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Zanzibar

Public Expenditure Review 2003

Laying the Foundations for Improved Public Expenditure Management

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1. Currency Equivalents

Currency Unit: Dominican Peso (DR\$)

Exchange Rate
US\$1.00 = DR\$16.35 (as of March 22, 2000)

2. Fiscal Year

January 1 – Dec 31

3. Acronyms and Abbreviations

CB	Central Bank
CEA	State Sugar Council
CDE	National Electricity Corporation
FEyD	Fundacion Economia y Desarrollo
FTZ	Free Trade Zones
GDP	Gross Domestic Product
INESPRE	Price Stabilization Institute
LAC	Latin America and the Caribbean
ONAPLAN	National Planning Office
ONAPRE	National Budget Office
SPI	Banking Sector Superintendency
WTO	World Trade Organization

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PREFACE

In May 2002, the Revolutionary Government of Zanzibar (RGoZ) launched the Zanzibar Poverty Reduction Plan (ZPRP), which put poverty reduction at the center of policy making in Zanzibar. ZPRP was prepared by RGoZ through wide consultations with all stakeholders, including all political parties, civil society organizations, donors and ordinary Zanzibaris. Subsequently, the ZPRP process has become the basis for renewed efforts to economic and social development and reengagement of donor nations and agencies to support Zanzibar's development and poverty reduction efforts. The reengagement of donors came after almost six years of suspension of development assistance to Zanzibar following a political stalemate that resulted from disputed general election results in 1995 and 2000. The stalemate ended after the signing of an agreement ("Mwafaka") between the ruling party - Chama Cha Mapinduzi (CCM) and the leading opposition party - the Civic United Front (CUF) in 2001.

At the launching of the ZPRP it was agreed that the Government would undertake diagnostic work that would help guide development and poverty reduction efforts and that would provide stakeholders with basic information on the economic and financial situation of Zanzibar. The core diagnostic work includes a study of the Zanzibar economy, a Country Financial Accountability Assessment, and a Public Expenditure Review (PER). This is being supplemented by more specific work, such as a study on the clove industry, sectoral public expenditure reviews for health and education, and a private sector development study.

This PER is the first of its kind for Zanzibar and has been prepared in close collaboration between the RGoZ and the World Bank. The objective of the PER is two-fold. First, it aims to diagnose the fiscal and public expenditure issues which will provide the basis for a public expenditure reform program. Second, the report will provide information to interested stakeholders on Zanzibar's fiscal situation and public expenditures, which can serve as an important input for decisions on future development assistance to Zanzibar.

This PER report consists of three parts. The first part provides the background on the Zanzibar economy, the ZPRP, and the public sector in Zanzibar. The second part reviews resource availability for the Government of Zanzibar, including domestic revenue, domestic and foreign borrowing, and development assistance. The last part of the study reviews expenditures and wage bill issues in detail. Sectoral public expenditures in health and education are reviewed in separate reports. The discussion of budget management and institutional issues complements, rather than repeats, that in the CFAA.

From the Government's side, the task was led by Julian Raphael, Principal Secretary, Ministry of Finance and Economic Affairs. The World Bank team was led by Robert Utz (overall coordination and report preparation and chapters on the Public Sector and Wage and Employment Issues). The members of the World Bank team include Philip Mpango (Domestic Revenue), Praveen Kumar (Expenditure Analysis), Ben Tarimo (Macro-Economic Developments and Debt), and Hamisi Mwinyimvua (Zanzibar Poverty Reduction Plan). Benno Ndulu offered valuable guidance to the team. Emmanuel

Mungunasi and Wilhelm Ngasamiaku provided able research assistance. Philip Courtgnade of the UNDP contributed a chapter on development assistance.

The counterpart team from Government that was led by Julian Raphael included Said M. Hussein (Commissioner for Public Investment, MOFEA), Yakuti H. Yakuti (Commissioner for Human Resource Development, MOFEA), Ame B. Ame (Accountant General, MOFEA), Hussein S. Khatibu (Commissioner for External Finance, MOFEA), Juma Juma (Deputy Commissioner for Budget, MOFEA), and Ali V. Ali (Director, Zanzibar Civil Service Department).

The report has been subject to early and multiple consultations and dissemination efforts in Zanzibar. A World Bank mission visited Zanzibar in September 2002 to discuss the draft concept paper and to agree on the focus of the study with the RGoZ. In December 2002, at the closing of the main PER mission, draft preliminary conclusions were discussed with the RGoZ. Subsequently, in February 2003, the first draft of the PER was discussed at a workshop held in Zanzibar. The team received extensive comments and suggestions from Government and other participants at the workshop, which were incorporated into the final report.

In addition, in response to the deteriorating situation in Zanzibar caused by the sharp drop in tourism following the September 11, 2001 terrorist attacks and subsequent tourist alerts, and the decline in clove prices, a subgroup of the Tanzania Development Assistance Committee was established to consider emergency support to Zanzibar, and the findings of the report were used to brief the group on Zanzibar's fiscal situation and expenditure needs. A round table was held in May 2003, during which the findings of the various pieces of diagnostic work and emerging action plans were discussed.

The task was carried out under the general guidance of Judy O'Connor, Country Director (AFCO4) and Frederick Kilby, Sector Manager (AFTP2). Raj Nallari (WBI PR), Allister Moon (ECSPE), and Christos Kostopoulos (AFTP1) are peer reviewers.

EXECUTIVE SUMMARY

1. Zanzibar finds itself currently in an extremely precarious fiscal situation, caused by the dramatic decline in government revenue during the past four years from 25 percent of GDP in FY98 to 16 percent of GDP in FY02. The decline is primarily the result of the harmonization of tax policy and administration between Tanzania Mainland and Zanzibar and as such is likely to be permanent. Increasing revenue will require significant improvements in tax policy and administration and is likely to be a slow process.
2. In the short to medium term, the key challenge for Zanzibar is thus to adjust budgets and the level and the structure of public expenditures to the new reality of a considerably smaller resource envelope. Revenue estimates have not yet been adjusted downward. This has led to unrealistic budgets which could not be implemented. Decisions on public expenditures have thus de-facto moved from the budget process to a less transparent process of decisions by the Ministry of Finance and more recently the budget ceiling committee, who decide on monthly cash releases to spending units in line with resource availability. Restoring the credibility of the budget process through more realistic estimates of revenue and expenditure needs thus to be a top priority in the short term, especially if the budget is to become the key instrument for the implementation of Zanzibar's poverty reduction plan.
3. To date, the burden of adjustment has fallen exclusively on development and non-wage expenditures, which have been cut in line with the fall in resources. This has led to a severe structural imbalance in Zanzibar's public expenditures, with expenditures on wages and salaries claiming 62 percent of recurrent expenditures. This structural imbalance between wage and non-wage expenditures has direct implications for Government's capacity to deliver services, as staff often lack the means to carry out their functions. In addition to the economic need to make the level of wage bill expenditures consistent with available resources, there are also deeper seated problems in the civil service that will need to be addressed as part of a comprehensive public sector reform program. Government's capacity to ensure the integrity of the wage bill is weak and thus creates the potential for leakages. Furthermore, the salary structure is compressed which is one of the causes for a shortage of professional, technical, and managerial staff while there is overstaffing in the lower levels of the civil service.
4. In addition to fiscal and public expenditure issues, this public expenditure review also assessed the role of the wider public sector in the Zanzibar economy. Here the most urgent need for reform is with respect to the role of the Zanzibar State Trading Corporation, which currently enjoys a monopoly on the export of cloves, Zanzibar's main agricultural product. Removing the monopoly and liberalizing the clove sector is likely to have significant positive welfare implications for clove farmers and the Zanzibar economy.

Context of Public Expenditures Management in Zanzibar

5. The combination of a weak economic base and high vulnerability of the economy to external shocks make sound fiscal policy and public expenditure management a formidable task in Zanzibar. Creating a supportive environment for economic growth has to be the key priority of the Revolutionary Government of Zanzibar (RGoZ). In addition, measures that reduce vulnerability to external shocks should also be considered.

6. Problems arising from the economic structure of Zanzibar are compounded by a fiscal management system that is characterized by a high level of discretion over both the collection and allocation of funds by the Ministry of Finance, while, at the same time, central controls for the appropriate use of funds are weak. Our recommendations are broadly in the direction of creating greater predictability in the system for spending units, while at the same time putting systems in place that allow more effective central control of key expenditure aggregates.

7. The suspension of most donor assistance due to political reasons since 1995 has had a severe negative impact on public service delivery in some of the key sectors. The resumption of aid should take into account lessons learned in Mainland Tanzania and also the significant changes in aid management that have taken place in Mainland Tanzania since 1995.

8. Although the review of fiscal policy and public expenditures over the past few years reveals significant shortcomings, it is encouraging that RGoZ is keen to address these problems with important steps being initiated at present. The main message of this report is thus to encourage RGoZ to continue the course of public expenditure reform. Our report is intended to provide ideas and options for such reforms.

Overview of Public Sector

9. The public sector includes central and local governments and the parastatal sector. Comparative indicators suggest that Government is rather large, both in terms of resource use and employment, especially when Union services are taken into account.

10. The demarcation of responsibilities for government functions between the Union Government and the RGoZ is defined in the constitution and various acts. However, the financial relationship between the two Governments is much less clearly defined, and, in practice, Zanzibar has been reluctant to contribute financially for services provided by the Union to Zanzibar, including services such as police and defense, Zanzibari debt serviced by the Union Government, or services from parastatals such as TANESCO (the Tanzania Electric Supply Company).

11. The rationale of government involvement in carrying out certain functions and delivering public services is not always well established, including the activities of the parastatal sector.

12. The vertical structure of the central government includes four tiers—the central government, regional administrations, district administrations, and shehias. Local government starts at the district level and includes two tiers—district, municipal and town councils and wards. There appears to be a significant opportunity for rationalizing

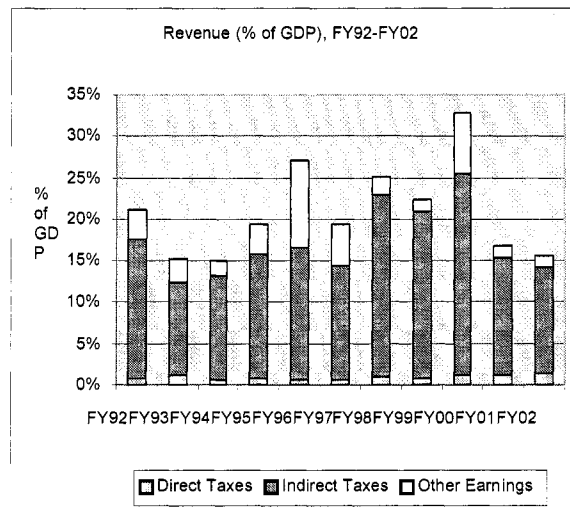
this government structure by eliminating overlapping functions and clearly defining the responsibilities of each level.

13. The parastatal sector has seen dramatic change over the past two decades with about eight operating parastatals remaining. However, the two largest parastatals in terms of their impact on the budget, PBZ (People's Bank of Zanzibar) and ZSTC (Zanzibar State Trading Corporation) are in need of reform. Many of PBZ's problems are due to weak management and financial relations with other parastatals and Government. Government is currently considering options for privatizing PBZ, and it will be critical to ensure that PBZ is removed from the direct influence of Government. ZSTC has a monopoly on the export of cloves, but the rationale for this monopoly is not evident, and liberalization of the export of cloves is likely to have a significant positive impact on poverty reduction. A study on the clove sector that has recently been completed proposes a gradual liberalization of clove marketing over a three to five year horizon. While the proposed measures to support the clove industry should be considered, it might be advisable to allow for private participation in clove marketing as soon as possible.

Public Resource Availability

14. *Secular Decline in Revenue.* Domestic revenue declined from 25 percent of GDP in FY98 to only 16 percent of GDP in FY02. Tax harmonization with Mainland Tanzania and the closing of the so-called "Zanzibar Route" contributed to a significant relocation of economic activity from Zanzibar to Mainland Tanzania.

15. *Variability of Revenue.* Zanzibar Government revenue has been variable over the past decade, fluctuating between 15 percent and 33 percent of GDP (Chart 1). This has in turn made Government expenditure planning highly unpredictable.



16. The main reasons for the high variability of revenue include the fact that Zanzibar collects most of its revenue from indirect taxes, which reflect instability in the performance of imports and production of cloves. Possible options to reduce the variability of revenue include (i) diversification of the tax system to reduce dependence on taxation of trade, and (ii) reform of the indirect tax regime to have more predictable

rates and a standard valuation of imports. However, measures to protect expenditures from the variability in revenue will be key to reduce the negative impact of high revenue variability.

17. *Exemptions.* Zanzibar grants various fiscal incentives aimed at promoting investment in tourism, and export-oriented activities. Although these exemptions have to a limited extent helped to attract foreign investment, they have been subject to abuse and have eroded the potential tax base. Thus, a thorough review and rationalization of the exemptions regime is imperative to counter abuse and improve revenue collection. Equally important, the RGoZ needs to review its investment promotion strategy to create a more favorable investment climate, particularly focusing on addressing infrastructural impediments—notably to improve roads and communication infrastructure, electricity, water, land lease, quality of labor, and curtailing red tape. There is also a need to enhance coordination among the various institutions (ZIPA, ZAFREZA, ZRB, TRA, and MoFEA) that are responsible for administering and approving different categories of fiscal incentives for investment. Recent efforts toward the development of a Zanzibar Investment Policy also include strategies to address problems related to infrastructure, land lease, quality of labor, and the curtailing of red tape.

18. *Better Handle on Taxation of Tourism.* The tourism sector has a strong potential of contributing to higher economic growth in Zanzibar. Tourist arrivals and earnings have shown an upward trend over the past decade. The special island features of Zanzibar, including climate, its rich culture, and long history, make Zanzibar one of the most attractive tourist destinations in East Africa. To tap the revenue potential of the increased tourism activities, RGoZ needs to have a better handle on taxation of this sector. Measures for adequate taxation of tourism that would spread the tax burden equally without creating negative incentives for the sector include (a) establishing an improved data base on businesses in the sector drawing on the recent establishment survey carried out by the government statistician; (b) clamping down on tax evasion; and enhancing local capacity to offer quality services to tourists and increase taxable value added.

19. *Growth-Based Expansion of the Zanzibar Tax Base.* Zanzibar's tax base remains very narrow, given its negligible manufacturing sector, and volatile mono-crop agriculture production. In these circumstances, expansion of Zanzibar's tax base needs to be growth-based. Specifically, there will be a need to embark on economic reforms to achieve sustained macroeconomic stability and spur investment and higher growth. Removal of nuisance taxes and reduction of the multiplicity of taxes are important aspects of the strategy to reduce tax evasion and bring the informal sector into the tax net.

20. *Sharing of Revenue between Zanzibar and Mainland Tanzania.* The URT constitution provides for administration of taxes on incomes and international trade, and the sharing of this revenue, Bank of Tanzania (BoT) seignorage, and concessional program loans and grants between Zanzibar and the Mainland. These arrangements are proposed to be overseen by a Joint Finance Commission appointed in June 2003. The existing revenue sharing arrangement involves the retention of all revenue collected by TRA (the Tanzania Revenue Authority) at source. With regard to the distribution of program loans and grants, Zanzibar receives 4.5 percent of the total based on a temporary arrangement, and the basis of the 4.5 percent is frequently questioned in Zanzibar. Revisiting these income-sharing arrangements is likely to be high on the agenda of the Joint Finance Commission (JFC).

21. Although taxes administered by TRA are supposed to be governed by the same legislation, there are still differences in both rates applied and valuation methods in Zanzibar compared to the Mainland. For example, the application of suspended duty in Zanzibar is limited to only three commodities, compared to fourteen on the Mainland. Similarly, pre-shipment inspection only applies to imports into the Mainland. To resolve these issues, it would be important to get the JFC to address some of these concerns, such as possible compensation for the revenue loss suffered by Zanzibar as a result of import tariff unification.

22. Resource mobilization is characterized by a large degree of discretion, both by the RGoZ and by the Union, with regard to resources provided. This includes apparently arbitrary resource withdrawals from the parastatal sector, relatively large tax exemptions, and transfers from the Union, which mask fiscal deficits and seem to be related to the political cycle.

23. Tax administration is weak with poor capture of the revenue base, relying primarily on indirect taxes.

Expenditures

24. Total central government expenditures in Zanzibar increased steadily during the second half of the 1990s and almost doubled from 17 percent of the GDP in FY95 to 33 percent of the GDP in FY00. Expenditures on wages and salaries increased from 6 to 12 percent of GDP during this period. Since then, total expenditures have returned to more normal levels of about 20 percent of GDP, but the share of wages and salaries has remained stable.

25. Aggregate expenditures in Zanzibar mirror the high degree of volatility in revenues and transfers from the parastatal sector, the Union Government, and external assistance. High volatility in expenditures results in disruption in public investment and has associated costs of adjustment. The long-term solution to the problem of resource volatility is a diversified tax base. In the short- to medium-term the key challenge, however, is to de-link government consumption from the volatility of the resource stream.

26. In FY02, recurrent expenditures were 97% of the total, compared to 80% in Mainland Tanzania, notwithstanding Mainland's financing of several state functions such as police, defense etc., which are Union matters under the constitution. A high level of recurrent expenditures has led to an almost complete squeezing out of domestically funded development expenditures. This has had a serious impact on public investment, since donor finances were also absent during this period.

27. A large part of recurrent expenditures is claimed by the salaries and allowances of an overstaffed civil service. In FY02, salaries and allowances claimed more than 60% of recurrent expenditures, compared to 35% in the Mainland. The large size of the wage bill makes expenditures management difficult on two counts. First, given limited resources, it forces cuts in operations and maintenance expenses, thereby adversely affecting the productivity of existing public assets and service delivery. Second, it makes the overall demand for public funds very inflexible. This is a problem when revenues display high variability, since it is not possible to adjust expenditures on the wage bill quickly.

28. Expenditures on subsidies and transfers were significantly reduced during the first half of the 1990s and have since remained at a fairly low and stable level of around 1% of GDP. Main receivers of subventions are local government bodies, the Zanzibar Revenue Board, the Zanzibar Free Port Authority, the Zanzibar Investment Promotion Agency, and other non-profit bodies. While the level of cash subsidies is low, there are sizable in-kind subsidies, mainly in the form of subsidized water and power supply.

29. The Government runs a cash budget and has managed to keep the fiscal deficit in check. However there are several fiscal risks that the Government must contend with. The most important is accumulated arrears and accrued liabilities. The Government does not collect information on arrears systematically, nor does it plan for them during budget formulation.

Expenditures on Priority Sectors

30. In terms of expenditures by functions, government spending has undergone a major transformation in the last decade. The expenditure share on general administration has increased, while that on health, agriculture, transport and communication has decreased. The challenge before the current Government is to restore the expenditures on social and economic sectors while cutting down the size of general administration.

Expenditure Shares by Sectors (% of Total)

Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
Education	10	11	15	12	13	13	11	13	9	14
Health	7	8	9	8	9	8	7	8	4	7
Agriculture	9	7	8	7	7	5	4	5	3	5
Transport and Communication	10	7	6	6	7	4	3	3	3	4
General Public Service	41	37	47	55	52	62	68	53	65	59
Other	24	30	14	12	13	9	7	19	16	11
Total	100	100	100	100	100	100	100	100	100	100

31. The Zanzibar Poverty Reduction Plan (ZPRP) has identified education, health, road infrastructure, agriculture, water, good governance, and combating HIV/AIDS as *priority areas* for government financing. The expenditures on priority sectors have been stagnating at around six percent of GDP since FY97. Allocations for FY02 and FY03 show that expenditures on health and education are projected to increase.

32. Education sector expenditures are about 2.7% of GDP and about 15.5% of total government expenditures (versus the ZPRP target of 20%), a level slightly higher than Mainland Tanzania and comparable with other countries in the region. Per capita annual public spending on education has been improving since FY95, and was around a reasonable US\$10 in FY02, compared to about US\$7 for Mainland Tanzania.

33. Almost all of the education expenditures are recurrent in nature, and within recurrent, salaries and allowances accounted for 93% in FY02. Development expenditures have stayed at less than one percent since 1995. Expenditures on "other charges" have been very limited too. School materials and teaching equipment are now expected to be provided by the community.

34. Government financing of the education sector remains inadequate in view of the ZPRP objectives. Infrastructure is highly inadequate and performance indicators are still low. Yet, it is possible to achieve better results within the existing envelope through the restructuring of expenditures. One way to achieve better results would be to curtail expenses on wages and salaries and make more resources available for non-wage expenditures. There is a strong case on equity and efficiency grounds for reviewing and reorienting expenditure patterns on a geographical basis. There is a considerable opportunity for expanding access to basic education by redistributing existing teachers more efficiently, without having to hire more teachers. Finally, more could be done to encourage private provision of primary and basic education.

35. Aggregate public spending on the health sector declined between FY95 and FY01, both as a share of GDP (from 1.8 to 1.3 percent) and of total government expenditures (from 8.8 to 6.8 percent). FY02 saw a significant increase in the health budget, and spending improved to about 1.9 percent of the GDP and 10 percent of total expenditures. The FY03 budget has plans for further increases in the health budget. However, it should be noted that, despite real growth in recent years, health sector spending is below the levels achieved in the early 1990s. The sector shows tell-tale signs of chronic under-funding. Health facilities are in a state of disrepair, equipment is scarce, and there is an acute shortage of drugs and medical supplies.

36. As in education, while there is a need for an increased overall level of resources in health, there is an opportunity for reducing administrative expenses and reorienting expenditures to give more attention to preventive care and to provide a greater share for drugs and medical supplies. Regional imbalances in spending also need attention.

Budget Management

37. Judged against the desired outcomes of aggregate fiscal discipline, efficient allocation of resources, and ensuring operational efficiency and effectiveness, the performance of the budgetary systems leaves much to be desired in Zanzibar. While there is a semblance of aggregate fiscal discipline, the predictability of resources for Ministries, Departments, and Agencies (MDAs) from year to year and within given years has been very low, which has severely impacted MDAs' operational efficiency. In the past three years, deviations of actual outturns from the budgeted amounts have been of the order of 80% for development expenditures and between 40 and 70 percent for other charges.

38. The Government plans to move to a multi-year framework for expenditures—the Medium-Term Expenditure Framework (MTEF). This will be a step in the right direction and should be a medium-term goal. It will help the Ministry of Finance and Economic Affairs (MoFEA) to align the sectoral structure of expenditures with ZPRP priorities in the medium-term. As a first step, MoFEA should attempt to forecast aggregate expenditures for three years in the year 2003-04 based on some macroeconomic modeling and then request ministries to submit estimates for these years. The Government is likely to face capacity constraints in developing a medium-term approach to expenditure planning and should preferably start it in two to three sectors to begin with.

39. The unpredictability of resource availability and weaknesses in budget management result in a low level of transparency with regard to resource allocation and the use of public resources. Examples of limited transparency include:

- The expenditures from the vote 'unspecified government expenditures' have been fairly large and there are no clearly laid out criteria defining eligible contingencies for withdrawal.
- In the past, large sums of money have been spent on items such as 'Special Presidential Vote'. An expenditure of T.Shs. 7.764 billion in FY99, and 5.168 billion in FY01 was made on this account. These resources reportedly cover emergencies such as epidemics, unforeseen expenditures, and operations of the offices of the central leadership of the country. The Government has reportedly dropped this sub-vote from FY02 onwards.
- The MoFEA issues lump sums to the ministries against wages and salaries. There have been instances when ministries have diverted them for other purposes.
- The MoFEA operates a Community Development Fund for providing a government share towards community projects. Reporting on the use of these resources and adherence to established criteria could be strengthened.

40. Apart from the above, lack of information (for example on arrears and accrued liabilities) makes the budget processes look opaque. In order to generate confidence in the integrity of budget processes, the Government needs to give top attention to transparency issues.

Public Debt

41. *Current Status:* One of the key problems in Zanzibar's debt management is the absence of comprehensive and consistent information on public debt. In addition to introducing uncertainty into the formulation of debt strategies and policies, this also creates problems in budgeting for debt service payments and can lead to unforeseen debt service requirements in the course of the fiscal year. Available, but reportedly incomplete, debt statistics indicate that by the end of June 2002, Zanzibar's total debt (external and domestic) was T.Shs. 85.7 billion (US\$90.7 million) of which external debt was US\$58.4 million, accounting for 64.5 percent, while the domestic component was 35.5 percent of the total debt. Of the external debt portfolio, multilateral creditors account for US\$42.7 million, or 73.0 percent of the total external debt. Bilateral creditor claims account for US\$8.5 million, or 15.0 percent, while debt owed to commercial sources (suppliers' credit) amounted to US\$7.1 million, or 12 percent of the total external debt. All the multilateral debt is guaranteed by the United Republic of Tanzania (URT).

42. The Union Government and the Bank of Tanzania externalize Zanzibar's debt. The Bank of Tanzania typically deducts any debt service payments made on behalf of Zanzibar from the dividend due to Zanzibar.

43. Out of the total domestic debt of T.Shs. 30.4 billion, T.Shs. 13.6 billion (45.0 percent) is owed to the Union Government. The People's Bank of Zanzibar (PBZ) claims amounted to T.Shs. 7.2 billion (24.0 percent); Zanzibar State Trading Corporation (ZSTC) and Zanzibar Port Authority are owed T.Shs. 2.9 billion (9.0 percent); and T.Shs. 0.6 billion (2.0 percent) respectively. Other creditors claim a total of T.Shs. 6.1 billion accounting for 20.0 percent of the total domestic debt.

44. Significant arrears exist, and systems need to be put in place to prevent the recurrence of public arrears. A central payment system and a Local Purchase Order (LPO) system seem crucial to ensure better expenditure and commitment control.

45. *Debt Coordination and Management:* At the moment there are various units which appear to be involved in debt management with a significant opportunity for improved coordination. The Accountant General's Office faces severe capacity constraints to perform its role in debt management effectively. The External Finance Department of MoFEA plays a role in the negotiation and contracting of debt. The department maintains a database, but it is considered quite incomplete, since project financing has been very difficult to capture. In addition, this department provides data to the Budget Section, but acknowledges that it is also incomplete. Grants received from Union projects, for example, are often excluded from the estimates. There is a need to clarify the roles of the departments so as to have a clear demarcation of their responsibilities.

46. There are, at the moment, very weak links between the line ministries and MoFEA on reporting receipts and expenditures of project assistance, implying that the Development Budget estimates are incomplete. This by-passing of the central budgeting system also means that the External Finance Office and, more importantly, the Accountant General's Office are unable to ensure compliance on reporting and accounting for use of funds. Furthermore, in such a situation, it becomes difficult for MoFEA to budget properly for the counterpart funding component. On the other hand, the Bank of Tanzania (Zanzibar Branch) maintains a separate data set of Zanzibar's debt position.

47. MoFEA acknowledges that the situation needs to be improved. In view of this situation, it is advisable to create an effective Debt Management Unit in MoFEA to coordinate all debt matters. The BOT (Zanzibar) has offered support in the area of debt management—especially on the Commonwealth States Debt Reporting System (CS-DRS).

48. *The Contracting of Debt:* A centralized system giving legal authority to only one ministry—namely the Ministry of Finance—for contracting debt on behalf of any Government is considered to be good practice. If such a discipline does not exist, then any official in the Government will contract debt, leading to a state of confusion whereby (1) the needed statistics will not be compiled/reconciled and (2) the debts may not be in line with the priorities of the country. The situation may lead to leakages and misuse of the resources. By law, only MoFEA has power to contract debt on behalf of the Government. However, the ineffectiveness and poor enforcement of such a requirement has created problems. There are still a number of ministries which borrow—although mainly domestically through the window of suppliers' credit while waiting for monthly releases from MoFEA. Some parastatals have also been doing the same, which creates contingent liabilities for the Government. In view of this situation, it is recommended to review the current legal status to provide for enforceable sanctions and, at the same time, strengthen the enforcement of legal rules.

49. *The Need for a Debt Strategy:* At present there is no clear debt strategy for the islands. A debt strategy will guide the Government on the limits to borrowing, and specify the types of loans and their maturities, including an assessment of repayment capacity and the repayment schedule. Such a strategy will also ensure that debt service is in line with the operations of the budget. In the absence of such a plan, borrowing and repayment will be quite erratic, and, in most cases, will be outside of the budget projections. Authorities have also already seen the need for a debt strategy. In view of this gap, the preparation of a Zanzibar Debt Strategy (ZDS) is recommended.

50. The Need for a Debt Task Force. As stated earlier, there are various sources of the numbers on debt position and, unfortunately, they all differ. Without a clear understanding of the debt situation—both external and domestic—it is difficult for the Government to know its obligations so that it can, *inter alia*, prepare a realistic debt repayment schedule. The MoFEA has already started thinking of carrying out a debt census. It is thus recommended that a Zanzibar Debt Task Force be constituted to bring the debt situation into a reliable and dependable position. The Bank of Tanzania (Zanzibar Branch) could provide assistance in this regard.

Public Wage Bill and Civil Service Issues

51. International comparisons indicate that, with 62 percent of recurrent expenditures, the wage bill consumes a disproportionate amount of government resources, mainly due to high staffing levels in Government. Overstaffing appears particularly prevalent in the lower cadres of Government, while there is a severe shortage of qualified manpower at the professional levels. Other potential causes for a bloated wage bill include the presence of ghost workers on the payroll and over-age employment due to the non-payment of gratuities and pensions.

52. Simulations indicate that even under fairly optimistic assumptions with regard to economic growth performance, freezing staffing at the current levels while government revenue increases in line with economic growth would only lead to a very gradual decline in the share of recurrent expenditures absorbed by the wage bill. Putting a complete hiring freeze in place would reduce the share of the wage bill below one-half of recurrent expenditures after a five year period, again assuming sustained economic growth of five percent per year. However, a complete hiring freeze would be politically difficult to sustain and would prevent the civil service from acquiring and replacing critical skills necessary for the functioning of Government. A more selective hiring freeze that affects only the lower cadres would only have a marginal impact on the division of the budget between wage and non-wage expenditures. With regard to retrenchment options, our simulations indicate that retrenchments of about 25 percent across the board, excluding teachers, would be required to reduce the share of the wage bill in government expenditures to about 50 percent. Retrenchment options include (1) the removal of ghost workers, over-age workers, and workers with irregularities in their employment; (2) early retirement; and (3) voluntary and involuntary retrenchments. Appropriate safety net measures, including appropriate retrenchment packages, payment of gratuities and pensions, training, or employment opportunities through subcontracting will need to be put in place to ensure that civil service restructuring becomes socially and politically feasible and does not lead to an increase in poverty.

53. Pay levels (including allowances) in Zanzibar are similar to pay levels in Mainland Tanzania. However, the salary structure appears to be more compressed, which provides poor incentives for attracting talent and extracting performance. At present, there are only limited formal employment opportunities in Zanzibar outside Government. However, to the extent that such opportunities expand, Government will have to make efforts to remain competitive in the labor market. Our simulations indicate that, once public sector staffing has been reduced, differentiated salary increases with positive real increases for the lower cadres which are below the rate of real economic growth would provide an opportunity for faster salary increases for the higher cadres.

54. We also estimate the cost of introducing Selective Accelerated Salary Enhancements (SASEs) for senior civil servants. However, it seems that the cost, the administrative requirements, and the inherent risks of a system of advanced salary increases make the adoption of an SASE system not desirable at present.

55. Allowances add about 80 percent to the average salary of public sector employees. The system of allowances in place reduces the transparency of the government salary structure, and, particularly for higher cadres, there appears to be a large degree of discretion for making decisions on the amount of allowances, which are not necessarily related to merit and performance. It is thus recommended to consolidate basic salaries, all allowances, and other non-wage benefits (such as duty exemptions on the import of vehicles) into a consolidated and simplified salary structure. Since allowances are currently neither pensionable nor taxable, it will be important to carefully examine the fiscal impact of the proposed consolidation.

56. The payment of the wage bill is delegated to the MDAs, which creates the potential for leakages of expenditures destined for wages and salaries in the form of ghost workers or redirection of Personnel Emoluments (PE) funds to other uses.

57. There are internal measures in place to ensure the integrity of the wage bill through reviews undertaken by the Civil Service Department (CSD), sectoral ministries, and the MoFEA. Nonetheless, an external audit of the wage bill and the establishment of a centralized control of salary payments are recommended to provide increased confidence in Government's wage bill management.

58. The development of a comprehensive civil service reform program should be a priority for Government. Elements of such a reform program should include the reduction in overstaffing, a rationalization of the system of allowances, decompression of the wage structure, a medium-term program of pay reform, and capacity-building measures.

Realigning Public Expenditures with the Zanzibar Poverty Reduction Plan (ZPRP)

59. The ZPRP defines key needs that should be given priority in resource allocation and budget implementation.

60. The ZPRP is not sufficiently specific to guide expenditure allocations and will require further work at the sector level.

61. For some key sectors, sector strategies and programs are being developed. It will be important to ensure that the refinement of the ZPRP and the sector programs are well coordinated in an interactive process, with the ZPRP process having authority in setting priorities and providing the overall framework.

62. Many Departments are revisiting their sectoral development plans in view of the ZPRP. However, links to the ZPRP in these plans are as yet weak and unclear; ZPRP and sectoral plans need to converge quickly. There is a need to ensure complete buy-in by all the sectors, most importantly by education and health.

Recent Reform Initiatives

63. Government is aware of many of the problems and weaknesses in public expenditure management and strategic resource allocation outlined in this report. Initial steps to address some of these problems are already underway and Government is encouraged to pursue and deepen these reform efforts:

- Adoption of the MTEF principles in the government budgeting system, which started by raising awareness among politicians, and training directors of planning and administration and chief accountants from key sector ministries;
- Establishment of a ceilings committee for the monthly review and allocation of resources;
- Preparation of a Central Tender Board Act to establish a transparent system of procurement and wise use of resources—draft regulations have been prepared in view of operationalizing the Central Tender Board;
- Preparation and operationalization of the financial administration and public enterprise act by putting in place relevant regulations;
- Preparation of the new investment policy, which also looks at the institutional setup for investment promotion in Zanzibar, which is to be followed by the formulation of implementation regulations;
- Carrying out of a series of studies to prepare the basis for further reforms. These include:
 - a) A study on problems related to Zanzibar port operation/trade, ferryboat and dhow services between Zanzibar, Dar es Salaam, Pemba and Tanga in collaboration with the Tanzania Freight Bureau;
 - b) A study on the assessment of Zanzibar's revenue potential;
 - c) A study on clove production and marketing;
 - d) A study on the procurement system;
 - e) A country financial accountability assessment; and
 - f) A Zanzibar Economic Analysis.

	Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
4	Planning for contingent liabilities	<ul style="list-style-type: none"> • Complete actuarial evaluation of ZSSF. • Quantify Government risks on guarantees. • Estimate payments that might fall on the Government because of the debt of collapsed parastatals. 	MoFEA	Short-term	HIGH	HIGH	LOW
5	Giving priority to pro-poor expenditures	<ul style="list-style-type: none"> • Identify expenditures that have a potentially significant impact on poverty reduction. Give them priority in budget allocation, and protect them from cuts during budget execution 	MoFEA	Short Term	HIGH	HIGH	LOW
6	Ensure consistency between donor assistance and government expenditures in support of ZPRP priorities.	<ul style="list-style-type: none"> • Systematically collect information on all donor-supported projects and programs in the MoFEA. 	MoFEA	Short-term	HIGH	HIGH	HIGH
7	Wage Bill Management provides for weak central control of wage bill and leaves an opportunity for leakages.	<ul style="list-style-type: none"> • Conduct Civil Service Census to identify ghost workers, over-age workers, and workers with irregularities in employment • Establish a central wage bill management and salary payment system 	CSD ⁶ /MoFEA	Short-term	HIGH	HIGH	LOW
8	Overstaffing of public sector	<ul style="list-style-type: none"> • Review options for reducing the size of the civil service • Implement hiring freeze for all job categories with exceptions made only to attract critical skills to the public sector 	CSD/CMO ⁷ /MoFEA CSD	Completed by FY04 Short-term Ongoing	HIGH HIGH	HIGH HIGH	MED MED

Summary of Recommendations

Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
Public Sector						
1	Lack of well established rules in fiscal relationship with the Mainland.	<ul style="list-style-type: none"> Joint Finance Commission to establish rules in the fiscal relationship between Zanzibar and the Mainland. Review sharing of revenue and obligations and non-uniformity in tax administration/enforcement burden sharing, taking into account Zanzibar's fiscal constraints, and develop medium-term strategy for settling arrears and assuming responsibility for debt service payments and contributions to the Union Government. 	RGoZ/URT ⁸ JFC ⁹	Short-term Medium-term	HIGH HIGH	LOW LOW
2	Duplication of functions and positions at MDA, regional, and district level	<ul style="list-style-type: none"> Undertake review of functions carried out at various levels of Government with a view to rationalizing government structure and eliminating duplication 	CMO, PORALGSP ¹⁰	Medium-term	MED	HIGH
3	Monopoly of ZSTC in clove sector has contributed to inefficiencies and distortions in industry	<ul style="list-style-type: none"> Remove monopoly for purchase and export of cloves in Zanzibar by allowing private sector participation. Review options for taxation of liberalized clove industry 	MoFEA	Short-term	HIGH	HIGH
4	Inefficiencies in parastatal sector and no clear rationale for government involvement in remaining parastatals	<ul style="list-style-type: none"> Pursue privatization and restructuring of remaining parastatals 	MoFEA	Ongoing	MED	HIGH

	Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
5	People's Bank of Zanzibar's financial and economic situation is a severe risk to fiscal stability	<ul style="list-style-type: none"> Develop fiscal strategy to deal with negative net worth of PBZ¹¹ 	MoFEA	Short-term	HIGH	HIGH	HIGH
Domestic Revenue							
6	Weak tax administration and cost inefficiency in revenue collection	<ul style="list-style-type: none"> Review options for contracting TRA¹² to collect local taxes and strengthen tax administration in Zanzibar. 	MoFEA/TRA/ZRB ¹³	FY04-FY06	MED	MED	MED
7	Insignificant sources of revenue	<ul style="list-style-type: none"> Undertake a review of revenue sources to identify new instruments that have a high revenue potential and those that should simply be repealed 	MoFEA	FY04	HIGH	HIGH	LOW
8	Low corporate tax base	<ul style="list-style-type: none"> Consider reforming the income tax regime, including: creation of a Large Taxpayers Department; reduction of the individual income tax bands; and overhauling the fiscal incentives regime and its administration 	TRA and MoFEA	FY04	MED	MED	MED
9	Collapse in revenue since FY98	<ul style="list-style-type: none"> Consider new tax instruments (e.g. VAT on petroleum, property taxes, presumptive taxation of the informal sector etc.) to reduce heavy reliance on customs revenue 	MoFEA	FY04	HIGH	HIGH	MED
10	Inadequate resources to implement ZPRP ¹⁴	<ul style="list-style-type: none"> Sustain macroeconomic reforms to spur investment and higher growth, and promote economic diversification especially of high-value crops, fruits, and spices other than cloves 	MoFEA	Ongoing	HIGH	HIGH	MED

	Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
11	Tax exemptions	<ul style="list-style-type: none"> Review and rationalize the tax exemptions regime; enhance coordination among the various institutions administering fiscal incentives; and remove exemptions on government purchases 	MoFEA	Short-term	HIGH	HIGH	MED
12	Widespread tax evasion	<ul style="list-style-type: none"> Strengthen tax enforcement, especially with regard to inspection, valuation, and investigation, beginning with the petroleum and tourism sub-sectors 	MoFEA	Short-term	HIGH	HIGH	HIGH
Debt Management							
13	Weak control over debt commitments	<ul style="list-style-type: none"> Strengthen debt coordination and management capacity in the MoFEA Ensure adherence to debt contracting rules Prepare a debt strategy for Zanzibar 	MoFEA MoFEA/AG MoFEA/ BOT ¹⁵	Medium-term Ongoing Medium-term	MED MED MED	MED MED MED	LOW LOW LOW
14	Unreliable information on current debt obligations	<ul style="list-style-type: none"> Establish a debt task Force 	MoFEA/BOT	Short-term	MED	MED	LOW
Public Expenditures							
15	Excess volatility of revenues and, hence, of expenditures	<ul style="list-style-type: none"> Set up a Revenue Stabilization Fund, in which funds could accumulate when revenues are high and be drawn down when revenues are low. 	MoFEA with BOT	Medium-term	MED	HIGH	HIGH

	Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
16	Budgeting for quasi-contingencies, arrears, pensions/gratuities and obligations arising from policy decisions	<ul style="list-style-type: none"> Systematically collect information on (i) arrears and (ii) outstanding gratuities because of pensions and gratuities to government and parastatal staff. Draw a schedule of payments to ZSSF for pension benefits in excess of five years. Set up system for commitment control Work out financial implications of new policies prior to their adoption. 	MoFEA	Short-term	HIGH	HIGH	MED
17	Planning for contingent liabilities	<ul style="list-style-type: none"> Complete actuarial evaluation of ZSSF. Quantify government risks on guarantees. Estimate payments that might fall on the Government because of debt of collapsed parastatals. 	MoFEA	Short-term	HIGH	HIGH	LOW
18	Giving priority to pro-poor expenditures	<ul style="list-style-type: none"> Identify expenditures that have a potentially significant impact on poverty reductions and give them priority in budget allocation and protect them from cuts during budget execution 	MoFEA	Short Term	HIGH	HIGH	LOW
19	Poor alignment of sectoral and intrasectoral resource allocation with ZPRP	<ul style="list-style-type: none"> Carry out analytical work on developing effective sector strategies aligned with ZPRP, which can form the basis for reallocation of resources to priority programs and areas to reduce poverty 	Sector Ministries	Short-term	HIGH	HIGH	MED

	Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
20	Improve budget planning and allocations	<ul style="list-style-type: none"> Strengthen macro-fiscal capacity in MoFEA Prepare more realistic revenue estimates. Systematically collect information on all donor-supported projects and programs in the MoF. Integrate recurrent and development budget processes Multi-year framework for expenditures Prepare a statement on financial indicators to go with the budget 	MoFEA MoFEA MoFEA MoFEA MoFEA MoFEA	Ongoing Short-term Short-term Medium-term Medium-term	MED HIGH HIGH MED MED	HIGH HIGH HIGH MED MED	LOW LOW MED MED MED
21	Improve transparency in budgeting and spending	<ul style="list-style-type: none"> Prepare a statement on financial indicators to go with the budget 	MoFEA	Short-term	MED	MED	LOW
Public Sector Pay and Employment							
22	Wage Bill Management provides for weak central control of wage bill and leaves an opportunity for leakages	<ul style="list-style-type: none"> Conduct Civil Service Census to identify ghost workers, over-age workers, and workers with irregularities in employment Establish a central wage bill management and salary payment system Clear arrears for pensions and gratuities Review options for reducing the size of the civil service Implement hiring freeze for all job categories with exceptions made only to attract critical skills to the public sector 	CSD/MoFEA CSD/MoFEA MoFEA	Short-term Completed by FY04 Over 3 years	HIGH HIGH HIGH	HIGH HIGH MED	LOW LOW MED
23	Overstaffing of public sector	<ul style="list-style-type: none"> Review options for reducing the size of the civil service Implement hiring freeze for all job categories with exceptions made only to attract critical skills to the public sector 	CSD/CMO/ MoFEA CSD	Short-term Ongoing	HIGH HIGH	HIGH HIGH	MED MED

Issue/Objective	Recommendation	Implementing MDA	Timeframe for Implementation	Priority	Impact	Difficulty
24 Lack of transparency in pay structure	<ul style="list-style-type: none"> Consolidate base salary and allowances Review current salary structure in public administration with a view to reducing number of different salary grades 	CSD/MoFEA	FY04 FY04	MED LOW	MED LOW	LOW LOW
25 Poor performance of public sector	<ul style="list-style-type: none"> Develop comprehensive civil service reform program to reestablish a merit-based system with adequate incentives and capacity development 	CSD	FY04	HIGH	HIGH	MED

¹ ZSTC: Zanzibar State Trading Corporation

² MoFEA: Ministry of Finance and Economic Affairs

³ VAT: Value Added Tax

⁴ ZSSF: Zanzibar Social Security Fund

⁵ IFMIS: Integrated Financial Management System

⁶ CSD: Civil Service Department

⁷ URT: United Republic of Tanzania

⁸ JFC: Joint Finance Commission

⁹ CMO: Chief Minister's Office

¹⁰ PORALGSF: President's Office – Regional Administration, Local Government, and Special Forces

¹¹ PBZ: Peoples Bank of Zanzibar

¹² TRA: Tanzania Revenue Authority

¹³ ZRB: Zanzibar Revenue Board

¹⁴ ZPRP: Zanzibar Poverty Reduction Plan

¹⁵ BOT: Bank of Tanzania

PART 1:

COUNTRY BACKGROUND

1. THE MACROECONOMIC CONTEXT

REAL ECONOMIC GROWTH

1.1 During the recent past (1995–2002), the Zanzibar national output (GDP) increased from T.Shs. 80,737 million in 1995 to T.Shs. 176,000 million in 2002 (current prices). Real GDP growth fluctuated significantly in recent years, reaching 7.1 percent in 1996 and falling to only 0.5 percent in 1998. In the last two years (2001–2002), the GDP growth rate only averaged around 4.3 percent. The growth path is explained mainly by clove production (and, to a lesser extent, price instability) which demonstrates the significant influence that this sub-sector continues to have on the economy. The best recent year for growth, for example, was 1999, a year when the agricultural sector grew at 7 percent following the boom in the clove sub-sector that year.

Table 1.1: Zanzibar GDP Annual Growth Rates, Real 1995–2000 (%)

Economic Activity	1995	1996	1997	1998	1999	2000	2001	2002*
Agriculture	-1.0	13.1	-4.9	-4.5	7.0	-0.7	6.6	4.0
Mining and Quarrying	4.9	0.5	0.5	-6.3	-1.7	29.3	54.7	22.0
Manufacturing and Handicraft	6.7	5.1	3.6	-0.9	2.1	4.0	6.4	5.0
Electricity and Water Supply	6.7	11.3	10.3	7.9	9.7	4.8	3.1	3.0
Construction	6.6	4.0	3.8	19.8	4.7	14.9	173.5	16.0
Wholesale and Retail Trade, Restaurants, and Hotels	11.8	16.6	13.6	9.5	5.5	5.8	-12.5	10.0
Transport and Communication	13.5	0.6	8.2	7.3	7.4	3.1	13.9	8.0
Finance and Insurance	31.1	5.9	31.9	10.5	36.9	2.8	13.3	15.0
Public Administration and Other Services	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.6
GDP at Factor Cost	5.2	7.1	4.1	0.5	4.5	4.2	4.0	4.5

Source: Department of Statistics, Zanzibar

* Estimates

1.2 Real GDP growth has been weak due to the low growth of agriculture and other productive sectors, a fall in general productivity, low investment, and the impact of declining levels of external assistance to Zanzibar. Low levels of public investment, partly due to declining levels of external assistance, impacted on Government's ability to deliver essential social and infrastructure services, which are the foundation of pro-poor growth.

1.3 Growth rates were highly volatile during 1981–2001, 50% more volatile than the average for Sub Saharan Africa (SSA), 33% higher than the average for the Middle East and North Africa (MNA), and 350% more volatile than industrialized countries. Growth volatility, in turn, reflected the underlying volatility in agriculture,

manufacturing and construction sectors. Table 1.2 below shows measures of absolute and relative volatilities by different sectors.

Table 1.2 Volatility in growth

Industry	Absolute volatility ¹	Ratio of Sectoral to Total GDP volatility
Agriculture	14.9	1.6
Mining & Quarrying	23.6	2.5
Manufacturing & Handicrafts	46.9	5.0
Electricity & Water Supply	9.6	1.0
Construction	43.2	4.6
Trade	17.8	1.9
Transport & Communication	21.5	2.3
Finance	21.0	2.2
Public Administration & Services	9.6	1.0
Total GDP	9.4	1.0

Source: Calculations based on data from the Office of the Chief Government Statistician, Zanzibar.

¹)Volatility is measured by the standard deviation of real growth rates over 1981–2001.

SECTORAL PERFORMANCE

1.4 The three major sectors that drive the Zanzibar economy are agriculture (and its related sub-sectors), trade (including tourism) and services (which includes administration). Table 1.3 below shows that these sectors constituted almost 80 percent of the GDP in 2002.

Table 1.3 Sector Contributions to GDP (Current Prices) 1995–2002 (%)

	1995	1996	1997	1998	1999	2000	2001	2002*
Agriculture, Fishing and Livestock	40.9	40.4	39.7	32.9	33.9	36.0	39.3	35.0
Mining and Quarrying	0.3	0.2	0.2	0.4	0.4	0.3	0.3	0.4
Manufacturing and Handicrafts	5.9	5.7	6.0	6.6	6.0	5.4	4.5	5.0
Electricity and Water Supply	1.5	1.3	1.2	1.4	1.4	1.5	1.3	1.4
Construction	6.5	5.4	4.9	4.2	4.1	2.4	5.1	5.0
Wholesale and Retail Trade, Restaurants, and Hotels	19.8	20.7	19.8	21.6	22.6	21.1	18.4	20.0
Transport and Communication	3.9	5.3	5.3	5.2	5.2	5.6	5.6	5.7
Finance and Insurance	4.3	3.6	2.2	2.3	3.1	2.9	2.6	2.7
Public Administration and Other Services	18.5	18.5	20.9	25.5	24.5	24.9	23.0	25.0
GDP at Factor Cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

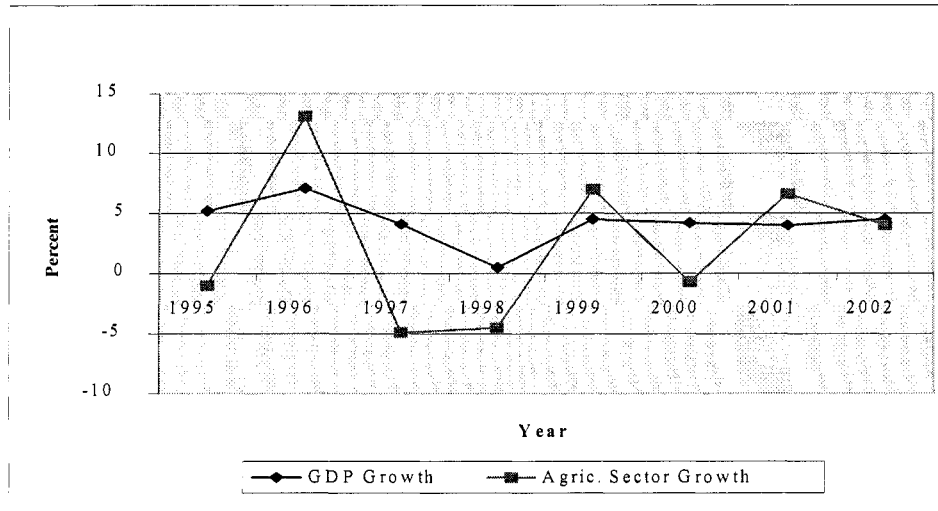
Source: Department of Statistics, Zanzibar; BOT Bulletin

* Estimates.

1.5 Agriculture, the main sector in the economy, accounted for 40.9 percent of the GDP in 1995 and declined slightly to 35 percent in 2002. The performance of the sector has generally been poor due to a number of factors, including (1) an agriculture policy which needs review and lacks both an implementation strategy and a well defined institutional framework, (2) low incentives to farmers, (3) government control on the marketing of cloves, and (4) a low level of investment in agriculture-related

infrastructure. Government has developed an agriculture sector policy which, however, lacked a strategy for its implementation.

Figure 1.1: GDP and Agriculture Sector Performance, 1995-2002



1.6 The trade sector and its related activities, including tourism, have expanded steadily, marginally increasing their share in overall GDP from 19.8 percent in 1995 to 20.0 percent in 2002. The increasing trend is the result of robust trade activities within the period. Other fast-growing sectors include construction, transport, and utilities (energy/water) sectors, although they comprise a relatively insignificant share of total output.

GENERAL PRICE LEVEL DEVELOPMENTS (INFLATION)

1.7 Monetary policy is a Union matter implemented by the Bank of Tanzania. Between 1995 and 2002, the inflation rate in Zanzibar declined from 29.8 percent in 1995 to 6.0 percent by the end of 2002, in parallel with the decline in the inflation rate in Mainland Tanzania, as a result of prudent monetary and fiscal policy pursued by the Government of Tanzania. Imported foodstuffs and a relatively stable exchange rate have also served to restrain the rate of increase in the Consumer Price Index (CPI).¹

1.8 The Zanzibar economy has liberalized its trade policy. Market prices are also liberalized with the exception of the buying prices of cloves, which are still under state monopoly by the current law.

¹ The computation of the CPI is based on a basket of goods and services that has not been reviewed since the last Zanzibar Household Budget Survey conducted in 1991. Structural reforms and policy changes, for example, mean that existing weights (e.g. 75 percent for food, 0.6 percent for health services and no weight at all for education) make the headline inflation rate an unreliable measure of the cost of living for most of the population. Current estimates tend to suggest that many households spend more than 10 percent of their incomes on health and education services alone.

FISCAL PERFORMANCE

1.9 Table 1.4 summarizes Zanzibar's revenues and expenditures performance for the period FY00–02. There are several interesting features characterizing Zanzibar's fiscal policy in recent years. Most notable is the large discrepancy between budget estimates and outturn. Revenue has been overestimated by a large margin. In FY01, estimated revenue was 24.3 percent of GDP, while actual revenue collected was only 16.9 percent of GDP. Similarly in FY02, estimated revenue was 24.8 percent of GDP while actual outturn was only 15.6 percent of GDP. As discussed in more detail in subsequent chapters, the decline in revenue is likely to be structural rather than temporary, and it will be important that fiscal policy recognizes this change in the resource situation and adjusts accordingly.

1.10 Although expenditures were reduced in response to the revenue shortfall, financing requirements were typically larger than estimated. They amounted to about 3 percent of GDP during recent years and were covered through domestic borrowing in Zanzibar, and through the issuing of T-bills by the Bank of Tanzania on behalf of the RGoZ, leading to a significant increase in domestic debt in recent years.

1.11 There are significant data issues that arise in calculating revenues, expenditures, external financing and domestic financing. For instance, external flows are not captured by the Bank of Tanzania or the Ministry of Finance 'flash' reports which have been used as source of this information. Capturing and recording financial flows of all types will be a major challenge in the future, while the likely understating of GDP further exacerbates data interpretation. Some caution must, therefore, be exercised when considering fiscal data.

Table 1.4: Revenue and Expenditures in Zanzibar, 1998/99–2001/02

Item	1999/2000	2000/2001		2001/2002		2002/03
	Actual	Budget Estimates	Actual	Budget Estimates	Actual	Budget Estimates
	T.Shs. millions					
Recurrent Revenue	62,628	55,610	38,669	67,400	42,241	58,848
Recurrent Expenditures	62,468	53,671	42,272	62,500	46,626	60,073
Recurrent Budget Deficit/Surplus	161	2,939	-3,603	-5,900	-4,385	-1,225
Development Expenditures	599	21,985	1,019	24,800	1,326	36,596
Overall Deficit (charges issued) before grants	-439	-20,047	-4,622	-30,700	-5,711	-37,821
Grants	5	0	0	19,000	0	17,921
Overall deficit (charges issued) after grants	-434	-1,370	-4,622	-11,700	-5,711	-19,900
Adjustment to cash and other items(net)	6,736	-15,152	-11,843			0
Overall Deficit (checks cleared)	6,302	-20,047	-7,221	-11,700		-19,900
Financing	6,302	20,047	7,221	11,700		19,900
Foreign financing						-
Domestic						
Bank	6,302	20,047	7,221	11,700		-
Non-bank	0					-1444
GDP at market prices	193,543	229,195	229,195	271,414	271,414	273,392
	% of GDP					
Recurrent Revenue	32.4%	24.3%	16.9%	24.8%	15.6%	21.5%
Recurrent Expenditures	32.3%	23.4%	18.4%	23.0%	17.2%	22.0%
Recurrent Budget Deficit/Surplus	0.1%	1.3%	-1.6%	-2.2%	-1.6%	-0.5%
Development Expenditures	0.3%	9.6%	0.4%	9.1%	0.5%	13.4%
Overall Deficit (charges issued) before grants	-0.2%	-8.7%	-2.0%	-11.3%	-2.1%	-13.9%
Grants	0.0%	0.0%	0.0%	7.0%	0.0%	6.6%
Overall deficit (charges issued) after grants	-0.2%	-0.6%	-2.0%	-4.3%	-2.1%	-7.3%
Adjustment to cash and other items (net)	3.5%	-6.6%	-5.2%			0.0%
Overall Deficit (checks cleared)	3.3%	-8.7%	-3.2%	-4.3%		-7.3%
Financing	3.3%	8.7%	3.2%	4.3%		7.3%
Foreign financing						
Domestic						
Bank	3.3%	8.7%	3.2%	4.3%		
Non-bank	0.0%					-0.5%

1.12 Fiscal variables during the period 1981–2001 show significant correlation with the GDP. They also show a high degree of volatility derived mainly from the volatility of GDP (table 1.5). Zanzibar's economy has for many years been characterized by heavy dependence on a single source of revenue—cloves. Revenue from this source has been declining rapidly, due to decrease in output and leakage in the form of smuggling. In recognition of this, the Government has set out to rationalize the planning and budgeting system in order to match its expenditures with its revenues, and to diversify its revenue base, in addition to improving the tax administration.

Table 1.5 Volatility of Fiscal Variables and Correlation with GDP 1981–2001

Fiscal variable	Correlation coefficient with GDP	Std Dev (SD) of annual growth rates (real)	SD of growth of fiscal variable/SD of GDP growth
Recurrent Revenue	0.95	32	3
Total Revenue	0.95	32	3
Recurrent Expenditures	0.95	42	4
Development Expenditures	0.49	41	4
Total Expenditures	0.95	37	4
GDP (Market Prices)	1	9	1

Source: Calculations based on data from MoFEA and Office of the Chief Statistician, Zanzibar

THE EXTERNAL SECTOR

1.13 *Exports.* Exports increased from US\$4.4 million in 1995/96 to US\$16.1 million in 2001/02. The composition of exports shows high dependence on cloves, as stated earlier, the marketing of which is controlled by the Government. On average, cloves alone account for about 50 percent of all foreign exchange earnings in Zanzibar. Second in terms of significance is seaweed, the value of which doubled in the last five years. In 1998/99 its exports exceeded revenue from the export of cloves.

1.14 Zanzibar imports almost doubled in value between 1995/96 and 1999/00 from US\$60.6 million in 1995/96 to US\$119.5 million in 1999/00—see Table 1.6. However, in the more recent years, imports have started to decline to US\$82.28 million in 2000/01 and are expected to decline further to around US\$68.1 million in 2001/02. The recent decline in imports is attributed to a period of enhanced exemptions in the late 1990s, followed by the withdrawal of these incentives and the closure of loopholes which promoted re-export activities. The composition of imports reveals that consumer goods have been the dominant category, accounting for about one-half of the total import bill. It is estimated that by 2001/02 consumer goods will account for 46.0 percent of the total and, within this category, foodstuffs will continue to be the major import item. On the other hand, capital goods have been the second major import category, accounting for between 18.0 percent and 30.7 percent during the period under review. Transport equipment dominated this category in the period 1995/96 to 1997/98 and, thereafter, machinery was the dominant capital import.

1.15 *Trade Balance.* The trade balance, as per Table 1.7 below, has been worsening due to the larger increase in imports compared with that of exports. This is attributed to the liberalized trade policy and, in part, to the decline in foreign inflows which might have boosted the export sub-sector.

Table 1.6: Trade Balance and Re-Exports, from 1995/98 to 2001/02 (US\$ million)

	Exports	Imports	Trade Balance
1995/96	4.4	60.6	-56.2
1996/97	6.1	65.8	-59.7
1997/98	7.5	81.6	-74.2
1998/99	4.0	101.9	-97.9
1999/00	35.7	119.5	-83.8
2000/01	5.7	82.3	-76.6
2001/02	16.1	68.0	-51.9

1.16 It should be noted that Zanzibar has not been compiling a full Balance of Payments position, mainly due to lack of data on financial and capital accounts.

1.17 *Trade by Destination and Source.* Approximately 30 percent of all imports are re-exported—mainly to the Mainland. Following a process of tax/duty harmonization with the Mainland, this figure has started to decline.

Table 1.7: Zanzibar Import-Export Trade 1997–2000 (T.Shs. Mill.)

	1997	1998	1999	2000
EXPORT				
Foreign export	26,574.6	12,041.8	19,658.4	12,452.5
Export to M/Tanzania				
From Zanzibar	2,804.5	2,572.6	1,933.1	1,271.6
Re-export	21,687.1	34,086.0	38,456.4	34,981.9
Total export	51,066.3	48,700.3	60,047.9	48,706.0
IMPORT				
Foreign import	52,053.2	59,983.2	89,255.6	83,754.1
From M/Tanzania	13,236.7	10,128.6	3,597.8	4,364.8
Total import	65,289.9	70,111.8	92,853.4	88,118.9
Balance of external trade	-25,478.6	-47,941.4	-69,597.2	-71,301.6
Balance of trade (visible)	65,289.9	70,111.8	36,791.7	3,888.7
Total Trade Balance	14,223.7	-21,411.4	-32,805.5	-39,412.9

Source: Ministry of Trade, Industry, Marketing and Tourism, 2001

1.18 *Exchange Rate.* Zanzibar shares an exchange rate policy with the Union Government. The Central Bank (Bank of Tanzania) pursues policies which ensure maintenance of a competitive exchange rate, while building foreign exchange reserves. The exchange rate is freely determined in the Inter-Bank Foreign Exchange Market (IFEM), with commercial banks being the key players. Non-bank financial institutions also participate, while the Central Bank's role is one of intervention (buying and selling as deemed prudent). The main challenge facing the Central Bank is that of maintaining stability of the Tanzanian Shilling against foreign currencies in order to win investor confidence. During the recent past, the Tanzanian Shilling has depreciated in nominal terms rather rapidly, mainly due to the poor performance of exports. This has very much affected the Zanzibar economy, through raising the import bill.

PUBLIC DEBT AND LIABILITIES

1.19 The statistics on the position of Zanzibar's debt are quite unreliable. Nonetheless, going by what is available so far, it appears that by end-June, 2002, Zanzibar's total debt stock (external and domestic) was T.Shs. 85.7 billion (US\$90.7 million), of which external debt was US\$58.4 million, accounting for 64.5 percent of the total debt stock, while the domestic component was 35.5 percent thereof. Of the external debt portfolio, multilateral creditors account for US\$42.7 million, or 73.0 percent of the total external debt. Bilateral creditor claims account for US\$8.5 million, or 15.0 percent, while debt owed to commercial sources (suppliers' credit) amounted to US\$7.1 million, or 12 percent of the total external debt. All the multilateral debt is guaranteed by the United Republic of Tanzania (URT).

Table 1.8: Zanzibar's External Debt (June, 2002)

Creditor	Amount (US\$ Mil)	%
Multilateral	42.7	73.0
Bilateral	8.5	15.0
Commercial	7.1	12.0
Total	58.4	100.0

1.20 Zanzibar's contribution to the servicing of its external debt has been limited over the past few years, mainly because of disagreements over financial responsibilities with the Union Government. Zanzibar's constitution precludes financial contributions to the Union until the matter is sorted out by the JFC.

IMPLICATIONS OF THE MACRO-ECONOMIC ENVIRONMENT FOR FISCAL POLICY AND PUBLIC EXPENDITURES

1.21 Zanzibar's position as a least developed small island economy and the related macro-economic characteristics have a direct bearing on public expenditure management. Zanzibar's weak economic performance and relatively low economic growth rates represent a serious constraint on its ability to generate government revenue for economic development and poverty reduction. Creating an institutional and policy environment that is supportive of economic growth thus needs to be a top priority, not only as a means to generate employment for the people of Zanzibar and to increase income, but also to raise the resource envelope for Government in order to allow it to fulfill effectively its core functions.

1.22 The high level of vulnerability typical for small island economies is reflected in Zanzibar's high variability of economic growth, exacerbated by fluctuations in imports and exports. In an economy in which government revenue depends significantly on the taxation of trade, this translates directly into high variability of government revenue, which makes expenditure planning more difficult than in a more stable environment. In the medium to long term, Zanzibar will need to pursue measures to reduce vulnerability through diversification of the economy, and to look for means that could provide a buffer against economic shocks. This could include the utilization of stabilization funds, which could help to smooth incomes not only of farmers, but also of Government. Similarly, transfers from the Union Government and from abroad in the form of official development assistance could also be designed to compensate for economic fluctuations in Zanzibar.

2. POVERTY REDUCTION

THE ZANZIBAR POVERTY REDUCTION PLAN (ZPRP)

2.1 Poverty is persistent and widespread, posing a major development challenge to Zanzibar, where over 50 percent of the population is categorized as poor. Most of the poor live in rural areas characterized by low income and expenditure, food insecurity, high vulnerability to diseases and natural disasters, low productivity, poor nutritional status, low educational attainment, limited access to means and ways of mobility, and exclusion from economic, social, and political processes. Within urban areas, poverty manifests itself in terms of poor sanitation, overcrowding in slums, unemployment and underemployment, low earnings, and a general lack of necessary facilities for decent life.

2.2 To bring about economic growth and eradicate poverty, Zanzibar has prepared a Development Vision 2020 that articulates, among others, a long-term focus in terms of poverty reduction, the major aim being eradication of absolute poverty by 2020. According to the Vision, poverty reduction means increasing the ability of the people to obtain the basic necessities, and improving democracy and social security. In reality, poverty reduction is construed to be synonymous with increasing access to employment opportunities, essential services, and income-generating activities, and providing social safety nets for the most vulnerable.

2.3 As a first stage in the implementation of the Vision, the RGoZ has prepared a Zanzibar Poverty Reduction Plan (ZPRP). The Zanzibar Poverty Reduction Plan, which was launched on May 2, 2002 and has a three-year span up to 2005, focuses on poverty reduction, with the aims of reducing income poverty; improving human capabilities, survival, and social well-being; and containing extreme vulnerability. ZPRP's strategic interventions target the reduction of both income and non-income poverty mainly through improved growth and service delivery. The target is to improve the growth of the economy to 5 percent during the first year of ZPRP, 5.5 percent during the second year, and 6 percent during the third year. To realize both high and pro-poor growth, efforts would be directed to selected sectors: agriculture for reduction of income poverty; tourism and trade for higher growth; education, health and water for improvements in human capacity, survival and well-being; and infrastructure for accessibility and lower costs of production. Promotion of investment, strengthening of the financial sector, enhancing social stability, and good governance are other areas of strategic intervention.

2.4 To succeed in halving the proportion of population living in extreme poverty between 1990 and 2015 in line with the Millennium Development Goals (MDGs), Zanzibar has placed a greater emphasis on tackling the challenges in agriculture, which provides livelihoods for the majority of the poor. Apart from Agriculture, the other priority areas for ZPRP include: Education, Health, Infrastructure, Water, Democracy and Good Governance, and combating HIV/AIDS.

2.5 ZPRP is an operational plan that incorporates strategies to be implemented based on utilization of domestic financial resources, both public and private, and providing a climate for attracting external resources to support prioritized expenditure plans. The plan evolved through a broad participative and consultative process and is highly regarded as an important tool for tackling poverty issues and bringing about social and economic stability. During the launching of the ZPRP, the stakeholders showed strong commitment to supporting ZPRP, and underlined the need for capacity building, mobilization of resources to fill the resource gap, cost-effective and efficient management of economic programs, aggressive promotion of investments, control of HIV/AIDS, and meeting the MDGs. Zanzibar accepted these challenges and indicated its determination to build up a firm macroeconomic foundation that would be able to absorb shocks and encourage various players to participate in economic activities.

PROGRESS IN THE IMPLEMENTATION OF THE ZANZIBAR POVERTY REDUCTION PLAN (ZPRP)

2.6 Results on implementing the ZPRP are contained in the ZPRP First Progress Report. The report highlights progress in terms of policy reform and technical and physical implementations of the ZPRP in the last year. As regards policy reform, the RGoZ undertook various policy and structural reforms with the objective of achieving stable macroeconomic conditions and the sustainable economic environment necessary for higher growth, low inflation, a stable currency, and a low cost of provision of services. The measures undertaken yielded the following results: (i) GDP grew by 4.0 percent in 2001, compared to 3.2 percent in 2000; (ii) inflation declined from 8.3 percent in 2000 to 3.0 percent in 2001; (iii) budgetary performance improved due to better resource mobilization following tax administrative reforms and expenditure controls via the cash budget; (iv) positive trends in levels of external inflows in the current fiscal year and improved aid coordination mechanism were achieved; (v) resource allocation to ZPRP priority sectors improved during 2001–02, with the budget being allocated as follows: education 19 percent compared to 8.6 percent in FY00; health 11 percent compared to 4.0 percent in FY00; agriculture 7.0 percent compared to 3.1 percent in FY00; and transport and communication 6.8 percent compared to 2.9 percent in FY00; and (vi) increased participation of the private sector in almost all sectors of the economy was encouraged and facilitated.

2.7 The launching of the ZPRP has necessitated updating of the statistical database for Zanzibar to improve its consistency, quality, and reliability. The database provides a common basis for future analytic work. The diagnostic work in support of the Poverty Reduction Support Project (PRSP) includes the Public Expenditure Review (PER), the Financial Accountability Assessment (FAA), and the analysis of Zanzibar's economic situation. A review of procurement systems is also being carried out, with the objective of reforming them so as to achieve more efficiency and transparency. The main objective of the diagnostic studies is to identify strengths and weaknesses in financial accountability, public expenditures management, and procurement arrangements in the public sector with the aim of ensuring effectiveness, accountability and integrity in the use of public funds. The studies are expected to provide a common point of reference for the Government and its development partners in understanding the current situation and in drawing up plans for the future. They will also help identify benchmarks against which progress

can be measured, using international and national standards and best practices. Another survey aimed at assessing the private sector in Zanzibar and identifying issues and opportunities for diversification and growth of non-traditional exports will be conducted in 2003.

2.8 The ZPRP progress report also lists preparatory steps that have been undertaken in determining the required financial resources envelope and its allocation. These include: sensitization of senior government leaders on the PER and MTEF processes; initial training of technical staff on the PER/MTEF process; passing of and assent to the Financial Administration Act; and institutional measures to improve financial administration, including expansion of the domestic tax base, improvement of tax compliance through public education and awareness, and establishment of Financial Administration Institute. As of now, resource requirements are determined at the sector ministries, based on priority activities identified for implementation. Unit cost analysis is only being initiated for the Ministries of Health and Social Welfare and Education, Culture and Sports to guide more professional estimates of resource requirements, but for none of the other sectors.

2.9 Although some progress has been made in the one year of implementation of the ZPRP, more needs to be done in terms of improving financial and public expenditures management, increasing resource mobilization from both domestic and external sources, prioritization of resource allocation, increasing efficiency in resource utilization, improving investment and business environment for private sector development, enhancing and sustaining macro stability, and ensuring good governance and the rule of law. The diagnostic studies are expected to identify strengths and weaknesses in various public management systems and to suggest areas and ways of making effective interventions by the Government, development partners, and other stakeholders.

3. THE PUBLIC SECTOR IN ZANZIBAR

OVERVIEW

3.1 Zanzibar gained independence in 1964 and soon after united with Tanganyika to form the United Republic of Tanzania. The newly formed Union Government took responsibility for administering the activities of Tanganyika after the creation of the Union. Zanzibar retained its own government structure and transferred only certain functions—including foreign affairs, defense and security, and monetary policy—to the Union Government. Tanzania's constitution recognizes that Zanzibar should have its own constitution, which provides for the Zanzibar presidency, a council of ministers (the cabinet), a legislature (the House of Representatives), and a judiciary. The RGoZ is fully responsible for running all government activities in Zanzibar which are not explicitly identified as Union matters in the constitution.

3.2 The public sector in Zanzibar consists of four main elements—functions carried out by the Union Government (GoT), RGoZ, local governments, and the parastatal sector. The RGoZ itself consists of a legislature, a judiciary, and an executive. This report is mainly concerned with the executive arm of Government.

Table 3.1: Administrative Divisions and Number of Shehias in Zanzibar

Zanzibar									
Unguja Island						Pemba			
North Region		Urban West Region		South Region		North Region		South Region	
North A District	North B District	Urban District	West District	South District	Central District	Michweni District	Wete District	Mkoani District	Chake District
28	23	40	29	18	38	13	18	22	19

3.3 Administratively, Zanzibar is divided into five regions, each of which contains two districts. Each district is further divided into shehias.

Table 3.2: Share of Public Administration and Services in GDP

	1980-84	1985-89	1990-94	1995-99	2000	2001
Public Administration & Services	15.1	15.7	17.2	23.1	24.9	23.0
Public Administration	0.0	11.3	13.0	16.4	19.3	18.3
Community & Social Services	0.0	4.4	4.2	6.6	5.6	4.7

3.4 Government statistics indicate that the share of public administration and service in GDP has increased from about 15 percent at the beginning of the 1980s to almost 25 percent in 2000. The figure for value added includes both union services in Zanzibar and the activities of the RGoZ itself.

FUNCTIONS CARRIED OUT BY THE UNION GOVERNMENT

3.5 The division of functions between the Union Government and the RGoZ are defined in the constitution of the United Republic of Tanzania. The functions of the Union Government include:

- a) The Constitution of Tanzania and the Government of the United Republic
- b) Foreign Affairs
- c) Defense and Security
- d) Police
- e) Emergency Powers
- f) Citizenship
- g) Immigration
- h) External borrowing and trade
- i) Service in the Government of the United Republic
- j) Income tax payable by individuals and by corporations, customs duty and excise duty on goods manufactured in Tanzania collected by the Customs Department
- k) Harbors, matters relating to air transport, posts and telecommunications
- l) All matters concerning coinage, currency for the purposes of legal tender (including notes), banks (including savings banks) and all banking business; foreign exchange and exchange control
- m) Industrial licensing and statistics
- n) Higher education
- o) Mineral oil resources, including crude oil and natural gas
- p) The National Examinations Council of Tanzania and all matters connected with the functions of that Council
- q) Civil aviation
- r) Research
- s) Meteorology
- t) Statistics
- u) The Court of Appeal of the United Republic
- v) Registration of political parties and other matters related to political parties.

3.6 All matters that are not defined as Union matters are under the sole authority of the RGoZ. However, even with respect to Union matters, the practical division of responsibilities is sometimes not entirely clear. For example, even though higher education is designated as a Union matter, Zanzibar covers the cost of Zanzibari students in Mainland colleges and abroad. With the liberalization of education, Zanzibar has also established a Zanzibar State University. Another example is the area of statistics, in which Zanzibar maintains its own Bureau of Statistics and, as a consequence, has been excluded from important statistical surveys such as the Household Budget Survey carried out in Mainland Tanzania in 2000/01. Carrying out such a survey is now considered a priority by the RGoZ to be able to harmonize the statistics of Zanzibar and Mainland Tanzania and to create a sounder basis for the computation of GDP.

3.7 The financial relationship between the RGoZ and the Union Government is less clearly defined than the distribution of responsibilities. The constitution provides for the establishment of a Joint Finance Commission which has, inter alia, the responsibility for:

- a) analyzing revenues/expenditures related to Union matters and making recommendations concerning the net contribution of each Government to the Joint Finance Account in the Union Consolidated Fund; and
- b) scrutinizing fiscal relations between the two Governments.

3.8 The RGoZ has authority to set tax rates and tariffs on non-Union taxes, but in 1998 Zanzibar and Mainland Tanzania substantially harmonized their tax regimes. There are still differences in exemptions granted. Tax collection in Zanzibar is divided between the Tanzania Revenue Authority (TRA), which collects import-related taxes, and the Zanzibar Revenue Board (ZRB), which is responsible for the collection of domestic taxes in Zanzibar. All revenue collected by the TRA and ZRB in Zanzibar accrue to the RGoZ.

3.9 With respect to external assistance, Zanzibar receives 4.5 percent of program support provided to the United Republic of Tanzania. There is no system for the distribution of project and other development aid. Inclusion of Zanzibar in project support extended to the Union Government is currently made on an ad-hoc basis, in the form of negotiations between the Union Government and the donor. Zanzibar also attracts direct assistance from some donors, such as China.

3.10 Since 1996, Zanzibar is also entitled to and has received 4.5 percent of the BoT dividend. Responsibility for contracting external debt is vested in the Union Government, which also guarantees debt contracted on behalf of Zanzibar. In the past, the RGoZ has often failed to make its debt service payments on external debt; such debt service was typically made by the Bank of Tanzania. In turn, the BoT deducted debt service made on behalf of Zanzibar from the transfer of Zanzibar's share of the BoT dividend.

3.11 Zanzibar does not make any contributions to the cost of the Union Government. In 1977, a committee of the ruling party involving the leadership from Zanzibar and Mainland Tanzania established a formula for determining Zanzibar's share in financing the Union Government. A high level committee established in 1992 (the Shellukindo committee) confirmed that Zanzibar should contribute 3.9 percent of the cost of expenditures for Union matters, but so far, it has not done so. Zanzibar has also accrued significant arrears in its relationships with parastatal enterprises on the Mainland. Most significant among these are arrears accumulated by the Zanzibar Fuel and Power Corporation for the purchase of electricity from TANESCO, the Tanzania Electric Supply Company.

3.12 Given these facts, getting the Joint Finance Commission to address these issues should be a priority, to enhance the predictability and transparency of the fiscal relationship between the two Governments. In designing an appropriate and feasible system of burden-sharing, the fiscal sustainability of such an arrangement needs to be taken into account. Given the severely constrained fiscal situation in Zanzibar caused by the decline in revenues and an unsustainably high wage bill, normalizing financial relationships will need to be part of a medium term fiscal reform strategy. A burden-sharing formula will also need to take into account Zanzibar's diseconomies of scale in its government functions in order to avoid crowding out poverty-reducing and growth-supporting expenditures.

THE CENTRAL GOVERNMENT

3.13 The executive arm of the RGoZ comprises four tiers:

- a) ministries, departments, and agencies (MDAs);
- b) the regional administration;
- c) the district administration; and
- d) the shehias.

a. Ministries, Departments and Agencies

3.14 At present, the central government comprises 12 ministries. At the head of each ministry is a politically appointed minister. Five ministries—agriculture, health, communication and transport, water, and education—also have an assistant minister. Principal Secretaries are responsible for the running of the day-to-day business of the ministries. While all ministries have their headquarters in Stone Town, each ministry also maintains an office in Pemba led by an Officer in Charge.

3.15 The structure of the central government has undergone limited reforms. Following the elections in 2000, its structure was reviewed with the objective of streamlining government and reducing the number of ministries. As a result, two ministries (the Ministry of State Planning and Investment, and the Ministry of Information, Culture, Tourism and Youth) were merged with other ministries. However, all staff members were retained in the merged ministries, and only marginal savings were gained from the abolition of two ministerial, principal secretary, and deputy principal secretary positions.

