and traditional Swahili culture; marine environment in both Unguja and Pemba characterized by coral reefs suitable for snorkeling and diving; offshore islands and coral reefs (Changuu, Chumbe, Mnemba); big game fishing; sea turtle and dolphins; sand beaches and extensive water areas used mostly for traditional fishing activities are particularly noteworthy. Other attractions include historical cultural sites, such as the ruins of Maruhubi Palace, the ruins of Mtoni Palace, the Kidichi and Kizimbani Persian Baths, and the Mangapwani Slave Cave. There are also Spice Tours, Jozani and Ngezi Forest Reserves (renowned for their diverse and rare botanical species and the presence of monkeys, fruit bats, antelopes, wild pigs, and a wild variety of birds). Arts and crafts, the Pemba essential oils factory and eco-tourism attractions complete our list.

The foregoing endowments and others not mentioned here collectively confer comparative advantage in tourism on Zanzibar. The challenge confronting the industry is the ability to develop the requisite infrastructure and the capacity to provide services at the least cost, and thus gaining competitive advantage in the industry. In a subsequent section we look at the outline of the intervention strategies for tourism as embodied in the Zanzibar Growth Strategy. In this section, however, we analyze the growth profile of the sub-sector, and assess its status as a growth driver in terms of its potential contribution to growth in the economy, and also the impact of tourism-induced growth on poverty reduction in the Zanzibar.

5. For a complete list see the Zanzibar Growth Strategy (2006-2015), RGoZ, Zanzibar Feb 2007
The Zanzibar Commission for Tourism records that in the year 2008, there were 128,440 arrivals from all parts of the world, with the highest number of arrivals from Italy (14,740), followed by Germany (12,949) and North America (10,100). The rest of Europe also contributed 14,740 visitors to Zanzibar. However, the growth rate of tourist arrivals fluctuated considerably in the last six years. It went from -22 percent in 2003 to 31 percent in 2004, peaked in 2005 at 40 percent and declined to 4.5 in 2007 before registering a negative growth rate of -10 percent in 2008. These arrivals included both those arriving through the seaport and the airport. Table 2.6 reveals the growth trend in arrivals of tourists to Zanzibar from mid-1990s. Tourist arrivals grew from 41,433 in 1994 to 97,165 in 2000, representing an average annual growth rate of 19 percent. By 2003, the arrival rate had declined to an annual rate of -9.7 percent, but then the annual growth rate picked up again in 2004 at 31.7 percent, peaked in 2005 at the rate of 40 percent before experiencing a decline at the genesis of the recent world economic crisis. In the depth of the crisis the tourism sub-sector in Zanzibar was not spared by its impact, registering an arrival growth rate of -10.3 percent. This represents an average annual growth in visits of 8 percent from 2003 to 2008. The average annual growth rate rises to 13 percent if we extend the period to fourteen years from 1994, indicating that the relatively high visitor growth rates in earlier years have moderated, and the moderation may not yet have ended as the worrisome decline since 2006 is observed from Table 2.6.

### Table 2.6: Zanzibar- Annual Tourist Arrivals, 1994; 2000; 2003-2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrivals</td>
<td>41,433</td>
<td>97,165</td>
<td>68,087</td>
<td>89,695</td>
<td>125,522</td>
<td>137,111</td>
<td>143,265</td>
<td>128,440</td>
</tr>
<tr>
<td>%Growth</td>
<td>135</td>
<td>-29</td>
<td>31.7</td>
<td>39.9</td>
<td>9.2</td>
<td>4.5</td>
<td>-10.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Zanzibar Commission for Tourism

The impact of consumer spending on GDP through the expenditure multiplier is common knowledge in economics. While there is no current data directly linking the growth of tourist arrivals to Zanzibar’s economic growth profile, one can clearly associate growth in some sub-sector activities with growth in tourism. Some of these activities include hotels and restaurants, transport and communications, construction, manufacturing, including arts and crafts (production of wooden chests and doors, picture frames, brass, copperware and jewelry) as well as growth in agricultural production (e.g.,
staple foods, horticulture, spices, etc.). Other indicators would be growth in retail sales in response to the observed growth in tourist arrivals, although no such data are officially compiled for Zanzibar. The fact that the services sector has been the fastest growing sector in the economy has been made earlier in this report, and tourism has been the main engine of growth in the services sector. The evidence includes the 9 percent average annual growth in hotels and restaurants, the 17 percent average annual growth in transport and communication, the 18 percent average annual growth in construction, as well as the increased demand for agricultural products that has led to increased production in crops, livestock and fisheries.

The next task is to analyze how these developments might be expected to lead to poverty reduction (i.e., if these developments are pro-poor). Growth in tourism is pro-poor if the poor participate in the growth process, and/or if it expands opportunities for the poor. That means the poor should be involved in the distribution of some of the products and services that have experienced increased demand through growth in tourism, and thereby enjoy the increased income and non-income benefits deriving from tourism-induced growth. With 69 percent of the poor population living in rural communities, the expectation is that tourism-induced demand for products and services will be linked to increased production of farm and non-farm activities, resulting in increased incomes and the promotion of non-farm self-employment opportunities for the rural labor force. Thus, tourism will be pro-poor when the poor participate in the growth process and farmers, entrepreneurs, workers, consumers, residents of disadvantaged communities and market participants, all derive some benefits from the process, including distribution of goods and services, indirect employment created (e.g., through contract farming). Informal economy entrepreneurs should experience the impact of tourism by way of increased informal wage employment and patronage and sales of paintings, artifacts, etc.

The distribution of Zanzibar’s households by main economic activity as depicted in Table 2.7 below reveals that less than one (1%) percent of households is involved in the tourism sector.

Our stakeholder consultations revealed some concerns that tourism in Zanzibar is leaning towards becoming anti-poor, and rather pandering to the profit motives of the foreign-dominated private sector. The concern is that the local economy is not benefiting from tourism as foreign tour operators and their principals package Zanzibar’s tourist attractions to potential visitors in their countries of origin. The assertion is that since the tourists typically pre-pay for the packages to the foreign-based operators,
including all services they use upon their arrival in Zanzibar, the tourists themselves are not spending much on local goods and services when they arrive. Consequently only the small purchases made by some tourists trickle down to the local economy. This process, in the view of local stakeholders, is far from being inclusive and pro-poor.

**Table 2.7: Distribution of households by Main Economic Activity (%)**

<table>
<thead>
<tr>
<th>Item/Activity</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming/Livestock keeping</td>
<td>50.2</td>
<td>9.8</td>
<td>35.3</td>
</tr>
<tr>
<td>Fishing</td>
<td>11.3</td>
<td>1.9</td>
<td>7.8</td>
</tr>
<tr>
<td>Mining</td>
<td>0.5</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Tourism</td>
<td>0.4</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Employees</td>
<td>15.8</td>
<td>31.2</td>
<td>25.2</td>
</tr>
<tr>
<td>Self Employees</td>
<td>15.2</td>
<td>31.8</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Source: **Household Budget Survey, 2006, OCGS, Zanzibar**

A review of the literature suggests that in order for tourism to maximize its poverty reduction potential, national and international regulations for outbound tour operators from industrial countries should be revised in order to facilitate partnerships with domestic operations in destination countries. In a six-country case study of pro-poor tourism (Ashley, Boyd and Goodwin, 2000), it was revealed that the key to making tourism more pro-poor lies in consumer awareness, and the ability of the poor to organize themselves at the community level in order to engage effectively in tourism, and to exert pressure on tourism businesses to be socially responsible.

Pro-poor tourism strategies are concerned specifically with impacts on poor people, although the non-poor may also benefit. Strategies focus less on expanding the overall size of tourism, and more on unlocking opportunities for specific groups within the industry (DFID, 1999, p1). Pro-poor tourism is not restricted to community-based enterprises or to particular segment of the industry. Rather, it consists of a set of principles rather than a distinct form of tourism. Pro-poor initiatives represent practical steps that
can transform strategies and principles into concrete action. An organization that is attempting to operationalize a pro-poor strategy at the destination might provide employment or casual labour to the poor, or establish supply linkages with poor merchants or farmers and outsource some services (such as laundry), provide training programmes, or enter into joint ventures with communities, among other options. The role of the government may be significant in enhancing or protecting poor people’s access to tourism markets through different policy instruments. These could include making it compulsory to use local guides, establishing and enforcing ethical codes for labour and trade practices as well as zoning regulations, and promoting ethical consumption through public awareness campaigns.

Strategies that lead to pro-poor tourism can be grouped into three types: (a) those that expand economic benefits for the poor; (b) those that promote and confer non-economic benefits on the poor; and (c) those that lead to the institution of pro-poor policies, processes and partnerships. Thus the strategies for tourism under the Zanzibar Growth Strategy (ZGS) could be evaluated in terms of these three types, to ascertain whether the strategies have the tendency to be pro-poor.

According to the ZGS, the strategic objective of tourism is “To develop sustainable and quality tourism that is culturally and socially acceptable, ecologically friendly, environmentally sustainable and economically viable with strong linkages to the rest of the economy.” This objective reflects all four motives for tourism development outlined above. Policy-makers may need to revisit the objective and decide whether it is in the interest of Zanzibar to place equal emphasis on all four motives, or choose to focus more on some and less on others on the basis of the economic, social, ecological, and the cultural contexts of the island.

The MKUZA Implementation Report 2007/2008 recounts the actions taken so far in tourism. Some 5000 marketing calendars and leaflets in various languages have been produced by the Government. Also, fifteen (15) individuals have received tourism related training, and the Government participated in seven (7) tourism exhibitions and conferences. A publication, Karibu Zanzibar, continues to be used as a marketing instrument for tourism. Cognizant that the period of implementation of the Strategies has been a little under two years, there is still a long way from completing implementation of the intervention strategies outlined in the growth strategy.

