

**THE REVOLUTIONARY GOVERNMENT OF
ZANZIBAR**

**ZANZIBAR'S GROWTH STRATEGY
(2006 – 2015)**

February, 2007

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ABBREVIATIONS AND ACRONYMS

ADSP	Agriculture Development Strategic Plan
ATM	Automated Teller Machine
BDS	Business Development Services
BOT	Bank of Tanzania
CBO	Community Based Organization
CMO	Chief Minister's Office
CSO	Civil Society Organisation
DADP	District Agriculture Development Program
FBME	Federal Bank of the Middle East
FBO	Faith Based Organisation
IFMIS	Integrated Financial Management Information System
IFR	Instrument Flight Rules
GDP	Gross Domestic Product
ICC	Inter-ministerial Coordination Committee
IMTC	Inter-Ministerial Technical Committee
MALE	Ministry of Agriculture, Livestock and Environment
MDAs	Ministry, Departments and Agencies
MDGs	Millennium Development Goals
MoEVT	Ministry of Education and Vocational Training
MoFEA	Ministry of Finance and Economic Affairs
MFIs	Micro Finance Institutions
MKURABITA	Mpango wa Kurasimisha Rasilimali na Biashara Tanzania
MLYWCD	Ministry of Labour, Youths, Women, and Children Development
MTTI	Ministry of Trade, Tourism and Investment
MRASD	Ministry of Regional Administration and Special Departments
MSME	Micro Small and Medium Size Enterprise
MTEF	Medium Term Expenditure Framework
MWCEL	Ministry of Water, Construction, Energy and Land
NEF	National Extension Fund
NGO	Non Governmental Organization
OCGS	Office of the Chief Government Statistician
ODA	Official Development Assistance

SACCOS	Saving and Credit Cooperative Societies
SME	Small and Medium size Enterprise
SWOT	Strengths, Weaknesses, Opportunities and Threats
TIC	Technical Inter-ministerial Committee
PBZ	Peoples Bank of Zanzibar
PFM	Public Finance Management
PPP	Public-Private Partnership
PSD	Private Sector Development
PSDA	Participatory Service Delivery Assessment
RGoZ	Revolutionary Government of Zanzibar
SMART	Specific Measurable Achievable Realistic Time-bound
TCAA	Tanzania Civil Aviation Authority
TWG	Technical Working Group
URT	United Republic of Tanzania
VFR	Visual Flight Rules
ZBC	Zanzibar Business Council
ZCT	Zanzibar Commission for Tourism
ZGS	Zanzibar Growth Strategy
ZIPA	Zanzibar Investment Promotion Authority
ZPRP	Zanzibar Poverty Reduction Plan
ZSGRP	Zanzibar Strategy for Growth and Reduction of Poverty (MKUZA)

STATEMENT OF THE MINISTER OF STATE PRESIDENT'S OFFICE, RESPONSIBLE FOR FINANCE AND ECONOMIC AFFAIRS.

The RGZ embarked on major socio-economic reforms beginning early 1964, the main focus of these reforms centered on the provision of social services to all citizens and reduction of absolute poverty.

To achieve this goal the Government introduced major diversification measures of the economic management systems. There was a systematic but a complete change of policy with an ultimate goal of inviting private sector participation in all business, trade and investment ventures. The Government remained with the task of creating favourable environment that would empower economically different people and enable the private sector to flourish.

The RGZ then focused in building and managing economic infrastructure, introducing relevant policies and legal framework that supports a conducive business environment and hence realize a positive economic growth, increase revenues and better social services delivery.

In order to harness all these efforts with the ultimate goal of achieving growth and reduction of poverty, the government developed a strategy christened. "the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) – codenamed in Kiswahili "Mkakati wa Kukuza Uchumi na Kupunguza Umasikini (MKUZA)". MKUZA has been focusing on ensuring the attainment of sustainable growth that will reduce both income and non-income poverty to the majority of Zanzibaris.

The ZSGRP is outcome based and is built on the Cluster framework. Cluster 1 is Growth and Reduction of Income Poverty. The purpose is to bring out rapid growth and improvement of the wellbeing of the people.

The Zanzibar Growth Strategy (ZGS) is an implementing path for Cluster 1 in ZSGRP (MKUZA). The ZGS is a result oriented strategy which is built on a comprehensive framework for promoting growth. The growth strategy will

inform the implementation of the initiatives to promote pro-poor growth contained in MKUZA. This is the paramount objective of the Zanzibar Strategy for Growth.

A handwritten signature in black ink, appearing to read 'Mwinyihaji Makame', written over a vertical yellow line.

Dr. Mwinyihaji Makame

Minister of State, President's Office

Responsible for Finance and Economic Affairs.

Zanzibar.

1.0 BACKGROUND AND CONTEXT

1.1 Background.

The implementation of Zanzibar's Poverty Reduction Plan (ZPRP) was carried out between 2002 and 2005. A review of the achievements and challenges faced during implementation has informed the development of the Zanzibar strategy for Growth and Reduction of Poverty (MKUZA) to be implemented over the period 2007 to 2010. Experience gained in implementing ZPRP has underscored the importance of positive growth rates, low and stable inflation and the development of the priority sectors. It has also shed light on the importance of generating poverty reducing growth. The aim of MKUZA is to achieve three broad outcomes which are pro-poor growth; improved social well-being; and the promotion of good governance. The strategy development process was widely consultative involving a wide range of stakeholders.

The review of ZPRP revealed that over the period of its implementation Zanzibar experienced:

- Rising but cyclical GDP growth rates;
- A close association between GDP growth and the performance of the agricultural sector.
- Single digit inflation that has been risen over the last decade;
- Growth that was not broad based;
- A trade sector consistently in deficit with export of goods largely consisting of agricultural products while services are dominated by tourism; and
- Limited Foreign Direct Investment.

The experience in the past 5 years has raised concern over the level and breadth of growth and the ability to reduce poverty and raise the well-being of Zanzibaris. This has raised a need to build a comprehensive framework for promoting growth through the formulation of a growth strategy to inform the implementation of the initiatives to promote pro-poor growth contained in MKUZA. The Government of Zanzibar therefore decided to develop a country specific *Growth Strategy* which will complement MKUZA. The

development of the growth strategy was undertaken in two stages. The first stage was to conduct a diagnostic analysis of the situation of growth in Zanzibar. This was presented separately in August 2006 identifying the challenges and constraints and the opportunities that could be tapped for the growth strategy. The second stage was that of developing the strategy itself. The current report is a growth strategy for Zanzibar based on a diagnosis of the status of growth in Zanzibar in general and in respect of key growth sectors.

1.2 Objectives of the Study

The objectives of the study were:

- To make a diagnostic analysis of the key sectors of the Zanzibar economy with a view to identifying the key drivers of growth in Zanzibar;
- To propose a comprehensive growth strategy that will address the identified constraints and challenges in the key sectors; and
- To provide a framework for the implementation of pro-poor growth interventions in support of the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP or MKUZA)

1.3 Scope of Work

Past studies identified the following key sectors which shall be the focus of this report:

- (i) Agriculture (including fisheries);
- (ii) Tourism;
- (iii) Trade; and
- (iv) Manufacturing (including SMEs).

In relation to these sectors, the report has reviewed available documentation (sectoral policies, strategies, master plans etc.) and information from a wide range of stakeholders.

The report takes as its point of departure, work that has already been done based on Zanzibar's particular institutional characteristics. Particular attention is paid to ensuring a pro-poor focus as well as taking into account cross-cutting issues such as environmental protection, gender issues and HIV/AIDS.

In this context, the scope of work for this report covers the following activities:

- a) Making a diagnostic analysis of the key sectors of the Zanzibar economy with a view to identifying the key drivers of growth in Zanzibar (trade, tourism, agriculture and manufacturing);
- b) Reviewing relevant experiences from other countries in relation to drivers of growth and strategic interventions for realising poverty reducing growth;
- c) Articulating a growth strategy that is environmentally sustainable and includes interventions to address the challenges identified;
- d) Preparing an implementation plan for the strategy with a time frame, including a financing framework; and
- e) Proposing a monitoring and evaluation framework for the strategy implementation

1.4 Objective of the Growth Strategy

Consistent with Vision 2020 and MKUZA, the objective of the growth strategy for Zanzibar is to realize high growth that is pro-poor. The strategic objective of the growth strategy for Zanzibar is to achieve high growth of 10% by 2010. The high growth shall be pro-poor so as to benefits the majority of the poor when they participate in the growth process in their various capacities as:

- ◆ Farmers and entrepreneurs (benefiting from greater demand for their products and services).
- ◆ Workers when the demand for their labour increases.
- ◆ Consumers when they benefit from competitive prices and better quality goods and from access to basic social

services when increased government revenue facilitates greater service provision.

- ◆ Residents in disadvantaged regions and participants in low productivity sectors whereby appropriate investments and other strategic interventions can raise the productivity levels resulting in increase in their incomes thus contributing to reducing income poverty.
- ◆ Players in markets whereby improved access to the markets can facilitate their taking advantage of the opportunities available. Institutions can play a key role in determining terms of access and in ensuring that development is sustainable taking into consideration the environment and social cohesion.

2.0 APPROACH, METHODOLOGY AND WORKPLAN

2.1 Approach and Methodology

The approach and methodology for this assignment reflects the main objective of developing a growth strategy which can guide the implementation of the interventions to promote pro-poor growth or poverty reducing growth as contained in Zanzibar's Strategy for Growth and Reduction of Poverty (MKUZA). In the process of formulating the growth strategy reference was made to the current status, existing policies and strategies with a view to establishing gaps and challenges that are still outstanding and deserve to be addressed in the growth strategy.

The methodology adopted aimed to undertake the following:

- a) A diagnostic analysis consisting of a review of existing documents (**Annex 1**) of relevance to the subject and field work mainly comprising interviews with key stakeholders (**Annex 2**).
 - During interviews, a Guiding Questionnaire was employed to ensure consistent coverage of key issues by all interviewers. **Annex 3** lists aspects of the study that guided the interviews.
 - Deliberation of the Diagnostic report by stakeholders in separate one-day workshops in Unguja and Pemba.
- b) Develop a growth strategy report from the outcomes of stakeholders' workshops under (a) above and to present it for validation to stakeholders during separate one-day workshops to be organized in Unguja and Pemba, respectively. The comments given at the two workshops as well as subsequent comments to be received from special retreat by senior Government officials and those channelled through the Ministry of Finance and Economic Affairs shall be used to inform the review of the draft report and be incorporated in this Final Report of the Growth Strategy.