Table 3.3: List of Budgetary Votes

President's Office	Ministry of Education, Culture, and Sports
President's Office Revolutionary Council	Ministry of Health and Social Welfare
President's Office: Regional Administration	Ministry of Water, Construction, Energy, and Land
Auditor General's Office	Ministry of Communication and Transport
Chief Minister's Office	Ministry of Information, Culture, Tourism, and Youth
High Court of Zanzibar	Ministry of Youth, Employment, Women, and Children Development
Attorney General's Office	Anti-Smuggling Unit
House of Representatives	Tourism Commission
Economic Brigade	Fire and Rescue Force
Ministry of Finance and Economic Affairs	Ministry of State (P.O.) Constitutional Affairs and Good Governance
Ministry of Agriculture, Natural Resources, Environment, and Cooperatives	People's Militia Unit
Ministry of Trade, Industry, Marketing, and Tourism	Public Debt
Land and Environment Commission	
Prisons Department	

b. Regional Administration

3.16 Zanzibar is divided into 5 regions, three in Unguja and two in Pemba. Each region has a regional commissioner, who has the rank of a Minister, appointed by the President. The functions of the regional commissioner include:

- monitoring, supervising, and assisting in the execution of the functions of the Government in his region;
- assuring that the policies, plans and directives of the Government are observed;
- maintaining law and order in the region in collaboration with law enforcement agencies; and
- assuring that resources, both material and manpower, are used for development in the economy to enhance welfare.

3.17 Regional Commissioners are also Members of the House of Representatives. A regional administrative officer, appointed by the President, is in charge of the day-to-day running of the government business in the region. He also is the head of public officers posted in the region and the accounting officer in the respective region.

3.18 The Minister of Local Government and Regional Administration appoints a planning officer and a community development officer to each region. Sectoral ministries also assign officers and staff to the regions to carry out the responsibilities and duties of the sector ministries. In practice, each ministry appoints at least one officer to every region. These officers are answerable to the Regional Commissioner.

c. District Administration

3.19 Each region is divided into two districts; i.e., there are six districts in Unguja and four districts in Pemba. The staffing and functions of the districts are similar to that of the regions. At the head of each district administration is a district commissioner appointed by the President, and there is also a district administrative officer in charge of the district administration. In addition, every district has a planning officer and a community development officer, and officers from sectoral ministries assigned to the district.

d. Shehias

There are 249 Shehias in Zanzibar, which are at the lowest level of public administration in Zanzibar. Each Shehia is administered by a Sheha, who is a government employee and appointed by the Regional Commissioner. The Sheha is answerable to the District Commissioner of that area. His functions include:

- implementing all the government laws, orders, policies, and directives for maintaining law and order;
- reconciling and settling all social and family disputes arising in that area in accordance with the cultural and customary values of that area and wisdom;
- keeping records of all documents relating to the registration of marriages, divorces, births and deaths, the transportation of crops and livestock, charcoal permits, and so forth, as directed from time to time by the institutions concerned;
- controlling immigration in his shehia and keeping records thereof;
- receiving notification for convoking all public meetings;
- undertaking all other tasks that are legal and that have been assigned by the District Commissioner.

3.20 In every Shehia, there is also an advisory council consisting of not less than 12 members who are appointed by the Sheha, and who perform their functions on a voluntary basis. The function of the advisory council is to advise the sheha on matters related to the maintenance of law and order in the Shehia and on other matters which are beneficial to the well-being of the shehia.

e. Assessment

3.21 The most striking feature of Zanzibar's government structure is the apparent duplication of functions and staffing at each level of government. Staffing and functions of regions and districts as defined in the Regional Administration Authority Act, 1 of 1998 are virtually identical. There appears to be a significant opportunity for streamlining the vertical government structure by defining more clearly the role of regional and district administration, which would go a long way in avoiding the overlap and duplication of staffing.

3.22 In addition to the review of the appropriateness of the vertical structure of the central government, there is also an opportunity for reviewing the division of responsibilities between (a) the de-concentrated levels of the central government and (b) local authorities. At present, the central government retains responsibilities for all aspects of service delivery, leaving only very limited functions to the district authorities. While this division of responsibilities seems appropriate for Zanzibar, measures to enhance transparency and accountability toward citizens and local authorities should be explored.

LOCAL GOVERNMENTS

3.23 Zanzibar's local government structure comprises 9 district councils, one municipal council, and three town councils. Each council is subdivided into wards. Each ward elects one council member and the RGoZ nominates three council members in each council.

Table 3.4: Sub-National Administrative Structure in Zanzibar

	Unguja	Pemba	Total
Regions	3	2	5
Districts	6	4	10
District Councils	5 (West, North A, North B, Central, South)	4 (Chake Chake, Mkoani, Micheweni, Wete)	9
Municipal Council	1 (Zanzibar)		1
Town Councils		3 (Chake Chake, Mkoani, Wete)	3

3.24 District councils are assigned the following functions: (i) to formulate, coordinate and supervise the implementation of plans for economic, commercial, industrial, and social development; (ii) to ensure the collection and proper utilization of the revenues of the Council; (iii) to make by-laws applicable throughout its area of jurisdiction; and (iv) to consider, regulate, and coordinate the development plans, projects, and programs of villages and township councils within its area of jurisdiction.

3.25 Town Councils are assigned certain specific functions including: (i) the cleaning of trunk roads; (ii) the regulation and conduct of public hire vehicles; (iii) street lighting; and (iv) the naming of streets and numbering of buildings. The functions of a District Council are more general and include responsibility for: (i) formulating, coordinating and supervising the

implementation of plans for economic, commercial, industrial and social development; (ii) passing of by-laws; (iii) ensuring that revenues are collected; and (iv) considering, regulating and coordinating the development plans, projects and programs of villages and townships within its jurisdiction.

3.26 The responsibilities of the Zanzibar Municipal Council include:

- controlling all public roads and streets within the municipality;
- naming of streets and numbering of buildings;
- establishing and maintaining recreation grounds;
- implementing public health initiatives as required by the Minister (responsible for local government administration);
- construction, equipment and operation of drainage and sewerage works; and
- the administration of public markets.

3.27 Borrowing by the Council is only permitted with the approval of the Minister, while external financing (outside Zanzibar) is only permitted with the approval of the Minister of Finance. Both the Municipal and Town Councils operate a committee system. The Municipal Council has five committees and five associated departments. These are: (i) Finance and Economic Development; (ii) Town Planning; (iii) Law and Order; (iv) Labor, Construction and Environment; and (v) Social Services Affairs.

DISTRICT AND REGIONAL DEVELOPMENT COMMITTEES

3.28 Zanzibar law foresees also the establishment of development committees for each region and district. The functions of these development committees are defined as follows:

- (a) to supervise the implementation of government policies, to identify the problems, and to advise Government on the best way to solve these problems and to promote development in their areas;
- (b) to monitor and assist in the formulation of policies for local government authorities in their areas and advise on the best implementation strategies;
- (c) to mobilize people to participate and contribute in all ways possible to assist in the efficient uses of resources and the protection of environment for sustainable development and in all activities of national development;
- (d) to ensure that implementation strategies correspond to relevant policies and to create awareness among the people in their areas on the importance of both; and
- (e) to ensure and establish understanding, cooperation and coordination among government agencies, local government authorities, non-governmental organizations and the people in creating an enabling environment for sustainable development.

3.29 The membership of regional and district development committees (see Table 3.5) is composed of staff from the de-concentrated levels of the central government and from the local governments and their officers.

Table 3.5: Composition of Regional and District Development Committees

Regional Development Committee	District Development Committee
Regional Commissioner—Chairman	District Commissioner—Chairman
District Commissioners in the region	
Regional Planning Officer	District Planning Officer
Regional Development Officer	
District Council Chairman in the region	District Council Chairman
District Council Clerks	District Council Clerks
All Members of Parliament in the region	All Members of Parliament from the district
All Members of the House of Representatives in the region	All Members of the House of Representatives from the district
Mayor of the Municipal Council	
Chairman of Town Councils	Chairman of Town Council
Director of Municipal Council	Director of Municipal Council
Clerks of Town Councils	Clerk of Town Councils
Heads of Government Departments or Institutions in the region will be invited members with no voting power	Heads of Government Departments or Institutions in the district will be invited members with no voting power
Regional Administrative Officer—Secretary	District Administrative Officer—Secretary

PUBLIC ENTERPRISES AND UTILITIES

3.30 During the first two decades after independence, state-owned enterprises were seen as the principal instrument to achieve economic development. Consequently, the period from 1964 to 1985 saw a rapid growth of the parastatal sector. State-owned enterprises had a monopoly position in many sectors of the economy, including the import and export of all goods. The parastatal sector contributed as much as 17 percent of GDP, provided 13 percent of employment, and about 60 percent of the total recurrent revenue of the RGoZ.

3.31 However, starting in the early 1980s, the performance of the parastatal sector started to decline, and in 1993 the RGoZ recognized the need for the reform of the parastatal sector. Government categorized parastatals into three categories:

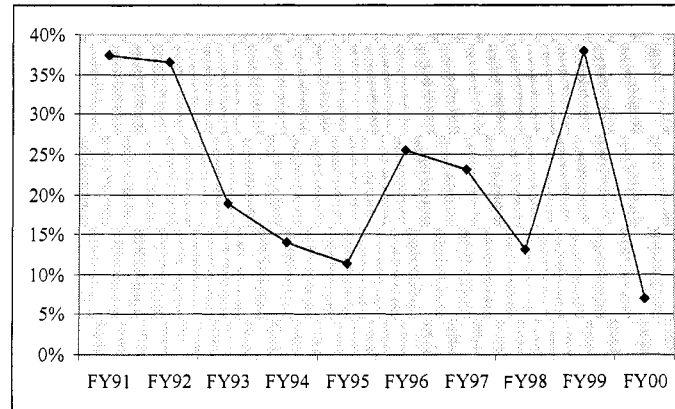
- Strategic parastatals that were to remain under government control;
- Non-sensitive parastatals that were to be privatized on a joint venture basis; and
- Parastatals that were to be completely privatized.

3.32 Subsequently the number of parastatals declined from 25 in 1994 to 12 in 2002. It is worth noting that many parastatals turned out to be not economically viable without the support of the Government, and these parastatals ceased to exist as commercial entities, rather than becoming part of the private sector. Table 3.6 provides an overview of the remaining parastatals. Of the twelve remaining parastatals, six have either ceased their operations or are operating on a very limited scale. Divestiture of these parastatals has proven to be difficult due to lack of interest by investors, large liabilities, unclear procedures for dealing with redundancies, and unrealistic expectations with respect to privatization proceeds.

3.33 The remaining operating parastatals include the Zanzibar State Trading Corporation, the Peoples Bank of Zanzibar, the Zanzibar Insurance Corporation, the Zanzibar Ports Corporation, the Zanzibar Shipping Corporation, and the Zanzibar State Fuel and Power Corporation. Without government support, the financial position and economic viability of most of these parastatals is weak. This is due to low efficiency in operations, financial relationships with other parastatals that are characterized by high levels of arrears and debt, presumptive taxation that is not based on realized profits, overstaffing, and weak management. Capital investments are typically financed from the government budget, and represent significant subsidies to the parastatals. Consequently, the economic viability of many of the parastatals is even worse than indicated by their financial accounts.

3.34 At present, the financial relationships among parastatals, and between the parastatals as a group and the Government, are characterized by a complex set of debts and arrears. For example, the main debtor of the Zanzibar State Fuel and Power Company (ZSF&PC) is the Government, with arrears of approximately T.Shs. 6 billion, with the water utility being the largest debtor within Government. In turn, ZSFPC has built up huge accounts payable to creditors, owing TANESCO about T.Shs. 26.3 billion. On the other hand, the Zanzibar State Trading Corporation (ZSTC) has invested a large share of its retained profits of T.Shs.11.6 billion in government debt, including T.Shs. 2.5 billion in Government stock and a loan to the Treasury of T.Shs. 0.7 billion. The indebtedness of GoZ to the People's Bank of Zanzibar (PBZ) currently stands at about T.Shs. 9 billion. At the same time, parastatal deposits at PBZ amount to about T.Shs. 9 billion, and PBZ is also currently paying more than market rates of interest for large deposits from parastatal companies, which contributes to PBZ's losses.

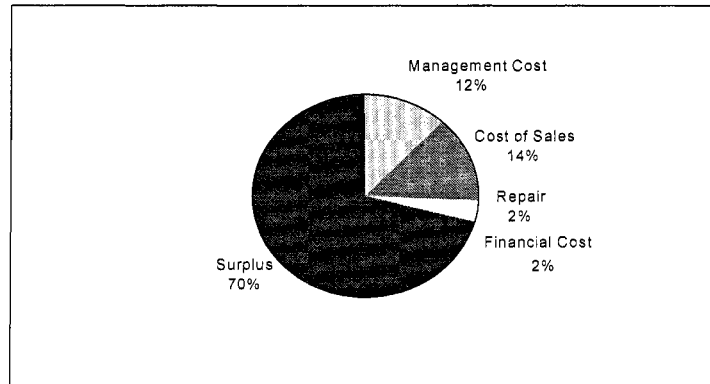
3.35 There is also no, or a very limited, economic rationale for government involvement in the activities of these parastatals. In cases in which the parastatal functions on the basis of a government-granted monopoly, such as the Zanzibar State Trading Company, the monopoly is likely to have severe negative economic consequences. Similarly, in cases in which the parastatal is the single provider of specific services, such as the Zanzibar Port Authority or the Zanzibar Fuel and Power Corporation, poor service delivery has had a negative impact on economic growth and poverty reduction. Government has acknowledged weaknesses in the parastatal sector and the need for privatization of many of the remaining entities. However, efforts have so far been cautious, and privatization has been slow. It is recommended that the restructuring and privatization of the remaining parastatals be given priority. For some parastatals, especially for the People's Bank of Zanzibar (PBZ), divestiture will involve significant financial requirements due to the negative net worth of these entities, which will require an appropriate fiscal strategy in parallel with the adoption of the privatization strategy.

Figure 3.1: Zanzibar State Trading Corporation—Ratio of Cost of Sales to Sales, FY91–FY00

Source: Based on data provided by ZSTC

3.36 The monopoly over the export of cloves—Zanzibar’s main agricultural commodity—held by the Zanzibar State Trading Corporation, is currently under review, and a study on the clove sector, with options for liberalizing clove marketing, has been recently completed. In the past, ZSTC’s cost of sales was typically less than 50 percent of sales (Figure 3.1). In years with particularly high world prices for cloves, such as FY00, the cost of sales was even as low as 7 percent of sales. The recent study on the Zanzibar clove industry (ERB, 2003) indicates that heavy administrative costs are a main factor constraining the efficiency and effectiveness of ZSTC. Figure 3.2 shows that, during the period FY91–FY00, the cost of sales, i.e., payments made to the farmers, were only 14 percent of revenue. Management costs claimed another 12 percent of revenue, and 70 percent of revenues were surplus.² Out of ZSTC’s surplus, one-half is remitted to the Government. The remaining one-half of the surplus is retained at ZSTC. However, ZSTC reserves typically have been used to provide loans to government and other parastatals and to purchase government securities.

² FY00 was an exceptional year with extraordinarily high clove prices which were not passed on to farmers. However, even if FY00 is excluded from the calculation of the average cost shares, the surplus still comes to 51 percent over the period FY91-FY99 while cost of sales are 21 percent and management cost are 22 percent of revenue.

Figure 3.2: ZSTC—Average Distribution of Revenue, FY91–FY00

3.37 The large difference between world prices and prices paid to farmers has led to significant smuggling activities, and the share of clove exports handled by ZSTC out of total clove production is estimated to have declined significantly, despite government efforts to curb smuggling. In 2002, world prices fell below the price announced by ZSTC; as a result, the ZSTC had to borrow heavily from PBZ to be able to purchase the harvest. Even so, it still ran out of funds and had to halt the purchase of cloves from farmers.

3.38 Abolishing the ZSTC monopoly is likely to lead to increased incomes for farmers, and work is currently underway to study the effects of liberalization of clove marketing. The study recommends measures to strengthen and liberalize the clove industry over a three-to-five-year horizon. However, private participation should be allowed as soon as possible. Since the ZSTC has in the past been an important, though highly volatile source of revenue for government, it will be important to put in place an appropriate taxation system for the clove industry, once clove marketing is liberalized.

Table 3.6: Summary of Parastatals in Zanzibar—Position as of FY01

Company	Principal Activities	Staff	Revenue (T.Sh. Million)	Profit/(Loss) (T.Sh. Million)	Net Current Assets/ (Liabilities)	Privatization Status
Zanzibar State Trade Corporation (ZSTC)	Monopoly on export of cloves	375	1,272	(506)	4,666	Study for liberalization of clove exports underway
Zanzibar Insurance Corporation (ZIC)	Insurance business in liberalized market	70	1,231	(10)	206	Divesture through joint venture with strategic partner planned
Zanzibar Ports Corporation (ZPC)	Operation of port	525	3,725	1,150	6,829	Restructuring and improving facilities
Zanzibar State Fuel and Power Corporation (ZSF&PC)*	Monopoly on the generation, transmission, and distribution of power in Zanzibar	484	6,400	(814)	(8,668)	Restructuring and building up capacities
People's Bank of Zanzibar (PBZ)*	Commercial banking	222	3,251	(4,234)	(5,086)	Options for privatization under consideration by government
Zanzibar Shipping Corporation (ZSC)	Shipping agency and shipping line	203	1,200	428	270	The business has liberalized but Government is operating its own fleet.
Motor Trade Corporation (MTC)	Agency for motor vehicles	72	2,700	(16)	833	Seeking joint venture
Zanzibar Tourist Corporation (ZTC)	Tour operator	121	2,000	(35)	10,299	In the long run, corporation needs to be privatized
Mahonda Sugar Industry	-	-	-	-	-	Ceased operations, to be divested
Bwawani Hotel						
Zanzibar Fisheries Corporation	Vessel fishing activities	21	43,500		1,920	Privatized to African Fishing Corporation and now under liquidation

Source: MoFEA and annual reports of various parastatals

* Data for 2000

OTHER GOVERNMENT INSTITUTIONS

3.39 The public sector in Zanzibar also includes numerous semi-autonomous government institutions. These include the Zanzibar Institute of Financial Administration (ZIFA); the Export Processing Zone (EPZ); the Zanzibar Investment Promotion Agency (ZIPA), the Zanzibar Freeport, and the Zanzibar Social Security Fund (ZSSF). Most of these government institutions receive subsidies from the government to augment resources from their own revenue.

Table 3.7: Semi-Autonomous Institutions: Subventions and Total Expenditures, FY02

Institution	Employment	Government Subvention (T.Sh. Million)	Total Budget (T.Sh. Million)
ZIFA	44	154.8	154.8
ZIPA	52	180.0	220.4
ZSSF	31	48.0	183.0
ZRB	109	913.5	1,498,731.0
ZAFREZA	63	-	135.2
ZCT	190	-	485.4
ZFPA	23	150.0	104.4

Source: MoFEA

3.40 In terms of potential impact on government finances and the provision of a social safety net, the Zanzibar Social Security Fund (ZSSF) deserves particular attention. The ZSSF administers the pension scheme for the public sector, parastatals, and the private sector. At the end of June 2002, the ZSSF had 34,678 contributing members. Employers and employees contribute 10 and 5 percent, respectively, of the employees' monthly salary, to the ZSSF. During FY02, government contributed T.Sh. 1.7 billion, parastatals T.Sh. 0.28 billion, and the private sector T.Sh. 0.54 billion to the Fund. FY02 was the first year that the government actually paid the employer contribution to the Fund and also cleared up some of the accumulated arrears, which stood at T.Shs. 2 billion at the end of FY02.

3.41 Beneficiaries are entitled to receive benefits only after contributing for five years to the Fund. Thus, payments to members included refunds to members who had died, retired, became incapacitated, or had left the country for good before sixty months of contributions. Benefit payments by ZSSF will commence in July 2003. Until then, pensions for government and parastatal employees are paid directly from the government budget. An actuarial study is currently being carried out to assess the future obligations of the ZSSF. Having to take over pension and gratuity payments for all government employees will put significant demands on the ZSSF, especially since there seems to be a tendency to make use of early retirement (at the age of 55) since the establishment of ZSSF.

3.42 As the ZSSF plays an important role in providing a social safety net for the people of Zanzibar, professional and prudential investment of the contributions needs to be the top priority for the ZSSF. Ensuring that the staff and the board of trustees have the appropriate expertise will be crucial. Since this expertise might at present not be available in Zanzibar, having the investment funds of the ZSSF managed by a well established financial institution with the required expertise should be considered, while ZSSF can be responsible for administering and collecting contributions and paying benefits.

3.43 The Zanzibar Government also supports numerous export and investment promotion agencies. These include the Zanzibar Free Economic Zone Authority (ZAFREZA), the Export Processing Zone (EPZ), and the Zanzibar Investment Promotion Agency (ZIPA).

These agencies appear to fulfill similar functions, and there appears to be significant overlap. Integrating these three agencies into a single agency might allow for more effective delivery of services, since scarce human resources could be combined; making the operations less costly to government; and avoiding confusion among potential investors.

PART 2:

PUBLIC RESOURCE AVAILABILITY IN ZANZIBAR

4. DOMESTIC REVENUE

INSTITUTIONAL SET-UP FOR DOMESTIC REVENUE ADMINISTRATION AND COLLECTION

4.1 There are three institutions that are responsible for domestic revenue administration and/or collection in Zanzibar. The first is the Tanzania Revenue Authority (TRA) which is responsible for all taxes and related fees that are under the jurisdiction of the Union Government. These include income taxes and taxes on international trade (import duty, excise duty on imports, trade levy, suspended duty, and withholding tax). However, all revenue collected by TRA is remitted to the Zanzibar Treasury governed by the principle of retaining the revenue at source.

4.2 The second is the Zanzibar Revenue Board (ZRB) which administers inland revenue, composed of over 15 different tax sources. The major ones include: VAT-local at the rate of 20%;³ petroleum product levy, which is charged per liter depending on the world market price and local price build-up; airport service charge at the rate of \$20 for foreigners and T.Shs. 5,000 for nationals (compared to \$30 for a foreign trip charged on the Mainland); parastatal contributions mainly by the Zanzibar State Trading Corporation (ZSTC) which is the sole buyer and seller of cloves; and collections by ministries and autonomous Government agencies, such as the Zanzibar Investment Promotion Agency (ZIPA), the Zanzibar Tourism Commission (ZTC), the Zanzibar Free Economic Zone Authority (ZAFREZA), and the Zanzibar Free Port Authority (ZFPA). With the approval of the Ministry of Finance and Economic Affairs (MoFEA), various Ministries, Departments, and Agencies (MDAs) are allowed to retain for their own use most of the revenue which they collect. However, they are required to report revenue collected to ZRB. Other revenue sources for ZRB include the hotel levy (15%), restaurant and tour operators levy (10%), stamp duty (1.5%), sea port service charges at the rate of T.Shs. 500 for nationals and \$5 for foreigners, business licenses, and the entertainment tax.

4.3 The third is the network of municipal and town/district councils, which are responsible for the administration and collection of local government revenue under the oversight of the Minister responsible for Regional Administration, Local Government and Special Forces. Principal sources of local government revenue include trade license fees, the crop cess (assessment), production taxes, property rents, and fines and penalties.

4.4 Four institutional concerns are worth mentioning. First is the duplication of effort by the several licensing authorities, such as ZIPA, the Ministry of Industries, the Zanzibar Municipal Council, etc. This has resulted in a loophole, whereby would-be licensees choose at will where it is more convenient to them to obtain licenses. RGoZ is aware of this problem and has formed a committee to look into the harmonization and coordination of licensing. Coordination between investment/tourism promotion agencies on one hand and tax institutions on the other also leaves a lot to be desired, particularly with respect to the scrutiny and granting of exemptions. Second, as in many other small island states, Zanzibar

³ VAT on manufactured goods produced on the Mainland but destined for Zanzibar is collected by TRA-Mainland and is subsequently remitted to the Zanzibar Treasury.

has limited institutional capacity in terms of skilled human resources, equipment and facilities. For example, in the case of ZRB, only 32% of the 127 employees have at least an advanced diploma. There is a shortage of qualified tax assessors, collectors, and accounting and managerial cadres. The third related issue is inefficiency in collection. A comparison of the revenue collected by TRA and ZRB vis-à-vis the corresponding recurrent costs (salaries and other charges) suggests that ZRB is relatively cost-inefficient in collecting revenue. Its average cost-to-revenue share over the past two years has been almost twice the internationally recommended share of 2 percent (see Table 4.1). By contrast, TRA-Zanzibar's recurrent-costs-to-revenue ratio has been just about right, averaging 2.2% for FY01 and FY02.⁴

Table 4.1: Revenue Collection Costs of ZRB and TRA-Zanzibar

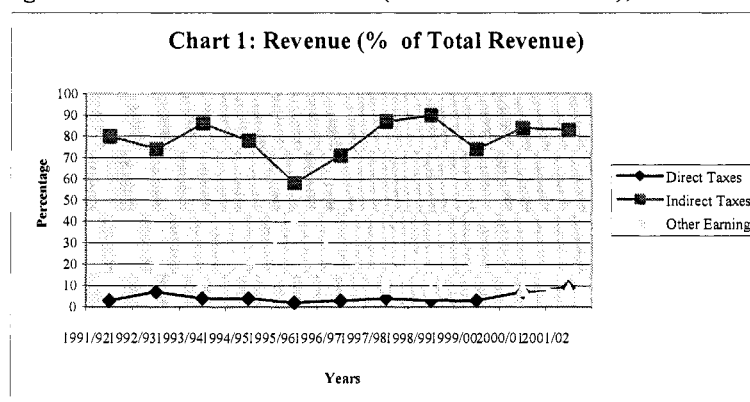
Year	Zanzibar Revenue Board			Tanzania Revenue Authority-Zanzibar		
	(1) Collection (T.Shs. Mill.)	(2) Expenditure (T.Shs. Mill.)	Ratio: (2) / (1)	(1) Collection (T.Shs. Mill.)	(2) Expenditure (T.Shs. Mill.)	Ratio: (2) / (1)
1999/00	20,721.2	461.4	2.2%	39,638.6	491.8	1.2%
2000/01	15,167.9	612.4	4.0%	23,405.9	499.2	2.1%
2001/02	20,937.7	756.1	3.6%	21,208.9	491.7	2.3%

4.5 Collection inefficiency in ZRB partly reflects capacity weaknesses and relatively higher operational costs. It is interesting to note that special allowances alone paid to ZRB staff amount to over a quarter (26%–29%) of total annual recurrent expenditures of ZRB. In view of the above, there is a need to improve tax administration in ZRB, and one option in this regard could be to roll out the Tax Administration Project (TAP) to Zanzibar to support systems re-engineering, automation, and capacity building. The other is to review the economic justification for the continued coexistence of the two institutions and to propose viable options looking forward, including the possibility of ZRB contracting TRA to also collect inland revenue. Fourth, although tax legislation in Zanzibar does provide for appeal machinery, it is yet to be operationalized to deal with taxpayer complaints. This has partly to do with a shortage of lawyers needed to serve on the Tax Appeal Tribunal.

DOMESTIC REVENUE STRUCTURE

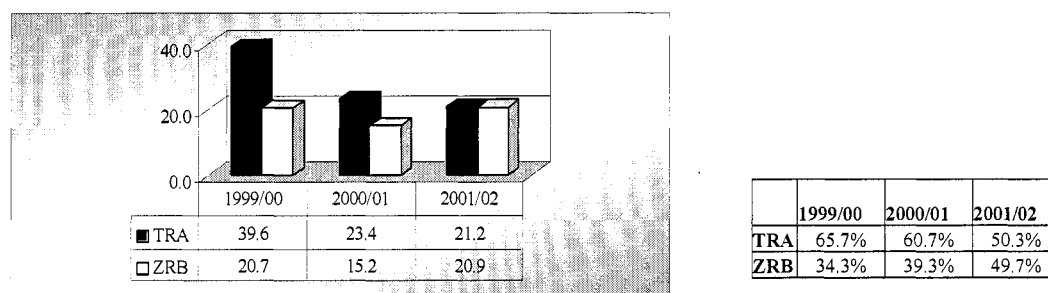
4.6 *Revenue Structure by Type of Revenue:* Zanzibar depends mainly on taxes as the major source of revenue (Figure 4.1). In the past five years, revenue from taxes contributed an annual average of 89 percent of total revenue. Zanzibar's revenue structure is heavily skewed toward indirect taxes (Table 4.2). The major indirect taxes include import duties, VAT, and excise duty. These together contribute between 60 and 70 percent of total revenue annually. Non-tax revenue accounted for between 26 percent and 30 percent of domestic revenues over the past three years. The main sources of non-tax revenue include contributions from public enterprises, and levies and fees collected by tax departments and ministries, departments, and agencies (MDAs). The contribution of direct taxes (pay-as-you-earn, company tax, individual income tax, withholding tax, and capital gain tax) to total domestic revenue in Zanzibar is rather small. In 1999/00, 2000/01 and 2001/02, direct taxes contributed only 3.6 percent, 7.1 percent, and 8.6 percent to total domestic revenue, reflecting a very narrow company tax base in the isles.

⁴ Part of the difference in the cost of collections is related to the fact that TRA collects from a few high-yielding sources, while ZRB collects from a large number of low-yielding tax sources.

Figure 4.1: Structure of Revenue (% of Total Revenue), FY92-FY02**Table 4.2: Zanzibar Revenue Structure (% of Domestic Revenue)**

	1999/00	2000/01	2001/02
Income Taxes	3.7	7.2	8.6
Import Duty	30.8	26.9	20.0
Excise Duty	4.3	2.2	4.0
VAT—Imports	25.7	22.7	15.3
VAT—Local	9.0	13.9	20.9
Petroleum Levy	2.8	3.2	10.6
Parastatal Contribution	9.5	1.9	2.3
Collection by Ministries	1.3	3.1	5.6
Other Revenue	13.0	18.9	12.8

4.7 Zanzibar Public Revenue by Collecting Agency: Until recently, revenue collected by TRA constituted the largest component of total revenue for the Zanzibar central government. Annual average collections by TRA amounted to 63 percent of central government revenue from domestic sources over the period from 1999/00 to 2000/01. However, this share dropped to about 50 percent in 2001/02, with the collapse of imports and, correspondingly, of customs revenue (Figure 4.2). Over the past three years, the contribution to inland revenue from most of the revenue sources administered by ZRB has been increasing (Annex Tables A2 and A3), except for the contribution from parastatals, which is dominated by declining contribution from the Zanzibar State Trading Corporation (ZSTC) as a result of a sharp drop in clove output and world market prices. By contrast, all the major revenue sources (Annex Tables A2 and A4) administered by TRA-Zanzibar (import duty, VAT, and excise duty on imports) have collapsed, resonating the drop in imports through Zanzibar when tariff harmonization was adopted, and more recently with the relocation of two main importers to Tanzania Mainland where they also established industries.

Figure 4.2: Central Government Revenue by Collection Authority (T.Shs. Billion)

4.8 Annex table 2 also reveals that there are a number of revenue sources which contribute only negligible amounts to Zanzibar state coffers. This calls into question the economic justification for continuing to charge some taxes, such as the entertainment tax, capital gains tax, export duty, auction sales, sales of stores, customs warehouse rent, customs agency fees, miscellaneous fees, withholding tax, and suspended duty. Therefore, RGoZ could consider undertaking a thorough review of its revenue sources to identify those that merit repeal, and potential new instruments, such as VAT on petroleum, which is already applied in the Mainland.

4.9 *Rate Structure:* Import duties are levied on the c.i.f. value of imports, while the base for excise duty is the c.i.f. value of certain imported items, including import duty on the products. The base for VAT on imports is the c.i.f. value of imports including import duty and excise duty (if applicable) on the products. There are four nominal tariff rates, including a zero rate on agricultural inputs and implements, capital goods, and raw materials; 10 percent for semi-processed inputs; 15 percent for fully processed inputs; and 25 percent for consumer goods. Imports from the East African Community (EAC) are charged at 20 percent of these rates. There are also suspended duties on a few items (tea, dairy products, and cigarettes) at the rate of 10 percent up to 35 percent, primarily for the purpose of granting additional protection to local producers. The VAT rate is 20 percent and is applied at the point of importation and delivery of service, with a zero rate on exports. In addition, there are eight product groups (soft drinks, beer, wine, spirits, tobacco, motor cars, gasoline, and mobile phones) that are subject to excise tax. Mobile phones, motor cars, and tobacco products are subjected to ad-valorem rates of 5 percent, 10 percent, and 30 percent respectively, while a specific levy is charged on the remainder of the excisable goods. Although the tax base for international transactions is similar to that used for Mainland Tanzania, there are still some differences in both rates applied and valuation methods used in Zanzibar, compared to the Mainland. For example, suspended duty in Zanzibar applies to only three commodities (milk, cigarettes, and tea) against fourteen items for the Mainland. The argument is that while the Mainland imposes suspended duties primarily to protect domestic industries, Zanzibar has no similar industries and actually depends on imports of such commodities. As such, imposition of suspended duties on needed imports would have increased the cost of living of the people of Zanzibar. Similarly, while there is pre-shipment inspection and valuation in the case of imports into Mainland Tanzania, there is no similar arrangement for Zanzibar. There are also differences in the standards for the goods, since those set by the Tanzania Bureau of Standards (TBS) do not apply in Zanzibar.

4.10 Individual income tax rates applicable in Zanzibar since February 2000 (Table 4.3) fall into 11 bands ranging from 7.5 percent of the amount in excess of T.Shs. 25,000 to T.Shs. 48,100 plus 35 percent of the amount in excess of T.Shs. 265,000. This contrasts sharply

with rates applicable on the Mainland, with only 4 bands that range from 18.5 percent over T.Shs. 50,000 to T.Shs.105,000 plus 30 percent over T.Shs. 540,000. Tax on the profits of companies is levied at 30 percent of taxable income.

Table 4.3: Individual Tax Rates Applicable in Zanzibar from February 2000

Income Bracket (Monthly) T.Shs.	Rate Payable
0–25,000	Nil
2,501–45,000	0 + 7.5% over T.Shs. 25,000
45,001–65,000	T.Shs. 1,500 + 10% over T.Shs. 45,000
65,001–85,000	T.Shs. 3,500 + 12.5% over T.Shs. 65,000
85,001–105,000	T.Shs. 6,000 + 15% over T.Shs. 85,000
105,001–125,000	T.Shs. 9,000 + 17.5% over T.Shs. 105,000
125,001–145,000	T.Shs. 12,500 + 20.5% over T.Shs. 125,000
145,001–175,000	T.Shs. 16,600 + 22.5% over T.Shs. 145,000
175,001–205,000	T.Shs. 23,350 + 25% over T.Shs. 175,000
205,001–235,000	T.Shs. 30,850 + 27.5% over T.Shs. 205,000
235,001–265,000	T.Shs. 39,100 + 30% over T.Shs. 235,000
Above 265,000	T.Shs. 48,100 + 35% over T.Shs. 265,000

4.11 It is quite clear from Table 4.3 that there is room to reduce the number of tax bands to enhance compliance. RGoZ should therefore consider reviewing the income tax brackets with the view to rationalize/reduce the number of bands for both ease of administration and revenue efficiency, while ensuring revenue neutrality. It is important to underline here that, since the allocation of revenue from customs duties, income taxes and, excise duties between RGoZ and the Union Government is based on the principle of where the revenue is derived, adherence to this principle hinges on tax administration and enforcement of legislation being kept uniform throughout the United Republic of Tanzania (URT). Otherwise the situation is likely to degenerate into competition for tax revenue and investment between the two sides of the Republic. Thus, in all these areas, harmonization of rates, tax base valuation, and verification are equally important.

4.12 *Local Government Revenue:* Local governments in Zanzibar were established by Acts No. 3 and 4 of 1995, which established the Zanzibar Municipal Council, and District/Town Councils respectively. However, the decentralization process in Zanzibar is still in its initial stage and has so far entailed only de-concentration (that is delegation of authority) and much less in terms of actual transfer of authority and resources to regional administration and local governments. To date, there are no subventions from the central government to individual local governments to finance service provision. All financial resources from MoFEA for financing social services are transferred to the sector ministries, which are the ones that control and do the actual spending and subsequent accounting of the funds. Service delivery units (schools, dispensaries, and hospitals) receive in-kind supplies from the respective sector ministries and have virtually no direct funding from the center. However, all permanent staff of district councils are employees of the central government and are paid by the center from the general revenue of the Government. Municipal and town/district councils receive a subsidy from the Central Government and also collect revenue from their own sources mainly to provide support to community-driven development initiatives, and to pay for the wages of casual laborers who are hired for certain activities such as refuse collection. Based on two local authorities visited (Zanzibar Municipal Council and the Unguja-West District Council), the main sources of own revenue and applicable rates are specific to their areas of jurisdiction (rural or urban-based and type of economic activities). The main sources of revenue include trade licenses and fees, property rent, market dues, registration of taxi cabs, licenses of urban transport routes, fines, and crop cess. Although the relevant Acts give borrowing powers to

the councils, and authority to obtain advances from the central Government and overdrafts from banks with approval by the Minister, these financing windows have not been used. Overall, local authorities' (LAs) own sources of revenue account for less than 5 percent of their total annual expenditures. In the case of Zanzibar Municipality, only about 4 percent of expenditures is financed from its own sources. In 2000–01 the Unguja-West District Council collected only T.Shs. 12.6 million from its own sources, of which about 75 percent was used to support community-initiated development projects. The main problems faced by LAs in the area of revenue mobilization include tax evasion, weak tax administration capacity, and inadequate revenue sources.

4.13 *Transfers from Government Enterprises.* The contribution of transfers from the parastatal sector fluctuated between 1.4 percent and 9.0 percent of revenue in the past four years. Table 4.4 shows the transfers of individual parastatals during the past four years. The main contributors are the Zanzibar Ports Corporation and the Zanzibar State Trading Corporation. The decision by RGoZ to move away from presumptive taxation of parastatals in favor of dividends based on a profit-and-loss account of each public enterprise is a move in the right direction to foster economic decision making in public enterprises and enhance their viability.

Table 4.4: Transfers from Government Enterprises, FY99–FY03 (T.Sh. million)

	FY99 Actual	FY00 Actual	FY01 Actual	FY02 Budget	FY03 Budget
Zanzibar Insurance Corporation	9	0	0	20	25
Petrol Stations Corporation	5	9	9	8	8
Motor Trade Corporation	0	9	9	1	3
ZSTC	0	5,414	500	600	1000
Tourism Corporation	0	0	0	0	0
Zanzibar Port Corporation	499	300	265	500	500
Zanzibar Shipping Corporation	0	9	14	20	30
Total	513	5740	796	1149	1566
Transfers from Government Enterprises as a % of Total Revenue	1.4%	9.0%	2.1%	2.7%	

Source: Estimates for Recurrent and Capital Revenues and Expenditures for Year 2001/2002 and 2002/03

4.14 The high contribution to revenue from parastatals in FY00 is due to extraordinary profits by ZSTC as a result of high clove prices in the world markets which were not passed on to the clove farmers. Given the current discussion on the eventual privatization of ZSTC and the potential loss of income to Government, we show in Figure 4.5 the annual contribution of ZSTC to government revenue for a longer time period. It is interesting to note that during the period FY93–FY02, ZSTC only made payments to the Government in four years, and the average contribution to revenue over that period is only 1.2 percent. The potential direct loss of revenue from abolishing the monopoly for the marketing of cloves held by ZSTC is thus likely to be small and likely to be more than offset by enhanced revenue from increased economic activity in the clove sector.