All seven strategies under tourism in the ZGS address some aspects of poverty reduction. Strategies 2.2 and 2.7 address economic benefits to the poor, while 2.3, 2.5 and 2.6 relate to non-economic benefits.
Strategy 2.4 addresses the institutional framework for capacity building for the industry, which could benefit both the poor and the non-poor. The remaining strategy (2.1) seeks to create the infrastructure required by tourism to flourish. In this sense it could lead to both economic and non-economic benefits for both the poor and the non-poor. Therefore, theoretically these strategies should make tourism pro-poor. However, as has been noted elsewhere, these strategies have not been fully implemented. Meanwhile, certain anti-poor developments such as those described above are threatening to render the industry anti-poor. As mentioned above, government may need to intervene to protect poor people’s access to tourism markets through policies that may include those that make it a requirement to use local guides, establishing and enforcing ethical codes for labour and trade practices. Government can also set distribution standards by requiring some food and other farm supply contracts to be reserved for organized small holder farmers.

2.3.3. AGRICULTURE:
The worlds of agriculture are vast, varied, and rapidly changing, and with the right policies and supportive investment at local, national and global levels, agriculture offers new opportunities to hundreds of millions of the rural poor to move out of poverty. Pathways out of poverty offered by agriculture include smallholder farming and animal husbandry, employment in what is called the “new agriculture” of high value products, entrepreneurship and jobs in the emerging rural, non-farm economy. Zanzibar is an agriculture-based country. Consequently, agriculture and its associated industries are essential to growth and reducing poverty, as well as food security. However, using agriculture as the basis for economic development in Zanzibar requires a productivity revolution in small holder farming. No country has been able to sustain a rapid transition out of poverty without raising productivity in its agricultural sector (Timmer and Akkus, 2008). The process involves a successful structural transformation where agriculture, through higher productivity, provides food, labor, and even savings to the process of urbanization and industrialization. Therefore, the long-run success of poverty reduction hinges directly on a successful structural transformation.

Agriculture can work in concert with other sectors to produce faster growth, reduce poverty, and sustain the environment. In this Report, the definition of agriculture encompasses crops, livestock, agro-forestry, aquaculture and fisheries. Agriculture contributes to development as an economic activity, as a source of livelihood, and as a provider of environmental services. As an economic activity, it can be a source of growth for the national economy, a provider of investment opportunities for the private sector, and a prime driver of agriculture-related industries and rural non-farm economy. In Zanzibar, agriculture accounted for 30 percent of GDP in 2006, 28 percent in 2007, 31 percent in 2008 (Socio-Economic
Growth drivers and their implications for poverty reduction

Survey 2008), and was only second to the services sector in terms of its contribution to the GDP. It also employs some 60 percent of the labour force, of which 70 percent are female. Agriculture also accounted for 22 percent of the GDP growth from 2003 to 2008. But Table 2.8 shows that the share of agriculture in GDP has been increasing in recent years, from 21 percent in 2003 to 31 percent in 2008. This confirms the urgent need for policies to raise productivity in agriculture in order to prepare the way for structural transformation to occur in Zanzibar’s economy.

Agriculture is also important for food security in Zanzibar. It is a source of income for the majority of the rural poor, and with highly variable domestic food production, limited tradability of food staples, and foreign exchange constraints to meet food needs, Zanzibar may not be far from exposure to recurrent food emergencies, given the uncertainties of food aid. Stabilizing food production is essential for food security. However, the rate of growth of the agricultural sector has fluctuated considerably, from -1.5 percent in 2002 to 18.7 percent in 2006, and back to -0.4 percent in 2007, representing an average annual growth of 4.6 over the 7 year period. In 2008, it registered a 5.7 percent growth.

**Table 2.8: Agricultural production, contributions to GDP, and growth rates 2002-2008**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Agric Prod (TZS(Billions))</td>
<td>60.3</td>
<td>61.3</td>
<td>80.4</td>
<td>92.5</td>
<td>150.5</td>
<td>171.0</td>
<td>230.8</td>
</tr>
<tr>
<td>Contribution (share) to GDP</td>
<td>25</td>
<td>21.4</td>
<td>23.4</td>
<td>23.4</td>
<td>29.5</td>
<td>27.5</td>
<td>30.8</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>-1.5</td>
<td>4.2</td>
<td>2.8</td>
<td>2.8</td>
<td>18.7</td>
<td>-0.4</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Survey, 2008. OCGS, Zanzibar

In the growth strategy it was intended for agriculture to maintain sustainable growth from 2.4 percent in 2005 to 6.0 percent in 2010. Like many other Sub-Saharan African countries, a high priority for the Zanzibar economy is to mobilize agriculture for poverty reduction.

Cross-country estimates show that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth outside agriculture (Ligon and Sadoulet 2007). For China, aggregate growth originating in agriculture was estimated to have been 3.5 times more effective in reducing poverty than growth outside agriculture, and for Latin America 2.7 times more effective. Rapid agricultural growth in India following technological innovations (the diffusion of high yielding varieties) and in China...

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6 The Socio-Economic Survey has revised the agricultural growth rate in 2005 from 2.4 percent to 2.8 percent.
following institutional reform (market liberalization) was accompanied by major declines in rural poverty. More recently, in Ghana, rural households accounted for a large share of a steep decline in poverty induced in part by agricultural growth. Therefore, agriculture has a well established record as an instrument for poverty reduction. The question that arises is whether agriculture can also be a leading sector in a growth strategy in Zanzibar.

Besides its sheer size, there are two arguments to support the idea that it can. First, food remains imperfectly tradable because of high transaction costs, and the prevalence of staple foods that are only infrequently traded, e.g., roots and tubers and local cereals. Zanzibar typically consumes more staple foods than it produces (banana, sweet potatoes, yams, maize fish), and for majority of these staples, Zanzibar has almost always been in deficits. Table 2.9 shows the proportion of annual major staple foods consumption in relation to local production. With the exception of cassava, annual major staple foods consumed are multiples of local production. Secondly, comparative advantage in tradable subsectors still lies in primary activities and agro-processing because of resource endowments and difficult investment climate for manufactures. Zanzibar depends on unprocessed primary-based exports such as Cloves, seaweed, and eco-tourism to generate foreign exchange. Growth in both sectors of agriculture (tradable and non-tradable) could induce strong growth in other sectors of the economy through the multiplier effect. The consensus is that, through agriculture, Zanzibar can open and widen the pathways out of poverty despite the challenges confronting agriculture in Zanzibar.

Table 2.9: Proportion (%) of annual consumption of major staple foods to production (1992-2000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cassava</td>
<td>37</td>
<td>45</td>
<td>41</td>
<td>51</td>
<td>55.0</td>
<td>60</td>
<td>81</td>
<td>71</td>
<td>68</td>
</tr>
<tr>
<td>Maize</td>
<td>1434</td>
<td>2829</td>
<td>2316</td>
<td>1771</td>
<td>3820</td>
<td>8972</td>
<td>8397</td>
<td>7615</td>
<td>3796</td>
</tr>
<tr>
<td>Rice (Paddy)</td>
<td>863</td>
<td>642</td>
<td>882</td>
<td>906</td>
<td>588</td>
<td>433</td>
<td>802</td>
<td>1017</td>
<td>701</td>
</tr>
<tr>
<td>Banana</td>
<td>343</td>
<td>444</td>
<td>413</td>
<td>523</td>
<td>410</td>
<td>584</td>
<td>826</td>
<td>395</td>
<td>349</td>
</tr>
<tr>
<td>Sweet Potatoes</td>
<td>119</td>
<td>124</td>
<td>167</td>
<td>348</td>
<td>299</td>
<td>684</td>
<td>305</td>
<td>153</td>
<td>137</td>
</tr>
</tbody>
</table>

**Source:** UNIDO (Zanzibar land husbandry improvement programme)

The strategic objective for agricultural growth, as stated in the growth strategy, is “To effectively increase production and productivity associated with high commercialization and modernization of agriculture to generate broad-based incomes.” This objective comes against the background of an

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7 From 2003 to 2008, total private investment approved by Zanzibar Investment Promotion Authority (ZIPA) amounted to US$ 25,680 covering 17 projects out of 221 approved for the period (Socio-Economic Survey 2008)
agricultural sector confronted by so many challenges: limited capacity of institutions coordinating the sector; continued use of traditional technologies (non-mechanized tools, unimproved seeds and planting materials); inadequate agricultural services support (extension, research); lack of rural financing; marketing bottlenecks; declining soil fertility; overexploitation of natural resources; heavy reliance on rain-fed agriculture; and non-conducive land tenure systems. Also plagued by low productivity, its output is typically primary products with little or no value added.

A commercialized and modernized agriculture requires considerable investment in productivity, the type of investment required for a structural transformation where agriculture, through higher productivity, provides food, labor, and savings to the process of urbanization and industrialization. A dynamic agriculture raises labor productivity in the rural economy, pulls up wages, and gradually eliminates the worst dimensions of absolute poverty (Timmer and Akkus, 2008). Somewhat paradoxically, the process also leads to a decline in the relative importance of agriculture to the economy (in terms of its share in GDP), as the industrial and service sectors grow even more rapidly, partly through stimulus from modernizing agriculture and migration of rural workers to urban jobs. The ultimate outcome of structural transformation is an economy and society where agriculture as an economic activity has no distinguishing characteristics from other sectors, at least in terms of the productivity of labor and capital, or the location of poverty. At this stage, the gap in labor productivity between agricultural and non-agricultural workers approach zero when incomes are high enough.

Some of the ways in which these challenges may be addressed are through improving the asset position of the rural poor, making smallholder farming more competitive and sustainable, diversifying income sources towards labor markets and rural non-farm economy, and facilitating successful migration out of agriculture. Ownership of core household assets are major determinants of the ability to participate in agricultural markets, secure livelihoods in subsistence farming, compete as entrepreneurs in the rural nonfarm economy, and find employment in skilled occupations. These core assets are land, water, and human capital. The assets of the rural poor are often squeezed by population growth, environmental degradation, and social biases in policies in allocation of public goods.

Land could be severely degraded, investment in irrigation may be negligible, and poor health and education limit productivity and access to better options. Enhancing assets requires significant public

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9 The convergence between labor productivity in the agricultural and non-agricultural sectors can be measured by the ratio of the two which approaches one when labour productivity is equal in the two sectors.
investment in irrigation, health and education. Sometimes, improving the asset position is a matter of institutional development such as enhancing the security of property rights and the quality of land administration. Increasing the quantity of assets may also require affirmative action to equalize chances for disadvantaged or excluded groups such as women. Increasingly, it is the quality of education broadly defined to include vocational training that can provide technical and business skills that are useful in the “new agriculture” and rural nonfarm economy.

