Tanzania
The Challenge of Reforms:
Growth, Incomes and Welfare
(In Three Volumes) Volume III: The Economy and Welfare in Zanzibar

May 31, 1996

Country Operations Division
Eastern Africa Department
Africa Region

Document of the World Bank
**ACRONYMS AND ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPZ</td>
<td>Export Processing Zone</td>
</tr>
<tr>
<td>ERP</td>
<td>Economic Recovery Program</td>
</tr>
<tr>
<td>FERP</td>
<td>First Economic Recovery Program</td>
</tr>
<tr>
<td>GOZ</td>
<td>Government of Zanzibar</td>
</tr>
<tr>
<td>HRD</td>
<td>Human Resource Development</td>
</tr>
<tr>
<td>SERP</td>
<td>Second Economic Recovery Program</td>
</tr>
<tr>
<td>ZIPA</td>
<td>Zanzibar Investment Promotion Agency</td>
</tr>
<tr>
<td>ZSTC</td>
<td>Zanzibar State Trading Corporation</td>
</tr>
</tbody>
</table>
TANZANIA

THE ECONOMY AND WELFARE IN ZANZIBAR

Contents

A. OVERVIEW ..................................................... 1
   Background .................................................................. 1
   Summary: Recent Economic Status and Policies .................. 2
   Summary: Income, Inequality and Poverty ....................... 2
B. MACROECONOMIC PERFORMANCE .................................. 4
   Sectoral Issues ...................................................... 6
   External Balance .................................................... 9
   Intra-State Balance (Balance of Trade with the Mainland) .... 11
   Fiscal Balance ..................................................... 12
   Investment and Savings ........................................... 14
   Prices ....................................................................... 14
C. INCOME, INEQUALITY AND POVERTY .................................. 15
   Expenditure Levels ................................................ 15
   Inequality .......................................................... 16
   Poverty Measures ................................................ 16
   Sources of Income ................................................ 17
   Access to Safe Water and Facilities .............................. 19
D. CHARACTERISTICS OF THE POOR IN ZANZIBAR .................. 20
   Demographic Characteristics ................................... 20
   The Position of Women .......................................... 20
   Distribution of Assets ........................................... 21
   Land ........................................................................ 22
   Livestock .......................................................... 22
   Health, Education and Literacy ................................... 23
E. CONCLUSIONS .................................................... 24
Tables

Table 1: Real GDP Growth by Period ....................................................... 6
Table 2: Ratios of Selected Macroeconomic Variables to GDP ................... 11
Table 3: Fiscal Balance ............................................................................. 13
Table 4: Zanzibar: Investment and Savings .............................................. 14
Table 5: Inflation ....................................................................................... 14
Table 6: Expenditure Levels in Zanzibar and Mainland, 1993 .................... 16
Table 7: Gini Coefficients for Zanzibar, 1993 ........................................... 17
Table 8: Family Size and Poverty, 1993 ................................................... 17
Table 9: Demographic Characteristics, 1993 .......................................... 20
Table 10: Incidence of Female-headed Households, 1993 ......................... 20
Table 11: Expenditure in Shillings by Household Type, 1993 ................. 21
Table 12: Percentage of Individuals over 14 Who Own Small Assets, 1993 ... 21
Table 13: Availability of Land, 1993 ........................................................ 22
Table 14: Ownership of Livestock and Cattle, 1993 ................................. 23

Figures

Figure 1: Output Growth Trend GDP in 1976 Prices ................................ 4
Figure 2: Real GDP Growth Rates Agriculture vs. Trade ....................... 7
Figure 3: Zanzibar: Import and Export Volume ....................................... 9
Figure 4: Zanzibar: External Balance, 1981-89 ...................................... 9
Figure 5: Expenditure per Adult Equivalent .......................................... 16
Figure 6: Household Economic Structure .............................................. 18
Figure 7: Households less than 1 Km from a Health Facility or Primary School, 1991 ................................................................. 19
Figure 8: Literacy by Gender and Age Cohort ....................................... 23
THE ECONOMY AND WELFARE IN ZANZIBAR

A. OVERVIEW

Background

1. This separate economic overview and poverty assessment for Zanzibar is presented for various reasons. First, it was requested by the Zanzibar Government and supported by the Union Government. Second, the distinct history, social and economic structure of Zanzibar may generate policy issues different from those of the Mainland. The economic data available to us were extremely limited and often inaccurate. Thus, the following analysis on the macroeconomy should be read with caution. The data used in the household analysis were more reliable. The main source was the 1993 HRD Survey, which covered 231 households and 1,359 individuals in Zanzibar, although reference is also made to the published results of the 1991 Zanzibar Household Budget Survey. See "Zanzibar Revolutionary Government, Household Budget Survey", Volumes I-IV. Department of Statistics, Ministry of Planning, Zanzibar, 1991. Unless otherwise stated, all statistics presented in this section are drawn from the HRD Survey.

2. Zanzibar is made up of two islands—Unguja and Pemba—which lie adjacent to the North East coast of mainland Tanzania, in the Indian Ocean. Its population was estimated at about 770,000 in 1994. The territory has historic links to the Arab trading culture of the Indian Ocean, particularly the Omani Arabs. These are apparent in the form of Kiswahili spoken and in the Muslim religious heritage. Zanzibar is more urbanized than the Mainland, with 43 percent of all households residing in urban areas, compared to 31 percent in mainland Tanzania. Its population density, at 260 per sq km, was 10 times that of the Mainland in 1988. Despite declining world prices, sales of cloves still made up at least 70 percent of the value of exports in the years up to 1994. The Zanzibar clove plantations once made Zanzibar the leading producer in the world, but it now ranks fourth behind new competitors, such as Brazil. Zanzibar has a separate constitution of 1985, which was amended in 1992 to allow for multi-party politics. Under the constitution, Zanzibar, while represented in the National Assembly of the Union and its Government, has its own President, Cabinet, Assembly and Administration for non-union affairs.

---


2 Economist Intelligence Unit, Country Profile of Tanzania and the Comoros, 1994.
Summary: Recent Economic Status and Policies

3. In the decade up to 1986, the economy contracted by a quarter in real terms. Policies of state control in all sectors of the economy contributed to the decline, but Zanzibar has also been beset by an extraordinary decline in the terms of trade for its main export crop, cloves, and a continuing fall in demand. This was the background to the First Economic Recovery Program (FERP), adopted in 1988, and the Second Economic Recovery Program, covering the years 1991-94. The immediate aims of both packages have been to reverse the decline in economic growth and to improve the fiscal and external deficits. The second program, however, places more emphasis on structural reforms to increase the role of the private sector in production and marketing.

4. Since the FERP, the average annual growth rate of GDP has been 3.5 percent, implying a 0.4 percent growth in per capita income. This aggregate figure masks large variations among sectors, with agriculture declining by an average of 3.5 percent a year over the period, and commerce growing by an average of 12.7 percent. Some of the poor performance in agriculture may be related to the continuing presence of monopoly purchasing agents in the market for major export crops. By contrast, the Government has worked to encourage new investment through the Zanzibar Investment Promotion Agency (ZIPA) and the creation of export processing zones.