Table 4.5: Transfers by ZSTC to Government, FY93–FY02

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
T.Sh. Million	0	0	0	322	38	0	0	6,159	0	301
% of Total Revenue	0.0%	0.0%	0.0%	1.2%	0.2%	0.0%	0.0%	9.7%	0.0%	0.7%

Source: ZSTC

4.15 *Other Earnings.* The key source of other earnings is port and airport charges such as departure taxes. The significance of other earnings has declined in recent years. On average, other earnings contributed 5 percent of total revenue during the last five years, whereas, they contributed 13 percent during the previous five year period.

4.16 *Transfers from the Union Government.* The Union constitution provides for the administration of taxes on incomes and international trade, and the sharing of this revenue, Bank of Tanzania (BoT) seignorage, and concessional program loans and grants between Zanzibar and the Mainland. The existing revenue sharing arrangement involves the retention of all revenue collected by TRA at source. With regard to the distribution of program loans and grants, Zanzibar is supposed to receive 4.5 percent of the total. It was noted that the 4.5 percent subvention, though erratic, provides \$8–\$10 million to RGoZ annually. In addition, there are also hidden transfers from the Union Government in the form of Zanzibar's share of the cost of operating the Union Government (3.9 percent of total Union expenditures), and, until recently, the artificially low electricity tariffs charged by TANESCO for Zanzibar, which were typically not met. Data from the office of the Chief Government Statistician shows that government securities and transfers from the Union Government to RGoZ have declined sharply in recent years, dropping from T.Sh.7.9 billion in FY96 to only T.Sh.0.7 billion in FY00, and further to T.Sh.0.07 billion in FY02 (Table 4.4). The decline partly reflects BoT's decision to withhold Zanzibar's share of BoT profits to cover for outstanding debt service obligations.

Table 4.6: Government Securities and Transfers from URT (Million T.Sh.)

1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
7,868	5,091	1,935	1,200	700	1,000	72

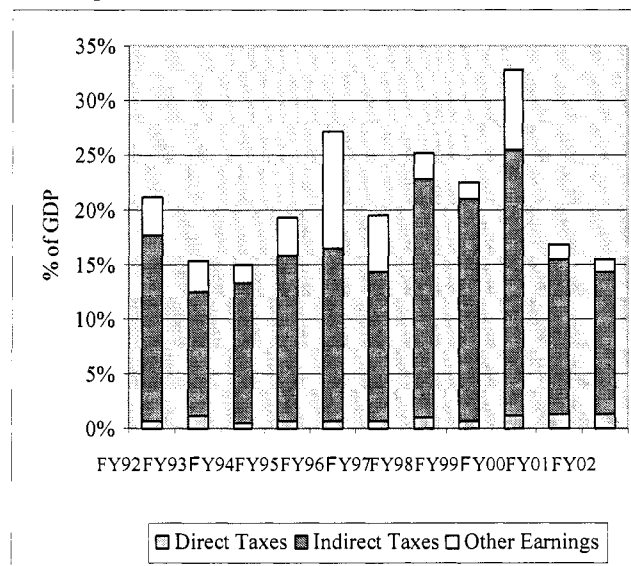
4.17 There are a number of outstanding contentious issues related to URT-RGoZ fiscal relations. In addition to non-uniform treatment in revenue administration and enforcement already alluded to, the division of tax revenue and obligations (such as the cost of operating the Union) still remain to be resolved. The 4.5 percent share of program loans and grants is also regarded by RGoZ as only a transitional arrangement. Therefore, it would be important for the recently established Joint Finance Commission (JFC) to address some of these concerns and other issues, such as possible compensation for the revenue loss suffered by Zanzibar as a result of import tariff unification.

4.18 *Domestic Borrowing.* RGoZ has had to resort to domestic borrowing to finance its expenditures, mainly through issuance of treasury bills and stocks. The issuance of stocks was particularly large in 1999/00 (T.Sh.2.5 billion) and was used to finance the general elections. According to BoT, domestic bank borrowing increased from about T.Sh. 0.4 billion in FY97 to T.Sh. 4.5 billion in FY99, and further to T.Sh. 6.3 billion in FY00.

REVENUE PERFORMANCE ASSESSMENT: KEY ISSUES AND OPPORTUNITY FOR IMPROVEMENT

4.19 *Collapse in Revenue:* Since FY98, total revenue collection has declined from 25 percent of GDP to 16 percent of GDP in FY02 (Figure 4.3). Revenue from indirect taxes, mostly taxes on imports, plunged by 40 percent. This decline in revenue is largely attributable to the removal of external tariff differentials between Zanzibar and Mainland Tanzania, particularly since the closing of the so-called “Zanzibar route” through improved tax administration by TRA. This collapse represents a major stress on Government’s capacity to finance its expenditure program. The secular decline was interrupted in 1999/00, when a combination of factors allowed a temporary increase in revenue to about 33 percent of GDP. A major source of this upward spike was a series of large transfers from ZSTC made possible by a sharp rise in clove prices during FY00, which was not passed on to the farmers. One important measure to restore revenue will be to consider measures to reduce incentives for smuggling of cloves through the liberalization of clove exporting and appropriate taxation of revenue and profits from clove exports. Other measures could include curtailing exemptions and improvement in tax administration, particularly in the tourism sector.

Figure 4.3: Revenue (% of GDP), FY92–FY02



4.20 *Variability of Revenue:* The Zanzibar Government’s revenue has been variable over the past decade, fluctuating between 15 percent and 33 percent of GDP (Figure 4.3). This has, in turn, made annual Government expenditure planning highly unpredictable. The more detailed analysis of revenue by source shown in Figures 4.4a –4.4c indicates that the variability of revenue stems from a variety of sources. One of the main reasons for the high variability of revenue is the fact that Zanzibar collects most of its revenue from indirect taxes, which reflect instability in the volume of imports. Another important source of variability in revenue derives from transfers from parastatals and from the Union Government. It is interesting to note that transfers from the Union Government have to a certain extent offset changes in other sources of revenues. Diversification of the tax base through the introduction of new domestic taxes such as VAT on petroleum and property taxes would help to reduce its heavy reliance on customs revenue. Given the small size of Zanzibar, property tax can be

relatively easily harnessed as long as a good tax cadastre can be setup. However, given the structure of the Zanzibar economy, it is likely that revenue variability will remain a key feature of the economy. In order to be able to minimize the negative effects of revenue variability on public sector service delivery, Government should consider measures which would smooth revenue and prevent revenue variability from directly affecting government expenditures. Such measures could include saving in years with strong revenue performance to be able to compensate poor revenue performance in other years, or the use of central government transfers and donor resources in a way that would compensate for fluctuations that have domestic origins.

Figure 4.4a: Revenue (% of GDP), FY92–FY02

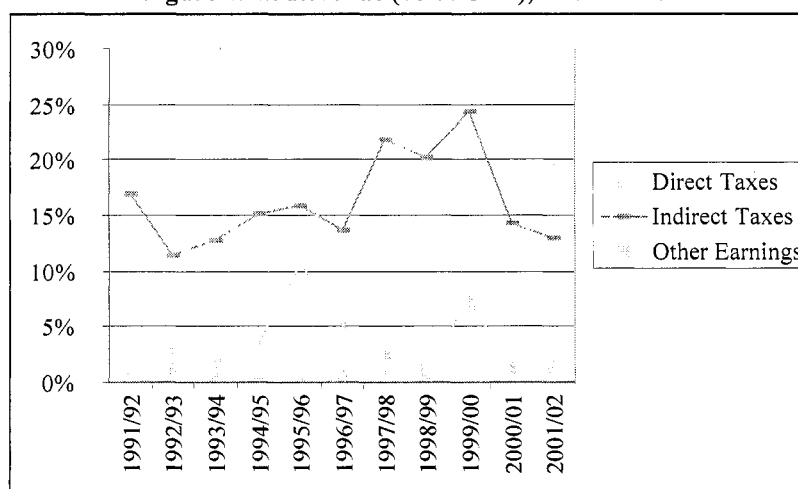


Figure 4.4b: Indirect Taxes by Source (% of GDP), FY92–FY02

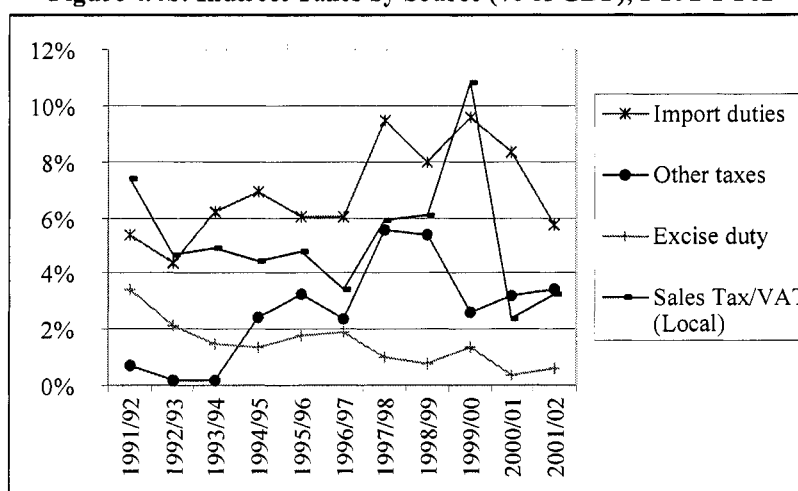
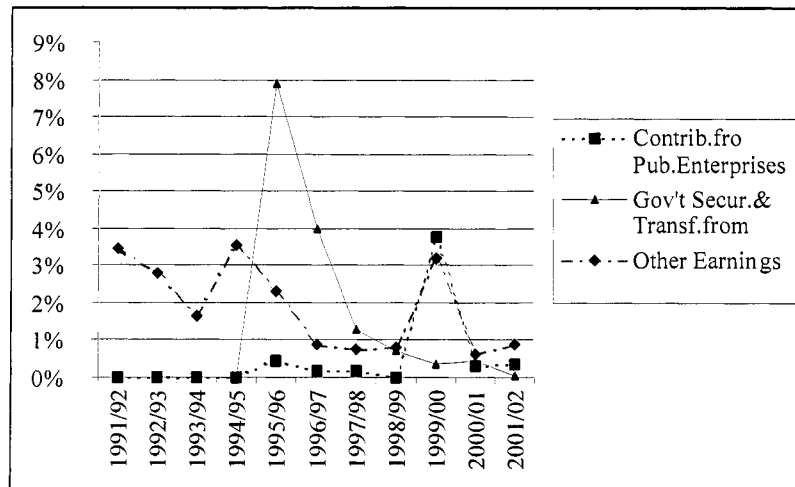


Figure 4.4c: Other Revenue by Source (% of GDP), FY92–FY02



4.21 *Inadequacy of Revenue for Implementing ZPRP and Need for Growth-Based Expansion of the Revenue Base:* Zanzibar's revenue as a percentage of GDP has fluctuated between 15 percent and 33 percent over the past decade (Chart 4.3). This revenue effort is in line with international data from small island states which indicate that these have typically larger governments and higher revenue effort than most continental countries with similar economies. In the case of Zanzibar, there is the additional caveat that GDP figures could be severely underestimated. In spite of the apparent high tax effort, public revenue remains highly inadequate relative to the overall resources needed to successfully implement the Zanzibar poverty reduction plan (ZPRP) and to realize Zanzibar's Vision 2020. Zanzibar's tax base remains very narrow, given its negligible manufacturing sector, significant tax exemptions, and volatile mono-crop agricultural production. In these circumstances, expansion of Zanzibar's tax base needs to be growth-based. Specifically, there will be a need to embark on economic reforms to achieve sustained macroeconomic stability and to spur investment and higher growth. Additional effort to reach all potential income taxpayers, removal of nuisance taxes, presumptive taxation of the informal sector, and reduction of the multiplicity of taxes are important aspects of the strategy to reduce tax evasion and bring the informal sector into the tax net. Based on the Mainland experience, RGoZ might want to consider creating a Large Taxpayers Department as part of the tax reform drive. RGoZ should also devote increased attention to economic diversification, particularly by encouraging the production of a variety of other spices, high value crops, fruits, seaweed, and fishing.

4.22 *Tax Exemptions:* RGoZ offers numerous general and fiscal incentives for promoting tourism, trade and investment, mainly in the form of tax exemptions. For example, incentives offered under the ZIPA Act range from a provision for income tax exemption on reinvestment profit, a 25 percent investment allowance, exemption from export profit tax, and tax holidays ranging from 2 to 5 years to exemption from import duty and VAT on the importation of capital goods, raw materials, and the personal effects of expatriate employees. Similarly, ZAFREZA administers a number of fiscal incentives to promote and facilitate private sector investment in export processing zones (EPZs). These include exemption from import duties and sales tax on machinery, raw materials, equipment and spare parts necessary for investment in EPZs, export duty exemption on all goods from EPZs, exemption from income tax for an initial period of 10 years on dividends, interest on shares, loans and any other type of income received by the investors, and exemption from local taxes on goods and

services purchased or hired locally for use in EPZ enterprises. The main objectives of the fiscal incentives regime are to (1) protect infant domestic industries, (2) attract foreign private investment, and (3) promote export-oriented manufacturing and trade.

4.23 In the past three years, exemptions from customs duties alone amounted to about 19 percent of actual annual customs collection (Table 4.5). Approximately 44 percent of customs duty exemptions are those granted under the Zanzibar Investment Promotion Agency (ZIPA) Act. The other major beneficiaries of customs duty exemptions included the Government (23 percent), private companies and individuals (17 percent) and parastatal organizations (13 percent). Overall tax revenue foregone through exemptions is conservatively estimated by TRA to be in the range of 10–20 percent of total tax revenue collected each year.

Table 4.7: Zanzibar Customs Duty Exemptions by Category of Beneficiaries (% of Total)

INSTITUTION	1997/98	1998/99	1999/00	2000/01	2001/02	Average
Government	19.5	16.1	25.1	27.4	26.5	23
Parastatals	9.6	39.7	7.9	1.7	5.9	13
Religious & Charitable	1.4	0.8	1.2	0.8	1.7	1
NGOs	6.3	0.8	0.8	0.9	2.7	2
Private Companies & Individuals	16.7	1.9	20.4	38.7	7.4	17
ZIPA	46.7	40.7	44.5	30.5	55.7	44
Total (T.Sh. Million)	7,131.6	11,906.1	6,355.0	4,437.4	3,238.1	
% of Customs Revenue			17.0	21.5	18.4	

4.24 Although these exemptions have to a limited extent helped to attract foreign investment and encouraged some activities for export,⁵ they have been subject to abuse and therefore have eroded the potential tax base. One of the major problems has been that there are several autonomous institutions that deal with the approval and management of fiscal incentives. These include the Ministry of Finance and Economic Affairs (MoFEA), Zanzibar Investment Promotion Agency (ZIPA), Zanzibar Tourist Commission (ZTC), Zanzibar Free Economic Zone Authority (ZAFREZA), Zanzibar Free Port Authority (ZFPFA) and the tax collection agencies (TRA and ZRB). Apart from weak coordination and duplication of effort among these institutions, the tax exemptions granted by these different agencies have not always been consistent and have, by and large, not borne significant expected benefits in terms of operational investments, employment and, foreign exchange yield. As of February 2002, only 103 projects promoted by ZIPA were operational, compared to the total of 261 approved projects. Similarly, as of November 2002, employment of locals in the EPZs was only 271, compared to the prospective employment figure of 696 Zanzibaris. There are now seven operating enterprises in the Export Processing Zone (EPZ), nine more are expected to be established, and five have recently closed or shifted. In addition, most of the institutions dealing with the promotion of investment, trade and tourism such as ZIPA, ZAFREZA, and ZTC still depend on subsidies from the central government, in addition to being allowed to retain their collections from licenses and fees.

4.25 Therefore, a thorough review and rationalization of the exemptions regime is imperative to counter abuse and improve revenue collection. RGoZ has already recognized some of these weaknesses and has initiated a review of the relevant legislation to minimize overlap and conflict. Some of the measures taken have resulted in almost a 50 percent

⁵ The value of exports from the export processing zones doubled from \$1.4 million in 1997 to \$3.2 million in 2001. The total capital investment of operational projects promoted by ZIPA and ZAFREZA stood at \$114.5 million and \$67.2 million respectively in 2002.

reduction in exemptions, particularly following the establishment of a committee to advise the Minister for Finance and Economic Affairs on granting exemptions. Equally important, RGoZ needs to review its investment promotion strategy to create a more favorable investment climate. It should be emphasized that, based on international experience, generous taxation incentives per se do not attract large investment flows. In the case of Zanzibar and similar economies, both the Zanzibar Chamber of Commerce and the Zanzibar Employers Association underlined that it is the lack of skilled labor, poor roads and communications infrastructure, high electricity tariffs, land lease and utilization, and legal and administrative obstacles to investment which are the greatest concerns of current and potential investors in Zanzibar. There is also a need to enhance coordination among the various institutions (ZIPA, ZAFREZA, ZFPA, ZRB, TRA, and MoFEA) that are responsible for administering and approving different categories of fiscal incentives for investment. Finally, experience elsewhere indicates that VAT and the exemption of government purchases from import duty often provide an opportunity for abuse. Thus, removing the exemption on government purchases in line with that practice elsewhere should be considered. This also would close loopholes for abuses of the system, such as the selling of exemptions by those who qualify.

Improving Tax Administration, Especially in the Tourism Sector

4.26 Inland revenue collection has in general been increasing since the Board started its work in 1998. However, revenue from VAT (local) and revenue from tourism fluctuated considerably and declined from 1999/00, partly reflecting the impact of the terrorist attack on the United States in September 2000, and the decline in contributions by parastatal organizations, especially by the Zanzibar State Trading Corporation (ZSTC) following the collapse of the clove sector starting in 2000/01. Until recently, annual contributions of public enterprises to government revenue were set by the Ministry of Finance and Economic Affairs (MoFEA) on a presumptive basis to counter the tendency of parastatals to under-report their revenues and overstate their expenditures, as there was virtually no comprehensive year-end closing of their books of accounts. However, this practice has proved to be inefficient and costly, as some of the public enterprises even had to resort to overdrafts from the People's Bank of Zanzibar (PBZ) to meet their mandatory contributions to the Ministry of Finance and Economic Affairs. RGoZ has now changed this policy in favor of allowing public enterprises to operate commercially and be able to pay dividends.

4.27 There is an opportunity to improve tax administration in Zanzibar and efficiency in revenue collection. As already noted, the RGoZ and URT Governments need to consider extending the Tax Administration Project (TAP) to cover Zanzibar. Some of the issues that would need to be addressed include a review of ZRB's cost structure, remuneration, facilities, exemptions, and taxation of the tourism sector. The tourism sector has a high potential of contributing to higher economic growth in Zanzibar. Tourist arrivals (and earnings) have shown an upward trend over the past decade, rising from 42,141 travelers in 1990 to 97,165 in 2000, but dropping to 76,329 in 2001 following political tensions after the general elections and the aftermath of the terrorist attack on the United States in September 2001. The special island features of Zanzibar, including its climate, rich culture, and long history make Zanzibar one of the most attractive tourist destinations in East Africa. To tap the revenue potential of increased tourism activities, RGoZ needs to have a better handle on the taxation of this sector. A recent survey of tourism earnings has been carried out and could be used for an improved estimate of the tax potential and enhanced revenue generation from tourism. One way to maximize revenue from this source could include clamping down on tax

evasion and the introduction of better tax handles/innovative ways of collecting revenue in the face of the growing popularity of package tourism. In particular, special focus will need to be directed toward enhancing local capacity to offer quality services to tourists. RGoZ is contemplating the introduction of a tax per tourist head per day on top of the usual tax on hotel services, similar to the practice in the Maldives and Mauritius, but is conscious of the experience elsewhere, e.g., Poland in 2001, where the introduction of new regulations concerning the taxation of package tours tended to cause an increase in the price charged by tour operators and ushered in a decline in booked turnover. In addition, a greater and more coordinated effort to collect more revenue from other sources and from petroleum products is estimated by TRA to have the potential to raise revenue by as much as 10 percent. Improved coordination between RGoZ and the Union Government on fiscal issues would also go a long way to strengthen the Union and improve the predictability of resources on both sides of the United Republic of Tanzania.

Clamping Down on Tax Evasion

4.28 As in many other countries, tax evasion and tax avoidance are widespread in Zanzibar. Tax evasion is believed to be particularly high in the hotel sub-sector, and for petroleum products, which are subject to widespread smuggling. A quick comparison of the collection and scheduled rates for some tax categories does point to significant erosion of the tax base via evasion and exemptions. For example, the collection ratio of VAT on imports for 1999/00 and 2000/01 is about 14.3 percent and 12.3 percent respectively, compared to the applicable VAT rate of 20 percent, partly due to the exemption of imports by Government and for investment purposes. Similarly, the ratio of import duty revenue to imports c.i.f. over the same period is 21.0 percent and 14.3 percent, against the unweighted-average scheduled tariff rate of 20 percent.

4.29 Officials of TRA-Zanzibar also indicated that smuggling and mis-declaration and under-valuation of imports that are subject to customs duties are common and significant ways of denying RGoZ revenue. The report by the Controller and Auditor General for 1998/99 and 1999/00 does reveal other forms of tax recalcitrance, such as payment (even by RGoZ itself) without proper receipts or with receipts that do not have a sales tax stamp, thereby denying the Government revenue. It is high time for RGoZ to consider extending pre-shipment inspection and valuation to Zanzibar as one measure to curb cheating. RGoZ is also encouraged to consider paying taxes so as to close some of the loopholes and to review the penalty rates in order to be more deterrent.

5. EXTERNAL DEVELOPMENT ASSISTANCE

EXTERNAL RESOURCE INFLOWS TO ZANZIBAR

5.1 Since 1996, official development assistance has fallen significantly, possibly with a corresponding impact on social indicators. However, a number of NGOs continued and intensified their operations in Zanzibar. Nevertheless, the little development assistance that continued to flow, including the NGO support, represented a significant share of resources available to the Government for its development activities. For some time now external flows have been quite erratic and the data are quite unreliable. Table 6.1 shows total external development assistance, including both loans and grants, provided directly to the RGoZ. These flows have been approximately US\$10 million in each of the last two years, which represents about US\$18 per capita as compared to US\$30 per capita on the Mainland. Over 50 percent of the development assistance in 2000 and 2001 was directed to the social sectors, with most of the remainder being used for the development of infrastructure. Taking the various sources of flows together, it is not clear that aid flows have fallen drastically in the aggregate. Total support during that period came from the many non-OECD donors that stayed on, together with the 4.5 percent subvention from the URT which also started that year. Table 5.1 below summarizes the trend of the external resource inflows to Zanzibar for the period 1997-2001.

Table 5.1 External Development Assistance 1997–2001 (US\$ million)

	1997	%	1998	%	1999	%	2000	%	2001	%
Multilateral	6.3	86.2	5.2	79.4	2.7	66.2	7.5	70.1	6.2	64.1
Bilateral	1.0	13.8	1.3	20.6	1.4	33.8	3.2	2.9	3.5	35.9
Loans	2.6	35.5	2.6	39.9	2.0	50.6	6.2	57.6	5.0	51.6
Grants	4.7	64.5	3.9	60.1	2.0	49.4	4.6	42.4	4.7	48.4
Total	7.3	100.0	6.5	100.0	4.1	100.0	10.7	100.0	9.7	100.0
4.5% of program support to Tanzania	7.6		8.6		5.9		13.1		8.6	

Source: MoFEA, Zanzibar and ZPRP

5.2 It will be recalled that following a 1996/97 agreement with the Union Government, 4.5 percent of general program aid to the Union Government (bilateral and multilateral) is provided as a subvention to the Zanzibar Government. It will also be noted that, significant data concerns arise relating to commitments and disbursements of aid. An improved aid coordination mechanism must be established, not only to improve data reliability, but also to ensure that development projects are implemented and monitored in a coherent, timely and effective manner. This is particularly important if the donors are to return to Zanzibar, in a full way, to assist in the implementation of the ZPRP in a coordinated and orderly manner. A number of donors are waiting for the Government to lead the way in this process.

5.3 As a process, Zanzibar secures external resources through a number of means. First, sectors may approach donors directly or ask the External Finance Department to negotiate on their behalf. Second, the External Finance Department may initiate the negotiations with

donors based on identified ZPRP priorities. Finally, the External Finance Department receives a number of donor missions in which funding opportunities are presented and negotiated.

5.4 The appraisal of grant-funded projects is not undertaken in any structured manner and donors may undertake their own appraisals, but the Government has no equivalent independent mechanism. Sector ministries are encouraged to appraise programs, but have noted that they are not technically equipped to do so, while the Commissioner of the External Finance Department makes the final recommendation on all external projects.

COORDINATION, MONITORING AND MANAGEMENT OF EXTERNAL RESOURCE INFLOWS

i) The Current Status

5.5 Currently there are about 57 projects/programs recognized by the Ministry of Finance and Economic Affairs in Zanzibar (as recorded in the 2002/03 budget), although the precise number is subject to verification as part of the ongoing database exercise. Based on known projects, infrastructure accounts for over 40 percent of all recorded development assistance to Zanzibar—this is mainly roads, but power and the airport runway also are part of this component. Education accounts for about 25 percent, while health claims 12.5 percent of inflows. These three sectors are the largest recipients of external resource inflows.

5.6 The Government has no strategy akin to the Tanzania Assistance Strategy (TAS) on the Mainland, for example, for explicitly guiding the use of external assistance. Instead, it makes reference to the ZPRP to indicate areas, if not modalities, of desired assistance. This is particularly the case for the development partners who are recently returning to Zanzibar, as they have been encouraged to use the ZPRP as their main point of engagement. The Vision 2020 is thought to be too broad and with insufficient prioritization to serve as an indicator for external assistance.

ii) The Monitoring of External Resource Inflows

5.7 The recording of external flows is the responsibility of the External Finance Department under MoFEA. A database is maintained, but it is felt to be incomplete with respect to coverage of all projects, and to data on individual projects. Agreements are also kept in the External Finance Department although in many cases, particularly for grant-financed projects, disbursement applications and notices are sent directly to the implementing agents and are not always copied to MoFEA. Direct payments by donors to the providers of goods and services are particularly difficult to capture. Where donor reporting is applied, there is not a common format and, aside from a short section in the Budget Speech, the MoFEA produces no regular summary report on the use of development assistance. The External Finance Department also participates in some project procurement exercises. A Central Tender Board has been recently established, and regulations are being developed. In the meantime, ministries form their own procurement committees which are supposed to include External Finance representation. Due to staffing and capacity constraints, however, this is often not the case.

5.8 Physical monitoring of project activities is the responsibility of the Sector Policy and Research Department of the MoFEA. Quarterly monitoring visits are made to projects to assess progress in implementation and a report is then presented to the National Planning Commission. There is no financial reporting conducted during these monitoring missions,

while the expertise and staffing of the Department restricts the scope and degree of monitoring activities. The External Finance Department provides data to the Budget Section for the preparation of the budget, but acknowledges that it is incomplete. Grants received from Union projects, for example, are often excluded from the estimates. There are currently very weak links between line ministries and the MoFEA for reporting on receipts and expenditures of project assistance, meaning that the Development Budget estimates are quite incomplete.

iii) Assessment of the Current Situation

5.9 The most important issue to address with regard to the use of external assistance relates to the by-passing of the MoFEA in the disbursement of project funds. There is effectively no system in place through which external resources can be projected although sector ministries are requested to file returns on disbursements for retrospective recording—a practice with which sector ministries, by their own admission, comply only very loosely. Needless to mention, this practice undermines the ability of the MoFEA to plan comprehensively based on the use of all resources available, thereby jeopardizing the consistency of domestic expenditures with external assistance, e.g., in ensuring that recurrent resources are set aside to safeguard the sustainability of aid-financed projects.

5.10 This by-passing of the central budgeting system also means that the External Finance Department and, more importantly, the Accountant General's Office are often unable to ensure compliance on reporting and accounting for the use of funds. This also creates inefficiencies in budget execution, as resources available to the Government are not brought to the attention of the MoFEA. In a situation in which counterpart contributions are required, this can affect the smooth implementation of project activities. With regard to the ZPRP priorities, the ability of line ministries to source and negotiate their own grant funding, before presenting the proposals to MoFEA for endorsement, suggests undermining the overall prioritization in resource mobilization that the ZPRP requires. As such, there is no guarantee that the project portfolio will reflect ZPRP priorities.

5.11 There is a clear fiduciary risk in the current arrangements, when neither the MoFEA (External Finance) nor the Accountant General is informed or involved in the management of external resources. This particularly relates to the current arrangements for project procurement which, by the External Finance Department's admission, are of serious concern. Until a Central Tender Board is established, ministries will undertake these activities themselves with few external checks and balances. Sectors may comply with the donors' procurement procedures but the main concern here is the by-passing of MoFEA to record the nation's correct external obligations. Some degree of transparency should be lent to the process by MoFEA participation, but this does not work routinely due to the limited capacity of the External Finance Department (EFD) to participate in this work. By its own acknowledgement, the EFD has no expertise in this area. This is further exacerbated by the Department's lack of awareness of many project implementation activities, including procurement. With regard to physical monitoring, the absence of complete information on the existence of projects and the resources which they have received represents a major constraint on accurately assessing the progress that has been made in the implementation of the development budget. This also clearly undermines the ability to perform any financial monitoring.

5.12 The new Access-based database which is currently being designed should provide a basis for addressing many of these problems of the debt position and its management. It is

intended that it will provide full information on the funding of projects and will be accessible to a wide range of Government institutions. More important, however, is the need to ensure an improved flow of information, based on an improved institutional structure, so that data can be made available for recording, accounting, and monitoring purposes on the debt situation.

5.13 It is clear from the aforesaid that the exchange of information between the MoFEA and executing ministries is not effectively organized or coordinated, meaning that the complementarity between Government and foreign resources cannot be assured. Given that line ministries may face a reduced allocation of domestic support if the full extent of external assistance to them were known, there may be added incentives for project-executing agencies to delay or avoid reporting to the MoFEA. Similarly, NGO-executed projects, which have become increasingly important in Zanzibar over the last decade, are not recorded meaning that these activities cannot be taken into account to promote an optimal allocation of Government resources both within and across sectors. In a well organized system, NGO resources are complementary to Government efforts.

5.14 In most cases, many development partners include a Zanzibar component in their assistance to the United Republic and this is often not explicitly identified in the Treasury (MoF) database of external assistance. Similarly, the RGoZ Ministry of Finance and Economic Affairs finds it very difficult to record flows of this type of assistance, which are typically channeled directly to the project account by the donor. Most often, in the case of loans, disbursements by the donor to the project are notified to the URT but not to the RGoZ. This presents problems not only for the MoFEA, which is unaware of funds provided directly to project accounts, but also for the Union Treasury, which may overestimate resources available to it. Increased consultation between the URT Treasury and MoFEA has been established, but no systematic exchange of information has been implemented. Full implementation of the Joint Finance Commission (JFC) will solve part of this problem.

5.15 At the project appraisal stage, there appears to be little capacity to assess relative priorities and to gauge the extent to which a proposal has taken into account the best alternative options for effectively attaining the targets identified in the ZPRP. The efficient and transparent use of external resources, within and between sectors, cannot be assured in the absence of a higher-level mechanism for reviewing and appraising all project proposals. Government institutions starved for resources may also accept, without question, the offer of project assistance as this allows them to 'go-project' their recurrent expenditures. The result is that externally supported projects will not have their desired impact on poverty; rather they will be used to maintain the day-to-day operations of Government. This is particularly significant, and of concern, for loan-financed projects. Currently, debt management is mainly the responsibility of the Accountant General's Office, but the External Finance Department should play a role in establishing criteria for accepting new loans after a thorough sustainability analysis. What is really required in Zanzibar, in this regard, is a National Debt Strategy.

iv) Suggestions for Future Improvements

5.16 The Ministry of Finance and Economic Affairs needs to take responsibility for establishing and institutionalizing a Government-wide aid coordination system to ensure full recording and accounting of external resources. The system should also operate on at least five levels: between RGoZ and URT; between RGoZ and donors; within RGoZ (ministries, MoFEA, Accountant General, and Auditor General); within MoFEA (External Finance,

Budget, and Planning); and, between RGoZ and NGOs—in terms of where they are working and the sectors which they are supporting.

5.17 The ongoing database work needs to be refined and to become operational as soon as possible. It is important that the database be viewed in the context of this wider system for aid coordination to ensure that information flow is done as a matter of routine, and can then be used for accountability functions (links to the Accountant General's Department) and for budget work. The Government thus will need to give priority to the establishment of an institutional mechanism for information sharing and reporting, because the creation of a database will not by itself guarantee improved transparency in the use of external resources. Currently the MoFEA is doing its best, but may need to become more proactive in seeking out information and establishing routine data systems, both for improving financial accountability and for ensuring that projects are implemented as intended.

5.18 More strategically, and related to the establishment of a reporting and accounting system discussed above, it is recommended that the Government give increased thought to the role of external assistance in the implementation of the ZPRP. To this end, a more general aid coordination mechanism, creating an interface for dialogue with all stakeholders on the design of programs and the funding of the ZPRP is desirable. Comprehensive and carefully costed-out programs, based on the use of verifiable indicators, are required at both the sector and thematic levels in order to provide guidance on which to base external finance. Such a system will also provide more structure and coherence to the sectors themselves. A central and consultative forum for appraising project proposals and for assessing their consistency with ZPRP priorities will also need to be established to ensure an appropriate mobilization of external support. While sectors should be encouraged to prepare comprehensive plans to form the basis for external resource mobilization, this will be offset against the need to consider other relevant ZPRP priorities.

5.19 Capacity development appears necessary at all levels, and the mix of technical assistance and development capital that is required needs to be given careful consideration. In the first instance, these plans need to be developed at the sector and thematic levels, but they should be guided by the External Finance Department which can then consolidate this work into a coherent framework for external support to the ZPRP. Sector mechanisms, coordinated and guided by MoFEA, will bring greater ownership to the ZPRP, which will reduce opportunities for sector ministries and donors to misinterpret the ZPRP priorities. Leadership at the sector and thematic levels will create the entry point for returning partners and ensure a coordinated approach to the establishment of sector strategy, and promoting capacity development.

6. PUBLIC DEBT AND LIABILITIES

ZANZIBAR'S DEBT SITUATION

i) Current Status

6.1 The statistics on the situation of Zanzibar's debt are quite unreliable. Nonetheless, going by what is available so far, it appears that by the end of June, 2002, Zanzibar's total debt stock (external and domestic) was T.Sh. 85.7 billion (US\$90.7 million), of which external debt alone was US\$58.4 million, accounting for 64.5 percent, while the domestic component accounted for 35.5 percent of the total debt stock. Of the external debt portfolio, multilateral creditors account for US\$42.7 million or 73.0 percent of the total external debt. Bilateral creditor claims account for US\$8.5 million or 15.0 percent, while debt owed to foreign commercial sources (suppliers' credit) amounted to US\$7.1 million, accounting for 12 percent of the total external debt. It is well understood that all of the multilateral debt is guaranteed by the United Republic of Tanzania (URT).

6.2 The RGoZ has been borrowing both internally and externally to finance its development activities, especially development projects and programs. However, as it will be shown later in paragraph 6.9, a preliminary assessment of Zanzibar's debt situation may not be as unsustainable as it may appear. The main problem has been the unreliability of the numbers. Measures are being taken to reduce the debt, but the capacity of the Government to meet its debt service obligations is still very limited. In fact, for quite some time now the Government has not been serving its external debt—apart from that portion which is guaranteed by the URT. There is a need to develop a National Debt Strategy to guide the Government in its borrowing, and in making repayments which will be in line with budget operations.

6.3 By the end of June 2001, Zanzibar's total debt was estimated to be T.Shs. 91.8 billion (US\$102 million), equivalent to about US\$105 per capita. Of this amount, T.Shs. 75.7 billion (US\$83.9 million), or 83.3 percent of the total, was external debt, and T.Shs. 16.3 billion (US\$18.1 million) was domestic debt. The domestic debt appears to be quite understated as it does not include interest arrears. The overall debt burden represented approximately 50 percent of GDP. An additional T.Shs. 4.7 billion of arrears to the Social Security Fund has also been identified.

ii) External Debt

6.4 For quite some time, external debt (especially multilateral debt) has been guaranteed and serviced by the Union Government. Of the total US\$83.9 million debt in June 2001, the Government had cleared US\$25.5 million by June 2002, partly through the writing-off of a Chinese loan. Thus, by the end of June 2002, total debt stood at US\$58.4 million, of which US\$42.7 million (or 73 percent) is multilateral and US\$8.5 million (or 15 percent) is from bilateral sources. The remaining US\$7.1 million (or 12 percent) of debt is from commercial sources. As stated above, the entire amount of the multilateral debt is guaranteed by the Union Government. The RGoZ guaranteed both the bilateral and the commercial debt.

6.5 Since 1995/96, the Government has not been able to honor its bilateral external debt obligations. The stock of debt, together with scheduled debt service, is therefore currently building up. In recent years, the Government has been allocating a token amount (less than 0.1 percent of expenditures) from its budget for payment of debt. Even this meager amount has not been paid, due to severe budgetary pressures. Table 6.1 below summarizes the external debt position.

Table 6.1: Zanzibar's External Debt (June, 2002)

Creditor	Amount (US\$ Mil)	%
Multilateral	42.7	73.0
Bilateral	8.5	15.0
Commercial	7.1	12.0
Total	58.4	100.0

6.6 Zanzibar's contribution to the servicing of its external debt has been limited over the past few years, mainly because of disagreements over financial responsibilities with the Union Government. Zanzibar's constitution precludes financial contributions to the Union until the Joint Finance Commission (JFC) has been established and made operational.

iii) Domestic Debt

6.7 In 2001, Zanzibar's domestic debt was estimated at 8.7 percent of GDP. Most of these debts are not currently being serviced. However, T.Shs. 893 million of the debt owed to the Social Security Fund had been paid by December 2001. Table 6.2 below summarizes the situation regarding Zanzibar's domestic debt by June 2001.

Table 6.2: Domestic Debt, (June 2001)*

Creditor	T.Shs. billion	% of total
Union Government	12.7	57%
Zanzibar State Trading Corporation	2.7	12%
Zanzibar Ports Corporation	0.6	3%
People's Bank of Zanzibar	7.2	32%
Total	22.2	100%
Social Security Fund/pensioners dues	4.7	

Source: Ministry of Finance and Economic Affairs, Zanzibar

* Excludes interest arrears and TANESCO debt.

6.8 However, by June 2002, the situation had deteriorated further. As Table 6.3 below shows, by June 2002, the domestic debt had increased from T.Shs. 23.2 billion (excluding the T.Shs. 4.7 billion owed to ZSSF) of June 2001 to T.Shs. 30.4 billion. Out of the total domestic debt of T.Shs. 30.4 billion, T.Shs. 13.6 billion (45.0 percent) is owed to the Union Government. The People's Bank of Zanzibar (PBZ) claims amounted to T.Shs. 7.2 billion (24.0 percent); Zanzibar State Trading Corporation (ZSTC) and Zanzibar Port Authority are owed T.Shs. 2.9 billion (9.0 percent) and T.Shs. 0.6 billion (2.0 percent), respectively. Other creditors claim a total of T.Shs. 6.1 billion, accounting for 20.0 percent of the total domestic debt.