### 2.3.4. GROWTH DRIVERS IN AGRICULTURE?

Given the potential of agriculture as a lead sector in promoting economic growth, along with the pivotal role of certain activities in agriculture in Zanzibar, one can establish the potency of some of these activities to drive growth in the economy with the appropriate support and investments. Without doubt a structural transformation is expedient in the economy of Zanzibar, and it can begin with a concerted effort to modernize agriculture through investment in productivity in agriculture. The activities we perceive as potential growth drivers are not only important in the livelihoods of a large section of the population, but they also have the potential to resurrect growth in other sectors. Also, their synergies with other growth drivers will be reinforcing. They have the potential to support growth in the tourism sector, as the latter is also expected to support the agricultural sector by its demand for food and other specialized high-value products. The same can be said of manufacturing as it exploits enormous opportunities in agro-processing that boost demand for primary products from the agricultural sector. The spillover effects on trade through established markets for these specialized high value products, including niche products from the agricultural sector would complete the cycle. This network of linkages could amplify the impact of these activities on sectoral and overall economic growth. Thus considerable investments are required to raise productivity in *staple food crops* and *non-traditional export crops*, such as seaweed and horticulture.

The fact that Zanzibar has comparative advantage in the production of food crops is not difficult to establish. The production of food crops between 2003 and 2008, depicted in Table 3.1, clearly shows considerable scope for growth. Staples such as cassava, banana, and sweet potatoes clearly dominate production of food crops. With the exception of paddy and cassava, the average annual growth rate in the remaining food crops are in excess of 10 per cent over the 6 year period. It makes one wonder what could be the performance if concerted efforts were made
to support their production and more importantly if productivity in each line of production was enhanced.

Comparative advantage clearly exists in the richness of the soil, and with the right inputs, technologies, and extension services one can expect the staple foods sector to drive growth in agriculture. The stark fluctuations in output derive from the well-known challenge of having to depend on rain-fed farming. But even in this unpredictable output environment, these crops have held their grounds in providing at least a proportion of the food requirements of the population.

According to some educated estimates, while 80 percent of all fruits consumed in hotels are produced locally, 80 percent of all vegetables consumed are imported, and 60 percent of all meat products are also imported.

The forces that will drive growth in this subsector of agriculture will come from three sources: (1) increased scale of production, (2) increased productivity, and (3) value addition.

### Table 2.10: Production of Food Crops, 2003-2008 (Tons)

<table>
<thead>
<tr>
<th>Crops/Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>% Avg Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>1,605</td>
<td>2,515</td>
<td>1,419</td>
<td>3,927</td>
<td>1,931</td>
<td>1,933</td>
<td>28</td>
</tr>
<tr>
<td>Sorghum</td>
<td>158</td>
<td>145</td>
<td>459</td>
<td>409</td>
<td>794</td>
<td>615</td>
<td>54</td>
</tr>
<tr>
<td>Paddy</td>
<td>23,534</td>
<td>20,405</td>
<td>15,935</td>
<td>24,730</td>
<td>20,038</td>
<td>20,889</td>
<td>1</td>
</tr>
<tr>
<td>Cassava</td>
<td>158,898</td>
<td>166,106</td>
<td>102,886</td>
<td>190,266</td>
<td>187,213</td>
<td>153,103</td>
<td>6</td>
</tr>
<tr>
<td>Banana</td>
<td>35,250</td>
<td>37,998</td>
<td>22,984</td>
<td>88,438</td>
<td>93,641</td>
<td>103,145</td>
<td>54</td>
</tr>
<tr>
<td>Sweet Potatoes</td>
<td>21,500</td>
<td>36,018</td>
<td>13,211</td>
<td>63,949</td>
<td>45,620</td>
<td>55,301</td>
<td>76</td>
</tr>
<tr>
<td>Yams</td>
<td>3164</td>
<td>3,691</td>
<td>2,394</td>
<td>5,100</td>
<td>8,192</td>
<td>3,516</td>
<td>20</td>
</tr>
<tr>
<td>Tania</td>
<td>1,400</td>
<td>3,227</td>
<td>7,542</td>
<td>8,408</td>
<td>4,191</td>
<td>8,459</td>
<td>65</td>
</tr>
<tr>
<td>Groundnut</td>
<td>255</td>
<td>105</td>
<td>302</td>
<td>1,800</td>
<td>76</td>
<td>465</td>
<td>208</td>
</tr>
<tr>
<td>Pigeon Peas</td>
<td>117</td>
<td>266</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,682</td>
<td>132*</td>
</tr>
<tr>
<td>Cowpeas/Green Grain</td>
<td>1,346</td>
<td>536</td>
<td>947</td>
<td>960</td>
<td>771</td>
<td>1,719</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Socio-Economic Survey 2008, OCGS, Zanzibar

**Increased scale of production:** The most obvious way to increase the scale of production will be to expand the land frontier. In Zanzibar, there are obvious reasons why one cannot expect
such expansion to occur. However, almost 50 percent of the total land area of Zanzibar is declared suitable for agricultural production (MALE/MOHSW, 2006). With the population growing at the high rate of 3.1 percent per annum, Zanzibar is already the most densely populated part of East Africa, and the potential exist for average farm lands becoming smaller in the future. Currently, with average land holding of 1.9 acres in the rural areas (and 1.7 acres in urban areas), the scale of production can be increased through intensified use of farm land for cropping. Along the way, considerable investment will be needed in land, soil, and irrigation systems. These will need to be supplemented by extension services with improved seedling and organic crops cultivation.

**Increased productivity**: Given that smallholder farming dominates agricultural activity in Zanzibar, there must be productivity gains in agriculture that can be obtained from a broad array of policy instruments, many of which may apply to specifically to commercial small holders, but those in subsistence farming can also benefit from these instruments. They include improved price incentives and increased quality and quantity of public investment in farming; creation of better markets for outputs; improved access to financial services and reduced exposure to uninsured risks; formation and enhancement of the performance of producer organizations; promotion of innovation through science and technology; and making agriculture a more sustainable provider of environmental services.

While many innovations have not yet reached rural farm communities in Africa, governments must be proactive in experimenting systems to make a real difference in the competitiveness of smallholder farming. Information technologies are reducing transaction costs and making loans less costly in rural areas. For example, farmers in other countries are using agricultural credit cards to purchase inputs, while others are using cellular phone to complete banking transactions. Credit reporting bureaus covering microfinance institutions and the lower tier of commercial banks also help smallholder farmers to capitalize on the reputations they establish as microfinance borrowers as a stepping stone for accessing larger and more commercial loans.

Exposure to uninsured risks, which results from natural disasters, health shocks, demographic changes, price volatility, and policy changes, has high efficiency and welfare costs for rural households. To manage exposure to these risks, farmers have to forgo activities with higher expected incomes.
Increased value addition: Currently, most food destined for the domestic market is consumed with little or no processing. Globally, the nature of demand for goods, especially food products, is changing. Consumers are increasingly demanding more highly processed foods and or foods with special qualities, such as organically produced or nutritionally fortified foods. Producers that wish to remain competitive will need to adapt to these changing demands by adding value to the product through processing. Smallholders will also need to cultivate organic crops. Producers of traditional export crops of tea, coffee, cloves etc. are increasing being confronted by markets in which demand for quality is evolving very rapidly, and where niche markets for specialized high value products offer attractive returns for those who can compete successfully. This is particularly relevant for the clove industry where considerable opportunities exist for growth. The challenge is for domestic producers to adopt quality enhancement measures and develop linkages to high niche markets. For example, there is the need to liberalize the clove market to spur interest from the private sector, and to engage profitably in value added activity.

2.3.5. MANUFACTURING
The strategic objective of manufacturing in the Zanzibar Growth Strategy (ZGS) reveals the challenges confronting the manufacturing subsector: “To promote manufacturing that adds value to agricultural products, supplies tourism and adopts practices that are competitive, diversified and high productive and inclusive of the majority of SMEs.” This strategic objective reflects the existence of a manufacturing sector that is dominated by SMEs, low value added to agricultural raw materials, a sector that has somewhat ready market from the tourism sector, is least diversified in its product line, and plagued by low productivity and low technological content in its output. It is also a sector consisting of firms that are less competitive in their product lines as a result of their high costs of production, deriving from their low productivity.

Globally, small and medium size enterprises (SMEs) are being hailed by their pivotal role in promoting grassroots economic growth equitable sustainable development. In the United States and EU countries, it is estimated that SMEs contribute over 60 percent in employment, 40-60 percent to GDP and 30-60 percent to exports (Mwanyanyiya 2009). In the high growth countries in Asia, including Indonesia, Malaysia, South Korea, SMEs contribute between 70-90 percent in employment and an estimated 40 percent contribution to their respective GDPs. In economic powerhouses in Africa such as South Africa, Egypt, Nigeria and Kenya, SMEs are estimated to contribute over 70 percent in employment, and 30-40 percent contribution to their GDPs, but contribute less than 4 percent to export earnings. The low export

contribution is attributed to lack of skills as well as management capacity, low product quality, limited production capacity, poor market access, and lack of working capital. Hence the sector has tended to serve the bottom end of the domestic market. It is important to add that some countries making the necessary efforts to change the trend. For example, in Egypt an SME’s stock exchange was commissioned a few years ago to help the sector raise capital and improve products quality, and thus bring the sector into the mainstream economic matrix, allowing government to collect taxes.

The major constraints facing the manufacturing sector in Zanzibar is that it has been, and continues to be, dominated by SMEs that are plagued by the use of low technology with low knowledge content. Given the opportunities that exist in agro-processing and other supportive manufacturing activities, investing in high technology-based manufacturing would add considerable value and in some cases increase employment. Manufacturing also stands to gain from rapid structural transformation by which agriculture, through higher productivity, provides food, labor, and even savings to the process of urbanization and industrialization. The forward and backward linkages with agriculture and services sectors cannot be overemphasized. In particular, growth in tourism would likely provide the market for its products domestically, regionally and globally if manufacturing can create a niche market while maintaining competitive advantage in agro-processing.