5. Future investment in the economy will be limited unless the level of domestic savings can be increased. Zanzibar started out with a surplus on the recurrent budget in 1989, but a failure to maintain fiscal discipline in the face of declining real revenue flows and the granting of special emoluments in 1992 led to a large recurrent budget deficit in that year. Deficits continued in the next two years, although at a lower level. Given the failure to generate a surplus on the recurrent budget, external aid has been critical to supporting the current level of domestic investment, but this is not sustainable over the coming years. An attempt to improve domestic revenue mobilization and to expand the tax base is now vital.

6. Dissavings in the public sector have leaked into the current account, which has moved from a position of surplus in 1989 to large deficits. The rapid decline in export values has obviously left its mark on a worsening balance of trade, but an annual growth in the real value of imports of 23 percent a year from 1989 to 1994 is also to blame. Moderate real growth in receipts from services and transfers has not been sufficient to offset the deterioration in the trade balance.

Summary: Income, Inequality and Poverty

7. In 1993, expenditure per capita was T Sh 168,324 or US$306 at an exchange rate of T Sh 550 to the dollar. This compares to a GNP per capita in low and middle-income economies in Sub-Saharan Africa of US$520. Comparison with the 1991 Household

---

The Economy and Welfare in Zanzibar

Budget Survey suggests that standards of living have increased over the period 1991-1993.\textsuperscript{4} The spatial distribution of income shows that urban households have higher expenditure levels than rural households, and that households in the “coral” areas, in turn, have higher expenditures than those in “non-coral” areas.\textsuperscript{5} The Gini coefficient for Zanzibar is 0.3, implying that the islands have substantially lower inequality than the Mainland, probably because of their compact and homogenous land area.

8. It is difficult to determine the incidence of poverty in Zanzibar in the absence of an official poverty line. The poverty line for the Mainland cannot be simply applied to Zanzibar, given that prices and the costs of household consumption are different. For a poverty line of T Sh 114,187 for the Mainland, the incidence of poverty is 41.6 percent. To get the same incidence of poverty in Zanzibar, the poverty line would have to be T Sh 180,000. This means the average price differential between the Mainland and Zanzibar would have to equal 57.6 percent for the incidence of poverty to be the same on the island as on the Mainland. The fact that households in Zanzibar spend lower shares of income on food suggests that the incidence of poverty is probably lower. A review of living conditions shows that although one-half of Zanzibar’s households are within 1 km of a primary school, the percentage was much lower for households in non-coral areas.

9. Poverty is related to family size, and households of 9-10 people are six times as likely to be poor as families of 4-6 people. Reliance on crop production is also a determinant of poverty, and participation in the non-agricultural economy is a route to higher income. Farming households who also have a non-agricultural source of income are found to have significantly higher expenditures than farming households who do not. In addition, households in the coral economy gain from opportunities for fishing.

10. Although the Government has made progress in reaching its target for universal primary education within 5 km of all households, enrollment rates declined from 80 percent in 1970 to 68 percent in 1995. Literacy is low, with just 59 percent of men and 41 percent of women older than 14 able to read and write, compared to 83 percent and 64 percent respectively on the Mainland.

11. Given the recent trends in economic performance, the main reforms for future growth and poverty reduction would need to: (i) improve revenue mobilization and enforce fiscal discipline; (ii) liberalize marketing institutions for export crops; (iii) develop luxury tourism; (iv) direct public expenditures for health and education to non-coral areas to reduce inequality and poverty; and (v) adopt a goal of higher enrollment and completion rates in primary education.

\textsuperscript{4} However, precise comparisons of consumption levels are not possible because of differences in survey design.

\textsuperscript{5} The term “coral” and “non-coral” derive from the ecology of the two distinct rural areas.
B. Macroeconomic Performance

12. Figure 1 presents the historical trend of economic growth in Zanzibar. In the decade up to the mid-1980s, the Zanzibari economy contracted by a quarter in real terms. The policies of state planning and central control introduced by the Zanzibar Revolutionary Government from the 1960s contributed to the decline. Zanzibar has also been unfortunate in the degree to which the external terms of trade and international demand for the main export crop, cloves, has fallen. The Zanzibar Government took initial steps toward deregulation by adopting an import liberalization policy in 1984. In 1988, the Government launched the FERP. The immediate aims of the program were to arrest the decline in economic growth and address the worsening fiscal and external deficits. In 1992, the Government launched the successor to FERP, with the Second Economic Recovery Program (SERP) covering the years 1991-94. This provided for a continuation of the Economic Recovery Program (ERP) policies, with a progressively greater reliance on market mechanisms complementing the reforms of the Union Government. Not much reform of the public enterprise sector has been undertaken, although state subsidies to ailing public enterprises have ended. Efforts to lure additional private investment began with the Zanzibar Investment Act No. 2 in 1986. The Zanzibar Investment Promotion Agency was established in 1991 to implement the Act.

---

13. As indicated in Figure 1, steady recovery of the Zanzibari economy began in 1984. In the early period of the recovery (1984-88), a growth rate of about 3 percent per annum was generated by agriculture and trade sectors. During this period, the agricultural sector remained dominant, accounting for 58 percent of GDP, and exports of cloves represented the most important source of cash income. The traditional dominance of agriculture began to erode in the late 1980s as the sector declined by an average of 3.5 percent per annum. As a result, the agricultural sector's share of GDP decreased to 44.8 percent between 1989 and 1994. The decline was mainly due to decreasing prices and decreasing demand for cloves in the world market.

14. In contrast to the decline in agriculture, the trade (commerce, hotel and restaurant) sector grew at an accelerated rate of 12.7 percent per year between 1989 and 1994. The share of the trade sector in GDP increased from 17.3 percent in 1984-88 to 26.5 percent in 1989-94. In other minor sectors, the growth of manufacturing has been stagnant over time, with GDP share slowly declining from 5 percent in 1984-88 to 2 percent in 1989-94. The poor performance of manufacturing has been attributed to the shortage of foreign exchange to import raw materials and other inputs, the lack of trained labor, and the limited domestic market. The decline also reflects the quality of the data, which need to be updated to cover emerging activities, such as garment exports. With import liberalization, competition from imported products also hampered the growth of manufacturing. Output from construction has been erratic from year to year, but since the FERP, the sector has been growing by an average of 35 percent per year, now constituting over 8 percent of the economy. This represents construction of roads, bridges and buildings, due in part to tourism. Table 1 summarized the changes in the sectoral composition.