Table 6.3: Zanzibar's Domestic Debt (June, 2002)

Creditor	Amount (T.Shs. Bil.)	%
Union Govt.	13.6	45.0
PBZ	7.2	24.0
ZSTC	2.9	9.0
Z-Ports Co.	0.6	2.0
Others	6.1	20.0
Total	30.4	100.0

6.9 In addition to the outstanding debt identified above, significant arrears exist, and systems need to be put in place to prevent the recurrence of public arrears. A central payment and Local Purchase Order (LPO) system seem crucial to ensure better expenditure and commitment control. In fact, in addition to the direct public debt, there are also Public Enterprises which are in debt—which is a contingent liability to the Government. The parastatal debt is not yet verified, as the Government's Department of Public Investments has not carried out an audit to get a clear picture of these debts. A good number of the parastatals however, claim that they are not in debt as such, but rather that it is the Government which has borrowed from them. They contend that, if the Government pays them, they will in a very solvent position. In view of this impasse, it is recommended that an audit of the parastatals be carried out to verify the position.

iv) Preliminary Debt Sustainability Assessment

6.10 Analysis of the available numbers indicates that, the situation notwithstanding, Zanzibar's debt is probably not unsustainable. For instance, the total debt stock is only at the level of about 50 percent of GDP, as compared to over 90 percent of the URT. It appears Zanzibar is not able to service its debt mainly because the payment of Personnel Emolument (PE) alone takes up so much of its budget. PE is estimated at an average of about 60 percent of the entire expenditures budget. Furthermore, its debt service ratio is slightly less than 100 percent, a fairly comfortable position when compared to the HIPC (heavily indebted poor countries) threshold of 150 percent. In addition, rescheduling would also lower the NPV of the debt, and, more than likely, would keep Zanzibar below the sustainable Debt Service/Exports ratio of 15 percent. Commonwealth ratios of Debt/Revenue are 200 percent for sustainability. Assuming revenue of T.Shs. 60 billion, clearly this is also sustainable. However, given the unreliability of the numbers, it is recommended that a detailed DSA be conducted in order to get a clear picture of the sustainability of the debt position in Zanzibar.

ii) The Contracting of Debt

6.11 Zanzibar has no authority to contract external debt (especially multilateral debt) as this is a matter ascribed to the Union under the 1977 Union Constitution. Many of the loans negotiated by the Union Government, however, have a program of activities to be implemented in Zanzibar and, where this is the case, the RGoZ is involved in these negotiations. This function is primarily performed by the External Finance Department of the Ministry of Finance and Economic Affairs. There are also cases of loans contracted exclusively for Zanzibar and, once again, the RGoZ is represented throughout these negotiations. However, RGoZ can not singly negotiate any Paris Club debt rescheduling or cancellation.

6.12 All external debt contracted since 1993 has been guaranteed, and serviced, by the Union Government. The RGoZ had contracted some external debt in the years up to 1993,

and, ipso facto, it is responsible for servicing this component of the debt stock. For instance, of the total US\$58.5 million debt outstanding in February 2002, the amount of US\$46.1 million (78 percent) was guaranteed by the Union Government. The main creditors are the African Development Bank (47 percent), IFAD (10 percent), IDA (9 percent) and the Organization of Petroleum Exporting Countries Fund (7 percent). Of the remaining debt not guaranteed by the Union, nearly all was contracted with the Government of China and various Chinese parastatals. However, the RGoZ had cleared US\$24.5 million in early 2002 through the writing-off of a Chinese loan. MoFEA has considered a World Bank-supported Debt Buyback (DBB) arrangement, but this is yet to be finalized.

6.13 As stated earlier, since 1995–96, the Government has not serviced its external debt obligations and has not fully recorded interest arrears or penalty interest. The debt stock may therefore be somewhat higher than that recorded by the RGoZ Accountant General's office. There is no debt strategy for repaying, or negotiating the rescheduling or cancellation of debt. Further, a Debt Sustainability Analysis has not been conducted for Zanzibar. The RGoZ Ministry of Finance and Economic Affairs, chiefly through the External Finance Department, is able to directly mobilize grant funding, and has made use of this facility to fund approximately one-third of its development budget—the remainder being foreign loans and a small domestic counterpart contribution component.

CONCLUSIONS AND RECOMMENDATIONS

i) Debt Coordination and Management

6.14 At the moment, there are various units which appear to be involved in debt management, albeit in a very uncoordinated way. The unit at the Accountant General's Office is very weak and ineffective. The External Finance Department of MoFEA plays a role in the negotiations and the contracting of debt. The Department maintains a database, but it is considered quite incomplete, since project financing has been very difficult to capture. Physical monitoring of project activities is the responsibility of the Sector Policy and Research Department of MoFEA. In addition, this department provides data to the Budget Section, but acknowledges that it is also incomplete. Grants received from the Union projects, for example, are often excluded from the estimates. There are, at the moment, very weak links between the line ministries and MoFEA on reporting receipts and expenditures of project assistance, implying that the Development Budget estimates are incomplete.

6.15 This by-passing of the central budgeting system also means that the External Finance Department, and more importantly, the Accountant General's Office are unable to ensure compliance on reporting and accounting for the use of funds. Furthermore, in such a situation, it becomes difficult for MoFEA to budget properly for the counterpart funding component. On the other hand, the Bank of Tanzania (Zanzibar Branch) maintains a separate data set of Zanzibar's debt position. In general, the situation is very weak and uncoordinated. MoFEA acknowledges that the situation needs to be improved. In view of this situation, it is advisable to create an effective Debt Management Unit in MoFEA to coordinate all debt matters. The Bank of Tanzania (Zanzibar Branch) has offered assistance, especially in the area of using the computerized debt management system (CS-DRS).

ii) The Contracting of Debt

6.16 A centralized system giving legal authority to only one ministry—namely the Ministry of Finance—for contracting debt on behalf of any Government has been highly recommended by many countries. If such a discipline does not exist, then any official in the Government will contract debt, leading to a state of confusion whereby the statistics will not be compiled and reconciled, and the debts may not be in line with the priorities of the country. The situation may lead to leakages and misuse of the resources. Zanzibar actually has a requirement, by law, that it is only MoFEA that has powers to contract debt on behalf of the Government. The problem however, has been the ineffectiveness and poor enforcement of such a requirement. There are still a number ministries which borrow—although mainly domestically through the window of suppliers' credit—while waiting for monthly releases from MoFEA. Some parastatals have also been doing the same, which is a contingent liability to the Government. In view of this situation, it is recommended that the current legal status be reviewed to provide a solid basis for strengthening enforcement.

iii) The Need for a Debt Strategy

6.17 At the moment, Zanzibar does not have a Debt Strategy. A debt strategy will guide the Government on the limits to borrowing, and will specify the types of loans and their maturities, including an assessment of the repayment capacity and repayment schedule. Such a strategy will also ensure that debt service is in line with the operations of the budget. In the absence of such a plan, borrowing and repayment will be quite erratic and, in most cases, will be far out of the budget projections. Authorities have also already seen the need for a debt strategy. In view of this gap, it is strongly recommended that the Government should, as soon as possible, prepare a Zanzibar Debt Strategy (ZDS).

iv) The Need for a Debt Task Force

6.18 As stated earlier, there are various sources of the numbers on debt position and, unfortunately, they all differ. Without a clear picture of the debt situation—both external and domestic—it is difficult for the Government to know its obligations so that it can, inter alia, prepare a realistic debt repayment schedule. The MoFEA is considering implementation of a debt census. It is thus being recommended that a Zanzibar Debt Task Force be constituted to bring the debt situation into a reliable and dependable position. The Bank of Tanzania (Zanzibar Branch) has offered its assistance in this area.

PART 3:

PUBLIC EXPENDITURES

7. ZANZIBAR'S PUBLIC EXPENDITURES

i) Introduction

7.1 Zanzibar's public spending is characterized by a high level of recurrent expenditures and a very low level of capital expenditures. Within recurrent expenditures, the bulk of the spending is on wages and salaries for an overstuffed bureaucracy. A huge wage bill, which the Government must clear before making any other expenditures, makes the overall demand for funds very inflexible. Also, the Government operates a "cash budget," i.e., it spends only what is available as cash. While this cautious fiscal stance allows the Government to maintain overall fiscal discipline in the short run, the cash budget system combined with highly variable revenue receipts translates into a variable and uncertain availability of funds. Thus, we have a situation of high and steady demand for funds juxtaposed against a highly variable supply of funds, which finds the Government trying to scrape the bottom of the barrel just for clearing the wage bill in bad times, and splurging in good times—mainly on stepped up hiring and increased salaries and allowances. Expenditures on creating new public assets and on maintaining and operating the existing ones have become a casualty in the process. In order to reduce poverty and induce growth, the structure and management of public expenditures will need to change. The Government is making efforts to realign spending priorities with financing priorities identified in the ZPRP. However, much more remains to be done. The Government will need to move on three fronts: (i) creating space for increased developmental and other expenditures in priority areas by first controlling, and then cutting down, the wage bill; (ii) improving the efficiency of spending in delivering public services—this would require reallocation of resources within sectors; and (iii) improving budget management.

STRUCTURE OF ZANZIBAR'S PUBLIC EXPENDITURES

ii) Aggregate Expenditures

7.2 Total central government expenditures in Zanzibar steadily increased during the second half of the 1990s, and almost doubled from 17 percent of GDP in FY95 to 33 percent of GDP in FY00 (Table 7.1). FY00 was not a normal year, as expenditures spiked due to elections-related expenses. Since then, expenditures have returned to more normal levels. During FY02, aggregate central government expenditures were around T.Shs. 50 billion, which is about 20 percent of the GDP. Most of the increase in the late 1990s was accounted for by increased spending on two categories: (i) goods and services, and (ii) wages and salaries, which doubled from six percent to 12 percent of GDP between FY95 and FY00. The increased spending on goods and services has been reversed in the past two years. However, large expenditures on wages and salaries have come to stay and are still on the rise.

iii) Expenditures by Economic Classification

Recurrent versus Development Expenditures

7.3 It is not the aggregate level, but the structure, of expenditures that is worrisome in Zanzibar. Almost all of the Government's expenditures are of a recurrent nature, i.e., spent on day-to-day expenses of running the Government. In FY02, recurrent expenditures were 97 percent of the total, and accounted for about 20 percent of the GDP. In comparison, recurrent expenditures in Mainland Tanzania in FY02 were 80 percent of total expenditures and 15 percent of GDP. If Mainland Tanzania's expenditures on police and defense in Zanzibar were to be added to Zanzibar's expenditures and subtracted from the Mainland's expenditures, the comparison would even be starker. A high level of recurrent expenditures has led to an almost complete squeezing out of development expenditures—thus, Zanzibar's development expenditures were less than three percent of total spending in FY02. It is interesting to note that even as overall expenditures increased during the second half of the 1990s, there was no increase in local development expenditures; in fact, during this period local development expenditures fell almost to zero. This is all the more surprising since, during this period, foreign assistance was significantly reduced and it seems that there was an opportunity for domestic spending to substitute for foreign assistance.

Table 7.1: Government Expenditures as a % of GDP

	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
Recurrent Expenditures	36.3	28.3	15.0	15.3	19.1	19.8	25.3	20.3	32.3	18.4
Interest on Debt	1.8	5.2	0.1	0.0	0.0	0.0	0.0	0.0	0.6	0.3
Wages, Salaries and Allowances	5.7	10.0	7.4	6.1	7.9	9.3	11.8	10.8	12.0	10.0
Goods and Services	26.8	11.5	6.4	8.1	9.7	9.4	12.4	8.7	18.8	7.0
Transfers and subsidies	1.8	1.7	1.2	1.1	1.5	1.0	1.1	0.8	0.9	1.1
Pensions	0.2	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Gratuities	0.6	0.7	0.5	0.4	0.6	0.3	0.2	0.1	0.3	0.2
Other Households	0.1	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Local Government	0.7	0.5	0.4	0.3	0.4	0.3	0.3	0.2	0.2	0.2
Non-Profit-Making Bodies	0.3	0.3	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Development Expenditures (Local)	3.9	2.4	1.3	1.7	1.1	0.6	0.6	0.3	0.4	0.4
TOTAL EXPENDITURES	40.2	30.7	16.3	17.0	20.2	20.4	25.9	20.6	32.7	18.8

Source: Ministry of Finance and Economic Affairs, Zanzibar

Subventions, Contributions, and Subsidies

7.3 Expenditures on subsidies and transfers were significantly reduced during the first half of the 1990s and have since remained at a fairly low and stable level of around 1 percent of GDP. There are practically no transfers to parastatals shown in the budget. However, there are hidden transfers, as capital investment for many of the parastatals is financed from the government budget. In addition, instead of receiving direct subsidies from the Government, parastatals have access to credit from the PBZ. In the case of insolvent parastatals, this contributes to the total of non-performing loans in the Bank's portfolio and increases the Government's contingent liabilities. The main recipients of subventions are local government bodies, the Zanzibar Revenue Board, the Zanzibar Free Port Authority, the Zanzibar Investment Promotion Agency, and other non-profit bodies, such as the Wakf commission, the central library, the Institute of Financial Administration, etc. Table 7.2 lists

selected subventions that have been provided in recent years. It should be noted that, while the level of cash subsidies is low, there are sizable in-kind subsidies, mainly in the form of subsidized water and power supply.

Table 7.2: Selected Subventions in Recent Years (current T.Shs. Million)

	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Actual	FY02 Approved	FY03 Budget
ZIPA	47	56	56	75	119	180
ZIFA	169	32	35	121	73	155
General Social Welfare Fund	118	113	118	96	141	194
Zanzibar Municipal Council	233	227	241	289	343	298
Chake, Wete and Mkoani Town Councils	132	152	127	202	204	179
Zanzibar Revenue Board	0	0	588	834	506	500
ZSSF	0	59	44	36	48	48
Zanzibar Free Port Authority	0	0	55	76	104	150

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

Debt Servicing

7.4 In most years since FY94, Zanzibar has not paid any interest on its external debt. Nor were any expenditures made between FY96 and FY98 on servicing domestic debt. Table 7.3 provides a summary of domestic debt servicing since FY98. Quite clearly, it has been erratic, and was the lowest spending priority of the Government until recently, when the Government started devoting more resources to it. The Government can afford to treat debt servicing as a discretionary expenditure mainly because the entire domestic debt is owned by parastatals.

Table 7.3: Summary of Domestic Debt Servicing (T.Shs. Million)

	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Actual	FY02 Approved	FY03 Budget
Interest	0	50	1068	591	993	1333
Debt Redemption	0	198	500	0	4000	1444
Total	0	248	1568	591	4993	2777

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

iv) Expenditures by Functional Classification

7.5 Table 7.4 shows the trends in central government expenditures by purpose as a percentage of GDP over the decade of the 1990s. The numbers depict a major transformation in the structure of government spending during this period. Noticeable trends include fluctuating but generally increasing expenditures on general public services, and falling expenditures on health, agriculture, transport and communication. In fact, almost all of the increase in expenditures during the second half of the 1990s occurred in general administration. From an economic point of view, the expenditure structure has changed from more productive to less productive activities. The challenge before the current Government is to restore expenditures on social and economic sectors while cutting down the size of the general administration.

Table 7.4: Government Expenditures by Purpose (% of GDP)

Expenditures	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
General Public Service										
General Administration	10.8	9.1	6.1	8.0	6.7	10.7	15.4	8.3	18.8	8.9
Public order	2.6	2.2	1.6	1.4	3.8	1.9	2.3	2.5	2.6	2.2
Sub-Total	13.5	11.3	7.7	9.4	10.5	12.7	17.7	10.8	21.4	11.0
Education	3.1	3.5	2.5	2.0	2.7	2.6	2.8	2.6	2.8	2.7
Health	2.3	2.3	1.4	1.3	1.8	1.6	1.7	1.6	1.3	1.3
Social Security										
Housing and Community Services	0.8	1.1	0.7	0.6	0.7	0.4	0.5	0.5	0.7	0.8
Recreational and Cultural Services	3.8	1.3	0.6	0.4	0.5	0.5	0.4	2.6	2.8	0.2
Agriculture	3.0	2.2	1.2	1.2	1.3	1.0	1.0	1.1	1.0	1.0
Manufacturing and Trade	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Fuel and Energy	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Transport and Communication	3.3	2.2	1.0	1.0	1.4	0.7	0.8	0.6	0.9	0.8
Other Economic Services	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.4	0.1
Sub-Total	16.9	13.4	7.9	7.0	8.8	7.1	7.7	9.4	10.3	6.9
Other Purpose	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public Debt	1.8	5.2	0.1	0.0	0.0	0.0	0.0	0.0	0.6	0.3
Purchase of Financial Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions and Gratuities	0.8	0.8	0.6	0.7	0.9	0.6	0.5	0.4	0.5	0.6
Sub-Total	2.6	6.0	0.7	0.7	0.9	0.6	0.5	0.4	1.1	0.9
Tot. Rec. and Dev. Expenditures	33.0	30.7	16.3	17.0	20.2	20.4	25.9	20.6	32.7	18.8

Source: Ministry of Finance and Economic Affairs, Zanzibar

Key Issues for Attention

Expenditures on Salaries and Allowances

7.6 A large part of the recurrent expenditures is claimed by salary and allowances for an overstuffed civil service. In FY02, expenditures on salaries and allowances accounted for more than 60 percent of the recurrent expenditures compared to about 40 percent in 1995. Wages and salaries expenditures had steadily grown in the second half of the 1990s and have continued growing over the past two years, mainly due to increases in allowances, increased employment of teachers, and salary increases for special departments. Compared to Zanzibar, Mainland Tanzania spends about 35 percent of its recurrent budget on salaries. A large wage bill makes expenditure management difficult on two counts. First, given limited resources, it forces cuts in operations and maintenance expenses, thereby adversely affecting the productivity of existing public assets and service delivery. Second, it makes overall demand for public funds very inflexible. This is a problem when revenues display high variability, since it is not possible to adjust expenditures on wage bills quickly.

7.7 Zanzibar now spends around 35-40 times more on the wage bill than on creating public assets or operating and maintaining them. Such neglect of development expenditures can have serious consequences for growth and poverty reduction in Zanzibar. The Government recognizes that there is an immediate need for higher development expenditures, and, in fact, there has been an increase in amounts released to MDAs towards development expenditures this fiscal year. However, an effort to increase development expenditures without first tackling the wage bill is likely to move expenditures further away from operations and maintenance spending. There is an urgent need to create space in the budget for development expenditures by first controlling the wage bill and then cutting it down over the medium term. Chapter 8, dealing with civil service, goes into the details of how this could be done.

Volatility of Aggregate Expenditures

7.8 Aggregate expenditures in Zanzibar mirror the high degree of volatility in revenues which, in turn, are highly susceptible in terms of trade shocks. High volatility in expenditures results in disruption in public investment and has associated costs of adjustment. The long-term solution to the problem of resource volatility is a diversified tax base. In the short- to medium-term the key challenge, however, is to de-link government consumption from the volatility of the resource stream. In theory, this can be done if aggregate government expenditures are kept at a long-run sustainable level, while Government saves during times of plenty and withdraws from savings in difficult times. Based on this rationale, some countries (for example Chile, Bolivia) have set up *revenue stabilization funds* that act as a buffer between revenues and expenditures. These funds also support fiscal discipline and provide greater transparency in the spending of revenue. There are two main options that Zanzibar could consider:

- Creating an accounting-only design, a ‘virtual fund’ in which certain resources (for example, transfers from the Mainland or dividend payments from ZSTC) would be considered as belonging to the fund. These resources could be held in the main account of the Government or possibly in a separate account with the BoT. Restrictions would be placed on drawing down the fund’s resources for expenditures. Any draw-down of government deposits, including the fund account would appear as deficit financing. Transfers to and from the fund could be explicit line items in the budget.
- Creating an extra-budgetary fund as a separate entity with authority to undertake off-budget expenditures.

7.9 The first option has the advantage that it would fit in well with the existing budgetary procedures and would not need the creation of new institutional mechanisms. Such a revenue stabilization fund should serve to smoothen short-term volatility. However, given the difficulty of distinguishing between short term volatility and secular revenue changes and the likely capacity constraints for administering such a fund, taking a more conservative approach to estimating revenues might be the most straight-forward way to deal with revenue variability.

Box 7.1: Experience with Stabilization Funds

Several countries with non-renewable resources like oil and other commodities have experimented with stabilization and savings funds. The basic objective has been to insulate domestic expenditures from the volatility of resource prices. An additional objective has been to save revenues from non-renewable resources for future generations.

Stabilization funds work on accumulation and draw-down rules that lay down conditions when revenues would be deposited and withdrawn from the fund. These rules could be price-contingent (for example related to the price of the resource commodity) or resource-contingent. Typically a reference level for the price or resource would be fixed that would trigger the deposit or draw-down. The accumulation of assets in the fund may be subject to a cap determining the fund's maximum size. Since resources are fungible, achievement of actual expenditure smoothing requires additional fiscal policy decisions to control expenditures or deficits outside the fund. Otherwise the Government could borrow or draw down its other assets outside the fund.

Empirical evidence (based on a study of 12 countries) suggests two general results. First, some countries with a stabilization fund had a more limited expenditure reaction to changes in resource revenues than those without such funds. Second, the relationship between government spending and resource export earnings was not affected by the establishment of funds in four cases.

Source: Stabilization and Savings funds for nonrenewable resources, IMF 2001

Fiscal Risks

7.10 Fiscal risks refer to unaccounted obligations/liabilities of the Government which are not provided for in the budget, but can arise over the year, thereby affecting aggregate fiscal discipline. The Government handles unplanned liabilities by keeping aside a part of the budget as a reserve within the MoFEA under a sub-vote called "Government Unspecified Expenditure." Table 7.5 shows expenditures from this account in the past few years. Details of specific activities financed under this head were not available.

Table 7.5: Unspecified Government Expenditures (Million T.Shs.)

FY98	FY99	FY00	FY01	FY02	FY03
Actual	Actual	Actual	Actual	Approved	Budgeted
2,005	2,871	3,297	6,400	5,355	2,044

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

7.11 The reserve is used for two categories of expenditures: (i) *Pure contingencies*, which are unexpected needs and emergencies, such as a cholera epidemic or a natural disaster; and (ii) *quasi-contingencies*, whose ex-ante probability of arising can be anticipated. The quasi-contingencies may arise during the mid-year due to new policy decisions, or may be liabilities that had already accrued at the time of budget-making, but were not budgeted for due to inadequate information about them, or may just be contingent liabilities. Examples of quasi-contingencies are mid-year salary increases, arrears, gratuity payments due to retired government/parastatal staff, and court awards. While the Government cannot anticipate pure contingencies, it must make every attempt to quantify and budget for quasi-contingencies because expenditures on unplanned quasi-contingencies disrupt other planned priority expenditures and are a symptom of a weak budgeting system. The following paragraphs describe some liabilities of the Zanzibar Government that pose fiscal risks to the government finances and need watching.

Arrears and other Accrued Liabilities

7.12 The Government has run up significant arrears in the past years, which do not show up in the government debt accounts (since they are not formally contracted) even though they are government liabilities. Major among these are outstanding government contributions to ZSSF (T.Shs. 1.8 billion) and cleanup liabilities of collapsed parastatals (T.Shs. 2.9 billion owed to PBZ and 271 million to retrenched employees). The Water Department owes T.Shs. 2 billion to the Fuel and Power Corporation towards purchase of power for running its water supply pumps. Apart from these known arrears, ministries also acknowledged arrears in the nature of unpaid bills of supplies already received, but their total volume could not be ascertained. Outstanding dues of ZSF&PC to TANESCO are T.Shs. 34 billion.

7.13 Arrears and accrued liabilities are now receiving Government attention. Outstanding dues of ZSF&PC to TANESCO are being cleared in a phased manner. While the clearing of old dues is no doubt the first priority, it may not be sufficient. The Government will need to improve cost recovery in the water and power departments. In the water department, fresh dues are accumulating at the rate of T.Shs. 100 million per month due to poor cost recovery.⁶ Arrears also make government finances less transparent. Putting in place information systems that collect and report budget execution in a timely manner would be an important requirement (for example reporting expenditures at commitment stage). The Country Financial Accountability Assessment (CFAA) makes specific recommendations in this regard.

Contingent Liabilities

7.14 Contingent liabilities are those that become government obligations if a particular event occurs. A significant source of such liabilities could be Zanzibar Social Security Fund (ZSSF). In 1998, the Government established ZSSF, whose function is to (1) receive and manage social security contributions from its members, and (2) pay old age, maternity, invalidity, and medical care benefits to them. All government employees, including those of the parastatals and local authorities, and private employees can become members of the Fund. According to the Fund provisions, the employer is expected to contribute 10 percent against the employee contribution of 5 percent of monthly salary to the Fund. However, the Government had been delinquent in paying its contributions in the past and still owes T.Shs. 1.8 billion to the Fund. Apart from this, many parastatals, some of them that are either closed or are being closed, have yet to deposit their contribution with the Fund. The Fund could not confirm the amount of outstanding dues from such parastatals, but they are considered, for all purposes, to be government liability. Contributions from municipal bodies are also stated to be irregular.

7.15 Fiscal risks associated with the functioning of the Fund appear to be significant. The Fund is expected to start paying pensions and other service benefits to government employees who retire after June 2003. But the Fund would have received contributions for only five years of service of such employees; the Government would still be liable for providing benefits proportional to the period of service in excess of five years. A broader issue is that it is not entirely clear that the Fund will remain fully funded in the long term. Apparently no actuarial calculations were carried out before the Fund was instituted to arrive at the package

⁶ Water is supplied free to residential consumers. The Water Department recovers about 12% of its costs. In FY03, at the end of November, the department's revenue was T.Shs. 49.2 against running cost of 382 million. Power tariffs are quite low too. Against a cost of T.Shs. 130/unit only about T.Shs. 28/unit are recovered. Power generation is very costly in Pemba, where it is produced from diesel generators.

of benefits and contributions. The Fund also needs expert advice on where and how to invest its funds. It has put about T.Sh. 1.8 billion in real estate and is considering investing in foreign currencies, without a carefulness assessment of the risks involved in such investments.

7.16 Other contingent liabilities could arise from parastatal debt and government guarantees. The financial position of the People's Bank of Zanzibar is not sound. Apart from T.Shs. 7.2 owed by the Government to PBZ, other parastatals owe about 2.7 billion to PBZ. Zanzibar Import Corporation is the main borrower, which is under liquidation now; upon liquidation its liabilities to PBZ are likely to fall upon the Government. Information on guarantees provided by the Government could not be obtained, but apparently guarantees have been provided for parastatal borrowings in the past that could become government liabilities.

EXPENDITURES ON PRIORITY SECTORS

7.17 The ZPRP is expected to provide the framework for sectoral allocation of expenditures. A budget that is well-aligned with, and supports, the ZPRP, should be able to provide adequate financing in medium-term to priority areas identified in the ZPRP. The ZPRP has identified education, health, road infrastructure, agriculture, water, democratic governance and rule of law, and combating HIV/AIDS as *priority areas* for government financing. Since the ZPRP has not yet identified specific programs and projects in each of these priority areas, alignment can be monitored only at the level of sectors and ministries. Again at this early stage of implementation, resource requirements to meet various objectives in the priority areas have not been worked out. Therefore the targeted structure of public spending by sectors is not clear, nor is the pace at which expenditures would adjust in various sectors to reach the targeted levels. Therefore, ensuring alignment with the ZPRP boils down to seeing if finances available to various *ministries* overseeing priority areas are going up and if those for non-priority areas are going down relative to total expenditures.

7.18 As evident in Table 7.6, expenditures on priority sectors have been stagnating at around six percent of GDP since FY97. This is a result of increasingly reduced share of the priority sectors in total government expenditures (Table 7.5). In order to better align expenditures with ZPRP priorities, the Government could both let the priority sectors' financing grow at a faster rate than other sectors and make real cuts in non-priority sector funding. Allocations for FY02 and FY03 show that expenditures in health and education ministries have gone up, which is the right direction for adjustment.

Table 7.6: Expenditure Shares by Sectors (% of Total)

Fiscal Year	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
Education	10	11	15	12	13	13	11	13	9	14
Health	7	8	9	8	9	8	7	8	4	7
Agriculture	9	7	8	7	7	5	4	5	3	5
Transport and Communication	10	7	6	6	7	4	3	3	3	4
General Public Service	41	37	47	55	52	62	68	53	65	59
Other	24	30	14	12	13	9	7	19	16	11
Total	100	100	100	100	100	100	100	100	100	100

Source: Ministry of Finance and Economic Affairs, Zanzibar

7.19 The Government is encouraged to identify expenditure items in line with ZPRP priorities, which would receive priority during budget allocation and would be protected from expenditure cuts during budget execution. Since resources available for non-wage expenditures are subject to considerable variation and uncertainty from year to year, such poverty-reducing expenditures would have to be defined quite narrowly in order to make effective protection feasible. Since, in a system in which certain expenditures are protected, the burden of absorbing shortfalls in resources falls disproportionately on unprotected expenditures, this burden will increase the share of protected expenditures. If too large a percentage of non-wage expenditures were defined as pro-poor, effective protection might not be feasible, since resource shortfalls might exceed the total amount of unprotected expenditures and thus automatically also impact on priority expenditures.

Expenditures on Education

7.20 Zanzibar follows a 7-3-2-2-3+ system of education. Compulsory basic education includes seven years of primary education after the age of 6, and three years of junior secondary education.⁷ Basic education is followed by two years of second cycle lower secondary (Forms III and IV), two years of third cycle advanced secondary study (Forms V and VI), and three years or more of higher education. Basic and secondary stages of education thus encompass 14 years of schooling.

7.21 Access to basic education has slowly improved in the last decade and so have various enrollment indicators (Table 7.7). Yet there are serious challenges ahead. Both gross enrollment ratios (GERs) and net enrollment ratios (NERs) are low, and a large number of school-age children do not yet attend school. The number of new school-age children is growing rapidly due to high fertility rates. Wastage rates are high, and the quality of education is generally not satisfactory. Access to secondary education is still very limited and the GER is below 40 percent. There are significant regional disparities in education indicators. North A, South Unguja, and all districts in Pemba have below-average GERs for basic education.

Table 7.7: Participation and Internal Efficiency in Basic Education (%)

	Enrollment Rates (Participation)				Wastage Rates (Efficiency)			
	1990		2000		1990		2000	
	GER	NER	GER	NER	DR	RR	DR	RR
MF	65.7	43.4	85.4	54.7	7.2	8.9	7.3	4.9
M	67.4	43.6	87.1	54.6	7.8	9.7	6.8	5.8
F	63.9	43.1	83.6	54.6	6.5	8.1	7.7	3.8
F/M	0.95	0.98	0.96	1	0.86	0.84	1.13	0.67

Source: Education Sector Status Report Zanzibar, 2002.

Legend: Gross Enrollment Ratio (GER), Net Enrollment ratio (NER), Drop-out rate (DR), Repetition Rate (RR), Male (M), Female (F), Total Male and Female (MF), Female-Male parity index (F/M)

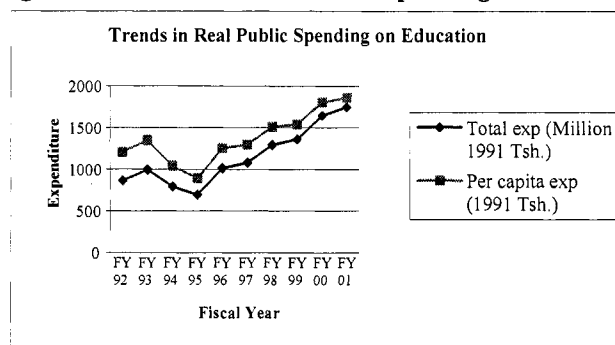
7.22 The state of education infrastructure is poor. There is an acute shortage of class rooms—the average pupil/classroom ratio is 82 and the average number of shifts is 1.69 streams per class room.

⁷ The junior secondary education consists of one year of orientation, and two years of grade study called Form I and Form II.

Aggregate Expenditures

7.23 In FY02, the Government spent about T.Shs. 9 billion on education, which was about 2.7 percent of the GDP, and about 15.5 percent of total government expenditures (against the ZPRP target of 20 percent), a level slightly higher than Mainland Tanzania and comparable to other countries in the region. While, in terms of GDP, aggregate education expenditures have stagnated at around 2.7 percent since FY95, they have been growing in real terms at a rate higher than population growth during this period. As a result, per capita annual public spending on education has been improving and was around a reasonable figure of US\$10 in FY02, compared to about US\$7 for Mainland Tanzania (and US\$10 for Kenya in 1993, and US\$7 for Uganda in 1997).

Figure 7.1: Trends in Real Public Spending on Education



7.24 Aggregate expenditures on education look reasonable in a comparative sense, but one must allow for the fact that private provision of education beyond the pre-primary stage is very limited in Zanzibar, necessitating a higher level of public financing. Furthermore, there has been very little external financing since 1995, which means that local resources have had to meet the demand for development expenditures. This demand was not met and there is a serious backlog of capital works that need to be carried out. For example, about 500 school rooms are incomplete where the communities have met their part but the Government has not been able to meet its share. And finally, as noted above, education performance indicators still have large room for improvement.

7.25 Almost all education expenditures are recurrent in nature, and within recurrent, most are accounted for by salaries and allowances (93 percent in FY02). Development expenditures have stayed at less than one percent since 1995. Expenditures on “other charges” have been very limited too. In FY01 the Government spent only T.Shs. 7 million on school materials and equipment. In fact, school materials and teaching equipment are now expected to be provided by the community.

7.26 All the factors discussed above point toward the need for a still higher level of financing. The Government is well aware of the financing gap in the sector and has tried to improve funding in the past two years. In nominal terms, the allocation for the Education Ministry increased by 48 percent in FY02 and a further increase of 38 percent is proposed in the FY03 budget. The level is now close to the ZPRP target of a 20 percent budget share.

Allocations within the Sector

7.27 Table 7.8 shows the shares of various sub-sectors in the Ministry of Education's budget over the past three years. Information on separate shares of basic and secondary education was not available, since these are funded from the same sub-vote.

Table 7.8: Shares in Education Expenditures (%)

Sub-sector	FY00	FY01	FY02	FY03
	Actual	Actual	Approved	Budget
Basic and Secondary Education	88	86	67	71
Higher education, S&T			15	13
Adult Education		2	1	2
Administrative and non-education expenses	11	12	17	14

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

7.28 It appears that administrative and non-education expenses went up after FY00. It is partly due to the addition of sports, art, archives, festivals, and culture portfolios to the education ministry and partly due to the real increase in administrative and non-education spending. Within Basic and Secondary education, the share of salaries and allowances in the budget is around 97 percent. The bulk of the increased expenditures in the previous two years has gone to salaries and allowances.

Key Issues for Attention

7.29 As noted earlier, government financing of the education sector remains inadequate in view of the ZPRP objectives. Yet, at the same time, resources for education have been going up in real terms and per student. This increase in resources is not reflected in much-improved performance indicators, which points towards the need for improving internal efficiency. Indeed, within the existing resource envelope, it is possible to achieve better results through restructuring expenditures.

Non-Salary Expenses

7.30 Improving the quality of education is a key priority in the ZPRP and this cannot be achieved unless more resources are made available for operational expenses. One way to achieve better results would be to curtail expenses on wages and salaries and make more resources available for non-wage expenditures. However, the current direction of adjustment in education spending is in the opposite direction. Of all the additional resources made available in FY02, three-fourths went towards wage bill increases. There was very little increase in other expenses; in fact, the Government still spends negligible amounts on school supplies. Mainland Tanzania has a target of providing T.Shs. 10,000 towards non-salary allocations per pupil in primary education. The Government in Zanzibar should also aim to move towards this level of allocation.

Allocative Efficiency Issues

7.31 Government spending on education appears to have inequities across districts and to be biased in favor of urban communities (Table 7.9). In the year 2000, almost 70 percent of the Ministry of Education's budget went to the two urban districts of Zanzibar city and Unguja West. There is also a serious imbalance in the number of classrooms between the rural and urban districts. There is a shortage of teachers in the rural areas, while the urban area schools have surplus teachers.

Table 7.9: Education Resources by District

District	Budget share (% of total)	Pupil/Teacher ratio	Pupils per classroom (basic)
Zanzibar Town	45.1	30.6	77
West	21.7	32.6	82
North A	5.9	46.7	94
North B	1.6	30.6	87
Central	3.6	26.6	73
South	3.1	27.8	42
Micheweni	1.6	29.6	96
Wete	10.3	31.6	92
Chake Chake	5.7	33.3	93
Mkoani	1.3	40.7	82

Source: Education Sector Status Report Zanzibar. 2002.

7.32 The Government practice of encouraging the communities to cover some operational expenses for schools and parents to provide textbooks also puts poorer households at a disadvantage.⁸

7.33 There is a strong case for reviewing expenditure patterns on a geographical basis and reorienting it to become more equitable. From an economic point of view, spending more in communities that have poorer education outcomes would give higher returns at the margin. There is reason to believe that the regional distribution of resources will get even more skewed unless the Government gives it its full attention. For example, communities can collect part of the funds for the construction of a school building and approach the Government to provide the balance. Once the building is in place, the Government is committed to opening a school in it. Such an approach would lead to a concentration of schools, and hence public expenditures, in communities that can afford to collect funds for new school buildings.

Pupil/Teacher Ratio

7.34 The average pupil-teacher ratio is about 33:1 in primary schools and about 30:1 in secondary schools. The ratio for primary schools is very low compared to a targeted 45:1 in the Mainland Tanzania. There is a considerable opportunity for expanding access to basic education by redistributing existing teachers more efficiently, without having to hire more teachers.

Private Provision of Post-Primary Education

7.35 Private provision of post-primary education is limited at around 2.3 percent. The Government should encourage private provision of post-primary education, which will allow it to leverage public spending. Government aid to private institutions, subject to regulations, would be the right approach.

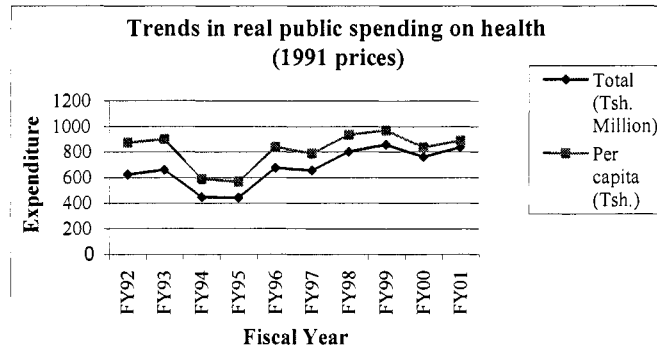
Expenditures on Health

7.36 Zanzibar has a substantial infrastructure for health services delivery, consisting of 103 Primary Health Care Units, four cottage hospitals, three other hospitals and one referral

⁸ According to the Ministry of Education guidelines, parents are required to provide annual contributions at rates varying between T.Shs. 3000 for primary to T.Shs. 7,500 for Higher Secondary education.

hospital. According to the Government, this makes a public health facility available to almost each Zanzibari within a five kilometer distance. Private medical facilities have been growing, and there are about 67 on Unguja Island and eight on Pemba. Apart from this, there are 38 paramilitary units which provide medical services to uniformed forces and their families and nearby communities. Despite this impressive network of facilities, health sector outcomes are not very encouraging. The infant mortality rate is estimated at 75.3 per 1000, under-five mortality is 107.6 per 100, and the maternal mortality rate is 314 per 100,000 live births. Malaria is rampant, and about 340,000 cases were reported during 1995.

Figure 7.2: Trends in Real Public Spending on Health (1991 prices)



Aggregate Expenditures

7.37 Aggregate public spending on health sector declined between FY95 and FY01—both relative to GDP (from 1.8 to 1.3 percent) and as a share of total government expenditures (from 8.8 to 6.8 percent). The question is whether Zanzibar is spending enough on public health. If not, to what level should the spending grow? These questions would be best answered once desired health outcomes in the ZPRP are appropriately costed out. Comparisons across countries are not very helpful, since there are large variations across countries concerning how much, and equally importantly, how they spend on health. The closest comparison is Mainland Tanzania, where health expenditures were 0.6 percent of the GDP, and more than nine percent of the total discretionary spending in FY02, excluding development expenditures separately financed by donors.