There is a need to re-define the role of SMEs as important economic growth and employment drivers. For example, manufacturing and agriculture SMEs clusters can be formidable vehicles of economic growth and job creation. The thrust is to focus on the potential of the SMEs as a foundation for competitive advantage, job creation and economic growth. Zanzibar may need to adopt a business model of “small is beautiful” by which it can transform SMEs into business systems that can produce competitive products and create employment for its people. The creation of small enterprises linked to the big enterprises as suppliers will help reduce working capital requirements, transaction costs, and ensure on-time delivery.

All societies want to raise the productivity of their economies. That is the proven way to achieve higher standards of living and sustain reductions in poverty. The mechanisms for doing this are well known in principle, but often difficult to implement in practice. They include the utilization of improved technologies, investment in higher educational and skill levels for the labour force, lower transactions costs to connect and integrate economic activities, and more efficient allocation of resources. The process of economic development is the process of implementing these mechanisms over time. When successful, and sustained for decades, it leads to structural transformation of the economy.
Structural transformation often complicates the division of the economy into sectors (rural versus urban, agriculture versus industry and services) for the purpose of understanding how to raise productivity levels. In the long run, the way to raise rural productivity is to raise urban productivity, or as Chairman Mao famously but crudely put it, “the only way out for agriculture is industry”. Unless the non-agricultural economy is growing, there is little long-run hope for agriculture. At the same time, the historical record is very clear on the important role that agriculture itself plays in stimulating growth in the non-agricultural economy.

The World Bank’s Enterprise Survey report identifies some of the challenges confronting Zanzibar as a small island economy. These challenges revolve around two main issues of size and remoteness, particularly as they affect enterprise behavior and performance or structure. The issue of smallness and its implications for trade was discussed in Section 2.1. The thrust of the discussion was that the smallness of the economy is accompanied by some features such as the domination of economic activity and exports by one or two products, restrictions from competition, and less well integration with the global economy, and thus less likely to export. The small economy is also made up of small firms that are unable to realize economies of scale in production, benefits that typically accompany specialization and trade. Thus, because most small firms are not likely to trade internationally, the benefits that can be derived from trade, such as efficiency and competitiveness, have become elusive.

2.3.5 A. LABOUR PRODUCTIVITY

The question that arises is whether the characteristic of smallness has performance implications for firms in Zanzibar. Labour productivity, considered to be a basic measure of a firm’s productivity, is the value of output a firm produces less the cost of raw materials and intermediate inputs used, and the differential divided by the number of workers used to produce the output. Algebraically the productivity equation can be expressed as:

$$
\varepsilon = \frac{\pi - (\omega + \varphi)}{L},
$$

where $\varepsilon$ is the measure of labour productivity,

$\pi$ is the value of total output,

$\omega$ is the total cost of raw materials,

$\varphi$ is the value of intermediate goods used in the production process, and

$L$ is the number of workers used to produce the output.

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11 In Zanzibar, cloves and clove products dominate the economy, earning about 70 percent of export earnings and employing more than 60 percent of the labour force.
Labor productivity (or the value-added per worker) is higher in those firms that produce more output with fewer raw materials, or fewer workers or combinations of both. Differences in labor productivity can be the result of differences in technology, organizational structure, worker skills, management style and ability, or differences in the capital available to the firm. This productivity (or value-added per worker) is lower for the median firm in Zanzibar than for firms elsewhere in mainland Tanzania. In 2005, firms in Zanzibar produced less that US$ 1000 of value-added per worker, compared to US$ 2900 per worker in Dar es Salaam and US$ 2400 per worker elsewhere in mainland Tanzania (World Bank Enterprise Survey, 2007). It was also lower than value-added per worker in other low-income SSA countries.

One explanation for Zanzibar’s low productivity is that firms in Zanzibar tend to be smaller than firms in mainland Tanzania and elsewhere in Africa. Since productivity determines the wage rate, it implies that wages are also low in Zanzibar, and it may be one reason that firms in Zanzibar continue to stay in business despite their low productivity. Another reason for Zanzibar’s low productivity is the low educational attainment of workers. According to the Zanzibar Growth Strategy, for the entire workforce, close to two-thirds of the labor force is classified as unskilled workers. According to the World Bank Enterprise Survey, 18 percent of MSEs in Dar es Salaam and 11 percent of MSE employees elsewhere in Tanzania have tertiary education, compared to 0.2 percent for MSE employees in Zanzibar. But the difference between Zanzibar and mainland Tanzania is much smaller for primary education. Fifty-four (54) percent of workers in MSEs in Zanzibar have primary education or less, compared to 56 percent in other parts of mainland Tanzania and 47 percent in Dar es Salaam. Far fewer workers in Kenya or Uganda, where most workers have secondary or vocational education, have a solely primary education. This suggests that the main difference between Zanzibar and mainland Tanzania is in tertiary education. Fewer workers progress from secondary to tertiary levels in Zanzibar. However, because both wages and productivity are low in Zanzibar, likely as a result of low education, firms could potentially remain competitive despite having lower labour productivity than in other low income economies.

2.3.5B. CAPITAL PRODUCTIVITY

Besides the low education factor, the explanatory variable for the low productivity of labour in Zanzibar is low capital use. Because the labor productivity measurement does not take capital (machinery and equipment) into account, labor productivity would be higher in firms that utilize more capital in the production process (i.e., those firms that employ capital-intensive technologies). Therefore it is important also to look at capital use. As noted above, capital intensity (capital per worker) is lower in the median MSE in Zanzibar (about US$300 per worker) than in Dar es Salaam (US$2500) or elsewhere in mainland
Tanzania (US$1500). Zanzibar’s capital intensity is also low compared to other countries in Africa, although not the lowest.

However, capital productivity is higher for those firms that produce a lot with little capital (machinery and equipment). This could be because the firm is more efficient or uses labor more intensively. And it may be expected in the case of Zanzibar. Consequently, in contrast to labor productivity, capital productivity, the ratio of value added to the net book value of capital, is high in Zanzibar. The ratio is 180 percent in Zanzibar compared to 90 percent in Dar es Salaam, and 100 percent in other parts of mainland Tanzania.

One may also expect the presence of unused capacity to be another explanation for the low labor productivity in Zanzibar. In the World Bank Enterprise Survey, the average MSE in Zanzibar reported that its capacity utilization was about 60 percent. This was slightly higher than elsewhere in Tanzania (about 55 percent and 50 percent in Dar es Salaam and other parts of mainland respectively), and thus might refute the explanatory power of unused capacity relative to mainland Tanzania. But the capacity usage was still lower than the situation in more successful low-income economies in Africa, such as Senegal (70 percent) and other successful economies such as China (70 percent). Thus, capacity utilization provides conflicting evidence in explaining the low labor productivity.

2.3.5C. TOTAL FACTOR PRODUCTIVITY

As measures of performance and competitiveness, labor productivity and capital productivity, when used separately, can present incomplete and sometimes contradictory evidence. For example, labor productivity is low in Zanzibar, while capital productivity is high. Both of these results are due partly to the fact that firms in Zanzibar are labor intensive. Total factor productivity (TFP) avoids these problems by taking both labor and capital into account simultaneously. Therefore, differences in TFP are the result of differences in other things other than capital or labor. These differences may be due to differences in firm management efficiency, or differences in worker skills or education. If differences in technology are not embodied in the machinery and equipment used by the firm, then technological differences might also explain differences in TFP.

Total factor productivity is low in Zanzibar, according to the World Bank Enterprise Survey Report. This suggests that the low productivity of labor is not simply the result of low capital intensity or size. It may suggest that there are other factors playing a role, such as low education and skills among workers.
In summary, the manufacturing sector has the potential to drive economic growth in the economy by capitalizing on the backward linkages provided by agriculture and leading in production and employment of the island’s labor force. Considerable opportunities exist for agro-processing and thus adding value to the primary products, as well as the staple foods for domestic consumption and exports. Also, growth in tourism would provide markets for its goods domestically, regionally and globally, if manufacturing can create and maintain competitive advantage in agro-processing for niche markets. However, firms in Zanzibar are confronted by some unique constraints. These constraints include low level of technology deployed along with its low knowledge content, the small size of firms in manufacturing. They are complicated by low labour productivity whose roots are found in low educational achievements of the workforce, low capital intensity, and low total factor productivity. Lack of access to finance is a major reason that firms are relatively small. The potentials and the constraints for manufacturing were duly identified in the growth strategy, and the strategic objective thus confronts these constraints.

2.4. THE ROLES OF THE INFORMAL ECONOMY AND THE PRIVATE SECTOR

2.4.1. THE INFORMAL ECONOMY

Since it emerged in Africa in the early 1970s, the informal economy has gone in and out of fashion in international development circles. Today, there is a renewed interest in the informal economy worldwide for two reasons. First, despite predictions of its demise the informal economy has not only grown in many countries but also emerged in new guises and unexpected places. Second, despite continuing debates about its defining features, supporting informal enterprises and improving informal jobs are increasingly recognized as key pathways to promoting economic growth and reducing poverty.

In the light of this renewed interest, its nomenclature has changed from “informal sector” to “informal economy” since its definition has been broadened to include every shade of informal activity outside the formal sector. It comprises of the large share of economic units and workers that remain outside the regulated world of economic activities and protected employment relationships.

It also includes informal employment both within and outside agriculture. This is particularly relevant because in most developing countries, a majority of the informal workforce may be in agriculture. The informal economy is comprised of both self-employment in informal enterprises (i.e. small and/or unregistered) and wage employment in informal jobs (i.e. without secure contracts, worker benefits or social protection). Some of the most recent and most comprehensive estimates of the informal economy in developing countries indicate that informal employment comprises of one-half to three-quarters of non-agricultural employment in developing countries. In sub-Saharan Africa, the estimate is 72 percent and
78 percent when South Africa is excluded. If informal employment in agriculture is included, this proportion of informal employment would be higher.