- c) Preparation of the Growth Strategy and to identify the key drivers that can facilitate accelerated growth; while being mindful of the quality of that growth in terms of its appropriateness for reduction of poverty among the majority of the people of Zanzibar. The Growth Strategy is to address issues at three levels:
- First, issues which are relevant for improving the development context for players in the economy. The key factors here include macroeconomic stability, fiscal and monetary policies, governance, public institutions, legal and regulatory framework, safety of persons and property.
 - Second, issues that are relevant for improving the quality of the microeconomic business environment with a view to reducing the cost of doing business (quality of basic infrastructure services, access to finance, human resources and land); and
 - Third, issues which are specific to selected key growth sectors in the Zanzibar economy.

2.2 Growth Strategy Task Force

A Growth Strategy Task Force chaired by the Principal Secretary in the Ministry of Finance and Economic Affairs (MoFEA) was established. The Task Force comprised of representatives from government, private sector, academia, development partners and the civil society.

As per Terms of Reference for the study, the Consultants worked under the overall guidance of the Task Force. Following agreement on the Inception Report for the assignment, the consultants proceeded to undertake field work. Findings from fieldwork were presented and discussed by the Task Force, leading to analysis and compilation of a draft diagnostic report which was discussed by the Task Force for appropriate guidance. Subsequently a draft growth strategy was prepared and presented to the Task Force which provided further guidance towards finalization of the Zanzibar Growth Strategy. Overall, the Task Force was very instrumental in guiding this work.

3.0 DIAGNOSTIC ANALYSIS OF GROWTH IN ZANZIBAR

3.1 Overview

The section presents an overview of the status of growth of the Zanzibar economy, the constraints and challenges and identifies the factors driving that growth. The factors of growth are conceptualised at three levels. The first level addresses issues that are relevant for improving the development context for players in the economy. The key factors here include macroeconomic stability, fiscal and monetary policies, governance, public institutions, legal and regulatory framework, safety of persons and property. The second set of issues address factors that are relevant for improving the quality of the microeconomic business environment with a view to reducing the cost of doing business (quality of basic infrastructure services, access to finance and human resources) and facilitating acceleration of growth. Third, issues which are specific to selected key sectors in the Zanzibar economy in order to capture any sector-specific characteristics and conditions for growth.

The purpose of making an in-depth study of selected sectors is to have a closer grasp of the realities of the status of growth and challenges in the respective sectors. The selection of the study sectors therefore has been made with a view to covering sectors which have the following attributes: importance in the economy, dynamism and fast growth, presence of or potential for linkages with other sectors. In this context, the study makes a deeper diagnosis of agriculture including agro-processing (adopting a value chain analysis), manufacturing, trade, tourism and infrastructure.

The diagnosis has adopted a SWOT Analysis approach in which strengths, weaknesses, opportunities and threats are identified. The diagnosis has benefited from international experiences which are relevant to the Zanzibar economy. These are invoked to identify emerging issues and challenges of the growth situation in Zanzibar.

3.2 Zanzibar Growth

There are essentially three sources of economic growth: growth in inputs of production; improvements in the efficiency of allocation of inputs across economic activities; and innovation that creates new products, new uses for existing products, or brings about more efficient use of inputs. The combination of changes in these three dimensions that brings about higher long-run growth depends on the economy's characteristics, institutions and socio economic policies that are implemented. Lack of adequate data on investment, capital stock and labour force has prevented the consultants from performing a standard source of growth analysis to estimate Zanzibar's total factor productivity over the past decade.

According to the Zanzibar Vision 2020, the overall socio-economic development goal is to eradicate abject poverty and attain sustainable human development. In order to achieve this goal it is necessary that a high and broad based growth of the economy be achieved. MKUZA is built on the broad objective enshrined in Vision 2020 and has put more emphasis on growth and poverty reduction, sectoral linkages, collaboration and synergies and has aligned more explicitly with the Millennium Development Goals (MDGs). This growth strategy has been formulated to ensure achievement of broad based growth of the economy.

For the past eleven years (1995 – 2005) the economy of Zanzibar has shown a progressive positive trend where GDP has shown a positive growth from a level of 3.4 % in 1995 to 6.4 % in 2004 with some notable fluctuations between the years. The rate of economic growth declined from 8.2% in 2002 to 5.6% in 2005 (Economic Survey, 2006). The trend growth rate for the 1995-2005 is 6.5 percent compared to Tanzania Mainland's 5.0 percent for the same period. It is projected to increase the rate of growth from 5.6% in 2005 to 10% in 2010 and to raise the rate of growth of agriculture from 2.4% in 2005 to 6% in 2010. Table 3.2.1 below shows the trend in economic growth and other variables.

Table 3.2.1: GDP Growth and Per Capita Income

Index/Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP Current Prices TShs Bill	85.4	111.5	136.4	149.4	165.9	190.5	222.3	255.9	286.7	344.3	395.7
GDP 2001 Prices TShs Bill	146.6	170.1	180.0	182.8	196.4	203.5	222.3	241.4	255.6	272.0	287.5
GDP Growth Rates	3.4	4.5	5.8	6.2	7.4	3.6	9.3	8.2	5.9	6.4	5.6
Population (000s)	790	814	836	864	889	916	944	982	1,011	1,041	1,072
Per Capita Income USD	175	229	259	266	241	260	265	276	273	303	327
Per Capita Income TShs '000	108	137	163	173	187	208	235	261	284	331	369

Source: Economic Survey, 2006 OCGS

Despite a fall in productivity and world market prices, the agricultural sector continues to be the lead growth sector. Its contribution to GDP has fluctuated between 21% and 25%. In recent years the share of agriculture (crops, livestock, fishing and forestry) in the economy decreased from 25% in 2002 to 23% in 2005. However, agriculture catered for 42% of direct employment.

The industrial sector contribution to GDP has declined from 18% in 1995 to 14% in 2005. The rate of growth of industrial output has been below the growth of the economy. The growth of the manufacturing sub-sector has averaged 5% throughout the period. Mining and quarrying sub-sector also remained stagnant at 1% contribution during the eleven-year period.

The services sector has been the most dynamic with tourism and trade being the most promising. Trade is contributing an average of 10% of GDP and growing at an average rate of 5% per annum. Tourism services have been most dynamic with Hotel and restaurants growing from 8.2% in 1995 to 40% by 2005. Similarly transport and communication system have shown growth rates of between 6.5% in 1995 to 30% in 2005.

Table 3.2.2: Sector Proportion in GDP (Percent)

Sector/Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agric. Forestry and Fisheries	22	22	20	20	22	23	25	25	21	23	23
Industry, (Q, M, W, P&C)	18	16	15	13	13	11	11	12	13	13	14
Services sector	44	47	48	48	47	49	48	49	52	51	51
Adjustments to market prices	16	15	16	19	18	17	16	14	14	13	14
Total	100	100	100	100	100	100	100	100	100	100	100

Legend: Q=Quarrying, M=Manufacturing, W=Water, P=Power, and C=Construction.

Source: Office of the Chief Government Statistician, 2006

The major concerns over growth are that it has been fluctuating and in recent years it has shown signs of decline. This is an indication that it may not be sufficiently high to reduce poverty significantly.

In recent years there has been increasing concern over two issues. First, there is concern that the rate of growth has not been sufficiently high and sufficiently broad in terms of being shared more widely in society. This concern suggests that there is need to achieve higher rates of growth of the economy and exports and achieve a more pro-poor growth in the sense of being more effective in reducing poverty and improving human well-being. Second, there is concern that economic infrastructure is not keeping pace with the current level of growth and the mismatch is likely to be worse as the rate of growth picks up in the next few years if positive measures are not taken timely.

The envisaged growth is meant to contribute significantly to job creation and reduction of income poverty. It is recognized that savings, investment and innovation that lead to development are expected to be the main driving forces of that growth.

3.3 The Broad Development Context

3.3.1 Political, Social and Macroeconomic Context

Achieving a high and broad based growth presupposes a political, social and business environment that is conducive to enhancing policy coordination and policy integration with a view to putting in place conditions for improving trust and confidence of the business community over the national development frameworks including the growth strategy. Though some improvements were acknowledged, concern was expressed that social and political harmony needed to be improved further in order to attain the level of confidence and trust that is needed for business decisions to be made for purposes of attaining high levels of savings and investments (local and foreign) as well as facilitating innovations that are capable of realising productivity increase that is necessary for achieving a high and broad based growth of the economy.

There is also concern over the cultural dimensions of growth. Several stakeholders have expressed concern over the perceived problem of culture and attitude towards work, non-developmental mindset and apathy which are not consistent with the envisaged high levels of investment, diligence and innovations that are needed to successfully implement the envisaged growth strategy.

Zanzibar follows fiscal policy that largely relies on domestic resource mobilisation through tax policy reforms, strengthening tax administration and improving expenditure management intended to stimulate economic growth. A substantial increase in resources is required to finance priority spending and permit increase in expenditure. The tax regime is one area where concern has been raised in respect of improving the investment climate. Specific concern has been expressed over the multiplicity of taxes,

harmonising tax rates with Tanzania Mainland, high tax rates and problems of tax administration. Local government taxes and levies have yet to be fully rationalized.

Zanzibar does not have an independent monetary policy and therefore the monetary source of inflation largely depends on the Bank of Tanzania policies. Structural factors including imported inflation as a result of high fuel prices high dependency on imported goods, uncompetitive market structure and low domestic food production contribute to Zanzibar inflation rate. With regard to monetary policy, the Bank of Tanzania (BOT) is committed to a prudent conduct of monetary policy that is capable of maintaining core inflation below 5%. In addition, BOT expects to continue deepening the second generation financial reforms through promoting the development of an efficiently functioning and stable financial market.

3.3.2 Strategic position of Zanzibar

Trading Centre and Trade Diversification

Zanzibar has been a trading centre since the 1880s and a 'Gateway' of East Africa. It developed from being a centre for slave and other trades into a vibrant trading centre with trade relations that brought people from all over the world.

Traditionally, the economy has been heavily dependent on export of cloves to the tune of 98 percent of total merchandise exports. However, the cloves trend has been declining and new export commodities, such as seaweed and other spices are emerging. The potential of these non- traditional exports has yet to be exploited, both in terms of increased production, processing (value addition) as well as broadening the product mix. Trade forms an integral part of the Zanzibar economy. In terms of strategic position the islands of Zanzibar have both competitive and comparative advantages in terms of directing export and re- export to the rest of the world. However, to maintain its competitive advantage there is need for appropriate investments in infrastructure and facilities that are needed for a modern centre for trade.

Freeport Facilities and Export Processing Zones

Freeport facilities and Export Processing Zones (EPZ) are operating under the Zanzibar Investment Promotion Authority (ZIPA). Under Freeport operations, there are nine companies providing a wide range of business services. Likewise, EPZ operations provide a range of business services. Taking the advantage of its strategic location, Zanzibar has a potential to be a gateway for trade to and from the East and Central African Region. Based on this geographical advantage, Zanzibar has yet to take full advantage of its strategic position in the region by serving the East African Community countries and the countries of the Great lakes. The market of the great lakes countries apply rules and standards which are more manageable compared to the more stringent requirements for exporting to the more sophisticated developed economy markets. Exporting to neighbouring markets could be a stepping stone to exporting to the global markets as capacity competitiveness is built up over time.