7.38 FY02 saw a significant increase in the health budget, and spending improved to about 1.9 percent of GDP and 10 percent of total expenditures.⁹ The FY03 budget has plans for further increases in the health budget. It should be noted that despite real growth in recent years, health sector spending is below the levels achieved in early 1990s. The sector shows tell-tale signs of chronic under-funding. Health facilities are in a state of disrepair, equipment is scarce, and there is an acute shortage of drugs and medical supplies.

7.39 As in education, the structure of spending in the health sector is skewed in the direction of salaries and allowances. In the past several years before FY01, salaries and allowances have typically claimed the bulk of the health services budget (80–85 percent), leaving little room for operational expenses. Development expenditures from government resources too have been negligible; in fact, they were zero in FY00 and FY01.

⁹ Social welfare department was added to the health ministry portfolio in FY02, which also led to an increase in the health ministry vote size.

Allocations within the sector

7.40 Table 7.10 shows the shares of different components of expenditures within the health sector in recent years.

Table 7.10: Expenditure Shares within Health (% of Total Health Expenditure)

	FY98	FY99	FY00	FY01	FY02	FY03
	Actual	Actual	Actual	Actual	Approved	Budget
Administration	79.0	80.0	89.0	89.0	78.0	81.0
Head Office	53.0	54.0	61.0	56.0	50.0	56.0
Pemba	25.0	26.0	27.0	33.0	28.0	25.0
Preventive Health Services	1.9	3.2	2.7	1.0	6.8	4.3
Unguja	1.3	1.5	0.8	0.8	2.9	2.5
Pemba	0.6	1.7	1.9	0.3	3.9	1.8
Curative Health Services	20.0	17.0	9.0	10.0	16.0	14.0
Unguja	17.0	16.0	9.0	9.0	8.0	12.0
Pemba	3.0	1.0	0.0	1.0	7.0	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

7.41 Several comments are in order:

1. Administrative expenses (which include salaries and allowances) far outweigh the expenses on provision of health services.
2. Preventive services receive a very small share of the non-wage resources.
3. The expenditures do not appear to be equitable. In regional terms, Pemba, which has about 40 percent of the total population and lags Unguja in social indicators, has been receiving less than 30 percent of the total budget. Pemba's share of non-wage resources for curative services is even lower. Considering that Unguja has much larger private provision of health services, the situation appears to be even more unfair.

Key Issues for Attention

7.42 Key issues include the following:

1. There is a need for an increased overall level of resources in the health sector. The ZPRP also targets a higher level of allocation to health.
2. There is an opportunity for improving intrasectoral allocations by:
 - a. Reducing administrative expenses. The expenditures on salaries and allowances are too high.
 - b. Giving more attention to preventive care. Experience from other countries suggests that vertical 'basic package' approaches like antimalaria programs could be more effective in achieving high impact with limited resources. The vaccination program has also suffered from the withdrawal of donor assistance and needs an infusion of resources.
 - c. Spending a greater share on drugs and medical supplies. At present there is an acute shortage of drugs in PHCs (primary health care units) and hospitals. Absence of drugs hurts the poorest the most.

ISSUES IN BUDGET MANAGEMENT

Budget Outcomes

7.43 An effective system for budget management is one that is able to produce the following three outcomes:

1. Enforce aggregate fiscal discipline over a medium term, restricting budget totals to explicitly decided levels;
2. Allocate resources according to government priorities and effectiveness of programs in achieving development goals; and
3. Ensure operational efficiency and effectiveness.

7.44 These outcomes result from careful budget preparation, execution and monitoring. Weak budgetary processes lead to a loss of control over public spending, fail to channel spending into areas that are of social and economic importance, and fail to provide the right incentives for productive efficiency in government operations.

7.45 Judged against the desired outcomes mentioned above, performance of the budgetary systems leaves much to be desired in Zanzibar. There is a perception that aggregate fiscal discipline is being maintained because the Government operates a cash budget, but the perception of fiscal discipline is illusory. The Government has sizable arrears, has been neglecting debt service, and has been reluctant to make agreed upon contributions to the cost of the Union Government. On the second outcome, related to efficient allocation of resources, some progress has been made over the last two years. The ZPRP now provides a framework for prioritizing government expenditures, and, as discussed in previous sections, there is an attempt to align broad spending patterns (at the level of ministries) with ZPRP priorities. However, through discretionary releases of cash during the year, MoFEA has been significantly deviating from ex-ante allocation priorities. Performance on the last outcome is the most disturbing. The severe resource crunch in the past years has made the flow of funds to the spending ministries completely uncertain, which in turn has severely impacted their operational efficiency.

Budget Estimates vs. Actual Outturns

7.46 A comparison of actual outturns with budget estimates is a good indicator of the overall performance of a budget management system. In a well functioning budget system, the budget provides a realistic estimate of resource availability, which ensures that allocated expenditures can indeed be funded. The credibility and effectiveness of the budget as an instrument for allocating resources in a strategic and planned manner depends on the closeness of actual expenditures at the end of the fiscal year to the ones planned at the time of budget formulation. On the other hand, a wide deviation between estimates and actuals is a sign of one, or many, of the following weaknesses: (i) inaccurate revenue forecasting—most often the revenue is overestimated; (ii) inaccurate expenditure estimates—most often, these are inflated in line with the overestimated revenue; (iii) changes in allocation priorities midway during the year, which results in overspending in some and underspending in other categories of expenditure; (iv) inefficient cash flow management.

7.47 Significant deviations between resources budgeted and actually made available have serious costs. First, they erode the overall credibility of the budgeting process, thereby providing disincentives for MDAs to take expenditure estimations seriously. Second, they make it difficult for the spending units to plan and rationally implement their expenditure

programs. Third, they may lead to unintended reordering of priorities during budget execution, thereby leading to the abandonment of the plan and an abrogation of the legislature's sanction.

7.48 Table 7.11 below shows the average difference between budgeted and actual expenditures in the past three years in Zanzibar. The deviations are of the order of 80 percent for development expenditures, and between 40 and 70 percent for other charges. These numbers underscore significantly the uncertainty faced by the MDAs regarding the availability of funds, other than for salaries.

Table 7.11: Differences between Budgeted and Actual Expenditures

	FY00		FY01		FY02	
	Average absolute difference (T.Shs. Mill.)	Average absolute difference as % of budgeted	Average absolute difference (T.Shs. Mill.)	Average absolute difference as % of budgeted	Average absolute difference (T.Shs. Mill.)	Average absolute difference as % of budgeted
Salary and Wages	88	19	96	20	278	22
Development	243	79	547	80	663	77
Other Charges	781	40	464	70	412	56

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar
Note: Averages taken over all votes

7.49 Table 7.12 below lists the major gainers and losers from the reordering of priorities during budget execution in FY02.

Table 7.12: Major Gainers and Losers during Budget Execution in FY02

Vote	Category of expenditure	Budget (Million T.Shs.)	Actual (Million T.Shs.)
<i>Major gainers</i>			
President's Office, Regular Administration	Other Charges	510	989
Ministry of Communication	Salary etc.	1145	1631
Chief Minister's Office	Salary etc.	723	846
Ministry of Water, Environment, etc.	Salary etc.	1125	1183
Ministry of Agriculture & Livestock	Salary etc.	1908	2341
<i>Major losers</i>			
Ministry of Health	Other Charges	2017	1401
Economic Brigade	Salary etc.	2909	1527
Ministry of Education	Other Charges	1623	623
Ministry of Communication	Dev. (local)	2500	638
Ministry of Communication	Other Charges	1321	317
Ministry of Education	Dev. (local)	1100	184
Ministry of Water, Environment etc.	Dev. (local)	690	0
Ministry of State Women & Children	Dev. (local)	893	0
Total budget		66,333	49,763

Source: Ministry of Finance and Economic Affairs, Zanzibar

Key Issues for Attention

7.50 Zanzibar follows a fiscal calendar similar to Mainland Tanzania. It has a dual budget system in which recurrent and development budgets are prepared independently. The budget

preparation begins in mid-November of each year and is coordinated by the MoFEA. The MoFEA develops revenue estimates, establishes budget ceilings for each of the ministries, and issues budget guidelines in January. In the following months, Ministries submit their estimates, which are finalized following negotiations with the MoFEA. The CFAA provides further details about the process of budget preparation.

Budget Planning and Resource Allocation

Budget Realism

7.51 The revenue and expenditure estimates are not realistic, as evident from the wide deviations between budgeted and actual amounts. Revenue receipts are quite volatile due to heavy dependence of the economy on a single export commodity. This feature of the economy cannot be changed in the short-term. There are, however, ways in which the expenditure estimates can be made more realistic by bringing more information to bear upon the estimation and allocation process and by creating the right incentives for the MDAs to estimate expenses realistically. The following issues require particular attention during the budget preparation process.

7.52 The MoFEA does not generate a macro-fiscal framework that would describe the fiscal environment and therefore broad parameters within which the budget would be prepared. A macro-fiscal framework would allow the MoFEA to estimate revenues, set overall expenditure targets, and work out borrowing requirements, if any, more realistically. It would also help MDAs develop more realistic estimates of expenditures if the budget guidelines convey budget implications of expected macroeconomic developments such as the inflation rate, growth rate, and any significant demographic parameters for different categories of expenditures. Development of a successful macro-fiscal framework, however, would depend partially upon how well resource requirements of the ZPRP are quantified (costed out).

7.53 The MoFEA does not have good estimates of actual outturns and arrears in the previous year and works with information on cash releases made in the previous year. In a well-functioning budget system, information on budget execution would become available in a timely manner through routine reporting and monitoring, but this does not happen in Zanzibar. In short-term the MoFEA will need to make special efforts to collect information on actual outturns, and more importantly on arrears, before initiating the budget process.

7.54 MDAs develop expenditure estimates on the basis of the previous year's estimates of input costs rather than discussing expenditure needs in a policy framework. Discussions with the MoFEA on expenditure cuts are also in terms of input costs, such as travel expenses, fuel for vehicles etc. This focus creates an implicit prioritization in terms of *inputs* rather than in terms of *policies and programs*.

7.55 The budget guidelines are an important instrument for fostering greater realism in expenditure estimates. In view of the discussion above, the budget guidelines should specifically:

- Describe the fiscal environment, including the broad parameters within which the next budget must be prepared. Examples include the forecast level of revenues, indicative aggregate expenditure constraints, expected growth rate, expected inflation rate for expenditure projections, demographic trends, etc.;

- Indicate Government's fiscal priorities for the year;
- Provide guidance on areas in which spending agencies might seek to identify efficiency gains or implement policy initiatives, along with overall government employment and procurement policies with which ministries are expected to comply (examples are hiring freezes, management of vehicle fleets, building maintenance, contracting out etc.);
- Seek submission of new policy proposals separately from existing ones. The key question concerns how new policies would be funded;
- Seek realistic estimates from the ministries in terms of spending *programs and policies*; and
- Ask ministries to indicate the programs they would suspend if faced with a resource deficit of, say, 10 percent.

7.56 The Government should budget for quasi-contingencies, arrears, pensions/gratuities, obligations arising from policy decisions, and contingent liabilities in a systematic way. This would require systematic collection of information on (i) arrears and (ii) outstanding liabilities because of pensions and gratuities to government and parastatal staff. A schedule of payments to ZSSF for pension benefits in excess of five years should be drawn. In order to plan for contingent liabilities, MoFEA should complete the actuarial evaluation of ZSSF, quantify government risks on guarantees, and estimate payments that might fall on the Government because of the debt of collapsed parastatals.

Integration of Aid into Budgeting

7.57 At present, recurrent and development budgets are prepared through separate processes of formulation and review of estimates. As in many other countries, this separation has historical and institutional reasons. It stems from the intuitive idea that the recurrent budget is meant for financing ongoing activities with Government's own resources; while the development budget is for financing "economic development"—mainly in the form of capital expenditures with donor support. The development budget was earlier prepared by the Ministry of Planning, now merged with the MoFEA, while the recurrent budget was prepared by the MoF. There are three main problems with this separation of processes:

- (i) Allocation decisions on the development and revenue budgets are made without reference to each other. This can lead to inconsistencies between the two budgets. Most common are cases in which recurrent expenses are not provided in the recurrent budget for new capital projects, or the same item of expenditure is included in the two budgets.
- (ii) There is insufficient scrutiny of investment projects included in the development budget, because they are largely donor-financed.
- (iii) The development budget may often be assigned a priority status and lead to cutbacks on operational expenses for existing programs.

7.58 In view of these problems, the Government should move towards unifying the two budget *processes*. While the ultimate objective should be to merge the two budgets completely, it may not be achievable in the short- or medium-term. A middle-of-the-road approach would be to establish *one* ceiling for each spending agency, covering both categories, asking for *one* set of estimates, and reviewing *one* set of estimates. The experience from the Mainland suggests that Government may not really end up making competitive allocation decisions, particularly regarding donor supported projects, through this "unified process," because those decisions are made outside the budget process, but the

unification will serve an important purpose of integrating all budget estimates by sectors in one place and allow better allocation of government's own resources, since resources are fungible.

7.59 An important prerequisite for this unification of processes would be that MoFEA has up to date information on all donor-supported projects, both existing and planned. This is easier said than done and needs the cooperation of all concerned donors. To begin with, MoFEA should start collecting information from donors on expected disbursements during the next fiscal year in a format similar to that used by Mainland Tanzania.

Multi-Year Framework of Expenditures

7.60 The Government plans to move to a multi-year framework for expenditures (the Medium-Term Expenditure Framework, or MTEF). Three major advantages would accrue in moving to a multi-year framework:

- It would force attention to the long-run expenditure implications of new policies and investment projects.
- It would help in programming cutbacks (say, phasing out programs, or cutting down the wage bill) over a period of time.
- At the aggregate level, it would provide MoFEA with a medium-term view of inter-sectoral demands for resources and allow planning in order to align the structure of expenditures with the ZPRP priorities in the medium term.

7.61 Based on cross-country experience, several prerequisites need to be put in place for a successful introduction of the medium-term framework. Some of these have been discussed above. In the absence of a macro-fiscal framework and cost estimates of implementing the ZPRP, MDAs will not be able to develop meaningful medium-term plans. Further, such plans will be of limited value if they leave out donor-provided funds. Most important, budget processes currently lead to wide divergences between voted expenditures and actual outturns. These divergences have resulted in a serious loss of credibility for the budget as an instrument of strategic allocations, and they create major disincentives for the MDAs to invest in generating medium-term plans. The divergences result both from an unrealistic budget and ineffective budget execution. Finally, there are serious capacity constraints in both MoFEA and the MDAs, and focus on generating medium-term plans would overstretch their capacity.

7.62 In view of this discussion, while a medium-term expenditure framework will be a step in the right direction, it should be a medium-term goal to follow careful strengthening of budget processes. In the fiscal year 2004–05, it could be piloted in three ministries, for example, education, health, and transport and communication, which have better capacity for planning.

Budget Execution

7.63 The Country Financial Accountability Assessment (CFAA) has a detailed assessment of budget execution in Zanzibar, including issues of cash flow management. Following the establishment of a Ceiling Committee in FY03, the flow of funds to the MDAs appears to have become more certain. From a fiscal point of view, the following issues are important and deserve Government attention:

- Monitoring budget execution: The Government should move toward regular monitoring and publishing at least quarterly reports on actual expenditures, rather than relying on cash release statements.
- Controlling arrears: Arrears can upset financial plans and be a source of fiscal indiscipline. One of the main reasons for arrears, in the decentralized payment system of Zanzibar, is a lack of effective MoFEA monitoring and control of commitments made by MDAs. There is a need to institute either a mechanical system for such control, or, if a decision is made to go in for an automated Integrated Financial Management Information System, then such control can be effectively exercised through that system.

Transparency Issues

7.64 Enhancing transparency at all stages of the budget process, including budget formulation and resource implementation, budget implementation, and budget reporting is one of the key challenges for Zanzibar. Developing more open and inclusive budget processes will play a key role in strengthening strategic resource allocation and enhancing the efficiency of resource use. At present, there are many examples of practices that raise concerns about transparency. These include

- The expenditures from the vote “unspecified government expenditures” have been fairly large and non-transparent. Ostensibly meant for meeting truly unforeseen situations, such as natural disasters and epidemics, there are no clearly laid out criteria defining eligible contingencies for withdrawal. The contingency reserve should meet only truly unforeseen obligations. The Government should plan to meet quasi-contingencies through regular votes.
- In the past, large sums of money have been spent on subventions titled “Special Presidential Vote.” An expenditure of T.Shs. 7.764 billion in 98/99, and 5.168 billion in 00/01 was made on this account. The Government has reportedly dropped this sub-vote from FY02 on.
- The MoFEA issues lump-sum monies to the ministries for wages and salaries. There have been instances when ministries have diverted them for other purposes. A civil service census as suggested in the Civil Services chapter of this report should be able to provide Ministry of Finance with better control.
- The MoFEA operates a Micro-Projects Finance scheme which provides government support for community projects. There are problems of coordinating plans for new schools or hospital construction with the concerned ministry. Operation of this fund requires more transparency. The proposals for community projects should also be cleared with the concerned sector ministry to ensure that they are in line with their existing plans. The MoFEA should also keep a record of how many community resources were mobilized.

7.65 In addition to the above, previous sections have listed certain areas in which lack of information (for example, on arrears and accrued liabilities) makes the true fiscal position opaque both to the MoFEA and to internal and external stakeholders. In order to improve transparency, the Government should consider preparing a statement on government finances each year to accompany the budget, and the same should be placed before the legislature. This statement should include the following information:

1. Outstanding debt and debt repayment profile over the next five years.

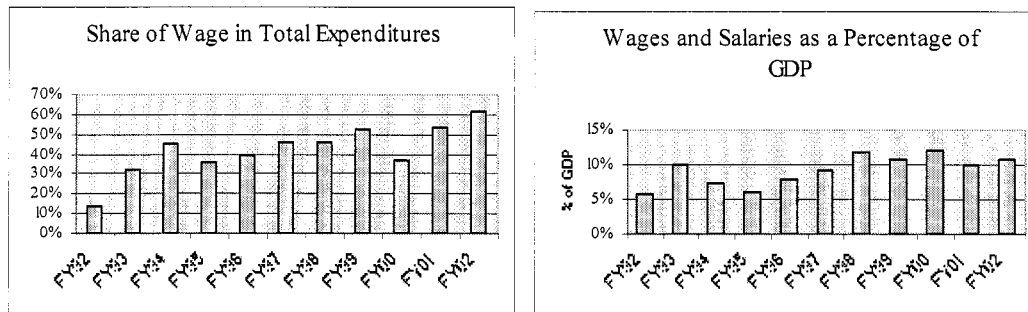
2. Details of contingent liabilities—guarantees, parastatal loans, disputed liabilities, etc.
3. Details of accrued liabilities other than pensions.
4. Major policy decisions taken by the Government outside the budget process in the last year and their fiscal impact.
5. A time-series on the number of employees in central government, local authorities, and other institutions, the burden of salary for which falls on the Government.
6. Pension liabilities of the Government (five-year projections).
7. Tax expenditures and how they might have benefited the country.
8. Off-budget transactions, such as borrowing by the Government from parastatals.
9. Outstanding financial issues with Mainland Tanzania.
10. Details of expenditures made from unallocated budget retained in the MoFEA in the previous year.

8. GOVERNMENT PAY AND EMPLOYMENT IN ZANZIBAR

THE WAGE BILL

8.1 In FY02, expenditures on wages and salaries claimed 63.2 percent of recurrent expenditures or 10.9 percent of GDP. If salaries paid by the Union Government for police, defense, and other government staff deployed in Zanzibar are added, these ratios increase to 85.1 percent and 14.6 percent respectively. These figures indicate a severe structural imbalance in the Zanzibar budget towards personnel expenditures, with little funds left to cover operation and maintenance and other development expenditures.

Figure 8.1: Share of the Wage Bill in Recurrent Expenditures and GDP, FY92-FY02



8.2 As shown in Figure 8.1, expenditures on wages and salaries have risen sharply during the past decade, both as a percentage of government expenditures, and as a percentage of GDP. From a share of about 30 percent of recurrent expenditures in FY93, it has continuously increased and reached more than 60 percent by FY02.¹⁰ A similar pattern can be discerned if the ratio of wages and salaries to GDP is considered. Here one observes an increase from less than 6 percent of GDP in FY92 to a peak of about 12 percent of GDP in FY98. Until FY98, the expansion of the wage bill was made possible by a steady increase in government revenue. This permitted an expansion of the wage bill without requiring a concomitant reduction of non-wage expenditures. However, as revenues started to decline in FY99, the wage bill could not easily be reduced, and most of the decline in revenue had to be absorbed by a reduction in non-wage expenditures—a situation that consequently constrained the ability of the public sector to deliver basic services.

8.3 To put Zanzibar's wage bill into perspective, we compare some of the key indicators for Zanzibar to those of other economies in the region and to other small island economies. It merits attention that, in addition to the employees of the RGoZ, there are also a large number of staff from the Union Government deployed in Zanzibar. This includes the entire police force, the defense force, and other services, such as the Tanzania Revenue Authority or the

¹⁰ The figures used in this analysis cover only expenditures on wages and salaries shown explicitly in the government accounts. Since the salaries and wages of Zanzibar's local government workers and those of employees of other government funded institutions such as the Zanzibar State University are embedded in grants and subsidies, the actual share of wages and salaries in Zanzibar's expenditures is even higher.

Bank of Tanzania. Government estimates of the wage bill of Union Government employees deployed in Zanzibar run to around T.Shs. 10 billion. Adding this to the wage bill covered by the RGoZ increases the ratio of the wage bill to GDP to 14.6 and the ratio of the wage bill to recurrent expenditures to 85.1 percent.

8.4 First, we compare the total wage bill of Zanzibar (Zanzibar Government plus Union staff in Zanzibar) to that of other African economies in the region: Kenya, Mozambique, Tanzania, and Zambia. The wage bill to GDP ratio for these economies ranges from 4.0 percent of GDP for Tanzania at the low end to 8.1 percent for Kenya at the high end. Zanzibar's ratio of 14.6 percent is clearly much higher than that of the comparable economies. Similarly, the share of recurrent expenditures being claimed by the wage bill is also significantly higher than that of the comparable economies, which display ratios between 29.2 percent (Kenya) and 46.1 percent (Mozambique).

8.5 We also compare Zanzibar's wage bill to that of other small island economies such as Comoros, Cape Verde, Sao Tome, and Principe and Mauritius in Africa, and island economies in other regions, such as Fiji and Trinidad and Tobago. For these small island economies, the ratio of the wage bill to GDP and to recurrent expenditures is typically much larger than that of larger countries as a consequence of economies of scale that exist for many government functions. For example, it would be unlikely that the formulation of policies for large economies would require many more staff than the performance of a similar task for a small economy. Nonetheless, even in comparison to this group of countries, Zanzibar's wage bill appears to be high.

Estimated cost of Union Government Staff in Zanzibar, 2002

	T.Shs. Billion
Defense	4,473
Foreign Affairs	20
Police	4,846
Immigration	174
Others	
(incl. TRA and BOT)	682
Total	10,197

Source: Office of the Chief Government Statistician

Table 8.1: Expenditures on Wages and Salaries as a Percentage of GDP and Recurrent Expenditures (FY02 or latest fiscal year available)

	Wage Bill/GDP	Wage Bill/Recurrent Expenditures
Zanzibar	10.9%	63.2%
Zanzibar (incl. Union services)	14.6%	85.1%
Kenya	8.1%	29.2%
Mozambique	6.0%	46.1%
Tanzania	4.0%	31.0%
Zambia	5.5%	31.8%
Cape Verde	9.9%	29.2%
Sao Tome and Principe	9.6%	32.5%
Mauritius	6.6%	31.2%
Comoros	13.2%	45.1%
Trinidad and Tobago	9.9%	39.2%
Fiji	20.9%	41.2%

Source: IMF Staff Reports

PUBLIC SECTOR EMPLOYMENT

8.6 Zanzibar's government work force comprised more than 26,000 people in 2002. Out of the total workforce, around 8,000 are teachers and around 3,730 are health workers. This number does not include staff of the Union Government deployed in Zanzibar. The last

major increase in the number of staff occurred in 2001, when the work force increased by more than four percent, i.e., by more than 1000 employees. Looking a little further back, the total number of government employees has increased by more than 10 percent since 1994/95, when it was 23,156.

8.7 A useful indicator for international comparisons of the size of the government labor force is government employment as a percentage of the population. In Zanzibar, government employees account for 2.7 percent of the population. But again, in drawing these comparisons, it must be noted that the employment numbers for Zanzibar do not include Union staff deployed to Zanzibar. The share of the population employed by Government is higher for Zanzibar than the average for Africa and Asia. Latin America and the Caribbean and the Middle East and North Africa show higher ratios. Industrialized countries including the OECD countries and the countries of Eastern Europe and the former USSR on the other hand have a significantly higher share of the population employed by Government.

Table 8.2: Government Employment (as Percent of Population) for Selected Regions

	General Government	Government Administration	Teaching and Health
Zanzibar	2.7	1.6 (59%)	1.1 (41%)
Africa	2.0	1.2 (60%)	0.8 (40%)
Asia	2.6	1.6 (62%)	1.0 (38%)
Eastern Europe and former USSR	6.9	1.8 (26%)	5.1 (74%)
Latin America and Caribbean	3.0	1.9 (63%)	1.1 (37%)
Middle East and North Africa	3.9	2.3 (59%)	1.6 (41%)
OECD	7.7	4.3 (56%)	3.4 (44%)

Source: Zanzibar – CSD, others Salvatore Schiavo-Campo, Giulio de Tommaso, and Amitabha Mukherjee. Government Employment and Pay in Global Perspective: A Selective Synthesis of International Facts, Policies, and Experience. Policy Research Working Paper No. 1771. The World Bank. 1997.

8.8 Government employment figures reveal that about 41 percent of the government workforce is teachers and health workers, while 59 percent of the government workforce works in other areas. This distribution of government workers in Zanzibar is surprisingly similar to the average for most other world regions, where between 37 percent and 44 percent of the government workforce is employed in the health and education sectors. Only Eastern Europe and the former USSR show a significantly different distribution, with about 74 percent of the government work force employed in the health and education sectors.

8.9 Government employees in Zanzibar in the general administration are classified in five broad categories:

- (a) Drivers and messengers and similar staff fall under the OS category (Operations Scale). Employees in this category are required to have a minimum of form III education.
- (b) The lowest level (KU) of government service comprises mainly clerks. The education requirement for this service level is form IV.
- (c) Most of the Government employees in Zanzibar fall under the general service scale (MUS). Employees in this salary grade are required to have completed Form VI or have completed Form IV and a two year training course.
- (d) Technical staff (MW salary scale) are required to have a first degree or an advanced diploma which is almost equivalent to a first degree. Also, employees in the MUS

- category with 15 years experience (continuous) in the same field of work and with the ability to discharge their duties effectively can be promoted to this category.
- (e) The highest category of government employment is covered by the leaders scale (MV). Employees in this category include Ministers, Principal Secretaries (PSs), Deputy Principal Secretaries (DPSs), Commissioners, Directors, etc. Most of employees in this category are Presidential appointees and staff who have been promoted from the MV job category to this grade based on length of service and experience.

Table 8.3: Employment by Salary Category

Salary Grade	2000	2001	2002
OS ₁ – OS ₁₀	3,239	3,319	3,472
KU ₁ – KU ₂	1,115	1,173	1,479
MUS ₁ - MUS ₁₉	8,631	9,275	9,521
MW ₁ - MW ₁₂	3,851	3,383	3,744
MV ₁ - MV ₄	170	167	187

Source: CSD

8.10 Senior government officials in Zanzibar expressed concern about overstaffing in the lower salary categories which goes hand and hand with critical skill shortages in the technical and managerial positions.

8.11 Initial surveys carried out by CSD, the MoFEA, and sector ministries did not reveal a significant problem of ghost workers. However, a weak information base on employee turnover did lead to the continued issuance of salaries for names representing retirees or deceased. Such accumulated funds have sometimes been diverted to service other charges in circumstances in which allocations for other charges were minimal. However, as discussed below, a civil service census would be useful to enhance confidence in the payroll and to establish a firm base for a computerized central payroll system which Government intends to implement.

8.12 As in many other countries at a similar level of development, employment in the formal sector is also low. Government statistics derived from an employment and earnings survey carried out in 2001 indicate that the total number of employees in the formal sector is around 64,250, out of which about 50 percent are employed by Government.

PUBLIC SECTOR SALARIES

8.13 Pay scales in the public sector, including parastatals, are fairly uniform in Zanzibar. Public sector pay in Zanzibar consists of the base salary and various allowances. Table 8.4 provides information on the average base salaries by salary grades. While the average salary in the lowest grade was T.Shs. 34,210, the average salary for the highest salary grades was T.Shs. 148,833. The Zanzibar government wage structure is fairly compressed, reflecting a policy that tries to minimize inequality. It is interesting to note that between 1999 and 2002 the wage compression ratio declined from 5.4 to 4.4. This is due to the relatively smaller salary increases granted to higher salary grades compared to increases granted to lower salary grades. While the average salaries for the lowest grades increased between 1999 and 2002 by 48 percent, that of the highest cadres increased by only 15 percent.

Table 8.4: Average Base Salary by Job Category, 1999–2002

Salary Grade	1999	2000	2001	2002
OS ₁ - OS ₁₀	23,780	29,210	29,210	34,210
KU ₁ - KU ₂	21,400	26,750	26,750	31,750
MUS ₁ - MUS ₁₉	36,550	4,1400	41,400	46,400
MW ₁ - MW ₁₂	62,950	68,100	68,100	73,100
MV ₁ - MV ₄	128,890	136,674	136,674	148,833

Source: CSD

8.14 In addition to their basic salaries, government workers receive a variety of allowances. At an aggregate level, allowances have added approximately 81 percent to the base salary during recent years (Table 8.6).

Table 8.5: Budgetary Expenditures on Base Salaries and Allowances, FY99–FY03

	FY99 (actual)	FY00 (actual)	FY01 (actual)	FY02 (budget)	FY03 (budget)
Base Salary (T.Shs. '000)	11,155	11,552	13,200	16,895	22,055
Allowances (T.Shs. '000)	7,823	9,366	10,714	16,372	18,164
Total (T.Shs. '000)	18,978	20,917	23,914	33,267	40,219
Allowances as a % of base salary	70%	81%	81%	97%	82%

Source: RGoZ, Estimates for Recurrent and Capital Revenues and Expenditures for the Year 2001/2002 and 2000/2002.

8.15 Allowances paid by the Government include allowances for housing, transport, entertainment, electricity, telephone, and a teaching allowance for teachers. Table 8.7 shows the structure of these allowances.

Table 8.6: Allowances

1. House allowance	Paid to all except those in government (RGoZ) houses & ranging from 6% to 50% depending on salary grade
2. Transport allowance	Paid at a flat rate of T.Shs. 5000/= for lower to mid-salary grades. For higher/senior (i.e. MW & MV) salary grades fuel allowance is paid.
3. Entertainment allowance	Only paid to presidential appointees (MV) ranging from T.Shs. 8000/= to T.Shs. 25000/=
4. Electricity allowance	Paid to presidential appointees (MV) & ranging from T.Shs. 3000/= to T.Shs. 59000/= depending on salary grade
5. Teaching allowance	Only paid to teachers at a rate of 25% of the gross salary
6. Telephone allowance	Only paid to presidential appointees (MV). The amount or the rate is not defined.

8.16 Most of these allowances are differentiated according to the salary grade, whereby lower grades receive lower allowances than higher grades, which leads to a certain decompression of the salary structure. Table 8.8 illustrates the magnitude of allowances and the impact on take-home pay for the lowest paid and for the highest paid salary groups.

Table 8.7: Base Salary and Allowances for Highest and Lowest Paid Salary Categories, FY02

	KU1-KU2	MV1-MV4
Base Salary	31,750	148,833
House Allowance	1,905	74,417
Transport Allowance	5,000	-
Entertainment Allowance	-	25,000
Electricity Allowance	3,000	59,000
	41,655	307,250

8.17 For the lower salary grades, allowances account for about 30 percent of the base salary. For the highest salary grades, allowances are more than 100 percent of the base salary, not even taking into account the telephone and fuel allowance. Thus, while the highest salaries (net of allowances) are only 4.4 times the salaries of the lowest salary group, the inclusion of allowances increases this ratio to 6.9 times. These calculations do not include telephone and transport allowances, which in many cases are a significant addition to the base salary for senior civil servants. It also should be noted that in addition to the allowances, government employees, especially the more senior cadres, also enjoy non-wage benefits such as the duty-free import of vehicles.

8.18 The widespread use of allowances and non-wage benefits also impinges on the transparency of the government salary structure, and wage benefits in the form of tax exemptions create an opportunity for abuse and significant revenue leakages. A consolidation of basic salaries and allowances and non-wage benefits is therefore recommended. However, since at present allowances are neither taxable nor pensionable, a consolidation of allowances and non-wage benefits into a single salary will require a careful assessment of the financial implications. This is particularly important with respect to pensions, which, under the current rate structure, would significantly increase and add to the obligations of the ZSSF. At the same time, pension individual benefits could become less equitable, since differences due to allowances would enter into the calculation of pension benefits under the present pension system.

8.19 An assessment of the level of salaries in Zanzibar would not be complete without a comparison to those on the Mainland. Here, it is important to note that the Union Government has consolidated base salaries and allowances into a single salary payment (Table 8.9).

Table 8.8: Comparison of Estimates of the Average Salaries for Zanzibar and Mainland Tanzania, FY02

	Share in Total Employment		Average Salary		
	Zanzibar	Mainland	Zanzibar		Mainland
			base salary	incl. allowances	
Operational Service	13%	15%	34,210	44,882.44	56,633
Civil Service (incl. Health)	60%	22%	52,927	105,691	85,267
Police and Defense	0%	15%	----	----	75,669
Teachers	27%	48%	52,079	70,251	92,670
Total	100%	100%	52,256	94,102	78,878

Source: Staff estimates

8.20 Average take-home pay (calculated by dividing the total wage bill by the number of employees) appears to be higher in Zanzibar than in Mainland Tanzania: T.Shs. 73,353 in FY01 for Zanzibar (and increased to T.Shs. 94,102 in FY02), as compared to T.Shs. 78,878 for Mainland Tanzania in FY01.

8.21 In drawing the comparison with Mainland Tanzania, differences in the distribution of staff across employment categories and job grades need to be taken into account. In Zanzibar, teachers constitute only 27 percent of government employment, while in Mainland Tanzania, they account for 48 percent. The share of staff in the operational services is quite similar for Zanzibar and Mainland Tanzania. General administration including health services occupies about 60 percent of government employees in Zanzibar, while in Mainland Tanzania the share is only 22 percent. The structure of public sector employment reflects to a certain extent economies of scale inherent in the administration of a larger entity. While the number of teachers is intimately linked to the size of the population, the staffing requirements for general administration are to a much lesser extent related to the size of the population.

8.22 Available data indicate that take-home pay for staff in the operational services (messengers, drivers, and so on) and for teachers is lower in Zanzibar than in Mainland Tanzania. On the other hand, employees in general administration seem to command a higher take-home pay in Zanzibar than in Mainland Tanzania.

8.23 Even though salaries seem to be on average slightly higher in Zanzibar than in Mainland Tanzania, this does not imply that current salary levels are sufficient to attract, motivate, and retain qualified personnel. Between the early 1970s and the mid-1980s, real average pay in the Tanzania civil service has declined by about 80 percent. Since then, real average pay has recovered to about 80 percent of the real average wage prevailing at the beginning of the 1970s. Since some of this recovery in average pay is due to the consolidation of base salary and allowances, the recovery of real wages was actually less pronounced and take-home pay has been declining in recent years for most salary grades.

8.24 In general, low real wage levels in the public service are likely to have the following effects:

- Demoralization and de-motivation of both subordinate employees and their supervisors/senior civil servants;
- Reduced work effort, declining levels and expectations in performance;
- Reduced incentives for improving work performance and willingness to accept greater responsibility;

- Weakening of accountability and control procedures/mechanisms;
- Diminished ability to recruit and retain qualified managerial, professional, and technical manpower;
- Reduced commitment to public service;
- Moonlighting and “daylighting;”¹¹ and
- Misappropriation, misuse of public institutions’ tangible or financial assets for personal gain.

8.25 Pay reform is one of the main elements of Tanzania’s Public Sector Reform Program. Although the Mainland Government has committed itself to pay reform, progress is slower than envisaged, due to fiscal constraints and other political imperatives.

PENSIONS

8.26 The pension system in Zanzibar has undergone significant reform with the establishment of the Zanzibar Social Security Fund (ZSSF) in 1998. Civil servants pay 5 percent of their salary into the pension fund and Government pays 10 percent of the salary to the ZSSF. This entitles civil servants to receive a pension and a gratuity. The mandatory retirement age is 60 in Zanzibar. Early retirement with full benefits can be granted at the age of 55. Individual pension benefits are calculated on the basis of last salary drawn and number of years of service. Pensions range from T.Shs. 2,500 to T.Shs. 360,500 per month. There are 7,700 pensioners in Zanzibar with a total outlay of 130 million T.Shs., while the corresponding figures for Pemba are 1,950 and 54,903,250 T.Shs. per month. Thirty-two persons, on an average, are paid a gratuity every month.

8.27 Government employees who have retired or have left the public service for other reasons since 1998 have not yet received their gratuities and are also not receiving their pensions. This leads to a situation in which many of those employees who have reached the retirement age are still on the payroll. An important measure for Government would be to clear the backlog of pension payments, which would also be a pre-condition for removing over-age employees from the payroll.

WAGE BILL MANAGEMENT

8.28 At present, there is no central payroll system in Zanzibar. Each ministry maintains its own payroll on the basis of which it receives the monthly release for wage payments from the Ministry of Finance and Economic Affairs. Wage payments are made by the ministries, regions, and districts. In the absence of a reliable central payroll system, there is a significant opportunity for wage bill leakages.