Informal employment is generally a larger source of employment for women than for men in the developing world. Apart from North Africa where 43 percent of women workers are in informal employment, 60 percent or more of women non-agricultural workers in developing counties are informally employed. In sub-Saharan Africa, 84 percent of women non-agricultural workers are informally employed compared to 63 percent of men. In Latin America, the figures are 58 percent for women and 48 percent for men. Informal wage employment is also significant in developing countries, comprising 30 to 40 percent of total informal employment outside agriculture.

There are many ways in which informal enterprises are linked to formal firms. It may be through individual transactions (i.e. independent units transacting with each other); or sub-sector (many informal enterprises produce and exchange goods and services with formal firms in sub-sectors, net works of independent units involved in the production and distribution of a commodity; or through value chains. By definition, all industrial workers produce goods within a value chain. Thus, in manufacturing, informal enterprises are quite likely to have linkages with formal firms, but these commercial relationships are not likely to be regulated. There are also types of labor relationships between informal workers and formal firms. These relationships have often been described as disguised, ambiguous or not clearly defined. Under each of these relationships, workers tend not to be protected under labor laws or collective bargaining agreements.

Many formal firms prefer informal employment relationships, in the interest of flexible specialized production, global competition, or reduced labour costs. The related point is that formal firms choose these types of informal employment relationships as a means to avoiding their formal obligations as employers, and in these cases it is the formal firm, not the informal worker who chooses to operate informally and enjoys the benefits of informality. From this viewpoint, informal employment is voluntary from the perspectives of both the informal wage worker and the formal employer.

The core of the debate on informal economy is whether to formalize the informal economy. The answer to this question depends on what we mean by formalization. To some, formalization means informal enterprises should obtain a license, register their accounts, and pay taxes. But to

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the self-employed, these represent the costs to entry into the formal economy. What they would like is to receive the benefits of operating formally in return to paying these costs, including: enforceable commercial contracts, legal ownership of their place of business, tax breaks, incentive packages to increase their competitiveness, membership of trade associations and statutory social protection. To the informal wage worker, formalization means obtaining a formal wage job with secure contract, worker benefits and social protection.

The contextual question for Zanzibar is what is the size of the informal sector in Zanzibar? And how can it be mobilized to promote growth and reduction in poverty? And the final question is should the informal economy be formalized in Zanzibar?

The answer to the first question is that no systematic study has been done on the size of the informal economy in Zanzibar. However, given the statistic that 60 percent of the labor force is engaged in agriculture, most of which are smallholders, it will not be far from the truth to conjecture that it could range anywhere from 70 to 90 percent of the total labor force, considering that a good many of the SMEs also operate informally in the services sector.

The answer to the second question is that the informal economy, especially that within agriculture, is indisputably the backbone of the rural economy. As noted elsewhere, in the process of structural transformation, increased productivity in agriculture fuels growth in informal economic activity in the rural area, and also allows rural-urban migration, enhancing growth in the informal economy in the urban areas. As the informal economy becomes an escape route from poverty, it absorbs transit labor from agriculture into other economic activities. The implication is that investment in productivity is one way to mobilize the informal economy towards growth and poverty reduction. The other ways include broad-based strategies that empower informal enterprises to participate fully and effectively in the economy.

This brings us to the last question: should Zanzibar formalize the informal economy or should it not? Taking into consideration the different meanings of formalization, the feasibility of formalizing the informal economy is unclear. Does Zanzibar have the bureaucracy to process the volume of license applications, and the tax forms if all informal enterprises were to be formalized? Given that employment growth in the formal sector is not growing fast enough to keep pace with demand for jobs, formalizing will exacerbate an already tense unemployment
situation in Zanzibar. Hernando de Soto, described by most as the founder of the legalist school, recently advocated one form of regulation, i.e., the formalization of property rights for the informal workforce to help them convert their informally-held assets into real assets (de Soto, 2000). This sounds more like the MKURABITA program in Zanzibar.

In summary, the informal economy has come to stay, and that formal and informal economies are intrinsically linked. In real life, large formal enterprises are often involved in setting formal policies and regulations which are often biased towards formal firms to the detriment of both informal enterprises and informal wage workers. Yet to increase competitiveness, firms in the formal economy are seen to reduce their input costs, including labor costs, by promoting informal production and employment relationships with subordinated economic units and workers. What is needed is an appropriate policy response that promotes equitable linkages between the two economies, and also balances the relative costs and benefits of working formally and informally. While the focus here is on the role of government, there is a role for all stakeholders, including formal firms in promoting socially responsible corporate practices, and for organizations of informal workers in policy making.

2.4.2 THE ROLE OF PRIVATE SECTOR

The Growth Strategy identified the private sector among others as a key player in its implementation. The Government recognizes the role of the private sector as a partner in advancing economic progress in Zanzibar. Therefore, for most of the strategic interventions in MKUZA, the Government has put emphasis on creating the enabling environment for private sector activities to flourish. Indeed, under MKUZA, the private sector had been expected to take the leadership in capitalizing on opportunities made available during implementation. Unfortunately, the sector has not demonstrated the capacity to take advantage of opportunities availed to it. The size of the sector has remained small in Zanzibar, and the operations of the sector are still limited.

A major constraint to the growth of the private sector in Zanzibar is the unfavorable financial environment. For example, the tourism sector is made up of multiple small enterprises that are unable to borrow funds in order to re-energise their businesses. There is a dire need for an investment or development bank from which private sector firms can have reliable access to
funds for expansion and innovation. The outlook for the sector’s role in the MKUZA does not look any different from what it has been in the last three years that MKUZA has been incepted, and it is imperative that the problem of lack of finance is tackled in an aggressive way. There is the need for renewed private sector investments particularly in agro-processing, both from domestic and foreign sources, particularly from Zanzibaris in the Diaspora through contributions to the domestic economy in the form of business ventures. This type of contributions is already a force to reckon with in other countries in Sub-Saharan Africa. This will require a number of conditions, including major reform and development of the financial sector, as well as the development of a pro-business environment. All of these require sustained macroeconomic stability in the form of effective and disciplined public expenditure management.
CHAPTER 3: GOVERNANCE AND OTHER CROSS-CUTTING ISSUES

In this chapter, we look at some of the issues that present unique challenges to every sector, and often exert far-reaching implications for growth performance in the economy. These issues are dubbed cross-cutting because they present opportunities as well as challenges for all the strategic goals, and it is imperative that we integrate them into strategies we propose to implement. These cross-cutting issues include governance, HIV/AIDS, gender disparities, the environment, and population.

3.1 GOVERNANCE

Good governance is critical for sustainable growth and reduction of poverty. The diagnostic analysis that preceded the growth strategy revealed that the capacity of public institutions is low and inappropriate for effectively facilitating the markets to work efficiently, and for promoting savings, investments and innovations for broad-based growth and employment creation. Good governance is the exercise of power by various levels of government in an effective, honest, equitable, transparent and accountable manner. Also private sector organizations, including those of civil societies have to practice good governance as well. Good governance is also about the relationship that exists among the three arms of the government: The Executive, The Judiciary and the Legislature, and the ability to harness this relationship to confront the challenges relating to the Rule of Law, Accountability, Transparency, Anti-corruption and the observation of Human Rights regulations.

Progress has been made in governance in recent years, particularly in the judicial arena with the establishment of a Directory of Public Prosecutions and a Judicial Service Commission. Also, the Controller and the Auditor General’s (CAG) Office has been accorded independence status, and empowered to oversee accountability in Public Financial Management. These were topped with the establishment of a full-fledged Ministry to facilitate coordination. To ensure inclusiveness, RGoZ has been strengthening the capacity of local governments to participate meaningfully in governance activities. RGoZ has made decentralization of government part of a comprehensive programme for public sector reform, and for effective delivery of services by the public sector; the number of Shehias has been increased from 294 to 303, with enhanced employment of women, youth and educated personnel.
The MKUZA Implementation Review (M-AIR) 2007/2008 elaborates on progress made in governance, and space limitation does not allow us to list them here. However, we list the challenges with the intent to reflect on those that have implications for growth and poverty reduction. The challenges that remain in governance are as follows:

1. Scarcity of qualified personnel at all levels of government in implementing governance.
2. Limited financial resources to support key training and other governance programs.
3. Weak mechanism for enforcement, transparency and accountability within state and non-state actors.
4. Weak local government system leading to limited participation as grass root players in public affairs.
5. Weak legal framework that is not supportive of effective implementation of MKUZA.
6. Weak institutional capacity of oversight institutions in terms of human resource capability, and lack of requisite tools and equipment.
7. The non-existence of operational law review commission has undermined the legal reform process.

The challenges facing governance point to inadequacy of human and institutional capacity. To the extent that these human and institutional capacity constraints affect the ability of MDAs to deliver services efficiently, there is the need for aggressive human and institutional development programmes to equip MDAs as well as NSAs to deliver services effectively. The strengthening of government institutions is indispensable in enhancing the ability of the government to implement an effective decentralization programme. This would create the enabling environment for the pursuit of economic goals of accelerated growth and poverty reduction.

3.2 HIV/AIDS

There are several ways in which HIV/AIDS can frustrate efforts to promote economic growth and poverty reduction. In societies where HIV/AIDS is endemic, it drastically reduces household incomes through morbidity or death, loss of productivity, and thereby deepening poverty. It also depletes household assets (which are sold to pay for treatment and other related expenses) and exhausts social safety nets, leading to an erosion of the traditional mechanisms that cushion farming households against transitory crop failures and food insecurity.
Furthermore, HIV/AIDS is increasing drop-out rates for school children in their efforts to find work or forage for food, and causing even higher drop-out rates for girls and young women who are increasingly assuming the responsibility of caring for the sick in their households. Thus, the pandemic is frustrating the MDG targets of achieving universal education and gender equality in access to education.

In many African countries, majority of the people affected by HIV work in farming, and there is tremendous scope for agricultural policy to be more HIV responsive in supporting adjustment to labor shocks and the transmission of knowledge to orphans. In rural Zambia, population declines were especially severe for young adults. Nineteen (19) percent of people 15-24 years old in 1990, the most productive age group, were estimated to have died by 2000 (World Bank 2007). In Lesotho, as a result of the nexus of HIV/AIDS, overall life expectancy declined from 55 in 1986 to 49 in 2003, and to 42.9 in 2007 [UNDP: HDR, 1986; 2003; 2007/2008].