3.3.3 Public Finance Management (PFM)

The importance of improved management of public resources – expenditure and revenue - is underscored by the need to create fiscal space for increased spending on key clusters (areas) within sustainable overall fiscal positions. In this regard the credibility of public finance management becomes the basic tool for mobilization of domestic and external resources for financing the growth strategy. The PFM for Zanzibar is facing the challenge of making revenue forecasting more realistic, putting in place an Integrated Financial Management Information System (IFMIS), enhancing commitment control and strengthening capacity of internal and external audit in government ministries, departments and agencies (MDAs). The issue raised was that the public is of the view that very little is being done on the Auditor General's Reports. It seems that the institutions of oversight are ineffective. Reference institutions here are the House of Representatives and the Office of the Controller and Auditor General. The main constraints in this regard have been identified chronic resource constraints, weak institutional and human capacity and low understanding by the "oversight" bodies of the budget process.

3.3.4 Legal and Regulatory Framework

A conducive legal and regulatory environment is very important to facilitate operations of both public and private sector activities. Making legislations up to date requires resources (finance and human). There are some efforts to enact new legislations and amend or review some old ones but there is a backlog of outdated laws, which need to be reviewed and updated. Legislations that guide business like Trade Licensing Act of 1983 and Company Legislation are outdated and need to be reviewed. Currently commercial cases are dealt with in the normal courts which cause delays due to under-funding, limited capacity and lack of specialized expertise. Much will have to be done to address the existing challenges.

In order to have a strong private sector which is an engine for growth, an effective regulatory framework is essential. The challenge of putting in place such an effective regulatory framework needs to be faced.

3.3.5 Governance

Good Governance is the exercise of power by various levels of government in an effective, honest, equitable, transparent and accountable manner. Civil societies and the private sector have to practice good governance as well. Good Governance is about the relationship existing among the three arms of the state i.e. the Executives, the Legislature and the Judiciary. Good governance is guided by a number of principles, namely: Rule of Law, Accountability, Transparency, Anticorruption, Observing Human Rights, etc.

Progress has been recorded in these areas. The creation of the Ministry responsible for governance in the year 2000 facilitates coordination of good governance. Noticeable achievements are seen in the legal sector through the following: establishing Office of Controller and Auditor General as an Independent Government Institution, establishment of the Office of Director of Public Prosecution, and setting-up of a Judicial Service Commission and improvement in Public Finance Management.

The coordination of processes in Zanzibar is one of the major governance challenges because lack of awareness of clear definition of roles between

and among institutions has undermined coordination of government activities. The overall issue of distribution of responsibilities and resources between central and local governments is inadequate

The diagnostic analysis has revealed that the capacity of public institutions is low and not appropriate for effectively facilitating markets to work efficiently and for promoting savings, investments and innovations for broad based growth and employment creation. The effectiveness of the existing institutions is inadequate and there are notable gaps which have yet to be filled in the existing institutional framework.

The nascent private sector in Zanzibar poses a great concern in that it is fragmented. The existing Zanzibar National Chamber of Commerce, Industry and Agriculture (ZNCCIA) is still weak and the Zanzibar Business Council is still dormant. Participation of the private sector and its organization for the purpose of promoting participation in the policy making process is still low.

Generally, sector policies and programs are in place but they lack implementation frameworks. Annual plans are not well presented while very few institutions seem to have strategic plans. This fact makes it difficult to apply the Medium Term Expenditure Framework (MTEF). Clear and measurable objectives are missing and this creates difficulties even at times of report preparation. On the other hand, civil society organisations still operate using Society's Act No. 6 of 1995, which needs review and the NGO's policy is still in a draft form.

Various studies have been conducted to initiate major governance reforms like the overall Zanzibar Good Governance Strategic Plan (ZGGSP), Economic and Financial reforms, institutional and human capacity reform, Legal Sector reforms, and Local Governments reforms. Many of the financial and economic reforms e.g PER, MTEF, Pay-roll assessment and others have been implemented and have shown improvement in the financial management and budget execution.

3.4 Quality of the Micro-Economic Business Environment

3.4.1 Infrastructure

(a) The Energy Sector

The energy sources in Zanzibar comprise electricity, firewood and charcoal, kerosene and gas. The most common energy use is firewood, charcoal, kerosene and electricity. More than 75% of the Zanzibar population use firewood and charcoal as their source of power. More than 80% of the energy generated is for domestic use while only 15% or less is for commercial or industrial use. Unguja Island gets her electric power through a submarine cable connected from mainland Tanzania. The cable has the capacity of supplying 45 megawatts. On the other hand Pemba Island gets its power from diesel generators using Industrial Diesel Oil (IDO). The generators have a capacity of producing a total of 4.5 megawatts. However, the cost of running diesel generators in Pemba is very high, and the supply is not reliable. Plans are underway to connect Pemba with submarine cable from Tanga which will have a capacity of 20 Megawatts and a life span of 30 years.

There has been substantial improvement in the supply of power in urban and rural areas. All urban areas including district centres are supplied with power. A number of villages are now supplied with power, while Phase IV of the project for Rural Power Supply has been extended to cover more than 63 villages of which 32 are in Unguja and 31 in Pemba.

The existing submarine cable for Unguja which had a life span of 30 years has reached the end of its economic life and a replacement is planned to improve power supply in Unguja. The replacement cable is planned to have a capacity of 100 megawatts, up from the existing 45 megawatts.

(b) Transport and Communications

Transport and communication sector is key for the socio-economic development. Poor transport and communication poses constraints to the

development of other important sectors such as tourism, trade and agriculture. While this is widely acknowledged, the sector has yet to be developed to a level that provides latitude and boost other sectors.

Maritime Transport

Maritime transport services in Zanzibar are operated by both public and private vessels. The role of the shipping corporation is to provide agency services for foreign vessels. The private sector operates passenger speedboats/ ferries and landing crafts to the ports of Zanzibar, Dar es Salaam, Pemba, Tanga, Mtwara and Mombasa. In using the Malindi port ferryboats and occasional cruise ships share the same wharf space that is used for handling general cargo and containers. These mixed operations pose dangers to passengers and reduce the efficiency of the cargo handling services.

Zanzibar's main maritime transport facilities include Malindi port which handles domestic, regional and international traffic. The quays, which were re-built in 1992, are currently undergoing urgent repair and rehabilitation as the pillars and beams have been affected by corrosion and damages caused by collision. The second is the Mkoani Port (South of Pemba), which is also a port of entry for foreign ships. It has a jetty and can handle two ships at a time. There is Wesho Port (Central Pemba) which caters for dhows. The .Wete Port (North Pemba), which has been rehabilitated, caters for passengers and cargo from and to Zanzibar, tanga, Dar es salaam and Mombasa.

The main challenges are that not many ships can anchor at the port, and the duration of voyages often depends on weather conditions, especially for smaller vessels. Slow cargo handling and limited storage facilities in the port area, limited mooring and berth capacity and run-down infrastructure and equipment have led to higher ports handling charges compared with neighbouring ports. The long-term plan for port development is to build a new port at Mpiga Duri.

Air Transport

The air transport sub-sector involves commercial airlines, shuttles, private charters and airfreight. Zanzibar has two airports: the Zanzibar International Airport in Unguja and Karume airport in Pemba.

The Zanzibar International Airport is located 7 km south of Stone town. The airport was first constructed in early 60's with a runway of 1525m long and 37m wide aligned in the North-South direction, together with a small apron and taxiways, a terminal building and a control tower. In 1990 the runway was extended to 2462m and widened to 45 meters. Terminal facilities at Zanzibar International Airport include customs and immigration services, health services, change counters, restaurant, waiting lounge, taxi stand and 50 parking lots. The airport lacks proper checking in counters, a separate transit zone, first aid services, duty free shops, refrigerated storage facilities, animal quarantine facilities, lockers, express/courier centres, bonded warehouse, access/facilities for disabled, business centre and car rental facilities.

The Karume Airport in Pemba has a runway with a length of 1525 m and a width of 30 m. Taxiways are 25 m wide and aprons cover 15 000 square meters. The airport allows for both Instrument Flight Rules (IFR) and Visual Flight Rules (VFR) traffic, has a capacity for 40 passengers and snack bar in the departure lounge. At the moment, the airport lacks fire tender, runway lights, stand-by generator, taxi services, and restaurant. These are among the long-term plan for the airport which also include rehabilitation of the buildings, fencing and procurement of fire fighting equipment.

Land Transport

Road transport services in Unguja and Pemba cater for both urban and rural transport demand. There are no regulatory barriers for freight and passenger transport services resulting in a competitive market. Roads infrastructure maintenance has been inadequate due to lack of sufficient financial resources, equipment, skilled personnel and contractors.

Communications

Zanzibar is well served by the newly restructured public telecommunication company (TTCL) and four private owned mobile telecommunication systems. Through these systems a greater part of Zanzibar (Unguja and Pemba) is widely covered and connected to most parts of the world. The main challenge is to ensure that telecommunications infrastructure and services are provided in a liberalized and competitive manner to as many people as is economically and socially justified to meet domestic demand as well as regional and international business requirements.

Information and Communication Technology (ICT)

On information and communication technology, the Zanzibar Vision 2020 puts emphasis on its provision in a liberalized and competitive manner to all economic and social sectors in a way that makes easy collection, organization, retrieval and dissemination of information to users. The main challenges are to ensure the provision of adequate, sustainable, high quality and efficient ICT services in all sectors of the economy at reasonable cost using appropriate contemporary technologies and to encourage and stimulate the progressive participation of indigenous private sector in the development, ownership and operation of ICT services.

The main challenge in the infrastructure sector include the need to formulate sector policies such as the Transport Policy, Energy Policy and ICT Policy to be followed by sector master-plans such as Transport Master Plan, Energy Master Plan and ICT Master Plan.

3.4.2 Finance

Access to credit and other financial resources is an important ingredient towards social and economic development. Financial services are not well developed in Zanzibar. Overall the financial sector in Zanzibar is very modest in terms of its contribution to GDP. Financial intermediation accounted for a mere two per cent of GDP in 2005.

Financial institutions are few and less diversified. With the exception of People's Bank of Zanzibar (PBZ), the commercial banks in Zanzibar are branches of main banks located in Dar Es Salaam. However, PBZ is operating under an MOU which was entered into by the Government of Zanzibar, the Bank of Tanzania (BOT) and PBZ itself in 2003. Under the MOU, PBZ is under going gradual privatization.

Access to credit is not easy because of lack of adequate collateral by applicants, costly registration of documents and limited ability of clients to make bankable projects and business plans. The above elements are basic requirements for processing a commercial loan. Most of the loans given are personal loans linked to salaries.