15. What is interesting about the change in the sectoral composition of GDP since the mid-1980s is the counterbalancing nature of the growth patterns between agriculture and trade/commerce, which together account for more than two-thirds of GDP. Figure 2 shows the historical trend of growth rates for the two sectors. As the wide swings in growth rates indicate, the aggregate figures mask considerable variation in outcomes between sectors. The graph also reveals a counterbalancing pattern of growth between the two sectors, suggesting that fast growth in trade may reflect the efforts to compensate bad years in agriculture. The trade-off between the two sectors in growth became a pattern since the mid-1980s, while the growth rates of the two sectors moved in the same direction in the earlier period. Thus, it seems that the liberalization policy allowed the trade sector to become an alternative, rather than a complement, to agriculture. At the moment, the trade sector appears to be growing at the cost of agriculture or to safeguard the economy from deteriorating from agricultural slumps. Whether such a growth pattern is temporary is yet to be seen. Further studies are necessary to improve the quality of the data and to understand the sectoral interactions and implications for overall growth.

---

Table 1: Real GDP Growth by Period

<table>
<thead>
<tr>
<th></th>
<th>1978-83 Average year to year growth rate</th>
<th>1984-88 Average year to year growth rate</th>
<th>1989-94 Average year to year growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 1976 Prices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP (T Sh million)</td>
<td>689 (-5.4%)</td>
<td>743 (3.9%)</td>
<td>865 (3.5%)</td>
</tr>
<tr>
<td>GDP per capita (T Sh)</td>
<td>1,348 (-8.2%)</td>
<td>1,212 (1.0%)</td>
<td>1,211 (0.4%)</td>
</tr>
<tr>
<td>Sector Share (percent)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>48.8 (-6.2)</td>
<td>58.4 (7.9)</td>
<td>44.7 (-3.5)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.5 (30.6)</td>
<td>5.0 (-8.6)</td>
<td>2.3 (-6.1)</td>
</tr>
<tr>
<td>Trade</td>
<td>18.0 (0.5)</td>
<td>17.3 (3.1)</td>
<td>26.5 (12.7)</td>
</tr>
<tr>
<td>Public administration</td>
<td>17.2 (1.5)</td>
<td>14.5 (-1.0)</td>
<td>12.5 (2.0)</td>
</tr>
<tr>
<td>Construction</td>
<td>4.2 (-5.4)</td>
<td>2.8 (9.3)</td>
<td>8.4 (35.0)</td>
</tr>
</tbody>
</table>

Source: Government of Zanzibar.

16. The average annual growth rate in GDP at factor cost since the implementation of ERP was 3.5 percent. With the rapidly growing population in Zanzibar, this implies only a 0.4 percent growth in GDP per capita. Thus, the level of real per capita GDP was virtually unchanged from the pre-reform period. Table 1 reports that the level of real per capita GDP averaged T Sh 1,212 during 1984-88, while it declined slightly to an average of T Sh 1,211 during 1989-94. Thus, despite a decade marked by the steady economic growth, real output per capita has not yet recovered to the 1970 level (over T Sh 2,000). On the one hand, this performance is below ERP expectations. On the other hand, it can be said that ERP has stabilized the growth trend and guided the structural shift towards the fast-growing commercial sectors through liberalization policies.

Sectoral Issues

17. **Agriculture.** The poor performance of agriculture reflects both the declining world price of cloves and the marketing system that operates for major export crops. While the cloves industry is not a dying industry, there must be serious doubt, based on recent developments, about its role as a leading source of growth and development. There is no indication that the decline in the prices of cloves will reverse. Cloves have limited use as spices, and there are no emerging by-products that could lift demand. Zanzibar's plantations are quite mature, and would have to compete with new ones coming from Asia and South America, as well as with those that may be developed on the Mainland. With regard to export marketing, deconfinement in the export sector has not been extended to the major export crops. The Zanzibar State Trading Corporation (ZSTC) still has a monopoly over cloves, copra and chilies. Although the corporation receives no public subsidies, any inefficiency in marketing represents a tax on the sector which is embodied in lower producer prices. It is estimated that producer prices over the period 1989-93 constituted 34-63 percent of export proceeds, implying both pressure to
generate revenue and inefficient parastatal institutions. Although the secular decline in the terms of trade for cloves (which has not been fully offset by devaluation) suggests that real agricultural earnings will fall, reform of marketing institutions would contribute to mitigating the trend. In the medium and longer term, the ongoing search for other sources of growth, such as tourism, is important.

18. **Industry.** Up to 1995, 198 projects had been approved by ZIPA and US$55 million had actually been invested. Fifty-one percent of invested funds are in the area of tourism. It is estimated that the projects will create 2,376 permanent jobs. In addition, since 1992, the Government has allowed the creation of export processing zones (EPZs) for industries which are export oriented, along the model of Mauritius. The first EPZ has been established at what was a small-scale industrial complex, with private operators leasing out existing under-utilized facilities. Eight firms are now involved in the production of garments for export.

19. **Tourism.** Zanzibar’s tourist resource base is in its beaches and marine habitat as well as its cultural heritage and historical sights. Both Unguja and Pemba Island have extensive beaches with “creamy surf” which are largely unused. Zanzibar is described as “a coral island of incandescent green” rising out of a “sapphire sea”, with attractive islets and coral reefs. Pemba Channel has a rich marine habitat, which is well known for

---

fishing and sport diving. The cultural sights date back centuries and relate to Zanzibar’s cross-cultural links and its position as a trading post. Stonetown’s distinctive architecture, for example, has attracted attention among tourists. For its proven tourist resources, Zanzibar fits into the Southern zone of the overall potential tourist zones of Tanzania. However, Zanzibar needs tourist services and related facilities. Based on recent surveys, Zanzibar has close to 70 hotels, lodges and guest houses, about 15 restaurants outside hotels, about 30 seaport operators, an airport and two airstrips, as well as facilities for inland transport operators. The current level and quality of facilities is inadequate, though there are plans to change this. Investments in tourism account for 59 percent of total recent private investments. The sector has also benefited from liberalization policies, including exchange rate reforms, trade liberalization and access to inputs from abroad, price decontrol and reduction in bureaucratic procedures. Other efforts to develop the sector include the Zanzibar Integrated Land Use Plan, which has demarcated zones for tourist development; the Zanzibar Commission for Tourism, charged with responsibility for promoting the tourist industry; and Zanzibar Stone Town Conservation and Development Authority, which is responsible for conserving Stonetown.

20. The number of tourists per annum grew more than seven-fold from 8,967 in 1984 to 68,597 in 1994. Tourism has benefited from devaluation, foreign exchange deregulation and trade liberalization. However, the official estimates of income from tourism have not been rising as fast as visitor numbers. This is partly because the number of bednights sold has not increased as much, and visitors tend to be on low budgets. Recently, foreign firms started mass tourism, but the payments are often made outside Zanzibar.

21. The challenge in the next decade will be to market Zanzibar’s natural potential in a way that recoups more income. Among the major issues that need to receive attention in developing the tourist sector are: (i) marketing of services; (ii) improvement in infrastructure, including roads, telecommunications, ports and airports, sanitary services and water supply; and (iii) information and interpretative services. Also, because of the high content of marine habitat, marine life and cultural sites, Zanzibar’s tourist resource base is fragile and susceptible to environmental factors. Recent workshops show the awareness of the authorities about factors that will help gain the most benefit and acquire a sustainable tourist industry. These include (i) managing the flow of users to contain pressure on resources (ii) involving local communities in planning to resolve competition for resources between foreign and local users, and (iii) ensuring training for service providers and maintaining high quality of facilities and services to attract fewer, but higher paying, tourists.