The HIV prevalence rate in Zanzibar is estimated at 0.6 percent (THMIS 2008). This rate is similar to that which was estimated in 2002 through a population-based validation study by the Zanzibar AIDS Control Program. This, therefore, signifies a stabilizing trend in prevalence, with a gender breakdown of 0.7 percent for women and 0.5 percent for men. HIV prevalence is much lower in Pemba (0.3 percent) than in Unguja (0.8 percent), the two main islands in Zanzibar. The gender distribution of the prevalence rate is 0.3 percent and 0.2 percent for women and men respectively in Pemba, and 0.9 percent and 0.6 percent respectively in Unguja. By this epidemiological profile, there is a low intensity generalized epidemic in Zanzibar (RGoZ 2007; THMIS 2008).

HIV infection can increase dramatically if it is not confronted adequately, and the nature of a country’s response to the epidemic can go a long way in stabilizing or reducing the infection rate. It has been observed from other country experiences that HIV/ AIDS typically attack the economically productive section of the population, and it is the entry point by which HIV/AIDS attacks productivity and deepens poverty. In Zanzibar, the age group at risk is those between the ages of 20 to 49. The Routine Annual Sentinel Surveillance Report of 2008 shows that HIV prevalence among pregnant women aged 15-24 years attending anti-natal clinics (ANC) declined from 0.87 percent in 2005 to 0.05 percent in 2008. This shows a significant decline beyond the MKUZA target of 0.5 percent by 2010.
Zanzibar’s HIV/AIDS response is multi-sectoral, and addresses the key areas of comprehensive response, including prevention, care and treatment, impact mitigation and the creation of the enabling environment.

3.3. ENVIRONMENT

Although there is a growing body of evidence that the environment is one of the core building blocks for pro-poor economic growth, this message does not always seem to be reflected in the way resources are allocated to the sector. The channel by which the environment contributes to pro-poor growth and poverty reduction is shown by linkages illustrated below:

Fig 1: Environmental economic asset, flows, and outcomes.

| ENVIRONMENT ASSET BASE (STOCK OF NATURAL CAPITAL) | FLOWS OF ECONOMICALLY VALUABLE GOODS AND SERVICES | POSITIVE HUMAN & ECONOMIC WELL-BEING OUTCOMES, INDICATORS OF PRO-POOR GROWTH |

In making the economic case for investment in the environment, one needs to conceive the environment as an economic asset. Environmental resources must be seen as productive natural capital, where there is a trade-off between investing in sustaining it, and converting it to other uses. The economic returns from environmental investment, defined as the sustainable management of environmental assets, generates a flow of economically valuable goods and services that are used at subsistence level. Environmental goods and services make a key contribution towards positive economic and human well-being.

Because the poor tend to rely much more heavily on environmental goods and services (such as firewood) than other sectors of the population, and are less able to deal with the effects of environmental degradation and loss, the maintenance of good environmental status is core to meeting their basic needs and alleviating poverty over the short and medium term.

Among other things, Zanzibar’s Vision 2020 advocates the mainstreaming of environmental issues with development objectives in order to ensure sustainable socio-economic development. It also recognizes that the introduction of sustainable environmental management (i.e., environmental investment) is crucial for Zanzibar’s future. This is an encouraging sign that the Government recognizes the importance of the environment as a source of pro-poor growth and reduction of poverty, but it is tempting to hide behind the eloquent articulation of goals and objectives and do very little. More can be done to reduce poverty in Zanzibar simply by reinforcing sustainable environmental management.
The environment as a natural resource provides soil to grow food; water for drinking, washing and irrigation; forest for raw materials to a wide range of industries, and rivers for fish to eat and export. Like the case with Zanzibar, natural landscapes and wildlife reserves are major factors in attracting tourism. Moreover, in economic terms, natural capital constitutes a quarter of total wealth in low income countries (OECD 2008), and it is the principal source of income of the poorest people, as well as employment and fiscal revenues.

Thus, natural capital is the major asset of the poor, and they are much more dependent on it. Therefore, in partnership with its development partners, RGoZ can invest in building capacity of community-based cooperatives or organizations to manage natural resources. It can also promote the use such tools as participatory rural appraisal, poverty and social impact assessment to monitor the evolution of stocks and take corrective action in cases of significant degradation or decline. Finally, the politics and governance play a key role in pro-poor management of the environment. The special characteristics of natural resources (such as unclear property rights, multiple claims and functions, lack of market prices, remote location and difficult access), in combination with weak institutions give rise to special challenges. These challenges include, in particular, the potential for elite groups to monopolize access to resources and exclude the poor. As a result, the benefits from natural resources accrue to an elite few, and do not contribute to economic growth. To ensure pro-poor results, particular attention should be paid to a meaningful participation of the poor in governance processes. Political change cannot be imposed from the outside. It must be based on broad ownership of decision-making processes.

3.4. GENDER

In this section we provide an overview of gender equity, equality and women empowerment in Zanzibar. The section will also examine the extent to which social disparities and the social relation among genders influence equity and equality in decision making and assets ownership in the island.

According to the 2002 population census, 53 percent (517,717) was economically active of which 52 percent (269,785) were women and 48 percent (227,932) were men. It was estimated that 39.6 percent of this population lived in urban areas, while 60.4 percent were confined to rural areas.

The Zanzibar Constitution recognizes equal rights of women and men, and hence allows both to have equal access to social, economic and development opportunities. This means that there is an urgent and pressing need to translate provisions within the constitution into policies, programmers and implementation plans. The available data show some successes and some failures. Women are benefiting or participating less relative to their male counters in all socio-economic, political and cultural spheres.
3.4.1. Women and Education

The Government of Zanzibar has declared free education to its citizens since 1964. This is in line with the Global declaration that education is a fundamental right of all global citizens. There is an observable gender disparity in the pursuit of higher education. For example, State University of Zanzibar enrolled a total of 703 students in 2009 of which 275 (39 percent) were female and 428 (61 percent) were males.

3.4.2. Women and Employment

In employment, evidence shows that majority of women are engaged in informal sector and particularly in petty business which in most cases are not sustainable due to lack of adequate capital or lack of entrepreneurial skills. In the formal sector, women represent 36 percent of the total employees. This indicates that female to male labor participation ratio in formal sector employment is 1:2 (Zanzibar Manpower Survey Report 2002). Most of them are engaged in teaching, nursing, clerical work and secretarial positions.

3.4.3. Women in Leadership and Decision-Making

In terms of women’s representations in politics, the disparity is more pronounced, as shown in the Table 3.1, below. Women constitute 23 percent of all Ministers, 17 percent of Deputy Ministers, 14 percent of Principal Secretaries, 0 percent of Regional Commissioners, and 20 percent of District Commissioners.

Table 3.1: Summary of women representation in political positions.

<table>
<thead>
<tr>
<th>Post</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>Women as % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministers</td>
<td>10</td>
<td>3</td>
<td>13</td>
<td>23</td>
</tr>
<tr>
<td>Deputy Ministers</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Principal Secretary</td>
<td>12</td>
<td>2</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Regional C’ssioners</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>District C’ssioners</td>
<td>8</td>
<td>2</td>
<td>10</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: MLYWCD 2009

3.4.4. Access to Ownership of Resources

The policy for protection and women development, the Zanzibar Vision 2020 and the Zanzibar Strategy for Growth and Reduction of Poverty recognize the issue of access and ownership to productive resources (land), capital and market opportunities as a key factor for the eradication
of poverty in the country. Affirmative actions were taken by both State and non-state actors to establish and implement special programmes for promoting economic empowerment of women. Soft loan programmes and livelihood skills programmes were among the initiatives implemented by both the government and non-governmental organizations to address issues of access and ownership of resources among women.

According to a rural finance survey conducted in Zanzibar (2006) women were 8 times less likely to obtain credits from banks and other financial institutions than men. This is partly due to stringent conditions imposed by the financial institutions. Another key requirement is the collateral for borrowing which most women do not possess. Despite their productive role as 70% of labor force in agriculture, women own less than 20% of the land. Besides that, women’s efforts to increase productivity is hampered by illiteracy, lack of appropriate technology, inadequate access to market information, lack of access to extension services, and having to lease land from husbands or other relatives for farming. The latter factor impacts negatively on their socio-economic development, because women who have to lease land from husbands and relatives cannot use the land to grow permanent crops that have the prospects to alleviate poverty over the long run...

### 3.4.5. WOMEN AND HIV/AIDS

Women tend to be more disproportionately affected by HIV/AIDS. Zanzibar is considered to be a low prevalence country compared to other countries, especially in the Sub-Saharan African region. The HIV prevalence is currently 0.6 percent among sexually active adults (15-49 years), of which 0.9 percent is women and 0.2 percent is men. This means that for every one infected man there are approximately 5 women also infected. To date more than 600 people have died of AIDS on the island since it was first detected in 1986 (Validation Survey 2003 in Situation and Response Analysis, 2003). Out of this situation, women show infection rates that are four to six times higher than their male counterparts (Situation and Response Analysis, 2003).

The HIV/AIDS statistics in Zanzibar – though small in comparison with other countries in Africa, were noted to be disturbing especially from the gender perspective. Not only was there an indicated increase in HIV infection rate for the general population, there was as well a higher level of vulnerability of women to the infection than their male counterparts. For example, data collected from sentinel surveillance indicated that prevalence of HIV/AIDS among pregnant women in Zanzibar doubled from 0.3 percent to 0.6 percent from 1987 to 1997, and in the year 2000 it was 0.7 percent (ZACP – HIV/AIDS/STDS Surveillance Report 2000). Furthermore, data collected from various sources for the year 2004 in both Unguja and Pemba indicated that out of a total of 13,577 people who tested for HIV a total of 4.7 percent were found to be positive, with the majority of them being women. (ZACP2001). Main gender factors that have been analyzed behind this scenario include:-
Growth drivers and their implications for poverty reduction

- Lack of sexual decision power among women.
- Polygamy especially if one of the members of the marital unification becomes unfaithful.
- Frequent marriage and divorce.
- Transactional sexual activities.
- Inadequate access of appropriate information.
- Gender Based Violence.
- Poverty among women.
- Low understanding among women and men on gender issues and how it related to HIV / AIDS.