The main challenges facing the sector include:

- Creating a manageable financial institution such as a micro-credit Bank for the provision of credits to small farmers, cooperative organizations NGO's, Youths, small businesses, craftsmen etc.
- Creating new Micro Finance Institutions and strengthening existing ones.
- Creating a mechanism that will ensure repayment of credits.
- Promoting mechanisms for the mobilization of savings among the people and other sources.

3.4.3 Human Resources

Human resources or labour force is a key factor for socio-economic development in any society. Without Human resources, no plan can be implemented. Demographically, Zanzibar is characterized by a high population growth rate, which has resulted in a young population structure putting pressure on the social services of education and health for children and other young groups in society. The demographic transition that is associated with decreasing fertility and population growth rates has not yet started in Zanzibar.

The level of human skills is low, with 62.3 %of the employees categorised as uneducated workers and school leavers without specific skills. Post-secondary school, constitute only 15.1 percent while degree level or equivalent constitute only 8.7%. In all segments of education, females are less than 36.5 percent of the total manpower in the country.

Vocational education and training programmes are non-formal programmes that provide skills which can be used instantly in the world of work. However, the development of this sector is still at its infancy stage. Vocational education/ training centres have increased by 62.5% from 51 in 1995 to 80 in 2005, leading to a continuous increase in enrolment from 1,094 in 1995 to 1,462 (74%) in 2005. The centres provide skills in areas including farming, black smith, carpentry, livestock keeping, fishing, domestic science, electricity, plumbing, masonry, poultry, tailoring, small credit projects, food processing and handcraft, business, secretarial activities, computer skills as well as hotel and catering management. Vocational training centres are inadequate in numbers and not evenly distributed district wise. Most of them lack adequate financial resources and they face the problem of shortage of instructors, experts and facilities.

3.4.4 Access to land

The following concerns were raised in respect of land:

- Zanzibar is small and densely populated making land very limited, especially for extensive commercial farming. This is compounded by inadequate entry information to interested investors.
- The Land Policy has not been reviewed and enforcement of Land Use Planning (such as through the programme on Sustainable Management of Land and Environment - SMOLE) leaves much to be desired. For land used for farming, the focus has not been placed on high value crops such as spices, fruits and vegetables.
- The system of land ownership and tenure is cumbersome, conservative and impinges adversely on informal sectors and SMEs. Implementation of land registration (by the Government) has not been well managed so as to ensure land ownership in accordance with the Land Tenure Act.

The population has not been adequately educated on the 1992 Land Tenure Act so that most land transactions are not conducted in accordance with the laws governing land in Zanzibar. Land ownership and titling is a challenge. Provision of secure property rights for agricultural producers through land registration and titling has not been made adequately. Concern was expressed that land does not appropriately stand as collateral to facilitate access to credit. In this regard, for the informal sector and SMEs, implementation of the MKURABITA programme is expected to address the challenge.

- There is poor coordination of land use by different authorities, sometimes leading to disputes resulting from encroachment of areas designated for other uses. Streamlining of institutional arrangements, for land administration and land dispute adjudication is incomplete; collaboration with the Ministry of Water, Construction, Energy and Lands, (MWCEL) and the Attorney General's Office has not been streamlined to ensure efficient implementation of the land policy. Land Transfer committees have not been formed as provided for in the 1994 Land Transfer and Land Tribunal Acts.

3.4.5 Economic Empowerment

Although the Micro, Small and Medium Enterprises (MSMEs) have the potential to be the engines of economic growth and job creation and seedbeds for innovation and entrepreneurship, they are disadvantaged in that they face the challenge of having to operate outside the formal legal and regulatory framework.

Zanzibar has not taken explicit measures to empower its people to participate actively in the economy for their socio-economic development, address barriers to economic empowerment of the disadvantaged Zanzibaris and enable them to effectively participate in their own economic development and the national economic development in general. Limited efforts in empowering entrepreneurs including women and youths have been taken. There is a need to create an enabling business environment that does not discriminate against or hinder the start-up, survival and growth of SMEs, and developing programmes and projects for facilitating the

effective provision of financial and non-financial services to SMEs to increase enterprise competitiveness. The challenge is to come up with new instruments to cater for the needs of the Zanzibaris, especial small operators in both urban and rural areas.

3.5 Cross-cutting Issues

3.5.1 *Environment*

All development efforts in Zanzibar are competing for access to the scarce land and environment related resources. Without proper management of these renewable and non-renewable natural resources, the future prospects appear uncertain in terms of environment, food security and overall social development. Zanzibar's Vision 2020 advocates integration of environmental issues with development objectives so as to ensure sustainable socio-economic development. It also encourages protection of the environment against industrial pollution and promotes sustainable and equitable use of resources for meeting the basic needs of the present and future generations without degrading the environment, health and safety. The principal problems identified include insecure land tenure; uncontrolled urban development; initiation of investment projects without carrying out an Environmental Impact Assessment (EIA); uncontrolled coastal development; and shrinking bio-diversity. There is therefore a pressing need to address land and environmental management issues in reducing poverty and enhancing economic growth in Zanzibar. Introduction of sustainable management practices for land and environment are therefore crucial for the future of Zanzibar.

3.5.2 *Gender*

Understanding of gender issues is still limited among both the general public, and public servants. The capacity of the Ministry of Labour, Youths, Women and Children Development (MLYWCD) to promote gender awareness and gender sensitive programmes is limited. Together with this fact, MLYWCD has been trying to mainstream gender across all other ministries. The capacity of local civil society organizations dealing with

gender issues is also limited. Gender equity is important in ensuring equal participation of all the people in economic development.

3.5.3 HIV/Aids

The latest estimates indicate that 0.6 percent of Zanzibaris are living with HIV (Validation Study, 2002). The number of reported cases increased from 3 in 1986 to 4,652 in 2005 (Surveillance Report, 2005). The age group most at risk is 20-49 years which include the youth and the skilled working population. Data from sentinel surveillance (2005) indicates a prevalence rate of 0.87 percent among pregnant women attending anti-natal clinics.

The challenge still remains to provide adequate treatment, care and support for those infected and affected by the virus and to promote behaviour change among the population with more focus on the most at risk population groups.

3.6 Diagnosis of Growth Sectors

3.6.1 Economic Growth Sectors

Two lead sectors have been identified as Zanzibar's major economic growth sectors. These are: trade and tourism and these are supported by two other sectors: Agriculture (including fishing) and manufacturing. The diagnosis of these sectors is made with a view to forming a basis for formulating strategies for their development as part of the proposed growth strategy for Zanzibar elaborated in Chapter four herein.

3.6.2 Trade

Trade is an economic activity transcending all sectors of the economy and touches on every sphere of human life. Trade stimulates development and growth of both the productive and service sectors. Consequently, trade is the engine of growth that provides the momentum for wealth creation and poverty reduction. Specifically, the geographical location of Zanzibar makes trade its strategic sector.

Trade takes a central place in the Islands economy. Most capital, intermediate and consumer goods are imported. Exports of goods consist almost entirely of cloves and marine products.

Since 1980's the Government of Zanzibar has undertaken a set of economic reforms based on market orientation. The reforms have resulted into increased economic activities in the productive sectors as well as in trade. Despite reform efforts, the trade accounts of the balance of payment continue to register deficits. A major problem has been the low supply response of export activities and the low level of competitiveness.

The main challenge is to promote trade by taking advantage of the geographical position of Zanzibar, promoting fair trade practices and improving quality and enhancing the capacity to produce competitively. Other challenges include:

- Transforming Zanzibar into a Special Economic Zone (SEZ) with conformity to EAC framework,
- Adhering to EAC tariffs within the specified period of EAC treaty.
- Reduces high cost of production – power (rates and availability), taxes, and inputs prices (oil imports, raw materials)
- To enhance openness and integration of Zanzibar Economy to Global Economy to overcome the
- problem of the domestic market
- Mechanization and adoption of new production techniques
- Improving access to credit from financial sector.

The drivers and opportunities for growth in the trade sector include the following:

- Strategic Geographical Position
- Long history of Trade between Zanzibar and rest of the world
- Positive mindsets of people towards trade
- Availability of natural and historical Resource Endowment (fish, spices, tourist's attraction, clove based honey etc)
- Enabling Trade Policy Framework in place
- Belonging to regional integration groups - EAC, SADC, IOR ARC

- Zanzibar and Tanzania as a member of Multilateral Investment Guarantee Agency - MIGA
- Special trade agreement AGOA, ABA
- Investment Promotion Authority as One Stop Center

3.6.3 Tourism

Zanzibar is endowed with a variety of tourist attractions. These include Stone Town, with its wealth of historical buildings and traditional Swahili culture, marine environment in both Unguja and Pemba characterised by coral reefs suitable for snorkelling and diving, offshore islands and coral reefs (Changuu, Chumbe, Mnemba), big game fishing, sea turtle and dolphins, sand beaches and extensive water areas used mostly for traditional fishing activities. In addition, other attractions include historical cultural sites (the ruins of Maruhubi Palace, the ruins of Mtoni Palace, the Kidichi and Kizimbani Persian Baths and the Mangapwani Slave Cave), spice tours, Jozani Forest reserve in Unguja and Ngezi Forest Reserve in Pemba (renowned for its diverse and rare botanical species and the presence of special monkeys, fruit bats, antelope, wild pigs, and a wild variety of birds). Arts and crafts; (production of wooden chests and doors, picture frames, brass, copperware and jewellery), Pemba essential oils factory, and Eco- Tourism (Pemba has a more undulating landscape than Unguja and is densely vegetated with both natural forests and plantations).

The tourism sector is one of the most important sectors with great economic growth potential. International arrivals have generally shown an increase since 1990 though characterised by fluctuations. Tourist arrivals were at their lowest in 1994 at 41,433 and at their highest in 2000 when they reached 97,165. In 2004 arrivals were 92,161. The fluctuations can mainly be accounted by civil unrest during and immediately following general elections and by the September 11, 2001 event in USA. The main countries that supply tourists are Italy followed by UK.

Due to the fact that the tourism sector is not yet separately identified in the system of national accounts, there are no official estimates of the tourism contribution to Zanzibar's GDP. Tourism is taken to be largely embedded

within the Wholesale and Retail Trade, Restaurants and Hotels sub-sector. In line with this classification, tourism generated tax revenue of TShs 3.6 billion in 2002/2003 and tourism receipt of US \$62.9 million in 2003 as compared to US \$ 81.9 in 2002. Employment generated by the Tourism Sector is estimated to be over 6,000 persons of whom about 80% are employed in the hotel/guest houses. The tourist industry faces a shortage of local Zanzibaris willing and adequately trained to work in the industry. Many hotels employ people from outside of Zanzibar and therefore Zanzibaris do not benefit fully from the employment created by the tourist industry.

Tourism has great potential for strong linkages to other sectors of the economy such as agriculture but such linkages have not been fully exploited. Fruits and vegetables that can grow in Zanzibar are imported from Mainland Tanzania. Zanzibar souvenirs including sophisticated packaged cloves are not in adequate supply. Zanzibar is an intriguing and romantic trademark known throughout the world but marketing of the name and branding has not been effectively reflected in souvenirs production especially in small and medium scale enterprises.