---

9 United Republic of Tanzania: Zanzibar Tourism Infrastructure Project, 1996.
Figure 4: Zanzibar: External Balance, 1981-89

Figure 5: Zanzibar: Import and Export Volume
22. Trade and BOP data available to this report were particularly limited. The point estimates of figures are, therefore, subject to suspicion and caution. Nonetheless, the overall trend and changes observed can still shed light on the recent development in the economic relationship between Zanzibar and the rest of the world. Figures 3 and 4 summarize Zanzibar’s trade balance (excluding Mainland) in the 1980s and Table 2 shows the more recent trend. As Figure 3 shows, exports drastically declined in volume in the early 1980s and continued to fluctuate at a low level except for a couple of years when exports of cloves increased sharply. The general declining trend is primarily due to the decrease in both value and volume of clove exports as a result of the drop in the world market price and demand. Year-to-year fluctuations in total export value are also explained by the unstable clove exports. Although export-oriented agriculture has been diversified into other crops such as copra, chilies, and seaweed, cloves still remain the main export.

23. Cloves accounted for 45 percent of exports in 1994, compared to 27 percent for seaweeds and 28 percent for others. The respective shares in 1990 were 96 percent, zero percent and 4 percent. Import volume was relatively stable in comparison with exports, but it slowly declined with the sharp drop in exports in the early 1980s and remained at a low level. Important import items were traditionally food (over 40 percent of total exports for most of the 1980s), capital goods and raw materials, but there has been a rapid increase in private imports of consumer goods since the liberalization. Devaluation of the shilling also contributed to the increased T Sh value of imports. As shown in Figure 4, the nominal dollar value of exports relative to imports decreased over the decade except for the years in which an irregular expansion of clove exports was observed. Export earnings were able to finance only 15-30 percent of import bills, with the negative implication for the current account balance.

24. In more recent years (1989-94), the rapid decline in export values (despite the growth in non-traditional exports, such as seaweed) has left its mark on a worsening balance of trade, but an annual growth in the real value of imports of 23 percent a year from 1989-94 is also to blame. This is summarized in Table 2. A significant share of imports into Zanzibar are often in transit to the Mainland, presumably to take advantage of tax differences. Moderate growth in services and transfers has not been sufficient to offset the deterioration in the trade position. Reflecting the worsening trade position, import support has risen from US$73 million in 1989, to US$479 million in 1994. Although much of this represents official import support through the Government, the discrepancies between the Government’s figures and the Balance of Payments figures for import support indicate that some of this represents “own-funds imports.” To the extent

---

Data reported in Table 2 are not directly comparable with Figures 3 and 4, due to the discrepancies in the original data sources. Because of the limited information available, it is difficult to assess the accuracy of either data. Thus, point estimates reported in this section should be taken with extra caution. The analysis on the overall trend, rather than the level or the year-to-year change, is more reliable.
that imports are paid for with own-generated foreign exchange, the external balance is more favorable than is presented here.

**Intra-State Balance (Balance of Trade with the Mainland)**

25. Trade balance with the Mainland was always negative through the 1980s. The most important import item from the Mainland was fuel, which accounted for nearly 40 percent of total imports between 1978 and 1986. Zanzibar heavily relied on re-exports from the Mainland for petroleum products because it was able to pay with local currency. However, since the late 1980s, Zanzibar increased its food imports from the Mainland, reflecting the increased use of cheaper Tanzanian rice requiring no foreign exchange. The share of food in intra-state imports increased from 8 percent in 1986, to 28 percent in 1988, and to 40 percent in 1990. After 1991, however, food imports from the Mainland dropped again as it switched back to external supplies, probably reflecting increased prices of domestic rice. Exports to Mainland used to be mostly manufactured goods. However, following the trade liberalization, there has been a rapid growth of re-exports by private traders. In the last several years, over 90 percent of total intra-state exports have been re-exports. As a result of the significant growth in exports, the trade balance with the Mainland turned into a surplus by 1989 and has remained positive in more recent years. However, the trade surplus has been declining in the last few years (1993-94), partly due to a decrease in re-exports from Zanzibar to the Mainland. In 1991, 87 percent of external imports into Zanzibar were re-exported to the Mainland, but by 1994 this had fallen to 18 percent.\(^{13}\)

---

11. The word "external" is used to denote Zanzibar's trade balance and current account with the rest of the world. Zanzibar's trade with the mainland is referred to as "inter-state" trade.

12. These figures are taken from the National Accounts of Zanzibar. Analysis of the performance indicators included in the annual Budget Speech from the Minister of Finance suggest that fiscal performance is worse than shown.

13. Including unofficial re-exports would raise these figures considerably.
Fiscal Balance

26. The main sources of revenues have been profits from state enterprises and indirect taxes, such as sales tax on imports and domestic production and customs. During the first half of the 1980s, revenues declined steadily in real terms (see Table 3). This reflected the decline of income from cloves, in particular through the Zanzibar State Trading Corporation (ZSTC), which had been the major contributor of parastatal revenues. All together, the revenues attributable to cloves dropped from 57 percent in FY82 to 11 percent in FY86.\(^\text{1}\) Zanzibar was able to offset some of the revenue loss from cloves, as the tax receipts from imports increased rapidly primarily because of the devaluation. The deregulation of trade adopted since 1984 is also believed to have contributed to the revenue increase through the expansion of commerce. As a result, the share of sales tax and import duty increased to over 75 percent in the early 1990s. With market prices of cloves remaining depressed and unpredictable, reliance on the traditional cloves revenue base is no longer possible. Thus, in order to raise revenues, it is critical that the Government seek alternative revenue sources, such as better cost recovery of economic services as well as improved efficiency of revenue collection. Other concerns relate to the structure of domestic revenue. Income tax accounts for just 3.2 percent of domestic revenue, while import duty makes up 37.7 percent.\(^\text{2}\)

27. Zanzibar has not been able to contain its recurrent expenditures at the level of its domestic revenues for most periods since the early 1980s. The spending trend and composition are rather alarming. Following the decline in real terms in the early 1980s, recurrent expenditures have steadily risen, due mostly to increases in salaries and wages. The increase in emoluments led to the recent recurrent budget deficits (FY93 and FY94), which had to be covered by external resources. The spending patterns also show that while the budgetary allocations for personal emoluments are generally issued in full or close to full, other items are often underspent. Similarly, debt payments and transfers are regularly rolled over, contributing to the accumulation of public debt.\(^\text{3}\)

28. Development expenditures are financed by the balance from the recurrent account as well as project loans and import support. Over the years, the contribution of the revenue surplus toward meeting development expenditures has decreased considerably. The proportion of development expenditure financed by revenue surplus fell from over 70 percent in the early 1980s to about 50 percent in the mid-1980s.\(^\text{4}\) By the early 1990s, the contribution became nil. This meant increased dependence on borrowing (mainly from the Bank of Tanzania), which led to the public debt accumulation with repayments amounting to about 20 percent of the recurrent budget in FY94. In recent years, the

---

\(^{\text{1}}\) Peat Marwick McLintock (with Mloro Ltd.), *Proposed Economic Recovery Programme, 1987.*

\(^{\text{1}}\) In mainland Tanzania, where income levels are lower, the proportion of domestic revenue received from income tax is over 26 percent.