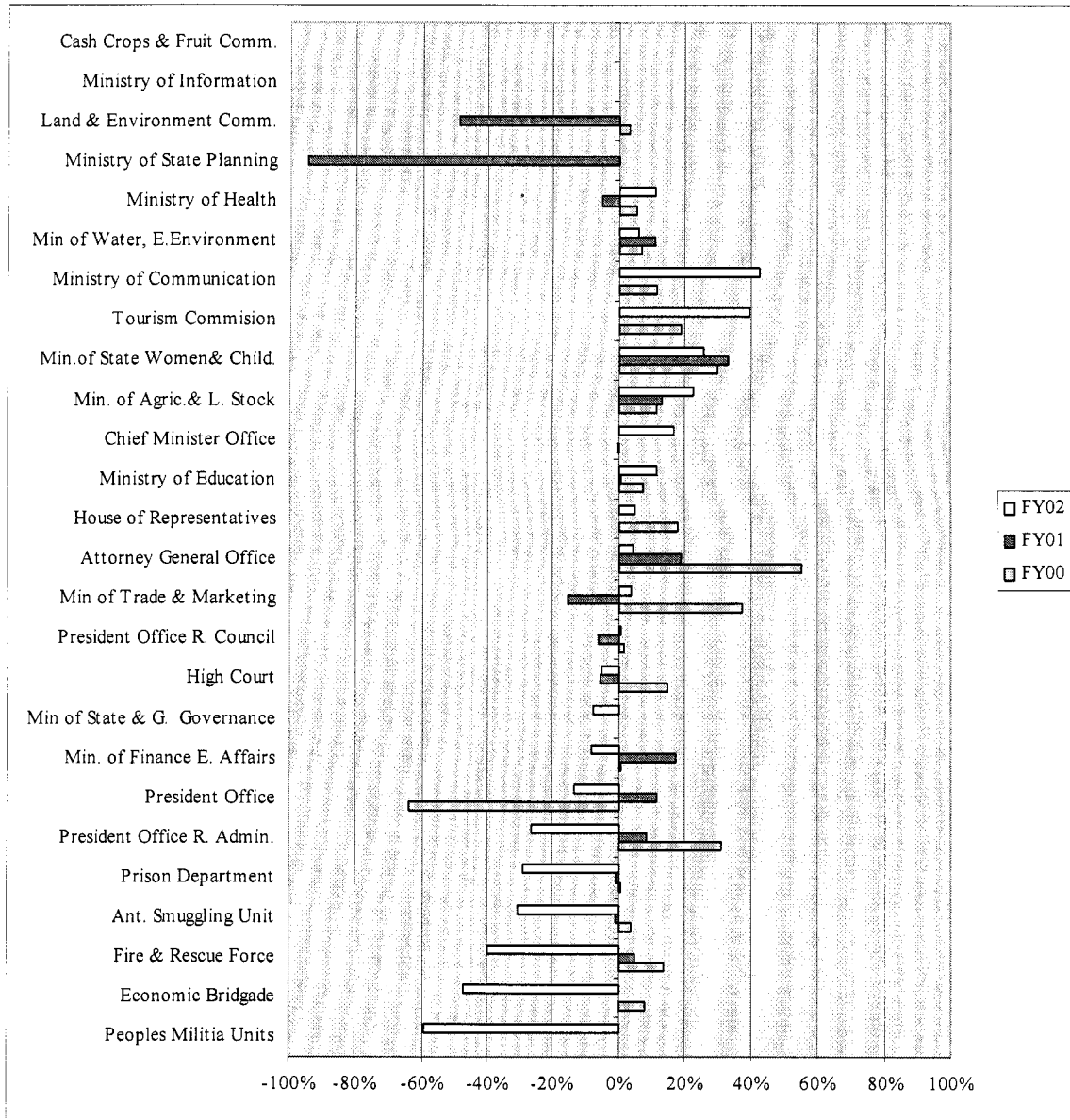
8.29 The absence of a central payroll system also makes establishment control and budgeting for salaries difficult. An analysis of the difference between budgeted and actual salary payments points towards serious weaknesses in the budgeting for wages and salaries. As figure 8.2 shows, during FY02 there were significant deviations from the budgeted salary expenditures, both in the form of over- and under-spending on wages and salaries by spending units. The situation in FY02 also seems to be different from the situation in FY01, in which budget deviations were much smaller, although not insignificant.

¹¹ That is, (remunerated) non-civil service work is carried out during time for which civil service pay is received.

8.30 The hiring process is centralized. The authority to hire and fire civil servants in RGoZ and its institutions is legally vested under the Civil Service Department and Civil Service Commission. The Civil Service will collect all requests to fill vacant positions and submit them to the Civil Service Commission for final selection of people to fill the respective positions. In making decisions on additional staffing, adherence to budgetary limits appears to have been weak in the past, which contributed to the over-expansion of the civil service.

8.31 An employee can only be terminated from work for the following reasons: (i) completion of the day's work, for a daily employee; (ii) completion of contract or failure to abide to contractual terms, for an employee under special contract; (iii) failure to meet probation conditions, if newly employed and has to be under probation; (iv) penalized/fired from work for reasons of misconduct; (v) if terminated under Presidential order/powers; and (vi) for purposes of cost-cutting. Performance-related separation of government employees has to be approved by the Civil Service Commission. Retrenchments undertaken for cost-cutting purposes have to be approved by the Revolutionary Council.

Figure 8.2: Expenditures on Personnel Emoluments, Deviation between Budget and Actual



TOWARDS A CIVIL SERVICE REFORM PROGRAM

8.32 With the wage bill consuming a disproportionate share of the government budget, wage bill management and civil service reform will need to be the top priority of the Government if the performance and service delivery capacity of the public sector in Zanzibar is to be enhanced. The overall objective of the Government should be to achieve a smaller, affordable, well compensated and efficient civil service. In that context, the Government needs to undertake structural reforms which could include:

- Carrying out a civil service census to establish the integrity of the public wage bill;
- Removing ghost workers, over-age workers, and workers that show irregularities in their employment from the wage bill;
- Clearing up arrears with respect to gratuities and pensions, to avoid hardships;
- Putting in place a central payroll system;
- Consolidating base salaries, allowances, and non-wage benefits;
- Adjusting the workforce to eliminate overstaffing and inefficiencies;
- Adjusting pay scales to enhance the capacity of the public sector to attract, retain, and motivate staff. Since there are critical skill shortages for professional and managerial positions, pay reform will also need to consider a decompression of salary scales; and
- Putting in place training and capacity-building measures.

8.33 In addition, the Government should embark on institutional reforms including: redefining the role of the State, restructuring for organizational effectiveness if necessary, and building the capacity for management of the economy, including establishing measures to attract and retain key technical, professional and managerial skills.

Box 8.1: Tanzania's Development of an Integrated Human Resource System

Tanzania embarked on structural reforms in the mid-1980s which included an initiative to establish appropriate manning levels to reduce the size of the civil service. A first attempt to address these issues was largely an unsatisfactory retrenchment exercise which highlighted an urgent need to institute more effective personnel administration and establishment controls. Over the next decade, a series of efforts led to the establishment of an Integrated Human Resource System.

A Public Service Census was held in 1988 with the objectives of (a) identifying "ghost workers" on the government payroll, (b) determining the exact size and composition of the civil service, and (c) providing a complete database with a profile of every government employee. The exercise identified some 16,000 ghost workers out of a total work force of around 350,000 employees. However, attempts at reconciling the census data with the payroll were unsuccessful; it could not be demonstrated that ghost workers were indeed removed from the payroll.

In 1994, the Government conducted a "National Pay Day Exercise" with the principal objective of confirming valid employees and detecting any ghost workers in the payroll. This exercise revealed some 13,360 ghost workers. A second objective of building a personnel database by capturing data on employees for entry into the payroll data base was not achieved.

A civil service reform program was launched in 1995 which included a component to improve central systems for personnel control and data management. A payroll verification exercise took place in 1996, in which employers were requested to sign off against payroll-sourced lists for each employee whose presence they could personally attest. This exercise resulted in the deletion of around 5,500 names from the payroll.

In 1998, a fresh data collection exercise was designed to capture the minimum required data for ensuring that an employee could legitimately be paid a salary or, in due course, a pension. This exercise resulted in the deletion of some 4,000 ghost workers from the payroll. In both the 1996 and 1998 exercise, the monthly volume of requests for deletion transactions rose dramatically once the exercise was launched, which suggests that the number of ghost workers eliminated from the pay roll was actually higher than the numbers revealed through the personnel verification exercises.

The data of the 1998 data collection exercise was merged with the payroll data and was the basis for the Integrated Human Resource and Payroll System which was activated in 1999 and became fully operational in 2000. This system allows Government to know the exact nature of its workforce and wage bill on a monthly basis.

Source: Neil McCallum and Vicky Tyler. International Experience with Civil Service Censuses and Civil Service Databases. International Records Management Trust, London, UK. May 2001

Box 8.2: International Experience with Civil Service Censuses

Civil service censuses are typically carried out in pursuit of one of the following objectives:

- Cutting costs by reducing the number of ghost workers (fictitious, duplicate, or otherwise erroneous payroll entries). In some cases, civil service censuses were also carried out to provide rough data for downsizing exercises; and
- Restructuring of departments and functions, redeploying staff, building capacity, and improving human resource management. This requires establishing a detailed profile of public employees—such as data on the mix of skills, ages, and genders—to facilitate departmental or functional reviews.

Methods used to conduct civil service censuses include:

- Physical headcounts, which focus on the number of staff employed and whether the names on a payroll belong to genuine employees. It involves trained teams traveling to various parts of the census area, where individual employees are required to present themselves, often with identification and sometimes with documentation, such as photocopies of letters of appointment or birth records. These data are then checked off, usually against the payroll.
- Questionnaires are used when more detailed data on human resources are needed for restructuring efforts. This approach typically involves the distribution of questionnaires to employees or employers who must submit the information back up the line, taking responsibility for its accuracy. The data are then compiled in some kind of database.
- Payroll reconciliation involves reconciling the payroll against alternative data sources, such as individual personnel files or service books, the nominal roll or established register, and other databases.

Civil service censuses have been implemented in a large number of countries. Censuses have helped eliminate ghost workers in some countries, resulting in moderate or even significant savings. However, in the absence of routine civil service controls, there has often been no mechanism to ensure that ghost workers do not get back on the payroll. Censuses have contributed to efforts to restructure civil services, but such exercises are typically incremental processes and need to be informed by regularly updated information on personnel management.

Lessons of experience for the achievement of the targeted objective of civil service censuses include:

- Censuses are costly and must be planned strategically with clear objectives, structured relative to the local context, with well defined information requirements.
- Censuses should be part of a long-term investment in basic payroll and personnel systems.
- There need to be appropriate incentives for compliance. For example, incentives may include the stopping of salary payments for staff on the payroll who are not enumerated.
- Coordinated action, top level support, and local ownership of the exercise's design and delivery are key to successful civil service censuses.

Source: The World Bank. International experience with civil service censuses. PREM notes No. 62, January 2002

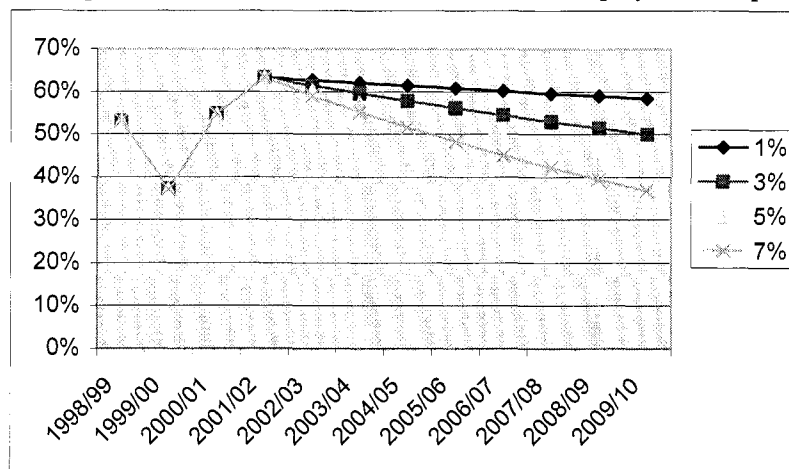
EMPLOYMENT AND SALARY REFORM

8.34 This section is intended to illustrate the magnitude of the wage bill adjustment required to establish a more efficient distribution of resources between wage and non-wage expenditures in Zanzibar. It also looks at the fiscal consequences of pay policies which would try to enhance and decompress current pay scales.

8.35 Throughout this section it is assumed that the share of government spending remains constant, i.e., government spending in real terms grows at the same rate as real GDP. Our key indicator is the ratio of the wage bill to recurrent expenditures. Although there is no scientific rule as to what an optimal wage bill to GDP ratio should be, the range of data shown in Table 8.1 indicates that for most countries the wage bill consumes between 30 to 40 percent of recurrent expenditures and that Zanzibar should aim at bringing its wage bill also within this range.

8.36 In the first scenario, staffing levels and real wages are kept constant. Under this scenario, hiring only takes place to replace civil servants who leave the service. We assume that the structure of the civil service remains the same, i.e., that the number of employees in each salary and job grade remains the same. Figure 8.3 shows the projected wage bill to recurrent expenditures ratio projections as dependent on the real growth rate of the economy. The faster the economy grows, the faster the ratio declines. With an annual real growth rate of one percent, the share of recurrent expenditures in this scenario would barely drop to below 60 percent by the end of the decade. Only if the Zanzibar economy were to grow annually by seven percent would the wage bill to recurrent expenditures ratio fall below 40 percent by the end of the decade, if no additional measures aside from freezing employment at the current level were to be taken.

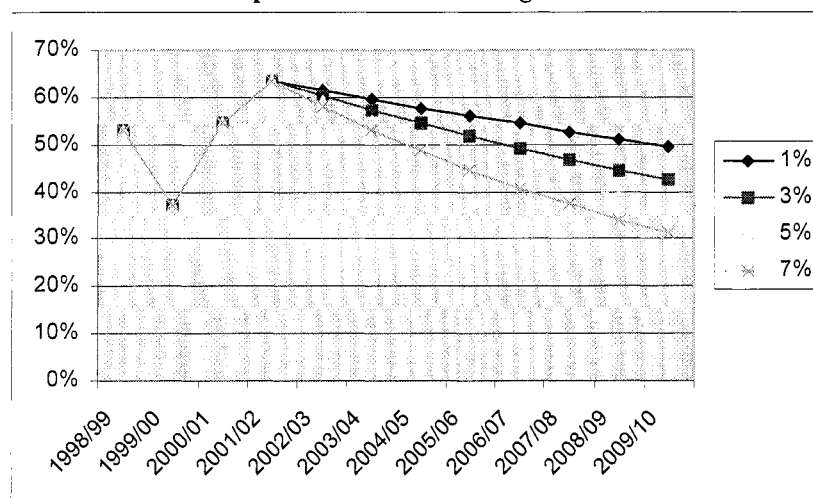
Figure 8.3: Projection of the Share of Expenditures on Wages and Salaries as A Percent of Recurrent Expenditures if the Number of Government Employees Is Kept Constant



8.37 This first scenario shows that even under the assumption of relatively high economic growth, the restructuring of the budget from salary and wage expenditures to non-wage expenditures would proceed only very slowly. This scenario leaves very little room for increases in real salaries, if the objective of a lower share of the wage bill in recurrent expenditures is to be achieved.

8.38 An alternative scenario would be one in which the Government implements a general hiring freeze. With an annual rate of attrition of about 2 percent, if a hiring freeze were to be maintained until the end of the decade, the number of government employees would fall from currently above 26,000 to a little above 22,000. The evolution of the wage bill to recurrent expenditures ratio would again be dependent on the rate of economic growth as shown in figure 8.4.

Figure 8.4: Projection of the Share of Expenditures on Wages and Salaries in Recurrent Expenditures with a Hiring Freeze



8.39 With a complete hiring freeze, real economic growth would have to increase by at least four percent annually if the wage bill to GDP ratio is to fall below 40 percent by the end of the decade. If economic growth is higher, the ratio would drop below 40 percent earlier. For example, with a growth rate of 7 percent, the share of the wage bill would drop to below 40 percent by 2007. These results illustrate that the hiring freeze would need to be maintained for a fairly long period of time if the wage bill ratio is to be lowered to more efficient levels. However, a hiring freeze is likely to have negative implications for the capacity of the civil service since there would be no new skills coming into the work force. A complete hiring freeze over an extended period of time would also be politically difficult to sustain.

8.40 The two scenarios discussed above show that relying purely on economic growth, possibly combined with a hiring freeze, would only bring very gradual improvements, and would always be contingent on solid economic growth performance. Relying on such gradual adjustments would also leave little room for pay reform, which is urgently needed.

8.41 At the other extreme of measures to adjust the wage bill would be a staff reduction program including measures such as removing ghost workers, over-age workers, or workers with irregularities in their employment from the wage bill, early retirements, and retrenchments. In this context, three scenarios are analyzed. In the first scenario, we assume that staff reductions affect only the lower cadres (OS, KU, MUS), given that overstaffing appears to be most prevalent in these job categories. The second scenario looks at staff reductions affecting all levels of the civil service, excluding teachers. Teachers are excluded, since the PRSP targets increased enrollments. Even if there is an opportunity for efficiency gains under the current enrollment and facility utilization rates, the likely need for more staff in the medium term makes staff reductions which would be followed by hiring in the medium term uneconomical. Finally, the third scenario looks at staff reductions affecting all government employees, including health workers and teachers. For each of these scenarios we examine the required reduction in staff if a certain wage bill to recurrent expenditures ratio is to be achieved. The results of these simulations are presented in Table 8.11.

8.42 These calculations do not take into account the cost of removing government workers from the payroll. While removing ghost workers from the payroll has no cost aside from the conduct of a civil service census, other forms of reducing the wage bill can have significant cost attached to them. In the past, lack of funding for retrenchment packages has derailed efforts to streamline the civil service. The development of a viable financing strategy will thus need to be part of any effort to reduce the size of the civil service that goes beyond the removal of ghost workers.

Table 8.9: Required Reduction in Government Employment to Reduce the Share of Wages and Salaries in Recurrent Expenditures

		Target ratio of the wage bill to recurrent expenditures			
		55%	50%	45%	40%
Staff reductions only in OS, MU and MUS grades	Reduction in affected staff (%)	-24%	-45%	-66%	-87%
	Reduction in affected staff (#)	3,512	6,540	9,568	12,596
Staff reductions in OS, KU, MUS, MW, MV grades	Reduction in affected staff (%)	-14%	-25%	-37%	-49%
	Reduction in affected staff (#)	2,491	4,638	6,785	8,932
Staff reductions in all Government, including health and education	Reduction in affected staff (%)	-10%	-18%	-26%	-34%
	Reduction in affected staff (#)	2,491	4,638	6,785	8,932

8.43 The first scenario, in which only the lowest grades are affected by staff reduction measures, requires the largest cuts, both in terms of overall numbers and especially as a percentage of staff in the affected groups. To lower the share of the wage bill in recurrent expenditures from the present 63 percent to 50 percent would require a reduction in staff by 3,512 which is about 24 percent of the targeted grades. If the wage bill share were to be reduced to 40 percent, staff in the categories MS, OS, and MUS would have to be reduced by about 87 percent or by about 12,596 government workers.

8.44 Scenario 2 considers staffing cuts across the entire civil service, excluding teachers and health workers. Reducing the share of the wage bill in recurrent expenditures would require a reduction in staff by about 14 percent or 2,491 persons. If the target were a wage bill that consumes less than forty percent of recurrent expenditures, almost 50 percent of the civil service would have to be laid off, i.e., about 8,932 persons.

8.45 If teachers were also included in the staff adjustment program, as illustrated under the third scenario, the number of staff that would need to be removed from the payroll would equal the number of staff reductions under the second scenario since average salaries for general administration and teaching are similar. However, since the staff cuts would be spread over a larger number of public employees, the percentage reductions for each category of government employees would be smaller. Reaching the target of reducing the wage bill to recurrent expenditures ratio to 50 percent would require cuts in every staff group by about 18 percent. Reaching the target of 40 percent on the other hand would require a reduction in the labor force across the board by 34 percent.

SALARY ENHANCEMENTS

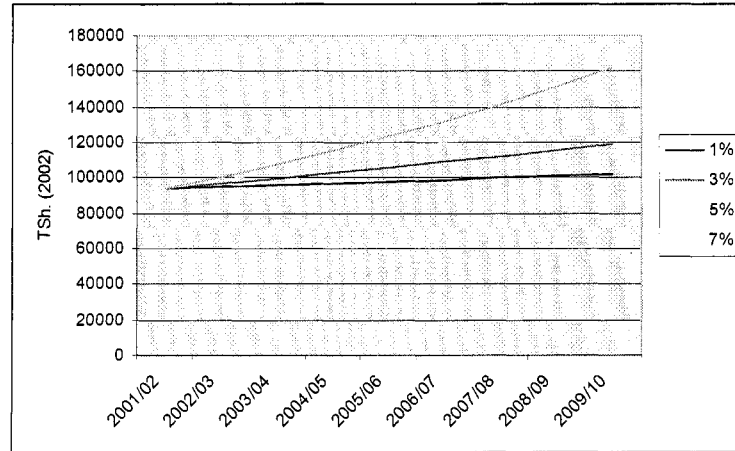
8.46 The opportunity for salary enhancements in Zanzibar is severely constrained by the large size of the civil service. Nonetheless, creating an appropriate incentive structure for civil servants, which includes as one of its key components the level of public sector wages, is among the conditions that would help improve service delivery and efficiency in the public sector. In adjusting the public sector wage bill and re-equilibrating the balance between wage and non-wage expenditures as part of an overall program to reform the civil service, attention would need to be paid to enhancing salary levels for the categories of employees that are more difficult to attract and to retain, and to reward well performing and well trained civil servants. If salaries remain low, in addition to poor motivation, there is also the real prospect that enhanced non-wage expenditures will not result in improved service delivery, but that nominal non-wage expenditures will be converted into salary enhancements through the misappropriation of public funds and goods for private gain. An example of this found in many countries is the widespread informal practice at health care units of charging for drugs which should be provided free of charge and using the income to supplement salaries.

8.47 The following discussion analyzes the fiscal feasibility of several salary enhancement scenarios that could be part of an overall strategy to improve the service delivery of the civil service. As in the analysis of employment levels, our main indicator for fiscal sustainability of wage bill measures is again the ratio of the wage bill to recurrent expenditures. In each of these scenarios, we assume that the Government has created room for an active wage policy by reducing all employment in all categories of staff by 20 percent, and that staffing levels are subsequently kept at that level. Teachers are assumed not to be affected by these staff reductions. Projections of average salaries are expressed in constant 2002 T.Shs. In addition to these real increases, it is assumed that all salaries are increased in line with inflation. For ease of exposition, only real increases above the compensation for inflation are shown. The following discussion analyzes three scenarios:

- (a) salary increases in line with real economic growth
- (b) differentiated salary enhancements
- (c) selective accelerated salary enhancements (SASE).

Salary increases in line with real economic growth

8.48 After an initial reduction in the number of government employees, their number is kept constant, i.e., new hiring takes only place to replace government employees who retire or who leave the service for other reasons. If the number of government employees is kept constant, real salaries can be increased at the rate of economic growth without increasing the share of recurrent expenditures claimed by expenditures on wages and salaries. Figure 8.5 illustrates the real increase in salaries for economic growth rates of 1, 3, 5, and 7 percent annually.

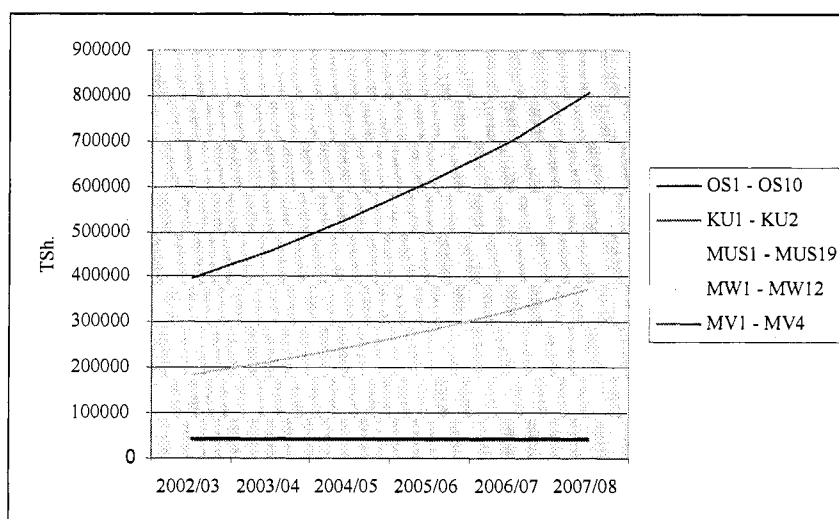
Figure 8.5: Projections of Salary Increases in Line with Real Economic Growth

8.49 At an annual growth rate of 1 percent, real salaries would increase by only three percent over a three year period and by 7 percent over a five year period. However, if economic growth were sustained at five percent annually and real salaries increased in line with economic growth, real salaries would have increased by 16 percent over the three year period and by 28 percent over the five year period. With an economic growth rate of seven percent, real increases in salaries would be even more rapid: 23 percent over a three year period and 40 percent over the five year period.

Differentiated salary increases

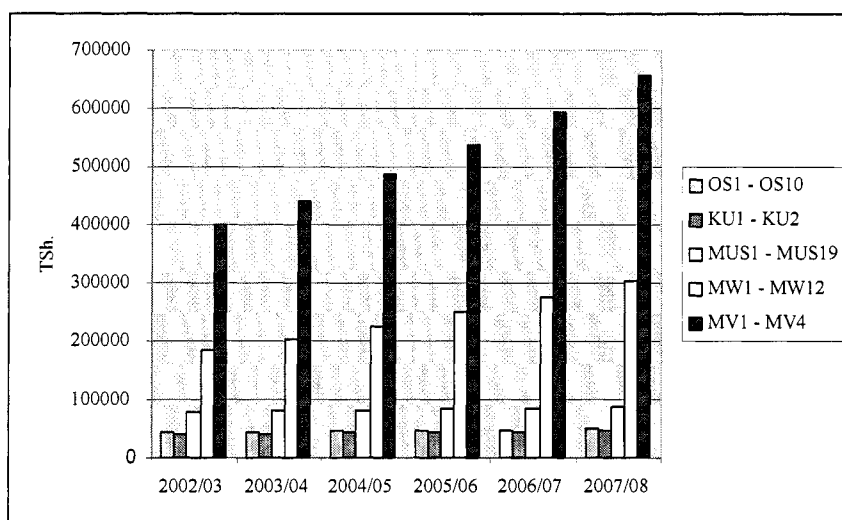
8.50 One of the inherent problems of Zanzibar's salary structure is that pay levels for technical, professional and managerial staff are considered to be too low to attract, retain, and motivate sufficient numbers of qualified staff. To overcome these problems, a pay reform in which salaries for these categories rise faster than for the other categories could be implemented as part of an overall package of reforms to improve the performance of the civil service. Given fiscal constraints, high salary increases for all categories above the real growth rate are not feasible or would require very large cuts in the size of the civil service. To illustrate the opportunity for higher salary increases for certain categories of staff, we consider a policy in which the fiscal target is to keep the ratio of the wage bill to recurrent expenditures at the level attained after the initial reductions in government employment. With a cut in government employment by 20 percent, the share of salaries and wages in recurrent expenditures would fall to 54 percent. A possible policy would be to increase the salaries for higher level employees faster than for staff in lower salary grades in tandem with other measures to restore transparency, accountability, and integrity in the public service.

Figure 8.6: Projections of average real monthly salaries by job category



8.51 In this scenario, real wages for employees in the two highest job categories, MV and MW, would increase by about 50 percent over the three year period and by about 100 percent over the five year period. However, a policy in which only certain groups of staff benefit from fairly large salary increases, while other categories of staff remain without any real salary increases might have negative effects on the motivation of staff in lower cadres and might also be difficult to implement politically. We thus look at the option of providing real salary increases to all categories of staff, with higher increase of staff in the categories MV and MW. Assuming an annual growth rate of 5 percent, we examine the feasible increase for higher level staff if real salaries for lower cadres are increased by 2 percent annually and the wage bill as a percentage of recurrent expenditures is to be contained below 54 percent.

Figure 8.7: Projections of Average Salaries in a Scenario with Differentiated Salary Increases



8.52 Under this scenario, salaries for the lower cadres would increase by six percent over the three year period and by ten percent over the five year period. Higher cadres would still receive annual real salary increases of about 10 percent annually. This would result in a

cumulative increase in their real salaries of 35 percent over a three year period and 64 percent over a five year period.

Cost of a selective accelerated salary enhancement (SASE) scheme

8.53 Mainland Tanzania has adopted a system of selective accelerated salary enhancements (SASE) as part of its public service reform program (PSRP). The objective of the SASE program within the overall PSRP is two-fold. The first objective is to address distortions that are introduced through donor-funded local cost compensation (LCC). Payment of LCC has tended to impact on Government's capacity to deliver its own programs since it creates incentives for staff to devote their energy to the implementation of donor-funded projects rather than to the implementation of general government programs. In addition, with the large number of donors and donor projects active in Tanzania, the system of LCC has become

Box 8.3: The SASE Scheme in Tanzania

The SASE scheme is tied to the medium-term pay reform targets. For government staff that meet specified criteria, it provides salary enhancements that anticipate salary increases that would be only gradually reached through the pay reform program. For example, in the scenario shown in the previous section, the salaries for staff in the categories MV and MW would rise gradually between FY03 and FY08 by about 64 percent. Under the SASE scheme, certain staff would receive the entire salary increase already in FY04, while the remaining staff would only gradually reach the same pay level.

The broad parameters for the eligibility and participation of ministries, departments, and agencies (MDA) in the SASE scheme include:

- The MDA plays a leading role in change management and has significant impact on the socio-economic well-being of the average citizen;
- MDAs must demonstrate that objective and transparent criteria were used to select nominees;
- Salary scales are pegged to the medium-term pay reform strategy;
- Each application is supported by a work plan for each individual which sets out clear deliverables; and
- The MDA is still within its allocation for SASE. The allocation will be proportional to the number of employees in the organization.

Once an MDA determined to be eligible for participation in the SASE scheme, MDAs would nominate employees for inclusion in the SASE scheme based on certain criteria. At a minimum, the incumbent must:

- be involved in activities that have the greatest impact on service delivery, the management of the reform process, or the production of strategic government output;
- have an up-to-date job description, which is detailed and specifies outputs, quality considerations, and timeframes for completion of tasks, and other objective criteria, and
- sign a performance agreement, which will serve as the basis for determining acceptable performance.

In addition to a high-level committee sanctioning the proposals made by MDAs for SASE after a thorough review by a technical committee, the performance of the incumbents in SASE scheme positions must be appraised on an annual basis, using an objective staff performance appraisal system. The appraisal will determine whether the incumbent's performance warrants the continued receipt of SASE salary supplements.

Experience in Mainland Tanzania shows that the implementation of the SASE scheme is administratively quite difficult, which has led to delays and only a limited roll-out of the SASE scheme so far. It is to be noted that an employee who moves out of a "SASE" position does not carry with him the salary enhancement.

unwieldy and has little transparency. Implementation of a SASE scheme was thus intended

to facilitate the phasing out of LCC and to have the government pay structure and SASE-supported pay levels gradually converge. The second objective of the SASE scheme in line with pay reform strategy targets is to provide immediately enhanced salaries to key government staff who perform critical/strategic functions in the implementation of the Government's reform program.

8.54 Adoption of such a scheme could also be considered for Zanzibar in the context of a broader reform program. It could play an important role in supporting and motivating staff critical for the implementation of a broad-based reform program. In addition, it could also serve as a benchmark and consolidating structure for local cost compensation that might become more prevalent if donor assistance to Zanzibar increases. It would be important to ensure that donor interventions are integrated into the public sector and contribute to a strengthening of the performance and capacity of the public sector, rather than drawing scarce human resources to the implementation of donor-funded projects with only a limited impact on poverty reduction.

8.55 In the following, we provide illustrative estimates of the cost of a SASE scheme in Zanzibar. Obviously, such a scheme would have to be part and parcel of a broader public sector reform program and would be contingent on the adoption of a medium-term pay reform policy.

8.56 The basis for the analysis is the pay reform program outlined in the previous section, in which real salaries of the lower cadres increase by 2 percent annually, while real salaries of the higher cadres increase by 10 percent annually. Over a five year period, real salaries for the lower cadres would increase by 10 percent, while those for the higher cadres would increase by about 64 percent. Under a SASE scheme, qualifying employees would receive a salary supplement that would increase their take-home pay immediately to the level which, under the gradual pay reform program, would only be reached after five years.

8.57 In our illustrative estimates, we assume that staff in the categories MUS, MV, and MW would be eligible for SASE. We estimate the annual cost of the introduction of a SASE scheme for three scenarios, which differ by the coverage of each job category in the SASE scheme.

Table 8.10: Scenarios for the Coverage of the SASE Scheme

Grade	Scenario 1	Scenario 2	Scenario 3
Share of staff benefiting from SASE			
MUS	10%	20%	50%
MV	30%	50%	100%
MW	30%	50%	100%
Number of staff benefiting			
MUS	762	1523	3808
MV	899	1498	2995
MW	45	75	150

8.58 Under the first scenario, we assume that 10 percent of staff in the salary grade MUS and 30 percent of the staff in the salary grades MV and MW participate in the SASE scheme. Under the second scenario, 20 percent of staff in the salary grade MUS and 50 percent of the staff in the salary grades MV and MW participate in the SASE scheme. Finally, under the third scenario, 50 percent of all staff in the MUS category and 100 percent of the staff in the MV and MW salary categories receive the SASE supplements.

Table 8.11: Average Monthly Salaries (Incl. Allowances) and SASE Supplement, FY04–FY08

	FY04	FY05	FY06	FY07	FY08
Average monthly pay (incl. allowances) (T.Shs., at 2002 prices)					
MUS	80,458	82,067	83,708	85,382	87,090
MV	203,884	225,126	248,580	274,479	303,075
MW	441,038	486,987	537,724	593,746	655,605
Average monthly salary SASE supplement (T.Shs., at 2002 prices)					
MUS	6,632	5,023	3,382	1,708	-
MV	99,191	77,949	54,495	28,596	-
MW	214,567	168,618	117,881	61,859	-
Average monthly pay (incl. allowances) including SASE supplement (T.Shs., at 2002 prices)					
MUS	87,090	87,090	87,090	87,090	87,090
MV	303,075	303,075	303,075	303,075	303,075
MW	655,605	655,605	655,605	655,605	655,605

8.59 Table 8.13 shows projections of the average monthly take-home pay for the salary groups MUS, MV, and MW. Real salaries are increased by 2 percent annually for the salary grade MUS and by 10 percent for the salary grades MV and MW. The salary enhancement for each year is calculated as the difference between the projected salary for FY08 and the projected salary for the specific year.

8.60 The additional cost per year for each salary grade is then calculated by multiplying the number of staff benefiting in each salary grade by the average monthly SASE salary supplement and by 12 (to convert average monthly additional expenditures through SASE to annual estimates).

Table 8.12: Additional Annual Cost of SASE Implementation

	FY04	FY05	FY06	FY07	FY08
Additional Annual Cost (T.Shs. Million, at 2002 prices): Scenario 1					
MUS	61	46	31	16	0
MV	1070	841	588	308	0
MW	116	91	63	33	0
Total	1246	977	682	357	0
% of recurrent expenditures	2.4%	1.8%	1.2%	0.6%	0.0%
Additional Annual Cost (T.Shs. Million, at 2002 prices): Scenario 2					
MUS	121	92	62	31	0
MV	1783	1401	979	514	0
MW	193	151	106	56	0
Total	2096	1644	1147	601	0
% of recurrent expenditures	4.1%	3.0%	2.0%	1.0%	0.0%
Additional Annual Cost (T.Shs. Million, at 2002 prices): Scenario 3					
MUS	303	230	155	78	0
MV	3565	2802	1959	1028	0
MW	385	303	212	111	0
Total	4253	3334	2325	1217	0
% of recurrent expenditures	8.3%	6.2%	4.1%	2.0%	0.0%

8.61 Under each scenario, the additional spending due to SASE declines every year as the regular salaries converge towards the pay target. Under the first scenario, in which less than a third of staff in the eligible salary grades benefits from SASE salary supplements, the additional cost during the first year would be T.Shs. 1.2 billion or 2.4 percent of total recurrent expenditures and then declines gradually until FY08. Under the second scenario, in which 50 percent of the two highest salary categories and 50 percent of staff in the MUS category benefit from SASE supplements, the initial additional cost would be T.Shs. 2.1 billion or 4.1 percent of recurrent expenditures. Finally, the third scenario, in which all staff in the categories MV and MW and 50 percent of the staff in the MUS category receive SASE salary supplements, the initial cost would be T.Shs. 4.3 billion or 8.3 percent of recurrent expenditures.

8.62 Examining the three scenarios shows that the additional cost for including MUS and MW categories in the SASE scheme is comparatively small, since (a) for the MUS category, the amount of the salary supplement is assumed to be low, and (b) for MW, the number of staff in that category is small. The cost and affordability of such a scheme thus depends critically on the treatment of MV staff in such a scheme. Whenever the coverage is less than 100 percent of a salary's categories, it is also likely that our estimates understate the actual cost of the scheme. This is due to the fact that these calculations are based on average salaries for a job category. However, under a SASE scheme, it would be likely that the upper salaries in each job category usually would be more strongly represented in SASE, thus leading to higher additional cost.

8.63 Experience in Mainland Tanzania points out the fact that SASE needs to be part of an overall reform program that includes the introduction of a series of measures to enhance meritocracy. The experience so far is limited, and the scheme, although showing potential to bring some order to the pay issue, needs to be carefully implemented. So far, the implementation of the SASE scheme is administratively quite difficult, and can only be

implemented at the pace that donor resources are available for its implementation. Government has been reluctant to take on donor funding for pay reform.

8.64 However, given the high variability and poor predictability of economic growth and government revenue in Zanzibar, adoption of a SASE scheme would expose Government also to significant fiscal risks in case the medium-term growth and revenue performance is below the projected levels. Unless Government has restructured expenditures in a way that would create sufficient headroom to absorb shocks, the potential benefits from a SASE scheme are unlikely to warrant taking the inherent risks.

DATA ANNEX

NOTE: Because of independent rounding of numbers, some totals shown in the following tables may differ slightly from the sum of their components.