Development of the tourist industry in Zanzibar and harnessing of its potential faces the following challenges which fall under the five main areas of infrastructure, utilities, support services, product quality and human resource development:

- Limited harbour (ferry/cruise ships) and airport facilities which are not adequate and are in poor condition.
- Limited use of ICT in tourism industry.
- Low quality guides in comparison with competitor destination
- Low quality of tour operators
- Low quality of tourism training college
- Few quality and non-exclusive accommodation
- Lack of institutionalised platform for tourism stakeholders
- Unreliable water and electricity supply

- Understated and under pricing tourism facilities and products through tour packages and exclusive clubs
- Insufficient resources, both financial and human by the Zanzibar Commission for Tourism (ZCT) to undertake adequate promotion and publicity
- Low capacity of the Association of Tour Operators to function as it should, and an apex Hotel and Tourism Association which is yet to be formed.
- Weak collaboration and coordination among the key players in tourism industry.
- Lack of a tourism development strategy

The various initiatives which have and are being taken have as yet to bring tangible developments in the tourism sector. Much of the tourism potential has yet to be exploited fully. As a matter of fact most of Pemba's tourism attractions are still untapped. The need for a tourism development strategy is imminent.

3.6.4 Agriculture Sector (including Livestock and Fisheries)

Share in the Economy and Rate of Economic Growth

The share of agriculture (crops, livestock, fishing and forestry) in the economy decreased from 25% in 2002 to 23% in 2005. However, agriculture catered for 42% of employment (or 70% directly and indirectly) The current rate of growth in the Agriculture sector at 2.4 percent cannot bring about sufficient growth that can lead to reducing poverty.

Crops

Zanzibar is a land of abundant home-grown spices that are exported to world markets. These include: Cloves – the predominant spices for many years, other spices and crops such as cinnamon, cardamom, coconuts, nutmeg, black pepper and chillies are also grown.

For many years, Zanzibar was the leading producer of cloves in the world. However, recent developments have shown a steep decline in the annual

production levels caused by factors such as aging clove trees, diseases, falling prices, agronomic- and a number of human-related factors. The price of cloves has fallen from its peak of over US \$ 9000 a tonne in 1980 to less than US\$ 800 a tonne in 1997. The price improved reaching almost US\$ 6000 a tonne in 2001 but fell to around US\$ 2000 a tonne in 2004. Indonesia which was a major importer of cloves in the past has transformed itself to a net exporter. The challenge in the context of the growth strategy is to rehabilitate and modernise the clove industry and diversify it into gourmet spices and tourist souvenirs through sophisticated packaging and marketing of the Zanzibar brand name.

Other cash crops include coconuts, chillies, recently seaweed (non-traditional cash crops). There are also other crops such as fruits, vegetables, black pepper, cinnamon and vanilla but currently these are not produced in quantities that could warrant export to the outer world. Fruits such as mangoes, pineapples, oranges, jackfruits, and many more are available but due to seasonal shortages and high demand they are imported from the mainland. Vegetables are mostly imported from the mainland but a number of green leafy vegetables are produced locally (Feasibility Study for Agriculture in Zanzibar 2004).

Food crops production is also a major activity for the majority of Zanzibaris. Major food crops include rice, cassava, sweet potatoes, bananas, plantains, yams and coco yams. The staple food in Zanzibar is rice but domestic production accounts for a small share of total consumption, the rest is imported. With regard to food crops, Zanzibar is not self sufficient, with imports accounting for more than 50% of total food demand. The challenge is to attain food security for Zanzibar, not necessarily through self-sufficiency but through a combination of increased domestic production and increased import capacity.

There is a large potential for increasing production of items such as rice, bananas, root crops and pulses to reduce imports and in the long-run to expand food production to meet the local demand as well as demand from tourists. Another opportunity for Zanzibar agriculture is the expanding domestic market and market from tourism for food, especially for livestock

products and crops which have a high income elasticity of demand. With expansion in the rapidly growing tourism industry and income growth in general, domestic demand for fish, beef, milk, and other high-protein products is likely to grow at a rapid pace. Similarly, markets within the region and globally are increasingly expanding demand for such goods. Exploitation of these trading opportunities is essential.

However, agriculture in Zanzibar is facing a number of challenges. Zanzibar's Agriculture sector is mainly dominated by small-scale subsistence farming associated with low productivity. Factors contributing to this situation include inadequate finance to obtain productivity-enhancing inputs or capital, limited availability of support services such as research and extension and lack of appropriate technologies forcing the majority to produce only for subsistence. In particular, there is a weak linkage between producers and research institutions and providers of extension services. There are no empowerment programmes in place to improve the situation of the numerous subsistence farmers.

In addition, challenges of agriculture arise from the weak agro-industries and poor linkages between marketing, processing and production chains. Information about markets is generally weak. The poor state of rural infrastructure and low capacity of private sector service providers aggravates the situation. To that end, a major challenge is that of creating the necessary environment for raising productivity and also increasing agriculture's profitability to attract private investment.

Livestock

Production of livestock products to feed the local market and the tourist market in Zanzibar has increased markedly in recent years. With the exception of beef supplies for the local Zanzibar market and tourist sector, production of milk, eggs, and poultry meat almost meet the domestic demand but not the growing tourist market. Due to high demand, particularly in Zanzibar town, supplies of beef are supplemented by cattle and goats from Tanzania mainland. Livestock hides and skins are largely exported and small quantities are processed locally into various leather products.

Challenges of market information and building associations of livestock keepers need to be addressed.

Forestry

Forestry has a potential that has not been fully harnessed. Forestry is a major energy resource in Zanzibar where more than 80% of the energy source comes from the sector. The demand for firewood and charcoal is increasing annually due to increased population in urban and rural areas. There has been little community participation in resource use management and in preserving natural forests and biodiversity. There is room for improving the planting of trees, making tree keeping part of forestry development and developing utilization of forestry products for the tourist market, construction and furniture for hotels and for meeting other tourist requirements.

Fishing

Zanzibar has a large potential for development of fishing industry to meet domestic and demand from the tourism sector as well as export markets. Various types of fish and other marine resources are available. The fishing industry has not been sufficiently facilitated in terms of access to improved fishing gear for domestic fishermen and forming joint ventures for deep sea fishing and fish processing, improving access to inputs and suitable infrastructure (such as modern laboratories and landing infrastructure) and providing technical assistance to fishermen as well as updating surveys of resources (inshore, offshore and exclusive economic zone fishing grounds) to ascertain the potential. There is a good opportunity for packaging the whole sector making Zanzibar a seafood hub for the tourism sector market and for export.

3.6.5 Industrial Sector

As per international definition, industry consists of mining and quarrying, manufacturing and production and distribution of electricity and water. Zanzibar's industrial sector is small by any standards. The overall contribution to the GDP shows a declining trend from 19.9% (1985) to 9% (2005). Among the factors contributing to the decline was the demise of the

state owned enterprises leading to the closure of major manufacturing industries like sugar, shoes, soap and detergents, cigarettes and dairy products that were inefficient and loss making.

The sub-sectoral distribution is as follows: manufacturing (71%), electricity (20.8%) and mining and quarrying (8.2%). The leading manufacturing sectors are woodworking and furniture manufacture, bakery products, mineral water and wheat flour, lime making, recycling of used wearing apparel and a small amount of traditional weaving. Most of the private sector undertakings within the industrial sector are basically micro, small and medium enterprises (MSMEs).

The main challenge is to promote a sustainable industrial sector driven by the development of SMEs with a view to accelerate economic growth and reduce poverty through income generation and employment creation.

One major constraint facing the industrial sector is the absence of an enabling “business environment” in terms of legal and regulatory framework, and a critical mass of effective and efficient institutions for the delivery of public and private services, including administrative and regulatory services, i.e. the enforcement of the laws and regulations. More specific constraints are:

- Long Legislative processes and limited public knowledge of regulations that govern their activities
- Limited Access to finance by both the formal and informal business sectors, especially medium and long-term financing
- High tax rates and a complicated taxation system
- Increased cost of doing business due to numerous administrative barriers
- Inadequate facilities for quality control and quality assurance
- Inadequate and unreliable provision of physical and social infrastructure
- Inadequate skills levels and skill mix to support the desired manufacturing activities. In particular, there is shortage of skills in marketing, industrial and technical skills
- Restrictive labour laws and poor work ethics among employees

- High cost of utility services for the industrial sectors
- Limited Research and Development institutions to support industrial development.
- Limited sub-contracting exchanges between existing industries to support their development.
- Limited Vocational training capacity limited to impart industrial skills to existing and would be entrepreneurs.
- Weak private sector associations and absence business of development centres to support entrepreneurs.
- Weak industrial culture and entrepreneurship among society.
- Poor marketing strategy for industrial products

Opportunities exist in manufacturing, taking into consideration linkages to agriculture, tourism and trade. Other opportunities also exist in agro-processing, production of souvenirs, packaging and bottling and new activities that will meet demands of tourism and trade.

4.0 THE FUNDAMENTALS FOR ECONOMIC GROWTH

4.1 Overview

4.1.1 Lead Sectors for Economic Growth

The objective of the growth strategy for Zanzibar is to accelerate growth to 10% by 2010 and increase space for broad participation of the people of Zanzibar in the growth process.

Zanzibar is a semi autonomous state within the United Republic of Tanzania. For its size, Zanzibar has a small domestic market, which on its own cannot be a reliable vehicle for high and pro-poor growth, unless it is complemented significantly by fuller use of the external market. In this context, the two lead sectors are tourism and trade, with other sectors playing a supportive role. This entails increased emphasis on efforts to exploit and create comparative and competitive advantage in the service sectors, including tourism, finance, insurance, health, education, internet services, and e-commerce, while at the same time not neglecting scope for competitiveness in other sectors, including agriculture and niche markets.

4.1.2 Processes Driving Value Addition

The policies and strategies that will be adopted for the Zanzibar Growth Strategy will focus on accelerating three key processes that are pertinent in the development of productive capacities and driving value addition and labour productivity in the economy:

- *Capital accumulation* entailing the process of increasing stocks of various kinds of productive resources through investment in physical and human capital, including infrastructure.
- *Technological progress* consisting of the process of introducing new goods and services and new improved methods of production through technological learning and innovation.

- *Structural change* comprising the process of change in the inter-sectoral and intra-sectoral composition of production (within and between agriculture, industry and services) and in the pattern of linkages between sectors.

4.2 Drivers of Growth

4.2.1 Fundamentals for Growth

The strategic objective of the growth strategy in Zanzibar is to realise broad based growth in the sense that it is shared broadly in society and has the qualities of reducing poverty significantly. Under conditions of a competitive environment, sustainable growth will be realised if the economy is *competitive and capable of withstanding local as well as global competition*.