3.5. POPULATION

The population of a country affects its development efforts in many ways. Given the rate of population growth, the rate of growth in income per capita is determined largely by the rate of GDP growth. Since the rate of population growth is considered to be stable in the short and medium term, the direct relationship between the rate of GDP growth and growth in income per capita causes them to be used interchangeably as measures of economic growth. As a matter of fact income per capita is usually a preferred measure of growth as it provides information about increases in people’s incomes, as the latter is often considered to be a proxy measure of improvements in well-being. Thus, growth in per capita income is the difference between growth in GDP and the population growth rate.

The policy implication of the above relationship is that to raise income per capita one needs to raise the growth in GDP or lower the population growth. Since population growth can hardly be altered in the short to medium term, the only option then is to increase GDP growth. In the long run policy-makers may need to consider long term strategies for controlling population growth. Zanzibar is considered to be the most densely populated part of East Africa, and its population growth rate of 3.1 percent is viewed by many as a barrier to efforts to raise people’s incomes. The Government of Zanzibar may need to consider mainstreaming a culturally acceptable population policy in poverty reduction strategies.
3.6 FINDINGS & RECOMMENDATIONS

3.6.1. TRADE:

1. The strategic objective of trade asserts that Zanzibar has comparative advantage by its geographical position and that by integrating Zanzibar into the global economy it will provide efficient trade services based on high degree of competitiveness. It is not clear in what product or service that Zanzibar’s geographic position confers this comparative advantage. What is clear, however, is that Zanzibar has the potential to develop comparative advantage in some trade services or product, i.e., if it can produce that product or provide that service at the least cost relative to neighboring countries with similar geographic location advantage. Natural resource endowments indeed confer the prospects of comparative advantage, but the resources need to be deployed in production with defined technologies and combinations of other resources, notably human capital, in order to earn that comparative advantage. Moreover, comparative advantage is dynamic, and if a country fails to utilize the advantage it will lose it. In our view the prospects for comparative advantage conferred by the strategic position of Zanzibar have not been exploited, and Zanzibar may be on the verge of losing it if it fails to exploit these prospects. The time for action in developing the appropriate trade services and products such as water transportation and non-traditional exports has come in order to utilize the comparative advantage.

2. Currently, there is no active participation in trade on the part of Zanzibar. The small sizes of firms in Zanzibar (mostly MSEs) constrain their ability to export. The very few that manage to export are usually not competitive in the global market due to their high costs of production arising from their low levels of productivity. There is the general perception that MKUZA has not pursued aggressive policies to enhance the growth of SMEs. There needs to be financial reforms aimed at SMEs to facilitate access to financial capital for expansion, innovation and efficient operations so that they may become competitive in both regional and global markets.

3. Persistent trade deficits will continue to hound Zanzibar’s economy. The way out of this is to diversify exports to include non-traditional, processed or semi-processed exports, while limiting imports to essential inputs and intermediate goods.

4. Zanzibar has had some success with the development of certain trade services, but a lot more needs to be accomplished. The Free Port facilities and the Export Processing Zone (EPZ) are both providing a range of business services to exporters and importers to and from East and Central African region. However, in order to command comparative advantage in shipping services it

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13 According to the ZGS, “Specifically, the geographical location of Zanzibar makes trade its strategic sector” (see pg 24)
will need to develop the infrastructure for full-fledged shipping services, including the development of docking space for bigger vessels to load and offload cargoes.

5. In so many of the strategic initiatives, the success or failure seems to hinge upon the capacity and the readiness of private sector firms to capitalize on opportunities offered by the enabling environment created through the interventions. Unfortunately, the private sector has been severely constrained by lack of finance. Under the circumstances it may necessary for the government to enter into Public-Private Partnerships (PPP) in order to capitalize on opportunities offered through interventions, and to move forward with the realization of MKUZA objectives.

6. There are converging opinions that the next MKUZA should invest in selective areas for international trade and to promote trade through policies aimed at minimizing the bureaucratic processes, providing tax incentives, and other types of incentives such as annual recognition of firms that export at annual functions organized purposely for such recognitions.

3.6.2. TOURISM

1. There has been a worrisome decline in tourist arrivals since 2006. Tourism arrival grew at annual average of 8 percent over the period 2003-2008. We need to set target growth rates in visits over short and medium term; Granted that arrivals is a positive function of global economic outlook, we need to work harder and relentlessly to attract more visitors.

2. Institutions responsible for the management of tourism need to include monitoring of tourist patronage through exit questionnaire to ascertain extent of satisfaction derived from services received, and solicit suggestions about constant improvements in services received.

3. The strategic intervention is to develop and diversify investments in tourism, with priority given to the expansion and diversification of tourism products. This requires considerable resources. We may need to attract potential investors, both domestic and external, through tax and other incentives to potential investors. Also, the products to be developed, as well as the diversification must be market-driven, and should be based on the responses to the exit questionnaire to visitors.

4. Any appearance of price discrimination towards tourists in the use of services such as hotel accommodation should be eschewed, and policy makers must ensure that no such practices exist in the system. The practice of requiring visitors to pay one price and locals another price is frankly defeatist. Just imagine a visitor from Zanzibar being asked to pay a slightly higher price in Europe when she visits a tourist place in France. The question to ask is: Is there an incentive to return to the place? An inelastic demand will raise revenue only in the short term, but in the medium and long term, consumers do make the effort to find alternatives. Could this be one reason that arrivals have declined in recent years? We may never know the extent to which this price discrimination explains the apparent moderation in annual visits until a study of the impact of price discrimination is undertaken.

5. Tourism has been the widely associated with Zanzibar. However, our stakeholder consultations, as well as our own observations led us to conclude that, in its current structure, tourism may be leaning toward becoming anti-poor. We have observed local businesses struggling to sell products and services. Taxi drivers and street vendors are struggling to survive; local vendors of wood products as well as other shops are not getting much patronage. As noted elsewhere, 80 percent of vegetables and 60 percent of meat products consumed in the hotels are imported, and
yet the potentials in agriculture for organic horticultural farming as well as livestock productivity remain practically untapped.

6. The contribution of tourism to agricultural development and economic growth lies in the involvement of the farming communities in the distribution of products that are used in the tourism industry. The employment impact of such an arrangement could be enormous as farmers and agro-based processing manufacturers are contracted to supply the hotels and other vendors with the consumables required to feed tourists. For tourism to be pro-poor we need strategies that are people centered and broad based. Presently, however, some hoteliers are known to contract farmers outside Zanzibar to produce and supply products for use in their hotels. The next MKUZA ought to make the farming communities in Zanzibar the centerpiece for growth and poverty reduction through their active participation in the distribution of agricultural products for consumption within the tourist industry.

7. The capacity building strategy (#2.4) is laudable. We also recommend that the Tourism Institute should be supported by all major stakeholders in Tourism, and that curricula to be taught in the Institute should reflect the current and projected needs of these stakeholders. Also capacity building should be extended to rural communities specifically to inculcate awareness of developments within the industry. It might also instigate some initiatives on the part of people within these communities to start their own tourist-oriented enterprises.

3.6.3. AGRICULTURE

1. Cross-country estimates show that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth outside agriculture (Ligon & Sadoulet 2007). For China, growth originating in agriculture is estimated to have been 3.5 times more effective in reducing poverty than growth outside agriculture; the estimate for Latin America is 2.7. Also, rapid agricultural growth in India following technological innovation (diffusion of high yielding varieties) was accompanied by major declines in rural poverty. In Ghana, agricultural growth accounted for a large share of the steep decline in poverty. The implication is that if poverty reduction is our primary objective, then we need not delay efforts to generate growth in agriculture.

2. Over the last seven years, agricultural growth has been rather dismal, and has been attributed to combinations of several bottlenecks: unpredictable weather conditions, high prices of farm inputs, plant and animal diseases, low level of modernization and low level of private investment. Other constraints that limit agricultural production include continued use of traditional technologies (non-mechanized tools, unimproved seeds and planting materials); inadequate agricultural services support (extension, research); lack of rural financing; marketing bottlenecks; declining soil fertility; overexploitation of natural resources; heavy reliance on rain-fed agriculture; and non-conducive land tenure systems. The growth performance varied widely from -1.5 in 2002 to 18.7 in 2006 and back to -0.4 in 2007 before rising to 5.7 in 2008. By excluding the spike in 2006, the average annual growth was a dismal 2.3 percent. By adding the spike in 2006 the average rises to 7.5 percent. By far the biggest challenge facing policy makers in Zanzibar is the instability of agricultural production. Appropriately the strategic objective for agriculture in the Growth
Strategy is: “To effectively increase production and productivity associated with high commercialization and modernization of agriculture to generate broad-based incomes.”

3. Despite the disappointing growth performance, however, the share of agriculture in the GDP has increased recently from 21 percent in 2003 to 31 percent in 2008. This is viewed by many as an indication that agriculture is ready to take its place in the perceived structural transformation that is expected to release labor to other sectors of the economy, particularly the informal economy. The priority sectors within agriculture include staple foods and other crops which contributed about 17 percent to the GDP in 2008, followed by fisheries with 6 percent and livestock with 4 percent. From 2003 to 2008, out of 221 projects valued at US$ 2,506,641 approved by Zanzibar Investment Promotion Authority (ZIPA), only 7 valued at US$ 8264 were agricultural projects, signifying low private sector interest in agriculture. The next MKUZA should provide the necessary incentives to make careers in agriculture attractive to potential investors in agriculture, particularly in the “new agriculture” of value added products. Also, strategies for attracting the youth to take careers in agriculture are urgently needed. While the majority of those with full-time careers in agriculture in developing countries are above 50 years, the youth, including those of agricultural-based communities, are not seeking careers in agriculture. Thus, this vital form of human capital is not being renewed. Ultimately, the aging agricultural labor force will retire, leaving agricultural production in a state of uncertainty.