\(^{\text{1}}\) Estimated by Peat Marwick McLintock, 1987.
Government has been more and more dependent on foreign sources (mostly grants from donors). Consequently, domestic funds are increasingly utilized as counterpart contributions to primarily donor-financed projects. Following the liberalization policy, funds allocated for productive sectors and general administration were decreased (67 percent in FY84 to 19 percent in FY92), while allocations for economic infrastructure were increased (16 percent to 62 percent). Although the year-to-year change in development expenditures has been erratic, a general declining trend was observed in real terms since the early 1980s. However, there is an indication that development expenditure is increasing again in the last few years. Given the limited scope for domestic resources available for capital spending, it is important that the Government review and prioritize projects to ensure the sustainability and effectiveness of its public investment. In particular, the implications for recurrent budget requirements should be considered. The efforts to rationalize capital spending have been initiated through a three-year rolling plan and forward budget exercise, started for the period FY95-FY97.

29. Table 2 presented earlier also encapsulates the most recent outcomes in fiscal performance. The position on the recurrent budget was initially favorable, in comparison to the situation on the Mainland, but Zanzibar experienced some very bad years, particularly in 1992. This was not a consequence of revenue failure, but of increases in expenditure, which ballooned between 1991 and 1992 before settling back into a more regular pattern. Much of this growth was apparently linked to increases in emoluments. Remarks made in the budget speech by the Minister of Finance imply that expenditure growth in real terms from 1992-94 has been approximately 9.8 percent, while the real levels of domestic revenue has actually shrunk.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Recurrent Expenditure</th>
<th>Development Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>276.9</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1981/82</td>
<td>270.1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1982/83</td>
<td>179.2</td>
<td>175.2</td>
<td>63.2</td>
</tr>
<tr>
<td>1983/84</td>
<td>155.2</td>
<td>128.1</td>
<td>49.4</td>
</tr>
<tr>
<td>1984/85</td>
<td>148.0</td>
<td>143.2</td>
<td>47.8</td>
</tr>
<tr>
<td>1985/86</td>
<td>125.2</td>
<td>132.4</td>
<td>34.1</td>
</tr>
<tr>
<td>1986/87</td>
<td>153.0</td>
<td>167.6</td>
<td>33.3</td>
</tr>
<tr>
<td>1987/88</td>
<td>184.6</td>
<td>193.1</td>
<td>39.0</td>
</tr>
<tr>
<td>1988/89</td>
<td>158.8</td>
<td>166.4</td>
<td>26.9</td>
</tr>
<tr>
<td>1989/90</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1991/92</td>
<td>158.4</td>
<td>155.5</td>
<td>31.4</td>
</tr>
<tr>
<td>1992/93</td>
<td>147.1</td>
<td>161.6</td>
<td>20.5</td>
</tr>
<tr>
<td>1993/94</td>
<td>156.2</td>
<td>187.3</td>
<td>45.4</td>
</tr>
</tbody>
</table>

Note: For FY92-FY94, data are imputed from the nine-month report given in budget speeches. (Source: Semboja, 1995).
Source: Government of Zanzibar.

It increased from T Sh 111 million to T Sh 293 million at 1976 prices, according to National Accounts of Zanzibar.
Table 4: Zanzibar: Investment and Savings

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Investment (T Sh million)</th>
<th>Gross Investment (as % of GDP)</th>
<th>Gross Savings (as % of GDP)</th>
<th>Savings-Investment Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>260</td>
<td>30.4%</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1987</td>
<td>185</td>
<td>17.2%</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1988</td>
<td>267</td>
<td>24.5%</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1989</td>
<td>85</td>
<td>10.8%</td>
<td>25.2%</td>
<td>14.8%</td>
</tr>
<tr>
<td>1990</td>
<td>180</td>
<td>22.1%</td>
<td>18.3%</td>
<td>-3.82%</td>
</tr>
<tr>
<td>1991</td>
<td>151</td>
<td>17.7%</td>
<td>14.5%</td>
<td>-3.13%</td>
</tr>
<tr>
<td>1992</td>
<td>279</td>
<td>31.7%</td>
<td>10.2%</td>
<td>-21.4%</td>
</tr>
<tr>
<td>1993</td>
<td>179</td>
<td>19.7%</td>
<td>6.3%</td>
<td>-13.32%</td>
</tr>
<tr>
<td>1994</td>
<td>235</td>
<td>25.0%</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>


Investment and Savings

30. Government investment is the main source of capital formation in Zanzibar. The real level of capital formation declined in the early 1980s except for a sharp increase in 1985, following import liberalization. The declining trend during this period is probably due to decreased public capital spending, the limited availability of foreign exchange (although slowly improving) for imports of capital goods, and crowding-out of resources available to private investment by the accumulating public debt. The real level of investment continues to fluctuate considerably from year to year without an obvious trend. Table 4 shows the unstable feature of domestic investment. In the mean time, the reduced earnings from cloves and dissavings in the public sector have reduced the overall level of domestic savings and added to the savings-investment gap in recent years. The low level of savings is partly due to low incomes as well as lack of incentives, with deposit rates lower than inflation. External aid inflow has been critical in supporting the current level of domestic investment, to a level that is not sustainable over the coming decade.

Prices

31. Inflation rates are given in Table 5. Inflation averaged about 26 percent per annum during 1980-86. Following trade liberalization, prices have become increasingly sensitive to external prices as Zanzibar relied more on external trade. Inflation was affected by the expansion of domestic credit to inefficient parastatals, which led to an increase in money supply without increasing the flow of goods. Inflation has been moderated

Table 5: Inflation

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change in CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>27</td>
</tr>
<tr>
<td>1983</td>
<td>23</td>
</tr>
<tr>
<td>1984</td>
<td>39</td>
</tr>
<tr>
<td>1985</td>
<td>19</td>
</tr>
<tr>
<td>1986</td>
<td>32</td>
</tr>
<tr>
<td>1987</td>
<td>34</td>
</tr>
<tr>
<td>1988</td>
<td>49</td>
</tr>
<tr>
<td>1989</td>
<td>43</td>
</tr>
<tr>
<td>1990</td>
<td>40</td>
</tr>
<tr>
<td>1991</td>
<td>26</td>
</tr>
<tr>
<td>1992</td>
<td>20</td>
</tr>
<tr>
<td>1993</td>
<td>22</td>
</tr>
<tr>
<td>1994</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Department of Statistics.
in recent years. It should be noted that the CPI reported here may not accurately reflect the price changes since the consumption basket is too narrow and emphasis was given to heavily subsidized products, while ignoring the informal markets.