Rapid, broad-based and sustainable growth is an *essential and powerful instrument for poverty reduction - especially when it is sustained for a long enough period*. Such high growth must be founded on *high rates of saving and investment, and rising productivity*. Consistent with rising productivity, *human development plays an essential role in fostering growth*. Effective policies for human development are therefore a vital component of the growth strategy. Much as the growth strategy is designed in the context of a market economy and private sector led development, it is recognised that *government policies, programs and institutions* are critical determinants of investment, productivity, and hence growth.

Considering the small size of the economy the strategy will be to identify priorities which reflect potential sources of growth and export development in Zanzibar. The objective should be to promote competitiveness by focusing on areas of comparative advantage and transform them into competitive advantages over time. Consideration will be given to the efficient use of resource endowments based on dynamic comparative advantage and developing appropriate market linkages. The strategy that will be adopted in identifying priorities is that of increasing productivity and employment for sustainable growth. This strategy will target raising the level of productivity and incomes in activities where advantage and benefits of the strategic

position of Zanzibar are maximized, where the majority of the people are currently employed and dynamically growing sectors whose development is consistent with transformation of comparative advantages into competitive advantages.

4.2.2 Key Sectors

As indicated under section 4.2.1 above, the strategy should accord high priority to stimulating investments in the two lead sectors of trade and tourism:

These sectors have been selected for their current role which takes advantage of the strategic geographical position of Zanzibar in the region and the rich history of Zanzibar (trade and tourism). Considering the majority of poor people are engaged in agriculture and artisan manufacturing, possibilities of productivity increase and progression into higher value addition can be realised (especially through development of SMEs). In order to achieve economic transformation and effectively promote productivity in these sectors, investment in complementary infrastructure and supportive facilities will be needed, essentially to support the development of activities in the lead sectors. This means that the kind of infrastructure that will be developed and the kind of requisite resources such as human resources that will be developed will primarily be driven by the requirements of the lead sectors as well as those supporting them.

4.2.3 The Growth Process

The growth process in Zanzibar will rely on complementarities of domestic investments with foreign direct investments (FDI) playing a catalytic role in terms of bringing in capital, technology and new management approaches and techniques. Initiatives will be taken to attract both domestic and foreign investors to actively promote productivity (through human resource developments and advance technology), value addition and complementary infrastructure and facilities in support of the priority sectors.

The growth process in Zanzibar will take place in the context of a market economy with the private sector functioning as an engine of growth. This means that the growth strategy will *focus on enhancing access to the market and stimulating markets to function more efficiently ensuring consistency* with principles of private sector-driven development and market-based policies. The implication here is that the strategy will be to define how to facilitate markets to make them work better where they are not and to stimulate their creation or emergence where markets are missing. The strategy will help to create an institutional framework and institutional capacities which are consistent with efficient functioning of markets and developing market linkages within Zanzibar, with Tanzania Mainland and with the regional and global economy.

4.2.4 Implementation Plan

The growth strategy of Zanzibar will give high priority to implementation. This will be ensured by putting in place an *implementation plan* which specifies the intervention activities, financial requirements, financial sources, institutional arrangements, and monitoring and evaluation. The strategy for implementation will include specifying the roles and mechanisms for the participation of all key players in the implementation and monitoring and evaluation of the growth process.

The growth strategy will be implemented through strategic interventions directed to address the following areas:

- (i) Broad development context for growth (socio-political, public institutions, legal and regulatory framework, safety of persons and property).
- (ii) Microeconomic business environment with a view to reducing the cost of doing business (level and quality of basic infrastructure services, access to finance and human resources).
- (iii) Enterprise level organization and capacities.

- (iv) Economic empowerment of vulnerable groups.
- (v) Identifying strategic interventions in priority sectors.
- (vi) Institutional arrangements and implementation plan.
- (vii) Resource mobilization
- (viii) Monitoring and Evaluation.

4.3 Broad Context for Growth

4.3.1 Economic Growth and Poverty Reduction

The growth that is envisaged for Zanzibar will be broad based with investments oriented towards attainment of higher economic growth and subsequently poverty reduction. Thus, growth generated through this strategy should benefit the poor when they participate in their firms and farms as entrepreneurs and farmers respectively. In addition, strengthened and shared growth will enable poor people to benefit from increased employment and income earning opportunities – both through wage employment as well as self -employment. The business environment will therefore be improved by enhancing policy coordination and policy integration with a view to putting in place conditions for improving trust and confidence of the players in the economy as well as reducing the cost of doing business in the economy. Such cooperation in designing and implementing policies will be directed towards overcoming market failures and supporting markets to develop more efficiently and hence attract more players to the economy.

The strategic interventions are designed specifically to address constraints faced by the key players in the Zanzibar economy including those who are currently operating in the informal economy and strengthen public institutions with the intention of making markets work better for all.

4.3.2 Political, Social and Cultural Environment

Social and political environment:

As regards the social and political environment for growth it has been observed that improvements are being made on the current social and political environment. However, there is concern that social and political harmony needed to be improved further in order to attain the level of confidence and trust that is needed for business decisions to be made for purposes of attaining high levels of savings and investments (local and foreign) as well as innovations that are capable of realising a high and broad based growth of the economy that is envisaged by the proposed growth strategy.

Cultural dimensions of growth:

Concern has been expressed over the cultural dimensions of growth in terms of the perceived problem of culture and attitude towards work, non-developmental mindset and general apathy which are not consistent with high levels of investment, diligence and innovations that are needed to successfully implement the envisaged growth strategy. There is need to transform the non-development mindset and cultural environment among the society.

4.4 Strategic Objectives and Interventions

Further to the diagnostic study and subsequent consultations with stakeholders of the Zanzibar economic development agenda, objectives and interventions for economic growth are outlined in **Chapter Five**.

5.0 STRATEGIC INTERVENTIONS FOR GROWTH

5.1 *Interventions and Prioritization*

The diagnostic study undertaken in the course of developing this strategy revealed the need for extensive interventions in the management of the Zanzibar economy in order to bring about the envisaged growth. Prioritization has based on:

- Potential for accelerating growth and job creation,
- Productivity increase and innovation,
- Value addition, synergy, spill over effects,
- Cluster development and market intelligence consistent with MKUZA

Sectoral perspectives have been made consistent with the key priorities. The priorities have considered private sector investment in high value agricultural products moving up the value chain (agri-business), natural resources harnessed for generating resources for building more dynamic and competitive sectors, manufacturing (especially SMEs), trade and tourism. Information and communications technology (ICT) has been prioritized under infrastructure. The sequencing of actions in these areas will be based on the policies and incentives to ensure that the right interventions are done in a timely manner.

5.2 *Lead Sectors for Growth*

5.2.1 *Services*

Zanzibar has to exploit the immense potential in the services sectors. Globally, the services sector has undergone significant developments in recent years in the form of the great advancement in Information and communication technologies, and the many possibilities provided by the internet which have significantly increased the opportunities for services activities in trade and in supporting other sectors. Consequently, the percentage of service content embedded in physical products (credit,

design, maintenance, technical support, etc.) has increased. The landscape of the service sector for Zanzibar can therefore be transformed and business opportunities opened up for both local and foreign investors. The increasing significance of services arises in terms of increasing demand for services from the productive sectors and increase in demand from consumers as income levels increase.

5.2.2 Trade

Trade facilitates the supply of goods and services to other sectors. In addition, trade provides markets for products and services for the domestic and export markets. Trade is closely linked to tourism and supports the sector through provision of services such as hotels, tour operators, ICT, health, education, transportation and financial services and goods such as foodstuffs, beverages, crafts and souvenir products.

Strategic Objective 1:	To take advantage of the strategic geographical position of Zanzibar through its integration in the global economy by providing efficient trade services based on a high degree of competitiveness.
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Strategic intervention 1.1: Promote strategic investments in package of related facilities notably processing zones and free port facilities and related facilities that are required to ensure competitive trade services for the region.

Strategic intervention 1.2: Promote investments that will enhance the capacity to supply competitively in selected areas in order to take advantage of preferential trade arrangements, such as AGOA, EAC, SADC, etc. Measures will be taken to review and harmonize trade laws

and policies inline with EAC-Special Economic Zone regime.

Strategic intervention 1.3: Establish and strengthen institutions for enforcing quality standards of products produced locally or imported and put in place Quality Control Mechanism in line with international acceptable standards. Strengthen trade and investment promotion institutions by staffing with adequate skills, equipment and requisite facilities.

Strategic intervention 1.4: Encourage private investment in facilities for storage, handling, processing and packaging of trade products.

Strategic intervention 1.5: Build the capacity for trade diversification and for trade negotiations to ensure value addition and harnessing effectively the potentials and opportunities that are available for Zanzibar.

Strategic intervention 1.6: Ensure the establishment and strengthening of Business Information Centres with a view to facilitate the dissemination of business information domestically and externally and promote value addition in the use of resource endowment (such as spices, tourism attraction, agricultural products and clove based honey) coupled with international marketing strategies.

5.2.3 Tourism: The strategic objective and intervention for tourisms are:

Strategic Objective 2:

To develop sustainable and quality tourism that is culturally and socially acceptable, ecologically friendly, environmentally sustainable and economically viable with strong linkages to the rest of the economy.

Strategic intervention 2.1:

Develop and diversify investments in tourism potentials in Zanzibar. Priority will be given to expanding and diversifying tourism products and securing a more competitive position in areas where Zanzibar has a rich heritage. In this regard a tourism development strategy will be commissioned. Tourism development will give priority to people's participation, marketing and tourism infrastructure.

Strategic intervention 2.2:

Promote a cluster approach to ensure synergy and complementarity. In this approach each investor or service provider will be placed in the context of the tourism cluster. Promote linkages of tourism with other sectors that have potential of complementing tourism through production of goods that are utilised in the tourism industry. In this way the proportion of revenue from tourism that remains in Zanzibar will be enhanced.

Strategic intervention 2.3:

Review the structures, policies and legal framework of the institution dealing with tourism with the view of putting in place an appropriate mechanism for tourism management. Strengthen institutions dealing

with tourism (Zanzibar Tourism Commission, Zanzibar Investment Promotion Authority and Zanzibar Tourism Corporation) by rationalising their functions and responsibilities and providing necessary resources (financial and human).

Strategic intervention 2.4: Strengthen human resource development (HRD) through capacity building and intensify training of Zanzibar nationals for employment in the tourism industry. Strengthen the Tourism Institute by reviewing and introducing a curriculum which is in line with requirement of tourism industry and providing adequate and right resources (financial and human).

Strategic intervention 2.5: Undertake civic education with a view to change perception of Zanzibar society about tourism and involve community representatives in tourism planning. Promote cultural tourism in which communities will participate to advance Zanzibar culture.

Strategic intervention 2.6: Provide infrastructure that will safeguard tourism environment including waste management, safety and security for tourism industry and others.