4. Only a small proportion of farmers who are trained on drip irrigation technology are currently using the technology on their farms. The reason is lack of capital to enable the installation of the irrigation equipment. The solution may lie in helping farmers to access microfinance loans, and also helping farmers to form farmer associations to pool resources in order to acquire the equipment. The inventory survey under the Zanzibar Irrigation Master Plan indicates 57 irrigation schemes and 8521 hectares of estimated total irrigation area in Zanzibar. Presently, only about 650 hectares are cultivated with irrigation. The Ministry of Agriculture, Livestock and Environment estimates that each hectare under cultivation can produce up to 6 tons of produce per hectare. Without irrigation, the corresponding output is 0.8 tons per hectare.

5. Organic farming is not very popular among smallholder farmers. Currently, the Ministry of Agriculture, Livestock and Environment is pioneering organic farming to enhance comparative advantage in production. Livestock development requires training, research and extension services for smallholder livestock program to enhance productivity. Investment in livestock based products could have ready market in the tourism industry.

6. To promote agricultural productivity and profitability, the government is exhorted to encourage public-private partnerships in processing and contract grower relationships. It is to encourage the continued formation of farmer associations and empower them to make an impact through sharing of ideas and skills training. Also, access to extension services by farmers would go a long way in enhancing productivity.

7. Crop diversification towards non-traditional exports is seen as a way to boost exports and also as a path to pro-poor growth. Other case studies showed that export crop farmers had the highest
reduction in poverty incidence compared to other farm and non-farm activities. Demand for non-traditional agricultural exports (e.g., fruits and vegetables) is effectively unlimited since Zanzibar has not even begun to sell in these markets as yet. Non-traditional exports should be targeted for faster growth than the sector average growth, and must include horticultural products (pineapple, yam, vegetables, banana, and pawpaw) seaweed and spices. With aggressive programmes to promote non-traditional exports, Zanzibar should soon be able to reduce its dependence on cloves for foreign exchange.

8. There is the need for aggressive efforts in developing markets for agricultural commodities both domestic and foreign. Special emphasis should be placed on niche markets for Zanzibar brands of agro-processed products with the niche to command high value in the market.

3.6.4. MANUFACTURING

1. There is very little manufacturing activity in Zanzibar, and the manufacturing that occurs is characterized by low level technology with correspondingly low knowledge content. Given the opportunities that exist in agro-processing, investing in high technology-based manufacturing would add considerable value to primary products and generate some employment along with it. The ZGS intervention (#2) hits the nail on the head by promoting the use of more productive and efficient technology, supported by research.

2. There has been very little new investment in manufacturing since 2003. Out of 221 investment projects approved by Zanzibar Investment Promotion Authority between 2003 and 2008, only seventeen were for manufacturing for a total value of US$25,680.

3. The manufacturing sub-sector is dominated by micro and small enterprises (MSEs), with low labour productivity. The smallness is explained by unfavourable financial environment, with no access to financial capital for expansion and innovation. Consequently, firms are not able to satisfy domestic demands, and are certainly not in the position to export. The next MKUZA should continue to pursue an aggressive programme aimed at helping SMEs to grow and become active (rather than passive) participants in the growth and poverty reduction agenda. MSEs should have to be well placed to absorb a substantial portion of the labor force, as is the case in other countries.

4. Manufacturing processes are low in capital intensity, with an average capital value of US$300 per worker, compared US$ 1500 per worker for a typical firm in mainland Tanzania, and over US$ 3000 per worker in Kenya or Senegal. The ZGS intervention (#4) of encouraging linkages between FDI and local manufacturing activities is particularly laudable. Sourcing of capital for manufacturing activities in Zanzibar should also be the pre-occupation of Zanzibaris in the Diaspora. If necessary, the RGoZ should initiate efforts to organize Zanzibaris in the Diaspora to pay attention to, and take a role in, the developmental agenda of their native island. In some SSA countries, remittances from their citizens in the Diaspora are a significant proportion of their GDP, and a welcome boost to foreign capital inflows. In other cases they have individually started business ventures on their own initiatives to create assets for themselves and their families.
5. There is no official record of the size of the informal economy within the manufacturing sector, but the informal economy can play a useful role in manufacturing by providing the necessary workforce and other services required to keep production costs low and exports competitive.

6. A typical manufacturing firm is so small that it is unlikely to produce for export. But the few that export are unable to remain competitive because of their high costs of production. There is considerable scope for growth in manufacturing through agro-processing, adding value to unprocessed primary products. Also, there is the potential to develop comparative advantage through specialization and lower production costs in agro-processing. The first intervention in the ZGS for manufacturing sets out to address these challenges. The intervention seeks to promote competitiveness by facilitating access to capital and non-financial services, and by creating opportunities for the production and export products, including souvenirs.

7. There is a need to re-define the role of SMEs as important economic growth and employment drivers. For example, manufacturing and agriculture SMEs clusters can be formidable vehicles of economic growth and job creation. The thrust is to focus on the potential of the SMEs as a foundation for competitive advantage, job creation and economic growth. Zanzibar may need to adopt a business model of “small is beautiful” by which it can transform SMEs into business systems that can produce competitive products and create employment for its people. The creation of small enterprises linked to the big enterprises as suppliers will help reduce working capital requirements, transaction costs, and ensure on-time delivery. Traditionally, SMEs have been left out of government incentive structures, and this has caused them to avoid taxes because of lack of perceived benefits emanating from corporate responsibility.

8. The development of a viable SMEs sector will not come without costs. There is therefore the need to avail funding, improve access to Information and Communication Technology (ICT) and management capacity building, and development of information data bases as well as other incentives for the sector. The hosting of reverse trade fairs under government sponsorship and supervision where the big enterprises engage SMEs to come forth as partners can be used to promote linkages between big and small enterprises.
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### APPENDIX 1

**MATRIX OF KEY ISSUES, CHALLENGES, AND STRATEGIES FOR GROWTH DRIVERS IN ZANZIBAR’S ECONOMY.**

<table>
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<tr>
<th>Sr. No.</th>
<th>ISSUES</th>
<th>KEY CHALLENGE</th>
<th>STRATEGY</th>
<th>RESULTS</th>
<th>TARGET, INDICATORS</th>
<th>KEY ACTORS</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Markets</td>
<td>1. Identify regional and global markets, including niche markets for products from Zanzibar</td>
<td>1. Involve the Private sector In a Pro-Poor Public Private Partnership 2. Establish linkages between formal and informal finance units.</td>
<td>Markets for goods and services from Zanzibar</td>
<td>Increased shares of exports in GDP</td>
<td>Government, ZBC and the ZCCIA</td>
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<td></td>
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<td>2. Inadequate capacity to trade and negotiate</td>
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<td>3. Inadequate Investments in the development of tradable goods and services</td>
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<tr>
<td>2.</td>
<td>Diversify exports</td>
<td>Unfavourable Trade Balance in the Zanzibar Economy</td>
<td>1. Increase non-traditional exports</td>
<td>Positive trade balance</td>
<td>1. Reduced trade deficit</td>
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<td>2. Establish Business Information Centres</td>
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<td>3. Promote agro-processing particularly among SMEs</td>
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<td>4. Capital access to SMEs</td>
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<td>5. Quality control</td>
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### Growth drivers and their implications for poverty reduction

6. Investment in the development of tradable goods and services

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<th>Sr. No.</th>
<th>ISSUES</th>
<th>KEY CHALLENGE</th>
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<th>RESULTS</th>
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<tbody>
<tr>
<td>3. Transit trade</td>
<td>Lack of docking space for shipping lines</td>
<td>1. Develop docking facilities for shipping lines to enhance transit trade</td>
<td>Expanded trade</td>
<td>1. Reduced trade deficit</td>
<td>1. Number of tourists arriving per year&lt;br&gt;2. Share of Tourism sector in GDP</td>
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<td></td>
<td>2. Improve infrastructure in relation to transit trade, as well as develop backward and forward linkages with Agriculture, Tourism and manufacturing sectors</td>
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<tr>
<td>Tourist leaning towards becoming anti-poor</td>
<td>1. Decreasing Tourist arrivals</td>
<td>1. Adopt feedback mechanism from exiting tourists concerning services and perceptions</td>
<td>Increased involvement of communities in the tourist sector</td>
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<td>2. The government to invest via P-P PPP in Tourism</td>
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<td>3. Establish labour and trade practices that would make tourism pro-poor.</td>
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<td>2. Block tours arranged</td>
<td>1. Compulsory use of local tour</td>
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<td></td>
<td>and paid for abroad operators in arranging group tours</td>
<td>2. Compulsory use of local tour guides</td>
<td>3. Tourist sector not expanding, and having little impact on poverty reduction in local communities Promoting forward and backward linkages with Trade, Agriculture and Manufacturing sectors.</td>
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**AGRICULTURE**

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<tr>
<th></th>
<th>Low agriculture productivity</th>
<th>1. Adopt Organic farming for horticulture, spices and no-traditional crops</th>
<th>Reduced share of Agriculture employment</th>
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<tr>
<td>Agriculture not pro-poor</td>
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<td>2. Improve access to agriculture financial services</td>
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<td>3. Adopt small scale irrigation</td>
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<td>4. Develop productivity in the agriculture sector</td>
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<td>5. Developing backward and forward linkages with Trade, Tourism and Manufacturing sectors.</td>
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<td>MANUFACTURING SECTOR</td>
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<td></td>
<td>Low Productivity</td>
<td>Lack of a developed manufacturing sector, low participation by SMEs</td>
<td>Involve the private sector to develop SMEs by assisting SMEs to grow through access to capital for expansion and innovation</td>
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<td>Capacity building and improve quality</td>
<td>Low quality of labour force compounded by lack of mix of skills</td>
<td>Intervene in Education to spinoff entrepreneurs</td>
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Growth drivers and their implications for poverty reduction

with Trade, Tourism and Manufacturing sectors.

APPENDIX 2

INTERVIEWS

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<td>1</td>
<td>Msellem Kh. Msellem</td>
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<td>2</td>
<td>Ali Mansour Vuai</td>
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<td>Mohamed M. Mohamed</td>
<td>Programme Manager, Business and Economic Committee</td>
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<td>4</td>
<td>Omar Abubakar</td>
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<td>Hassan Kh. Juma</td>
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<td>Salama K. Ahmed</td>
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<td>Hamza M. Omar</td>
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<td>Ali Vuai</td>
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Growth drivers and their implications for poverty reduction