C. INCOME, INEQUALITY AND POVERTY

Expenditure Levels

32. According to the HRD Survey, in 1993, expenditure per adult equivalent in Zanzibar was T Sh 250,284 and expenditure per capita was T Sh 168,324, or US$455 and US$306, respectively, at an exchange rate of T Sh 550 to the US dollar. This is well below regional levels of income per capita: according to the 1995 World Development Report, GNP per capita for low and middle-income Sub-Saharan countries was US$520 in 1993. Comparison of 1993 results with data from the Household Budget Survey of 1991 suggests that standards of living have increased over the two years, although direct and precise comparisons are not possible because the Household Budget Survey published estimates of household income, not expenditure.

33. Figure 5 shows the expenditure levels for households in different areas within Zanzibar. Households in urban areas are found to have a higher average expenditure per adult equivalent than households in the rural, coral-based locations. In turn, these households have higher expenditures than households in non-coral locations. This corroborates the pattern found in the Mainland of: (i) higher income in urban areas where there are more opportunities for employment of human capital, and (ii) patterns of regional differences based on basic agro-ecological potential.

34. Comparisons of expenditure levels between Zanzibar and the Mainland are complicated by differences in prices. It is expected that the prices of goods obtained from the Mainland will be higher because of greater transport costs. The prices of imported goods should be lower in Zanzibar because of lower tariffs. However, it has been difficult to determine whether a price premium exists on the average or to quantify it. Although both Zanzibar and the Mainland have their own CPIs, none of the published sources available indicate how the two indices compare (i.e., what is the relative price of goods in the two locations). In the absence of information on prices, comparisons between Zanzibar and the Mainland should be limited and cautious. The simple comparison of nominal expenditure levels is given in Table 6, which indicates that money expenditures in Zanzibar were about one-third higher than money expenditures on the Mainland.
35. There is evidence that Zanzibar generally enjoys a higher standard of living than mainland Tanzania. First, the share of expenditure per capita given to food purchases was 54.3 percent in 1993, as against 68.9 on the Mainland. The relationship between rising real income and falling food share is found universally across countries, and points to higher welfare in Zanzibar. Second, individual level data suggest that people in Zanzibar are more likely to own assets such as a book, a watch, a radio, or a camera than people on the Mainland.

**Inequality**

36. The Gini Coefficients based on expenditures do not show severe inequality in Zanzibar, either in rural or urban areas. The Gini coefficient of inequality in expenditures was 0.30 for coral rural areas and 0.24 for non-coral rural areas, and 0.28 for urban areas. The Gini coefficient on the distribution of land in rural areas is 0.43.

**Poverty Measures**

37. Ideally, the extent of poverty would be estimated using a poverty line calculated from a consumption basket estimated for Zanzibar. It is difficult to determine the incidence of poverty in Zanzibar in absence of an official poverty line. The poverty line

---

**Table 6: Expenditure Levels in Zanzibar and Mainland, 1993 (T Sh)**

<table>
<thead>
<tr>
<th></th>
<th>Zanzibar</th>
<th>Mainland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure per Adult Equivalent</td>
<td>250,284</td>
<td>183,162</td>
</tr>
<tr>
<td>Expenditure per Capita</td>
<td>168,324</td>
<td>123,351</td>
</tr>
</tbody>
</table>

*Source: HRD Survey, 1993.*

---

19 The Gini coefficient is the standard measure of inequality in income or expenditure. A coefficient of one would indicate perfect inequality, and zero indicates complete equality.
Table 7: Gini Coefficients for Zanzibar, 1993

<table>
<thead>
<tr>
<th></th>
<th>Zanzibar</th>
<th>Urban</th>
<th>Rural/Coral</th>
<th>Rural/Non-Coral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini Coefficient</td>
<td>0.30</td>
<td>0.28</td>
<td>0.30</td>
<td>0.24</td>
</tr>
</tbody>
</table>


for the Mainland cannot be simply applied to Zanzibar, given that prices and the costs of household consumption are different. For a poverty line of T Sh 114,187 for the Mainland, the incidence of poverty is 41.6 percent. To get the same incidence of poverty in Zanzibar, the poverty line would have to be T Sh 180,000. This means the average price differential between the Mainland and Zanzibar would have to equal 57.6 percent for the incidence of poverty to be the same on the islands as on the Mainland. The fact that households in Zanzibar spend a lower share of income on food suggests that the incidence of poverty is probably lower than on the Mainland.

38. The percentage of people in poverty is highest for the rural, non-coral areas, followed by the rural coral areas. In fact, every measure of poverty maintains the same ranking, with the rural, non-coral areas being the poorest. However, it should be noted that the 1991 Household Budget Survey found a higher headcount of poverty in coral areas than in non-coral areas, suggesting that more detailed survey work would be required to yield robust conclusions on the spatial pattern of poverty. The occupational breakdown of poverty shows that people who are primarily engaged in agriculture are more likely to be poor than other groups. Data from the 1991 Household Budget Survey also show that average expenditure levels are usually higher for households with income from cash crops, business income, or wages and salaries than for households involved in subsistence farming or fishing.

39. The association between poverty and large families is strong. The relationship between increasing family size and increasing likelihood of poverty is almost completely monotonic, although some very large families achieve quite high levels of income. This result is also consistent with the findings of the 1991 Household Budget Survey, which show a lower household income per person in larger households.

Table 8: Family Size and Poverty, 1993

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Percentage in Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 People</td>
<td>2.3</td>
</tr>
<tr>
<td>4-6 People</td>
<td>5.7</td>
</tr>
<tr>
<td>7-8 People</td>
<td>23.7</td>
</tr>
<tr>
<td>9-10 People</td>
<td>36.0</td>
</tr>
<tr>
<td>11+ People</td>
<td>14.2</td>
</tr>
</tbody>
</table>


Sources of Income

40. Figure 6 indicates household economic structure in Zanzibar. The pie chart displays the percentage of households which reported a particular economic activity as their most important source of income. While crop production is the dominant source of income, a relatively high percentage of households report non-agricultural activities as
their most important source of income. The contribution of public sector wages is particularly strong. The relative importance of private sector, non-agricultural activities is probably linked to urbanization and the influence of a historic trading culture. However, even rural households are linked to the non-agricultural economy, with 27.5 percent of rural households claiming to have derived some income over the last year from non-agricultural sources. The percentage of rural households reporting self-employment as their major source of income is smaller than for urban households.

41. Although cloves are dominant in Zanzibar’s GNP and exports, they are not apparently of direct importance to the household economy. Cloves are grown in plantations, and just 3.4 percent of households in the non-coral areas and a negligible proportion of households in the coral areas reported growing cash crops of any sort. However, about one-quarter of households in the non-coral areas reported that someone in the household had received a farm wage in the last 12 months, probably from working on the plantation. Thus, the impact of liberalizing marketing agencies for cash crops would most likely be indirect: through increased demand for labor and other commodities from the owners of plantations.