Strategic intervention 2.7: Develop mechanisms for empowering local people to participate fully and effectively in tourism industry.

5.3 **Lead Sector Supporters**

The legal support sectors for tourism and trade are agriculture and manufacturing whose strategic objectives and interventions are:

5.3.1 Agriculture (including livestock, fishing and forestry)

Agriculture is central to the Zanzibar's objectives of achieving sustained economic growth and poverty reduction. The agriculture sector comprises crops, livestock, fisheries and forestry sub sectors. It is dominated by smallholder farmers, small-scale processors, transporters and small-scale traders. Apart from directly raising the incomes of producers, the increase in agricultural export also raises incomes of non-farm workers and creates employment opportunities thus, reducing poverty.

There is a large potential for increasing production of items which are currently imported to meet domestic demand and demand from tourism. Zanzibar agriculture has the opportunity of tapping the expanding domestic market and market from tourism for food, especially for livestock products and crops which have a high income elasticity of demand.

The strategy for developing agriculture will be to promote production and productivity and value addition. Considering that low productivity agriculture and related primary activities is dominant in Zanzibar where the majority of the people live on agriculture and where poverty is primarily a rural phenomenon, an important strategic objective is to focus on the analysis of supply chains with a view to promoting value addition and high productivity in agriculture and rural activities. Action will be taken to move up to higher value added links in existing as well as new high value chains.

Strategic Objective 3:	The objective of agricultural growth is to effectively increase production and productivity associated with high commercialisation and modernisation of agriculture to generate broad based incomes.
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Strategic intervention 3.1: Increase farm productivity of products for which Zanzibar has a comparative advantage and improves marketing efficiency, agricultural research, farmers training through extension services and improved access to financial services.

Encourage and promote continuous movement up the value chain with a view to enhancing value addition. Priority will be given to the work on the value chain so as to enable farmers reap higher value from their crops and enable them to reinvest the surpluses.

Further action will be taken to enhance productivity of agricultural land, labour and other inputs by providing productivity-enhancing inputs or capital, extension services and appropriate technologies. This will be done by encouraging research and promoting new technologies for value addition in improved seeds, processing, packaging, handling and storage.

Strategic intervention 3.2: Promote the process of crop diversification to high yield and high return crops through workshops for farmers, extension services, farm trials, training, and provision of seedlings, seeds and other inputs for recommended crops. Identify suitable new crops with good prospects in the world market and encourage their cultivation by providing necessary technical support. Measures will be taken to implement Clove Development Strategy and new functions of

ZSTC which include develop clove honey and wax production to take advantage of the tourism market.

Strategic intervention 3.3: Promotion of agricultural productivity and profitability, through public-private sector cooperation and partnerships and processor/contract grower relationships and participatory implementation through District Agricultural development Programmes, CBOs, smallholder farmers and fishermen.

This will be done through provision of agricultural support services such as research, extension, training, regulation, information and technical services and finance.

Human resource development will be accorded priority in order to cope with the requirements of agricultural development as stipulated in this strategy, including expanding and strengthen Kizimbani Agricultural Institute, review the scheme of service and improve incentives for agricultural staff with a view to improving their performance and professional development.

Strategic intervention 3.4: Strengthen the institutional framework for managing agricultural development in the country by putting in place a system of coordination, and empowering the relevant institutions by providing them with adequate resources both financial and human.

Strategic intervention 3.5: Empower the rural community, especially the vulnerable groups through provision of information, training, education, guidance and material support, facilitated access to finance and business development services and other support services, through sensitisation programme on empowerment for all stakeholders (rural communities including farmers, fishermen groups, CBOs, NGOs, professional organisations and concerned Government officials responsible for Shehia).

Strategic intervention 3.6: Increase trade of agricultural commodities by assisting farmers to sell collectively and individually to a wide in more and better market and by developing the capacity for identifying opportunities for value addition along the entire value chain of agricultural commodities.

Strategic intervention 3.7: Address supply side constraints by implementing Irrigation Masterplan, promote aqua culture, water resource management, and canal and drip irrigation systems for fruits and vegetables. This can be done through developing the capacity to supply agro-processed products to respond to the new opportunities in the domestic markets. Value addition will be stimulated through developing linkages through enhancing skills and facilitating access to capital.

Strategic intervention 3.8: Promote investment in rural infrastructure for agricultural production and marketing and agribusiness in general. Improved access to

electricity, water, telecommunication services, storage facilities, agro-processing plants/industries and transport services and equipment will foster linkages with other sectors of the economy thus stimulating their development.

Strategic intervention 3.9: Livestock development will be realized through research, training and extension services, launching a smallholder livestock development programme (through improved livestock and support services such as heifer multiplication units and small stock production) and disease prevention (e.g. livestock quarantine measures) and cure. Measures will be taken to empower livestock keepers by enhancing their access to finance and extension services. The principle of value addition will be operationalised by facilitating processing of livestock dairy products (such as butter, cheese, ghee, yoghurt) and meat products to suit the tourist and other markets.

Strategic intervention 3.10: Fishing industry will be developed by identifying specific needs of different markets with special attention to the tourist market and taking stock of what is available. The harnessing of available fish resources will be undertaken through facilitating access to improved fishing gear for domestic fishermen and forming joint ventures for deep sea fishing and fish processing. The strategy will involve empowering administration, improving access to inputs and suitable infrastructure (such as modern

laboratories and landing infrastructure), providing technical assistance to fishermen, updating surveys of resources (inshore, offshore and exclusive economic zone fishing grounds) to ascertain the potential.

Marine parks and mari-culture will be developed and be linked to the growing diving niche in tourism.

The growing importance of Seaweed will be enhanced by putting emphasis on high yielding varieties and value addition through further processing.

Strategic intervention 3.11: Forestry development will promote value addition in timber production for furniture and honey and other forest production primarily to meet the demand from tourism. Sustainability will be ensured by promoting community participation by reaching resource use management agreements with communities, adopting a sustainable approach to preserving natural forests and biodiversity, encourage planting of trees and develop the utilization of forestry products such as honey. Bee-keeping will be an important aspect of forest development.

5.3.2 Manufacturing

The importance of the manufacturing sector in terms of structural transformation of the economy and developing linkages with the rest of the economy need no emphasis. A major concern has been that the structure of manufacturing has continued to be dominated by the use of low technology whose knowledge content is rather low. Investment in

manufacturing will add value and employment. Opportunities exist in agro-processing and supportive manufacturing activities. Manufacturing has backward linkages with agriculture and forward linkages to tourism and trade.

Strategic Objective 4:	To promote manufacturing that adds value to agricultural products, supplies tourism and adopts practices that are competitive, diversified and highly productive and inclusive of the majority of SMEs.
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Strategic intervention 4.1: Promote SMEs competitiveness by facilitating access to capital and non-financial services, by creating incubator and other similar programmes for potential manufacturing activities and create opportunities for producing unique souvenirs and export products.

Strategic intervention 4.2: Promote the use of more productive and efficient technology supported by relevant research and development. Establish institutions to support industrial development and research and development with special attention to support to SMEs. Facilitate adoption of new management techniques including developing new skill mixes that are consistent with requirements of competitive markets.

Strategic intervention 4.4: Encourage linkages between Foreign Direct Investments (FDI) and local manufacturing activities on the one hand and between large scale manufacturing and small scale manufacturing on the other hand and

promote the transfer of technology and knowledge through a continuous learning processes. Promote the adoption of modern and environmentally friendly technologies through incentives such as tax breaks etc

5.4 Contingent Interventions

5.4.1 Political, Social and Cultural Environment

Strategic Objective 5:	To ensure that the environment is conducive to political harmony, social cohesion, attainment of broad based growth, creating employment and reducing poverty.
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Strategic Intervention 5.1: The Government will improve the social and political environment that is consistent with social and political harmony needed to attain the level of confidence and trust that is needed for business decisions to be made for purposes of attaining high levels of savings and investments.

Strategic Intervention 5.2: Formulate programmes of civic education and sensitisation which will address the cultural dimensions of growth with a view to turning culture into an asset in development, promoting positive attitude towards work and promoting a developmental mindset that is consistent with high levels of investment, diligence and innovations that are needed to successfully implement the envisaged growth strategy.

5.4.2 Business Environment and Functioning of Markets

Limited access to markets is a constraint to many sectors such as agriculture, commerce, manufacturing and services which hinder growth and development of these sectors. The constraints are varied and take form in terms of geographic location, inadequate road infrastructure, poor quality of produce, goods and services and insufficient market information.

Strategic Objective 7:	To overcome market failures, support efficient markets development and facilitate enterprises to invest and trade efficiently.
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Strategic intervention 7.1: Promote access to functioning markets for the livelihood and consumption needs of the majority of the people of Zanzibar

Strategic Objective 8:	To significantly reduce the cost of doing business in the economy.
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Strategic Intervention 8.1: The Government will make concerted efforts to cut down bureaucracy involved in doing business through reviewing laws, regulations and administrative procedures and practices with a view to reducing entry and exit barrier. Licensing in particular is a costly exercise for the existing entrepreneurs and it is an up-front and relatively high cost for prospective business people. Efforts will be taken to develop and support small and medium size enterprises including those in the informal economy.

5.4.3 Legal and Regulatory Framework

A number of measures have been taken to improve the business registration process, regulations, security as well as the legal and regulatory environment. However, despite the ongoing initiatives aimed at resolving the

business and regulatory constraints, Zanzibar is still facing a series of legal and regulatory related barriers towards promotion of investments for growth.

Strategic Objective 9:	To put in place an efficient and effective legal and regulatory framework that is consistent with an attractive investment climate
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Strategic Intervention 9.1: *The Government will review laws, rules and regulations to respond to changes taking place in Zanzibar and elsewhere to eliminate contradiction with a view to facilitate entry and growth of businesses as well as building respect for contracts and property rights.*

The legal and regulatory framework will ensure that the following considerations are taken on board:

First, A legal and regulatory framework is able to facilitate the transition of informal sector operators and micro-enterprises to established SMEs organizations, which are well organised and are more consistent with high and broad-based growth in a competitive environment;

Second, That a regulatory system for public private partnerships (PPPs) in investments is institutionalised.

Third, That knowledge about property rights and how they can be enforced is disseminated.

Fourth, The establishment and operationalization of commercial courts and alternative dispute resolution mechanisms for business disputes.

Fifth, The strengthening of the Law Review Commission to spearhead the review of conflicting and outdated laws and regulations.

Sixth, The strengthening of the Labour Commission and enforcement of the new labour laws.

5.4.4 Enterprises Development for Competitiveness

Entrepreneurship in Zanzibar is at an infancy level with major constraints being entrepreneurial skills and knowledge, capacity to grow, business development services, market linkages, support services and reliable workforce. It is important to develop the capacity of firms to compete. The strategy will need to support firms to acquire the capacity to grow and compete.