Table A1: Summary of Central Government Operations

Item	Million Shillings											
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	
Revenue												
Recurrent Revenue	653.6	731.9	562.7	659.5	666.1	669.0	923.4	1,395.0	1,791.8	2,330.2	4,922.0	
Development Revenue												
Total Revenue	653.6	731.9	562.7	659.5	666.1	669.0	923.4	1,395.0	1,791.8	2,330.2	4,922.0	
Expenditures												
Recurrent Expenditures	614.0	698.0	1,015.0	1,020.9	1,241.0	953.1	1,336.6	1,809.0	1,826.1	2,283.3	3,872.8	
Development Expenditures	327.0	492.0	198.0	204.2	248.2	191.2	267.4	314.0	362.0	985.0	1018.0	
Total Expenditures	941.0	1,190.0	1,213.0	1,225.1	1,489.2	1,144.3	1,604.0	2,123.0	2,188.1	3,268.3	4,890.8	
Recurrent Budget Balance	39.6	33.9	-452.3	-361.4	-574.9	-284.1	-413.2	-414.0	-34.3	46.8	1,049.2	
Overall Balance	-287.4	-458.1	-650.3	-565.6	-823.1	-475.3	-680.6	-728.0	-396.3	-938.2	31.2	

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A1 (Cont'd): Summary of Central Government Operations

Item	Million Shillings										
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Revenue											
Recurrent Revenue	6,486.0	6,028.0	7,947.0	14,266.0	27,114.0	24,661.4	37,238.0	37,723.0	63,657.7	38,675.0	42,241.0
Development Revenue											
Total Revenue	6,486.0	6,028.0	7,947.0	14,266.0	27,114.0	24,661.4	37,238.0	37,723.0	63,657.7	38,675.0	42,241.0
Expenditures											
Recurrent Expenditures	11,136.2	11,164.0	7,979.3	11,296.4	19,059.6	25,090.0	37,432.0	34,222.0	62,468.0	42,089.0	46,626.0
Development Expenditures (Local)	1209.0	942.0	685.0	1259.0	1081.0	773.0	924.0	496.0	861.0	1024.0	1326.0
Total Expenditures	12,345.2	12,106.0	8,664.3	12,555.4	20,140.6	25,863.0	38,356.0	34,718.0	63,329.0	43,113.0	47,952.0
Recurrent Budget Balance	-4650.2	-5136.0	-32.3	2969.6	8054.4	-428.6	-194.0	3501.0	1189.7	-3414.0	-4385.0
Overall Balance	-5,859.2	-6,078.0	-717.3	1,710.6	6,973.4	-1,201.6	-1,118.0	3,005.0	328.7	-4,438.0	-5,711.0

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A2: Current Account of Central Government of Zanzibar – Administration 1980/81 - 2001/2002

RECEIPTS	Million Shillings										
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1. Direct Taxes											
1.1 Income Tax	14	18	20	25	48	49	59	93	113	149	1,881
1.2 Total	14	18	20	25	48	49	59	93	113	149	1,881
2. Indirect Taxes											
2.1 Import duties	42	79	64	79	117	157	178	344	477	1,006	682
2.2 Other taxes	20	15	19	37	21	46	71	89	8	17	388
2.3 Excise duty	-	-	-	-	-	-	-	-	-	-	338
2.4 Sales Tax	155	177	169	293	229	268	407	602	785	829	1,187
2.5 Total	217	271	253	409	367	471	655	1,034	1,271	1,852	2,595
3. Other Earnings											
3.1 Contribute from Pub Enterprises	377	394	242	141	217	90	112	154	180	329	-
3.2 Gov't Secur. & Transf. from SMT.	46	50	48	84	34	59	97	115	228	-	-
3.3 Other Earnings	423	443	290	225	251	150	209	269	408	329	446
3.4 Total	423	443	290	225	251	150	209	269	408	329	446
Total Receipts	654	732	563	660	666	669	923	1,395	1,792	2,330	4,922

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A2 (Cont'd): Current Account of Central Government of Zanzibar—Administration. 1980/81 - 2001/2002

RECEIPTS	Million Shillings										
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
1. Direct Taxes											
1.1 Income Tax	220	439	287	513	665	796	1,524	1,177	2,214	2,887	3,608
1.2 Total	220	439	287	513	665	796	1,524	1,177	2,214	2,887	3,608
2. Indirect Taxes											
2.1 Import Duties	1,649	1,730	3,292	5,084	6,001	7,651	13,984	13,451	18,589	19,166	15,488
2.2 Other Taxes	216	73	87	1,787	3,251	3,010	8,208	9,051	5,078	7,280	9,319
2.3 Excise Duty	1,058	838	797	1,019	1,781	2,391	1,456	1,331	2,631	820	1,649
2.4 Sales Tax/VAT (Local)	2,275	1,847	2,620	3,256	4,793	4,370	8,728	10,201	20,938	5,362	8,771
2.5 Total	5,198	4,488	6,796	11,146	15,826	17,422	32,376	34,034	47,236	32,628	35,227
3. Other Earnings											
3.1 Contrib. from Pub. Enterprises	-	-	-	-	450	228	268	-	7,295	740	982
3.2 Gov't Secur. & Transf. from SMT.	-	-	-	-	7,868	5,091	1,935	1,200	700	1,000	72
3.3 Other Earnings	1,068	1,101	864	2,607	2,305	1,124	1,135	1,312	6,213	1,420	2,352
3.4 Total	1,068	1,101	864	2,607	10,623	6,443	3,338	2,512	14,208	3,160	3,406
Total Receipts	6,486	6,028	7,947	14,266	27,114	24,661	37,238	37,723	63,658	38,675	42,241

Source: Ministry of Finance and Economic Affairs, Zanzibar

Note: From 1998/99, Sales Tax is replaced by VAT (Local).

Other Earnings includes Ministries Contributions.

Table A3: Current Account of Central Government of Zanzibar—Administration

RECEIPTS	Percentage Shares										
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1. Direct Taxes											
1.1 Income Tax	2.1	2.4	3.6	3.9	7.1	7.3	6.4	6.6	6.3	6.4	38.2
1.2 Total	2.1	2.4	3.6	3.9	7.1	7.3	6.4	6.6	6.3	6.4	38.2
2. Indirect Taxes											
2.1 Import Duties	6.4	10.8	11.4	12.0	17.6	23.4	19.2	24.6	26.6	43.2	13.9
2.2 Export Duties	3.1	2.0	3.4	5.6	3.1	6.9	7.6	6.4	0.5	0.7	7.9
2.3 Excise Duty											6.9
2.4 Sales Tax	23.6	24.2	30.0	44.4	34.4	40.0	44.1	43.1	43.8	35.6	24.1
2.5 Total	33.2	37.0	44.9	62.1	55.1	70.4	71.0	74.1	70.9	79.5	52.7
3. Other Earnings											
3.1 Contributions from Public Enterprises	57.7	53.8	43.0	21.4	32.6	13.5	12.1	11.0	10.1	14.1	
3.2 Gov't Securities & Transfers from SMT.	7.0	6.8	8.5	12.7	5.1	8.9	10.5	8.2	12.7		
3.3 Other Earnings	64.8	60.6	51.5	34.1	37.7	22.4	22.6	19.3	22.8	14.1	9.1
3.4 Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A3 (Cont'd): Current Account of Central Government of Zanzibar—Administration

RECEIPTS	Percentage Shares											
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	
1. Direct Taxes												
1.1 Income Tax	3.4	7.3	3.6	3.6	2.5	3.2	4.1	3.1	3.5	7.5	8.5	
1.2 Total	3.4	7.3	3.6	3.6	2.5	3.2	4.1	3.1	3.5	7.5	8.5	
2. Indirect Taxes												
2.1 Import Duties	25.4	28.7	41.4	35.6	22.1	31.0	37.6	35.7	29.2	49.6	36.7	
2.2 Export Duties	3.3	1.2	1.1	12.5	12.0	12.2	22.0	24.0	8.0	18.8	22.1	
2.3 Excise Duty	16.3	13.9	10.0	7.1	6.6	9.7	3.9	3.5	4.1	2.1	3.9	
2.4 Sales Tax/VAT (Local)	35.1	30.6	33.0	22.8	17.7	17.7	23.4	27.0	32.9	13.9	20.8	
2.5 Total	80.1	74.5	85.5	78.1	58.4	70.6	86.9	90.2	74.2	84.4	83.4	
3. Other Earnings												
3.1 Contributions from Public Enterprises					1.7	0.9	0.7		11.5	1.9	2.3	
3.2 Govt Securities & Transfers from SMT.					29.0	20.6	5.2	3.2	1.1	2.6	0.2	
3.3 Other Earnings	16.5	18.3	10.9	18.3	8.5	4.6	3.0	3.5	9.8	3.7	5.6	
3.4 Total	16.5	18.3	10.9	18.3	39.2	26.1	9.0	6.7	22.3	8.2	8.1	
Total Receipts	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A4: Current Account of Central Government—Economic Classification

EXPENDITURES	Million Shillings										
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1. Current Exp. on Goods & Services	177.6	166.7	214.1	179.2	281.2	330.4	430.5	610.6	763.0	991.2	1,297.0
1.1 Wages, Salaries and Allowances	0.1	-	39.0	28.5	43.2	49.4	85.7	129.3	142.0	2.4	110.0
1.2 Interest on Debt	410.8	516.9	737.7	799.7	882.2	531.3	769.7	931.8	799.0	1,136.5	2,225.9
1.3 Misc. Goods & Services	588.5	683.6	990.8	1,007.4	1,206.6	911.1	1,285.9	1,671.7	1,704.0	2,130.1	3,632.9
1.4 Total											
2. Subsidies	0.1	0.5	0.2	0.2	3.7	8.0	0.4	2.2	1.0	34.7	-
2.1 Public Enterprises	0.1	0.5	0.2	0.2	3.7	8.0	0.4	2.2	1.0	34.7	-
2.2 Total											
3. Transfers	18.1	2.7	11.0	0.8	12.3	14.1	12.7	10.5	15.2	18.5	22.9
3.1 Pensions							15.5	19.1	27.8	28.0	65.1
3.2 Gratuities							-	-	-	-	-
3.3 Other Households	7.3	7.0	9.3	7.8	13.5	15.5	12.3	32.1	40.1	65.9	117.1
3.4 Local Government		4.2	3.7	4.7	4.9	4.4	9.8	73.4	38.0	6.1	34.8
3.5 Non-Profit Making Bodies											
3.6 Total	25.4	13.9	24.0	13.3	30.7	34.0	50.3	135.1	121.1	118.5	239.9
4. Total Expenditures	614.0	698.0	1,015.0	1,020.9	1,241.0	953.1	1,336.6	1,809.0	1,826.1	2,283.3	3,872.8
5. Surplus On Current Account	39.6	33.9	(452.3)	(361.4)	(574.9)	(284.1)	(413.2)	(414.0)	(34.3)	46.8	1,049.2

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A4 (Cont'd): Current Account of Central Government—Economic Classification

EXPENDITURES	Million Shillings										
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
1. Current Exp. on Goods & Services											
1.1 Wages, Salaries and Allowances	1,760	3,943	3,940	4,479	7,925	11,831	17,521	18,184	23,228	23,028	29,483
1.2 Interest on Debt	567	2,039	32	9	-	-	-	50	1,068	591	993
1.3 Miscellaneous Goods & Services	8,245	4,518	3,381	6,005	9,657	11,946	18,325	14,586	36,390	15,945	12,579
1.4 Total	10,572	10,500	7,353	10,493	17,582	23,777	35,846	32,820	60,686	39,563	43,055
2. Subsidies											
2.1 Public Enterprises											
2.2 Total											
3. Transfers											
3.1 Pensions	46	63	70	164	299	411	500	466	513	877	1,611
3.2 Gratuities	199	257	240	316	623	365	296	181	514	568	1,450
3.3 Other Households	20	16	17	36	29	-	38	33	41	42	-
3.4 Local Government	210	211	199	190	357	437	398	419	388	516	300
3.5 Non-Profit Making Bodies	89	117	100	99	170	100	354	304	326	523	210
3.6 Total	564	664	626	804	1,478	1,313	1,586	1,402	1,782	2,526	3,571
4. Total Expenditures	11,136	11,164	7,979	11,296	19,060	25,090	37,432	34,222	62,468	42,089	46,626
5. Surplus on Current Account	-4,650	-5,136	-32	2,970	8,054	-429	-194	3,501	1,190	-3,414	-4,385

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A5: Current Account of Central Government—Economic Classification

EXPENDITURES	Percentage Shares										
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1. Current Exp. on Goods & Services	28.9	23.9	21.1	17.6	22.7	34.7	32.2	33.8	41.8	43.4	33.5
1.1 Wages, Salaries and Allowances	0.0	0.0	3.8	2.8	3.5	5.2	6.4	7.1	7.8	0.1	2.8
1.2 Interest on Debt	66.9	74.1	72.7	78.3	71.1	55.7	57.6	51.5	43.8	49.8	57.5
1.3 Miscellaneous Goods & Services	95.8	97.9	97.6	98.7	97.2	95.6	96.2	92.4	93.3	93.3	93.8
1.4 Total											
2. Subsidies	0.0	0.1	0.0	0.0	0.3	0.8	0.0	0.1	0.1	1.5	0.0
2.1 Public Enterprises	0.0	0.1	0.0	0.0	0.3	0.8	0.0	0.1	0.1	1.5	0.0
2.2 Total	0.0	0.1	0.0	0.0	0.3	0.8	0.0	0.1	0.1	1.5	0.0
3. Transfers	2.9	0.4	1.1	0.1	1.0	1.5	1.0	0.6	0.8	0.8	0.6
3.1 Pensions	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.1	1.5	1.2	1.7
3.2 Gratuities	1.2	1.0	0.9	0.8	1.1	1.6	0.9	1.8	2.2	2.9	3.0
3.3 Other Households	0.0	0.6	0.4	0.5	0.4	0.5	0.7	4.1	2.1	0.3	0.9
3.4 Local Government	4.1	2.0	2.4	1.3	2.5	3.6	3.8	7.5	6.6	5.2	6.2
3.5 Non-Profit Making Bodies											
3.6 Total											
4. Total Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A5 (Cont'd): Current Account of Central Government—Economic Classification

EXPENDITURES	Percentage Shares											
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	
1. Current Exp. on Goods & Services												
1.1 Wages, Salaries and Allowances	15.8	35.3	49.4	39.6	41.6	47.2	46.8	53.1	37.2	54.7	63.2	
1.2 Interest on Debt	5.1	18.3	0.4	0.1	0.0	0.0	0.0	0.1	1.7	1.4	2.1	
1.3 Miscellaneous Goods & Services	74.0	40.5	42.4	53.2	50.7	47.6	49.0	42.6	58.3	37.9	27.0	
1.4 Total	94.9	94.1	92.2	92.9	92.2	94.8	95.8	95.9	97.1	94.0	92.3	
2. Subsidies												
2.1 Public Enterprises												
2.2 Total												
3. Transfers												
3.1 Pensions	0.4	0.6	0.9	1.5	1.6	1.6	1.3	1.4	0.8	2.1	3.5	
3.2 Gratuities	1.8	2.3	3.0	2.8	3.3	1.5	0.8	0.5	0.8	1.4	3.1	
3.3 Other Households	0.2	0.1	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.6	
3.4 Local Government	1.9	1.9	2.5	1.7	1.9	1.7	1.1	1.2	0.6	1.2	0.6	
3.5 Non-Profit Making Bodies	0.8	1.0	1.3	0.9	0.9	0.4	0.9	0.9	0.5	1.2	0.5	
3.6 Total	5.1	5.9	7.8	7.1	7.8	5.2	4.2	4.1	2.9	6.0	7.7	
4. Total Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A6: Classification of Central Government Expenditures by Purpose

Expenditures	Million Shillings											
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	
General Public Service												
General Administration	275	319	187	232	186	220	286	270	532	828	1,543	
Public Order	8	11	12	6	7	75	126	180	179	232	348	
Sub-Total General Public Services	283	330	199	238	193	295	412	450	711	1,060	1,891	
Programs												
Education	79	86	79	69	62	116	156	265	289	345	494	
Health	53	75	96	99	51	86	122	185	201	272	350	
Social Security	-	-	-	-	-	-	-	-	-	-	-	
Housing and Community Services	136	85	79	66	64	74	105	121	141	264	308	
Recreational and Cultural Services	25	28	33	93	31	38	53	88	64	81	121	
Agriculture	137	353	255	173	251	112	136	217	185	352	421	
Manufacturing and Trade	37	49	148	37	40	4	6	11	8	14	32	
Fuel and Energy	-	-	-	16	67	4	-	-	6	16	17	
Transport and Communications	87	83	78	150	267	114	154	182	293	522	643	
Other Economic Services	9	6	4	74	38	2	1	2	1	5	47	
Sub-Total Programs	563	765	772	778	871	545	733	1,071	1,187	1,871	2,433	
Other Purpose												
Public Debt	70	81	217	196	395	297	432	552	251	295	479	
Purchase of Financial Assets	-	-	-	-	-	-	-	-	-	-	-	
Pensions and Gratuities	25	14	25	13	30	7	27	50	39	42	88	
Sub-Total Other Purpose	95	95	242	209	425	304	459	602	290	237	567	
Tot. Rec. and Dev. Expenditures	941	1,190	1,213	1,225	1,489	1,144	1,604	2,123	2,188	3,268	4,891	

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A6 (Cont'd): Classification of Central Government Expenditures by Purpose

Expenditures	Million Shillings										
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
General Public Service											
General Administration	3,325.2	3,590.4	3,254.1	5,902.3	6,679.7	13,626.7	22,863.3	13,986.9	36,383.8	20,305.1	13,640.0
Public Order	813.0	880.0	850.0	1,007.0	3,790.0	2,457.0	3,356.0	4,242.0	4,941.0	4,953.0	5,453.0
Sub-Total General Public Service	4,138.2	4,470.4	4,104.1	6,909.3	10,469.7	16,083.7	26,219.3	18,228.9	41,324.8	25,258.1	19,093.0
Programs											
Education	963.4	1,371.0	1,340.6	1,498.4	2,657.7	3,263.4	4,185.0	4,385.0	5,475.0	6,128.0	9,105.0
Health	696.1	912.0	761.8	954.9	1,777.9	1,983.7	2,590.0	2,764.0	2,537.0	2,936.0	5,251.0
Social Security	-	-	-	-	-	-	-	-	-	-	-
Housing and Community Services	2,451.8	440.0	345.2	475.5	684.4	547.6	694.0	883.0	1,443.0	1,762.0	1,676.0
Recreational and Cultural Services	1,176.0	520.0	315.0	288.0	507.0	588.0	614.0	4,371.0	5,425.0	461.0	805.0
Agriculture	917.7	866.0	663.5	871.7	1,311.6	1,310.4	1,490.0	1,874.0	1,971.0	2,272.0	3,380.0
Manufacturing and Trade	53.0	90.0	58.0	73.0	74.0	117.0	156.0	195.0	414.0	118.0	430.0
Fuel and Energy	24.2	24.0	15.3	24.8	130.8	25.7	51.0	21.0	24.0	32.0	38.0
Transport and Communications	1,021.6	883.0	538.9	754.0	1,389.1	910.1	1,250.0	958.0	1,829.0	1,797.0	3,274.0
Other Economic Services	91.0	171.0	180.0	217.0	216.0	257.0	311.0	342.0	791.0	313.0	846.0
Sub-Total Programs	7,394.8	5,277.0	4,218.3	5,157.4	8,748.6	9,003.0	11,341.0	15,793.0	19,909.0	15,819.0	24,805.0
Other Purpose											
Public Debt	567.0	2,039.0	32.0	9.0				50.0	1,068.0	591.0	993.0
Purchase of Financial Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions and Gratuities	245.2	319.6	309.9	479.7	922.3	776.3	795.7	646.1	1,027.2	1,444.9	3,061.0
Sub-Total Other Purpose	812.2	2,358.6	341.9	488.7	922.3	776.3	795.7	696.1	2,095.2	2,035.9	4,054.0
Tot. Rec. and Dev. Expenditures	12,345.2	12,106.0	8,664.3	12,555.4	20,140.6	25,863.0	38,356.0	34,718.0	63,329.0	43,113.0	47,952.0

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A7: Classification of Central Government Expenditures by Purpose

Expenditures	Percentage Shares										
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
General Public Service											
General Administration	29.2	26.8	15.4	18.9	12.5	19.2	17.8	12.7	24.3	25.3	31.5
Public Order	0.9	0.9	1.0	0.5	0.5	6.6	7.9	8.5	8.2	7.1	7.1
Sub-Total General Public Service	30.1	27.7	16.4	19.4	13.0	25.8	25.7	21.2	32.5	32.4	38.7
Programs											
Education	8.4	7.2	6.5	5.6	4.1	10.2	9.7	12.5	13.2	10.5	10.1
Health	5.6	6.3	7.9	8.1	3.5	7.5	7.6	8.7	9.2	8.3	7.1
Social Security											
Housing and Community Services	14.5	7.1	6.5	5.4	4.3	6.4	6.5	5.7	6.5	8.1	6.3
Recreational and Cultural Services	2.7	2.4	2.7	7.6	2.1	3.3	3.3	4.1	2.9	2.5	2.5
Agriculture	14.6	29.7	21.0	14.1	16.8	9.8	8.5	10.2	8.4	10.8	8.6
Manufacturing and Trade	3.9	4.1	12.2	3.0	2.7	0.3	0.4	0.5	0.4	0.4	0.7
Fuel and Energy			0.0	1.3	4.5	0.0		0.3	0.3	0.5	0.3
Transport and Communications	9.2	7.0	6.4	12.3	17.9	9.9	9.6	8.6	13.4	16.0	13.1
Other Economic Services	1.0	0.5	0.3	6.0	2.6	0.2	0.1	0.1	0.0	0.2	1.0
Sub-Total Programs	59.8	64.3	63.6	63.5	58.5	47.7	45.7	50.4	54.3	57.3	49.7
Other Purpose											
Public Debt	7.4	6.8	17.9	16.0	26.5	26.0	26.9	26.0	11.5	9.0	9.8
Purchase of Financial Assets											
Pensions and Gratuities	2.7	1.2	2.1	1.1	2.0	0.6	1.7	2.4	1.8	1.3	1.8
Sub-Total Other Purpose	10.1	8.0	20.0	17.1	28.5	26.6	28.6	28.4	13.3	10.3	11.6
Tot. Rec. and Dev. Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A7 (Cont'd): Classification of Central Government Expenditures by Purpose.

Expenditures	Percentage Shares											
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	
General Public Service												
General Administration	26.9	29.7	37.6	47.0	33.2	52.7	59.6	40.3	57.5	47.1	28.4	
Public Order	6.6	7.3	9.8	8.0	18.8	9.5	8.7	12.2	7.8	11.5	11.4	
Sub-Total General Public Service	33.5	36.9	47.4	55.0	52.0	62.2	68.4	52.5	65.3	58.6	39.8	
Programs												
Education	7.8	11.3	15.5	11.9	13.2	12.6	10.9	12.6	8.6	14.2	19.0	
Health	5.6	7.5	8.8	7.6	8.8	7.7	6.8	8.0	4.0	6.8	11.0	
Social Security												
Housing and Community Services	19.9	3.6	4.0	3.8	3.4	2.1	1.8	2.5	2.3	4.1	3.5	
Recreational and Cultural Services	9.5	4.3	3.6	2.3	2.5	2.3	1.6	12.6	8.6	1.1	1.7	
Agriculture	7.4	7.2	7.7	6.9	6.5	5.1	3.9	5.4	3.1	5.3	7.0	
Manufacturing and Trade	0.4	0.7	0.7	0.6	0.4	0.5	0.4	0.6	0.7	0.3	0.9	
Fuel and Energy	0.2	0.2	0.2	0.2	0.6	0.1	0.1	0.1	0.0	0.1	0.1	
Transport and Communications	8.3	7.3	6.2	6.0	6.9	3.5	3.3	2.8	2.9	4.2	6.8	
Other Economic Services	0.7	1.4	2.1	1.7	1.1	1.0	0.8	1.0	1.2	0.7	1.8	
Sub-Total Programs	59.9	43.6	48.7	41.1	43.4	34.8	29.6	45.5	31.4	36.7	51.7	
Other Purpose												
Public Debt	4.6	16.8	0.4	0.1	0.0	0.0	0.0	0.1	1.7	1.4	2.1	
Purchase of Financial Assets												
Pensions and Gratuities	2.0	2.6	3.6	3.8	4.6	3.0	2.1	1.9	1.6	3.4	6.4	
Sub-Total Other Purpose	6.6	19.4	4.0	3.9	4.6	3.0	2.1	2.0	3.3	4.8	8.5	
Tot. Rec. and Dev. Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance and Economic Affairs, Zanzibar

Table A8: Government Expenditures by Ministries and Years.

(Million Sh.)

Ministries	Items	1999/2000		2000/2001		2001/2002	
		Budget	Actual	Budget	Actual	Budget	Actual
President Office R. Council	Salary & Wages	126	128	152	143	159	160
	Other charges	72	57	92	31	113	59
	Dev. (local)	-	-	-	-	-	-
President Office R. Admin.	Salary & Wages	658	864	904	982	1,444	1,064
	Other charges	480	240	483	191	1,444	1,064
	Dev. (local)	-	-	-	-	-	-
President Office	Salary & Wages	325	117	310	347	393	341
	Other charges	416	542	403	507	502	163
	Dev. (local)	-	-	-	-	-	-
Ministry of State Planning	Salary & Wages	219	220	256	13	-	-
	Other charges	178	93	-	-	-	-
	Dev. (local)	525	115	-	-	-	-
Chief Minister Office	Salary & Wages	398	397	464	465	723	846
	Other charges	491	492	506	267	1,045	515
	Dev. (local)	-	-	-	-	-	-
High Court	Salary & Wages	362	416	436	412	506	482
	Other charges	85	83	128	44	153	82
	Dev. (local)	-	-	-	-	-	-
Attorney General Office	Salary & Wages	143	222	190	2,266	194	203
	Other charges	285	149	257	90	177	48
	Dev. (local)	-	-	-	-	-	-
House of Representatives	Salary & Wages	655	772	811	-	998	1,047
	Other charges	676	508	1,158	-	1,280	1,231
	Dev. (local)	-	-	-	-	-	-
Economic Brigade	Salary & Wages	1,043	1,128	1,338	-	2,909	1,527
	Other charges	207	105	814	-	190	1,572
	Dev. (local)	-	-	-	-	-	-
Prison Department	Salary & Wages	1,013	1,020	1,187	1,176	1,821	1,295
	Other charges	299	211	295	78	344	120
	Dev. (local)	-	-	-	-	-	-
Min. of Finance E. Affairs	Salary & Wages	3,044	3,067	3,217	3,783	5,850	5,365
	Other charges	7,211	31,854	8,794	14,890	12,044	8,705
	Dev. (local)	-	-	1,195	155	896	395

Table A8 (Cont'd): Government Expenditures by Ministries and Years.

(Million Sh.)

Ministries	Items	1999/2000		2000/2001		2001/2002	
		Budget	Actual	Budget	Actual	Budget	Actual
Min. of Agric. & L. Stock	Salary & Wages	1,347	1,506	1,614	1,826	1,908	2,341
	Other charges	322	162	393	161	1,182	587
	Dev. (local)	140	121	230	89	300	149
Min of Trade & Marketing	Salary & Wages	110	151	169	143	171	178
	Other charges	176	72	160	44	241	115
	Dev. (local)	-	-	35	-	95	18
Land & Environment Comm.	Salary & Wages	199	206	221	113	-	-
	Other charges	110	96	113	14	-	-
	Dev. (local)	20	-	40	-	-	-
Ministry of Education	Salary & Wages	4,843	5,198	5,773	5,806	7,121	7,950
	Other charges	681	280	627	175	1,623	623
	Dev. (local)	670	25	950	71	1,100	184
Ministry of Health	Salary & Wages	2,322	2,454	2,637	2,507	3,146	3,497
	Other charges	1,425	504	1,484	468	2,017	1,368
	Dev. (local)	225	-	230	-	300	87
Min of Water, E. Environment	Salary & Wages	675	721	810	899	1,125	1,183
	Other charges	161	103	231	61	571	249
	Dev. (local)	650	250	500	417	690	-
Ministry of Communication	Salary & Wages	860	962	1,087	1,090	1,145	1,631
	Other charges	870	203	961	120	1,321	317
	Dev. (local)	1,000	348	2,500	291	2,500	638
Ministry of Information	Salary & Wages	-	687	-	-	-	-
	Other charges	-	367	-	-	-	-
	Dev. (local)	-	-	-	-	-	-
Min. of State Women & Child.	Salary & Wages	119	155	135	180	234	295
	Other charges	273	134	288	125	656	165
	Dev. (local)	35	-	-	-	-	-
Ant. Smuggling Unit	Salary & Wages	1,401	1,455	1,571	1,559	2,640	1,828
	Other charges	177	149	17	72	175	105
	Dev. (local)	-	-	-	-	-	-
Cash Crops & Fruit Comm.	Salary & Wages	-	196	-	-	-	-
	Other charges	-	340	-	-	-	-
	Dev. (local)	-	-	-	-	-	-
Tourism Commission	Salary & Wages	122	145	157	-	149	208
	Other charges	611	339	580	-	370	307
	Dev. (local)	-	10	-	-	-	-
Fire & Rescue Force	Salary & Wages	294	335	388	408	810	488
	Other charges	58	64	83	42	295	65
	Dev. (local)	-	-	-	-	-	-
Min of State & G. Governance	Salary & Wages	-	-	-	-	305	282
	Other charges	-	-	-	-	632	167
	Dev. (local)	-	-	-	-	-	-
Peoples Militia Units	Salary & Wages	-	-	-	-	222	91
	Other charges	-	-	-	-	18	18
	Dev. (local)	-	-	-	-	-	-

Source: Ministry of Finance and Economic Affairs.

Table A9: Actual Tax Collection by TRA-Zanzibar and Zanzibar Revenue Board

Item	1999/00		2000/01		2001/02	
	T.Shs. Mill	% of Total	T.Shs. Mill	% of Total	T.Shs. Mill	% of Total
Ltd. Company	600.7	1.0	739.1	1.9	957.0	2.3
Individual	316.7	0.5	507.0	1.3	446.9	1.1
W/Tax	246.4	0.4	247.0	0.6	517.4	1.2
Capital Gains Tax	15.0	0.0	9.3	0.0	27.5	0.1
PAYE	1,035.2	1.7	1,286.9	3.3	1,655.3	3.9
Import Duty (I)	18,107.1	30.0	10,196.1	26.4	7,865.5	18.7
Import Duty (P)	485.4	0.8	209.3	0.5	561.9	1.3
Fine on Import	119.0	0.2	144.4	0.4	140.3	0.3
Excise Duty (I)	742.7	1.2	180.8	0.5	84.3	0.2
Excise Duty (P)	1,707.5	2.8	466.6	1.2	1,416.8	3.4
VAT- Imports	15,528.3	25.7	8,752.8	22.7	6,427.9	15.3
Trade Levy	696.7	1.2	587.1	1.5	614.6	1.5
Export Duty	8.6	0.0	0.7	0.0	4.0	0.0
Auction Sales		0.0		0.0	27.3	0.1
Sales of Stores	7.1	0.0	8.8	0.0	0.1	0.0
Customs W/Rent	7.2	0.0	3.5	0.0	3.9	0.0
Customs Agency Fee	1.9	0.0	1.0	0.0	0.1	0.0
Miscellaneous Fee	2.3	0.0	57.6	0.1	4.7	0.0
Withholding Tax	10.8	0.0	7.9	0.0	3.4	0.0
Suspended Duty	0.0	0.0	0.0	0.0	450.1	1.1
Sub-Total (TRA-Zanzibar)	39,638.6	65.7	23,405.9	60.7	21,208.9	50.4
Sales Tax – Local	0.0	0.0	0.0	0.0	0.0	0.0
VAT – Local	5,409.7	9.0	5,361.6	13.9	8,770.9	20.9
Excise – Local	179.4	0.3	180.9	0.5	148.3	0.4
Hotel Levy	126.3	0.2	115.6	0.3	161.9	0.4
Restaurant Levy	23.0	0.0	21.7	0.1	36.8	0.1
Tour Operation Levy	18.8	0.0	11.2	0.0	15.4	0.0
Sea Transport Tax	75.2	0.1	129.9	0.3	187.1	0.4
Stamp Duty	249.7	0.4	355.0	0.9	471.2	1.1
Airport Service Charge	1,128.0	1.9	1,043.0	2.7	1,184.1	2.8
Other Earnings	1,218.2	2.0	213.1	0.6	0.0	0.0
Sea Port Service Charge	348.1	0.6	335.1	0.9	460.2	1.1
Road Dev. Fund	581.5	1.0	578.6	1.5	908.1	2.2
Price Difference	2,396.8	4.0	2,769.5	7.2	0.0	0.0
Petroleum Levy	1,670.5	2.8	1,215.1	3.2	4,460.0	10.6
Price Stabilization	342.0	0.6	317.5	0.8	0.0	0.0
Fuel Sector Dev. Fund	448.8	0.7	572.9	1.5	717.2	1.7
Parastatal Contribution	5,727.2	9.5	740.2	1.9	982.2	2.3
Other Ministries Collection	778.2	1.3	1,206.7	3.1	2,352.0	5.6
Sub-Total (ZRB)	20,721.4	34.3	15,167.6	39.3	20,855.4	49.6
GRAND TOTAL	60,360.0	100.0	38,574.0	100.0	42,064.0	100.0

Table A10: Composition of Inland Revenue (% of Total Collections by ZRB)

Item	1999/00	2000/01	2001/02
Sales Tax – Local	0.0	0.0	0.0
VAT – Local	26.1	35.3	42.1
Excise – Local	0.9	1.2	0.7
Hotel Levy	0.6	0.8	0.8
Restaurant Levy	0.1	0.1	0.2
Tour Operation Levy	0.1	0.1	0.1
Sea Transport Tax	0.4	0.9	0.9
Stamp Duty	1.2	2.3	2.3
Airport Service Charge	5.4	6.9	5.7
Other Earnings	5.9	1.4	0.0
Sea Port Service Charge	1.7	2.2	2.2
Road Dev. Fund	2.8	3.8	4.4
Price Difference	11.6	18.3	0.0
Petroleum Levy	8.1	8.0	21.4
Price Stabilization	1.7	2.1	0.0
Fuel Sector Dev. Fund	2.2	3.8	3.4
Parastatal Contribution	27.6	4.9	4.7
Other Ministries Collection	3.8	8.0	11.3
Total	100.0	100.0	100.0

Table A11: Composition of Income Tax and Customs Revenue (% of Total Collections by TRA)

Item	1999/00	2000/01	2001/02
Ltd. Company	1.5	3.2	4.5
Individual	0.8	2.2	2.1
W/Tax	0.6	1.1	2.4
Capital Gains Tax	0.0	0.0	0.1
PAYE	2.6	5.5	7.8
<i>Sub-total (Income Tax)</i>	<i>5.6</i>	<i>11.9</i>	<i>17.0</i>
Import Duty (I)	45.7	43.6	37.1
Import Duty (P)	1.2	0.9	2.6
Fine on Import	0.3	0.6	0.7
Excise Duty (I)	1.9	0.8	0.4
Excise Duty (P)	4.3	2.0	6.7
VAT- Imports	39.2	37.4	30.3
Trade Levy	1.8	2.5	2.9
Export Duty	0.0	0.0	0.0
Auction Sales	0.0	0.0	0.1
Sales of Stores	0.0	0.0	0.0
Customs W/Rent	0.0	0.0	0.0
Customs Agency Fee	0.0	0.0	0.0
Miscellaneous Fee	0.0	0.2	0.0
Withholding Tax	0.0	0.0	0.0
Suspended Duty	0.0	0.0	2.1
<i>Sub-total (Customs)</i>	<i>94.4</i>	<i>88.1</i>	<i>83.0</i>
Grand Total	100.0	100.0	100.0

Table A12: Health Sector Budget Summary

Sub-vote	Description	FY98 Actuals	FY99 Actuals	FY00 Actuals	FY01 Actuals	FY02 Approved	FY03 Budget
03	Head-office Pemba	667	717	694	851	1,382	1,386
04	Planning and administration	1,396	1,499	1,556	1,464	2,461	3,093
05	Social Welfare			0	0	86	130
06	Preventive (Unguja)	33	41	19	20	141	137
07	Curative (Unguja)	448	429	220	239	400	674
08	Curative (Pemba)	66	31	0	31	369	105
09	Preventive (Pemba)	17	47	48	7	194	101
10	Anti-drug unit (Unguja)			0	0	56	61
11	Social Welfare (Pemba)				0	0	53
12	Anti-drug unit (Pemba)				0	0	21
Total		2,627	2,764	2,537	2,612	5,163	5,759

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

Table A13: Education Ministry Budget Summary (T.Shs. billion)

Sub vote	Description	FY98 Actuals	FY99 Actuals	FY00 Actuals	FY01 Actuals	FY02 Approved	FY03 Budget
03	Pemba sub office	1.37	1.51	1.97	2.03	2.37	3.66
04	Planning and finance	0.18	0.08	0.04	0.08	0.15	0.09
05	Archives and documents conservation	0.00	0.00	0.00	0.00	0.17	0.19
06	Festivals, culture and arts	0.08	0.09	0.05	0.13	0.15	0.19
07	Civil service and administration	0.13	0.10	0.12	0.13	0.34	0.31
08	Education	2.31	2.41	3.01	3.31	4.27	6.01
09	Curriculum, exam and training	0.19	0.21	0.20	0.24	0.10	0.13
10	Sports	0.06	0.09	0.09	0.00	0.14	0.18
11	Private office - Dy. CM	0.04	0.01	0.01	0.01	0.00	0.00
12	Adult education	0.06	0.04	0.05	0.08	0.06	0.13
13	Inspection	0.00	0.00	0.00	0.00	0.06	0.07
14	Higher education, science and technology	0.00	0.00	0.00	0.00	0.94	1.12
Total education vote		4.42	4.54	5.54	6.01	8.75	12.08

Source: Draft budget estimates for various years, Ministry of Finance and Economic Affairs, Zanzibar

Table A14: Zanzibar Exports, 1995/96-2001/02

	1995/96*	%	1996/97*	%	1997/98*	%	1998/99	%	1999/00	%	2000/01	%	2001/02**	%
Traditional Commodities														
Cloves														
Value	1.8	41.5	3.6	58.3	3.1	41.6	0.2	5.0	29.1	81.5	1.2	20.9	12.3	76.2
Volume	3.4		1.2		0.2		0.1		8.9		0.4		2.5	
Unit price	760.6		318.3		644.3		1802.7		3270.6		2999.2		4989.3	
Seaweed														
Value	1.1	24.1	1.0	16.4	1.3	17.4	1.8	44.3	2.6	7.3	2.2	38.1	2.5	15.6
Volume	3.5		2.6		1.0		2.2		6.0		5.2		7.8	
Unit price	321.0		141.1		514.6		799.9		439.4		410.4		325.0	
Copra														
Value	0.2	3.4	0.2	3.3	0.1	0.7								
Volume			0.4		0.0									
SUB TOTAL	3.0	68.9	4.7	78.0	4.5	59.7	2.0	49.3	31.7	88.8	3.3	59.0	14.8	91.8
Non-Traditional Exports														
Manufactured goods														
Fish and Fish produce					2.0		1.6		3.3		1.9		1.0	
Horticultural produce					0.0		0.1		0.1		0.0		0.1	
Other exports	1.4		1.3		1.0		0.3		0.6		0.3		0.3	
SUB TOTAL	1.4	31.1	1.3	22.0	3.0	40.3	2.0	50.7	4.0	11.2	2.3	41.0	1.3	8.2
GRAND TOTAL	4.4	100.0	6.1	100.0	7.5	100.0	4.0	100.0	35.7	100.0	5.7	100.0	16.1	100.0

Sources: TRA, Customs Department, Statistics department Zanzibar, BOT Bulletins, ZSTC.

NOTE:

Volume in '000 Tons; Value in '000,000 US\$; Unit Price in US\$/Ton

* Imputed from calendar figures

** Estimates

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Table A15: Zanzibar Imports 1995/96-2001/02

IMPORT CATEGORY	1995/96**	%	1996/97*	%	1997/98**	%	1998/99	%	1999/00	%	2000/01	%	2001/02*	%
CAPITAL GOODS	18.6	30.8	18.8	28.5	21.2	26.0	28.0	27.5	21.7	18.1	14.7	17.9	13.7	20.1
Transport Equipments	12.0		12.1		12.3		11.2		4.7		5.0		5.1	
Building and Constructions			1.2		2.9		3.0		3.7		1.1		1.3	
Machinery	6.7		5.5		6.1		13.8		13.2		8.7		7.2	
INTERMEDIATE GOODS	16.9	27.8	3.7	5.6	8.9	10.9	20.3	19.9	16.2	13.6	24.4	29.7	23.3	34.2
Oil imports	1.9		1.7		3.4		8.6		8.9		16.9		15.3	
<i>Crude oil</i>					3.3		8.6		3.8		0.0		1.2	
<i>White products</i>					0.2		0.0		5.2		16.9		14.2	
Fertilizers	15.0		2.0		0.0		0.0		0.0		0.0		0.0	
Industrial raw materials			0.1		5.5		11.6		7.3		7.5		7.9	
CONSUMER GOODS	25.1	41.4	43.3	65.9	51.5	63.1	53.6	52.6	81.6	68.3	43.1	52.4	31.1	45.7
Food and food stuffs	20.1		22.1		19.9		26.7		52.1		27.0		18.5	
All other consumer goods			17.5		31.6		26.9		29.5		16.1		12.6	
Beverage & tobacco	0.1		0.0											
Textiles	4.9		3.7											
GRAND TOTAL	60.6	100.0	65.8	100.0	81.6	100.0	101.9	100.0	119.5	100.0	82.3	100.0	68.0	100.0

Value in Mill. of US\$

Sources: TRA, Statistics de partment Zanzibar, BOT Bulletins, ZSTC.

* Estimates

* Imputed from calendar figures

Value in Millions of US\$

* Estimates

* Imputed from calendar figures