42. Urban areas are characterized, as expected, by employment in non-agricultural activities which require more human capital and offer higher rewards. However, the comparison between coral and non-coral areas indicates the spill-over effects of urban prosperity into rural areas, and the extent to which this might explain expenditure differentials between the two. Thirty-one percent of households in coral areas are involved in at least one non-agricultural activity, as compared to 25.4 percent of households in non-coral zones. Much of this comprises employment in the public or private sector, although some of it results from self-employment. This is important because farming households who also have a non-agricultural source of income are found to have significantly higher incomes than those households which just rely on agriculture. Adding a non-agricultural source of income to the household increases expenditure by 8.9 percent. Households in coral areas are also able to add to income from crop production by fishing. Thirty-one percent of coral-based households engage in fishing, and the average expenditure of households which engage in fishing is higher than the average expenditure of other households.

43. On the other hand, agricultural diversification is not necessarily a route to increased expenditure levels. Undertaking more than one agricultural activity (i.e., crop production plus something else) is linked to higher expenditure levels in coral areas, but lower expenditure levels in non-coral areas. It is hypothesized that this reflects the
potential for fishing in coral areas, but that diversification in non-coral areas is a response to poor agricultural opportunities.

Access to Safe Water and Facilities

Living conditions in Zanzibar appear to vary widely between urban and rural areas. In urban areas of Zanzibar, over 80 percent of households have access to safe water. In contrast, less than 30 percent of rural households have access to safe water. In addition, competing use of the water resources by the tourism industry is having a negative impact on the reliability of the domestic water supply. There is some anecdotal evidence that much fewer than 80 percent of urban households now have access to safe water, and actual flows are not reliable. Figure 7 shows the percentage of households, by location, which are within 1 km of a health center or primary school. In general, households in Zanzibar are found to be closer to facilities (such as a market or safe water point) than are households on the Mainland, although households in Zanzibar are less likely to be close to a primary school. Two further points on physical access are worth noting. First, many households in Zanzibar are within reach of facilities because of access to public transport. Ninety-eight percent of urban households, 68 percent of coral-based households, and 47 percent of non-coral based households are within 1 km of public transport. The second point is that the non-coral areas, which are under-served in terms of distance to facilities, are also the poorest (see also section on education and literacy).

---

D. CHARACTERISTICS OF THE POOR IN ZANZIBAR

Table 9: Demographic Characteristics, 1993

<table>
<thead>
<tr>
<th></th>
<th>Zanzibar</th>
<th>Urban</th>
<th>Coral</th>
<th>Non-Coral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Size</td>
<td>5.90</td>
<td>6.04</td>
<td>5.78</td>
<td>5.79</td>
</tr>
<tr>
<td>Dependency Ratio</td>
<td>1.17</td>
<td>1.03</td>
<td>1.34</td>
<td>1.24</td>
</tr>
<tr>
<td>Avg. Number of Children less than 15</td>
<td>2.70</td>
<td>1.85</td>
<td>2.75</td>
<td>2.76</td>
</tr>
</tbody>
</table>

Note: Dependents are defined as people younger than 15 or older than 64. The dependency ratio is the number of dependents over the number of others.


Demographic Characteristics

45. Family size in Zanzibar (Table 9) is almost exactly the same as family size on the Mainland (5.91), with the interesting twist that family size is higher in urban areas in Zanzibar than in rural areas. However, the dependency ratio, which is also very similar to the Mainland levels, is higher in the rural areas (as it is traditionally), which suggests that the larger family size in towns is due to migration of young adults for employment. A high dependency ratio is clearly associated with poverty. The dependency ratio of households in the bottom quintile is 1.64, whereas for households in the top income quintile it is 0.72.

The Position of Women

46. Female-headed households are a frequent occurrence in Zanzibar, and this is linked with urban life. Overall, 17.9 percent of households are headed by a woman, with 22.4 percent of urban households and 14 percent of rural households in this category. The 1991 Household Budget Survey finds an even higher percentage of female headed households, with one-quarter to one-third of households headed by a woman. About 40 percent of female heads of households in urban areas are women who are separated from their husbands. The great majority of female-headed households in rural areas, and another 40 percent in urban areas, stem from widowhood.

Table 10: Incidence of Female-headed Households, 1993

<table>
<thead>
<tr>
<th></th>
<th>Zanzibar</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage Female</td>
<td>18.0</td>
<td>22.4</td>
<td>14.4</td>
</tr>
<tr>
<td>Headed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of Which: Separated</td>
<td>28.5</td>
<td>43.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Of Which: Widowed</td>
<td>60.1</td>
<td>41.1</td>
<td>83.5</td>
</tr>
</tbody>
</table>


47. Overall, expenditure per adult equivalent of female headed households is higher than for male-headed households (Table 11). However, closer scrutiny reveals that
although female headed households have slightly higher expenditures than their male equivalents in urban areas, they lag behind male headed households in rural areas. One possible implication is that younger, separated female heads, who live in urban areas and may be active in the informal market, are more successful economically than widowed female heads. The analysis of intra-household possession of small assets by gender shows that although men are more likely than women to own basic items, the discrepancy is far smaller than it is for the Mainland.

48. Although female- and male-headed households are almost equally likely to be poor, one cannot draw a definite conclusion on the gender differentiation of poverty. However, the individual level data on asset holdings and education levels suggest that women may have lower welfare than men. For example, the self-reported illiteracy in Zanzibar is 40 percent. Approximately 46 percent of women and 29 percent of men are illiterate. At the level of basic education, enrollment of males and females is roughly equal. At higher levels, however, males continue to dominate as many women are required to work in the home or in the shamba or to marry at a relatively early age. In 1990, the transition rate from Form III to Form IV for boys (12.6 percent) was almost twice as high as the transition rate for girls (6.7 percent).

Distribution of Assets

49. Women’s labor is critical to agriculture and fishing, and women are found to put in much longer working days than men. A 1990 UNICEF study\(^{21}\) has shown that while men work 1,800 hours a year in farming, women work a minimum of 2,600 hours. Although the actual division of income and consumption within the household is extremely hard to observe, data on the distribution of assets within the household can be used as a proxy. The results are displayed in Table 12, and show that women are far less likely than men to own assets. The disparity becomes more acute as the value and the importance of the asset rises.

\[\]  

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]

\[\]
Land

Table 13: Availability of Land, 1993

<table>
<thead>
<tr>
<th></th>
<th>Zanzibar</th>
<th>Urban</th>
<th>Coral</th>
<th>Non-Coral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Owning Land</td>
<td>78.7</td>
<td>59.0</td>
<td>92.5</td>
<td>95.8</td>
</tr>
<tr>
<td>Mean Landholding in Acres</td>
<td>2.26</td>
<td>1.78</td>
<td>2.74</td>
<td>2.58</td>
</tr>
<tr>
<td>Mean Landholding in Acres(^a)</td>
<td>2.87</td>
<td>3.02</td>
<td>2.97</td>
<td>2.70</td>
</tr>
</tbody>
</table>

\(^a\) For households owning some land.

50. The average landholding for rural households in Zanzibar is between 2.5 and 3 acres, and the median landholding is 2 acres. The average and the median size of landholding is lower than for the Mainland, and this holds true whether one is looking at the island as a whole, or at rural households only, or at rural households who own some land.

51. The issue of landlessness is pertinent, with 5.4 percent of all rural households owning no land. These landless households should be of growing concern to policymakers because of their vulnerability to poverty. Although more in-depth and reliable analysis is hampered by the small number of observations, landless households are found to be concentrated in the bottom income quintile and their expenditure is, on average, 72 percent lower than the expenditure of rural households which have some land. For those rural households which do possess land, the size of the holding is associated with expenditure level, although not strongly so. Households in the lowest quintile have an average landholding of 2.28 acres, and households in the top quintile have an average landholding of 2.62.

Livestock

52. Just over 50 percent of households in Zanzibar own livestock of any sort, and 23.1 percent own cattle (Table 14). Households are less likely to own livestock than households on the Mainland, and the average value of livestock holdings is lower. In large part this is due to climatic and ecological differences—Zanzibar does not contain large semi-arid areas which are naturally suited for pastoralism. The connection between livestock or cattle ownership and income level is similar to that on the Mainland. Ownership of cattle and livestock is a mark of wealth, so that the stock of these assets for households in the top quintile is much larger than for households in the lower quintiles. For example, the average value of livestock holdings for rural households in the top quintile is 2.3, whereas for households in the quintile below it is 1.1.

53. However, income cannot be related in a crude way to the holding of these assets. Quality of land is also crucial, as are the suitability of land for grazing animals, the capacity for growing export crops, the opportunities for extractive activities (such as fishing or mining), and the strength of the non-agricultural commercial sector.
Table 14: Ownership of Livestock and Cattle, 1993

<table>
<thead>
<tr>
<th></th>
<th>Zanzibar</th>
<th>Urban</th>
<th>Coral</th>
<th>Non-Coral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage owning Livestock</td>
<td>51.1</td>
<td>34.0</td>
<td>61.2</td>
<td>69.5</td>
</tr>
<tr>
<td>Percentage owning Cattle</td>
<td>23.1</td>
<td>6.6</td>
<td>39.3</td>
<td>34.4</td>
</tr>
</tbody>
</table>


Health, Education and Literacy

54. Officials perceive that social indicators improved over the past decades. Infant and child mortality was high in the 1960s; it began to decline in the 1970s with immunization; it continued to decline in the 1980s with improved nutrition, and it stagnated subsequently.

55. The Government of Zanzibar has set a target walking distance to the nearest primary school of 5 km and, by 1991, 93 percent of households were within this target distance. However, despite progress in increasing the number of schools and their proximity, the basic education enrollment rate has declined from 80 percent in 1970 to 68 percent in 1995.23 Primary enrollment is about 80 percent. Absenteeism is high; the coastal belt is reported to have high dropout rates relative to other areas. Thus, the standard of educational attainment is expected to fall over the next decade. Information on the current population does not suggest that there is a large stock of human capital, particularly in rural areas. Data from the 1991 Household Budget Survey show that 46.9 percent of individuals in the non-coral areas and 43.5 percent in the coral areas have no formal education whatsoever. The equivalent figure for urban areas is 19.9 percent.

56. Literacy is at a relatively low level in Zanzibar. Only 58.9 percent of men, and 41.1 percent of women older than 14 are able to read and write, compared to 82.8 percent.

Figure 8: Literacy by Gender and Age Cohort

---

22 Further information on the Education Sector in Zanzibar can be obtained from the Social Sector Review (World Bank, 1995) and the Education Master Plan (GoT).

and 63.6 percent respectively, on the Mainland. The breakdown of literacy by gender shows that just 4.1 percent of women over the age of 60 are able to read and write. However, literacy at all age levels is a concern, especially since literacy levels for the male 15 to 19 age group seem to be falling below the literacy rates for the 20-29 age group. Literacy is higher in urban areas, with 53 percent of urban residents able to read and write, compared to 32 percent of rural residents. Literacy levels are about the same in coral and non-coral areas.

E. CONCLUSIONS

Over the last decade, Zanzibar has been in the unenviable position of a mono-crop economy adapting to a rapidly declining world price for its export good. It has seen an uneven record of performance on its external and fiscal balances. At the household level, a significant fraction of the population seems to face economic hardship. Poverty in Zanzibar appears to be linked to large family size, low education levels, and subsistence farming. The extent of landlessness, and its connection to poverty is clear-cut, and so is the importance of connections to the non-agricultural economy. The following conclusions focus on areas in which the Government can promote growth and reduce poverty in the future.

- Liberalization of the marketing institutions for export crops would, by raising producer prices, stimulate additional production of export commodities. The change in relative prices between food and export crops could stimulate production and increase incomes in the household economy. It would also have an indirect effect on the incomes of many poor households by increasing the demand for labor in the plantations.

- A review of the performance of domestic revenue sources is warranted by the recent decline in the level and the small contribution of income tax. An expansion of the revenue base would create a firmer basis for future government programs. This is subject to the framework of the fiscal arrangements within the union.

- The Government's emphasis on developing tourism is well placed. Among the major issues that need to receive attention in developing the tourist sector are: (i) marketing of services; (ii) improvement in infrastructure; and (iii) environmental policy. The Zanzibar Commission for Tourism has already been formed to promote the tourist trade. An aggressive marketing drive to bring upscale holiday companies with links to luxury tourism would raise earnings, while minimizing volume and pressure on resources. Marketing also involves improving services by training staff. Existing training programs,

---

24 These literacy rates, estimated from the HRD Survey, imply a much higher rate of illiteracy than the official data.
for example, in restaurant services, are a good beginning. Other critical services include telecommunications, tourist information and interpretative services. There is also a need to improve infrastructure, including roads, ports and airports, sanitary services and water supply, hotels and restaurants.

- Because of its dependence on habitat, marine life and cultural sites, Zanzibar's tourist resource base is fragile and susceptible to environmental factors. Recent workshops show awareness of the authorities about factors that will help gain the most benefit and acquire a sustainable tourist industry: (i) managing the flow of users to contain pressure on resources; (ii) involving local communities in planning to resolve competition between tourism and other uses; (iii) ensuring training for service providers and maintaining high quality of facilities and services to attract fewer number but high-paying tourists, and (iv) providing environmental guidelines (for example, on waste disposal) for operators.

- If literacy levels can be taken as an indication, education requires greater emphasis on the islands. The Government has been successful in meeting its goal for access to primary school facilities, but the redirection of public investment towards sustaining this effort ought to be an immediate priority.

- A review of households' access to education and health facilities reveals that the non-coral areas are both poorest and most under-served. Reallocation of public expenditures towards these areas for health and education facilities should help to reduce inequality and poverty. Increased road links to these sections of the island should also increase households' ability to find non-agricultural sources of income, which is shown as one of the effective means of raising household expenditure.