Strategic Objective 10:	To achieve a high rate of enterprise start-ups and growth and to build capacity of enterprises in modern and competitive systems of management and operations.
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Strategic Interventions 10.1: Business Development Services (BDS) are instrumental in developing the capacity of enterprises: A widespread and easily accessible BDS market will be facilitated and developed in which providers will be widely established and promoted in the country. The existing mismatch in BDS

supply and demand will be addressed, a regulatory mechanism for the BDS will be established and which will register and certify the BDS providers. A capacity building programme will be initiated for the BDS providers. Awareness will be raised within the private sector on the usefulness of BDS and encouraged to utilise the BDS. A specific public support programme will be established to nurture and strengthen the BDS providers.

Strategic Interventions 10.2: Promotion of Enterprise Development making enterprises especially SMEs engines of growth and job creation centres and seedbeds for innovation and entrepreneurship. Promoting incubators and targeting them towards start-ups and the early phase of enterprise development.

Strategic intervention 10.3: *Fostering networking among enterprises to develop market linkages:* Enterprises will be encouraged to network among themselves at local and international levels. Enterprises will be made aware of and informed about the usefulness of networking; and of identifying positions within a market chain. Promoting clustering targeted towards creating economies of scale to facilitate sharing of complementary facilities and competences and access to vertical supply chains among specific sectors and sub-sectors.

Strategic Objective 11:

To develop enterprise level competitiveness and promote value addition in technology and knowledge-intensive stages of the value chain.

Strategic intervention 11.1:

Assist firms to attain the capacity to be competitive by facilitating access to effective support services comprising training, consultancy and advisory services, marketing services, technological services, information dissemination and promotion of business linkages.

Strategic intervention 11.2:

Take action to move up to higher value added links in existing value chains in which Zanzibar is participating and promote participation in new high value added chains such as ICT.

5.4.5 Good Governance and Public Finance management

Strengthening Good Governance is a necessary condition for growth. Good governance is guided by a number of principles, namely: Rule of Law, Accountability, Transparency, Anticorruption, Observing Human Rights, etc. It is envisaged that the crucial issues of governance that are instrumental for growth will be addressed. These include decentralization, rule of law, general public administration, public financial management, involvement of the different sections of the community in the development process and accountability of the public servants to the people as well as good corporate governance and good governance in the civil society.

Strategic Objective 12:

To achieve good Governance by various levels of government, private sector and civil society in an effective, honest, equitable, transparent and accountable manner.

Strategic intervention 12.1

Measures will be taken to develop a conducive environment for good governance practices in government, private sector and CSOs by taking action to:

- (i) Develop cross sector Civic Education programmes to provide knowledge to people on various economic, political, cultural, and social issues and to develop policies for civic education to cut across all sectors.
- (ii) Finalize review and adoption of the agreed recommendations provided in the Local Governance Reform Study.
- (iii) Institute an effective system of control and accountability through strengthening of Legal Institutions like the Judiciary, Attorney General's Chamber, Office of the Director of Public Prosecutions, and Private Legal Institutions (ZLS, ZLSC, ZAFELA) and Strengthen Governance Coordinating Ministries and Institutions.
- (iv) Develop and implement an anti-corruption policy and legal framework to tackle corruption.

Strategic objective 13:	Achieve a public finance management system that effectively mobilises public resources and allocates them according to the growth priorities in a transparent and accountable manner
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Strategic intervention 13.1:

The Government will revisit the institutional framework and processes for budget preparation and establish criteria for

allocation of resources and rationalize resource allocations and disbursement to MDAs and ensure compliance with accounting regulations and investment criteria.

Strategic intervention 13.2: The Government will strengthen the institutional framework for public finance management. Particular attention will be paid to strengthening Institutions according to Budget system.

5.4.6 Reliable and Cost Effective Infrastructure

There are significant infrastructure constraints on economic growth in Zanzibar. The key infrastructures include transport and communications, water sewage, and power. Linkages between infrastructure and leading sectors and their supporters are crucial for access to markets within national, regional and international borders, linkages are important for facilitation of people, goods and ideas, the facilitation of investment decision and financial transactions and land transport.

The challenge is to improve the various infrastructure services in terms of access, reliability, and cost effectiveness thus contributing to reducing the cost of doing business and generating broad-based growth in the lead sectors and their supporters.

The most dynamic sub-sectors within infrastructure are sea transport, air transport, energy and ICT. Priority will be given to increasing investment in these sub-sectors.

Strategic Objective 14:	To improve infrastructure services in terms of availability, reliability and cost competitiveness (affordability).
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Strategic Intervention 14.1: The Government will expand opportunity for enterprise to all areas of the country – build infrastructure and systems to enable growth and development of enterprises all over the country. Infrastructure development will link the whole country making more effective use of resources, support and promote tourism and trade.

Strategic intervention 14.2: The government will encourage the private sector to participate in making investments in infrastructure such as water, electricity generation, ICT and telecommunication services.

Strategic Intervention 14.3: The Government will take decisive steps to ensure availability of reliable and affordable energy by expediting supply of adequate power to all parts of the country. In particular, in Pemba the cost of producing power from thermal sources is very high. In order to make Pemba have sustainable power supply, a program has been initiated to connect Pemba with a submarine cable from Pangani, Tanga, on Tanzania Mainland. The strategy for developing alternative sources of energy will be accorded high priority.

Strategic intervention 14.4: Maritime transport will be developed to cope with the increasing demands of trade and tourism. This will be done by increasing mooring and improving existing berth capacity and constructing new port facilities. Action will be taken to rehabilitate infrastructure and provide modern handling

equipment, develop cold and dry storage facilities and maintain and upgrade quays and wharfs, establish oil waste reception facilities and expand port area warehouses at Malindi port. Measures will be taken to improve security and safety services and to strengthen the institutional set-up

Strategic intervention 14.5: The capacity for Air transport will be enhanced to cope with demands of tourism and trade by modernising Unguja airport by building new airport terminal with tax-free shopping facilities, restaurants, and special facilities for the disabled, providing modern check-in counters and waiting lounges. Action will be taken to provide night-landing equipment at the Pemba airport and to improve management and operations by introducing new procedures and staffing airport services with skilled staff.

Strategic intervention 14.6: Land transport will be improved by upgrading existing road network to the standard all weather road access to tourist areas, airports and seaports. Promote public/private partnerships in road construction and maintenance and provide adequate resources for road maintenance expansion, and the construction of new ones.

Strategic intervention 14.7: Put in place a waste management programme to manage sanitation and to protect the environment. Private sector participation will be encouraged in this context.

Strategic Objective 15:	To develop and implement ICT policy and infrastructure including encouraging beneficial ICT activities capable of improving productivity in the productive and service sectors of the economy
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Strategic intervention 15.1: Encourage investments in national communication backbone infrastructure that is accessible in every part of Zanzibar to facilitate efficient and comprehensive information flow. Develop a nation-wide ICT supporting infrastructure that will enable enterprises to benefit in terms of market and trade information, other business and general information, access to new development and skills in entrepreneurship and networking and linkages.

Strategic intervention 15.2: Promote investment in the requisite human resource development for ICT development and application.

5.4.7 Access to Finance

Inadequate access to finance is a key constraint on the functioning of enterprises in all sectors in Zanzibar. The second generation of financial sector reform and the microfinance policy are intended to address the weaknesses in the sector, including strengthened regulation, supervision and enforcement; developing products that suit clients. In promoting access to financial services in Zanzibar, priority will be accorded to tourism and trade and their supporting sectors.

Strategic objective 16:

To provide greater access of the financial system for more people and promote efficient savings mobilisation to a diversified domestic financial sector within a competitive environment by broadening the range of financial instruments and services throughout Zanzibar.

Strategic Intervention 16.1:

The Government, in collaboration with Development Partners and NGOs will facilitate clients to meet credit requirements by supporting training and setting up guarantee funds that cater for the needs of the clients and facilitating by mitigating the cost of undertaking feasibility studies and formulating business proposals. The Government through ZIPA in collaboration with private sector will help business communities in the preparation of bankable project studies and business plans at concessionary rates.

Strategic intervention 16.2:

Action will be taken to improve security in rural and urban areas by facilitating formal registration of assets that could function as collateral titles and by innovatively searching for alternative ways of accessing financial services (such as group lending and crops in warehouses) without necessarily demanding physical collateral. The Government will continue with its initiative of property formalisation (under the MKURABITA programme) which will enable the owners to use their properties in

the informal economy as collateral for credit.

Strategic Intervention 16.3:

Review land laws with a view of giving confidence to banks and reducing the perceived risk to lending at more affordable interest rates. The Government will facilitate the establishment of SACCOs and promote linkages between SACCOs and Commercial Banks as a strategy of cutting down administrative costs, enhancing loan recovery and improving reach to communities. Financial institutions will be encouraged to utilize the knowledge and proximity of established institutions such as SACCOs to enhance reach and loan recovery. The government will support the building of competence in SACCOs through capacity building initiatives. Institutional arrangements for SACCOs will be revisited with a view to rationalising them. Initiative will be taken to review the Cooperatives Act.

5.4.8 Access to Quality Human Resources

Although the level of basic education Zanzibar has increased considerably (up to form II) higher levels of human resources are still at a low level of development. In particular, vocational training, tertiary education, professional and technical skills are still in short supply.

Strategic Objective 17:

To address the quality of labour and the mix of skills that are needed to support the realization of a fast growing economy in a competitive environment.

Strategic Intervention 17.1: The government will make massive investments in Human Resource Development in Zanzibar in general and in reference to the requirements of the priority activities notably tourism and trade and the supporting sectors (agriculture and light manufacturing). The experience of Mauritius has shown that massive investment in human resource development is key to developing the capacity to be competitive in priority sectors. The government will make strategic intervention in education, from basic to advanced levels with focus on fields, which tend to spin off entrepreneurs such as natural science, engineering, agriculture, marketing, business administration and management and computer skills. This task must be a joint effort between the government and the private sector. The Government will institute and implement a comprehensive plan for Human Resources Development (HRD) including training of trainers and provide requisite training facilities. Among other things, the comprehensive HRD plan will establish requisite staffing levels and institute an effective Human Resource Management System.

Strategic intervention 17.2: The institutional framework for managing investments and development of human resources will be strengthened. The division of responsibilities between government and the private sector will entail government investment primarily in

education and longer-term training while providing incentives to the private sector to stimulate investment in short-term courses and on-the-job training. The public sector, notably, Chief Ministers Office, Ministry of Education and Vocational Training and Ministry of Finance and Economic Affairs will be strengthened and empowered to take the lead in making investments in human resource development and in regulating the private sector and providing incentives for the private sector to invest in quality human resource development in the required skills.

Strategic Intervention 17.3:

The government will facilitate the establishment of an adequate number of vocational training centres with adequate financial resources, the requisite instructors and training facilities.

Strategic intervention 17.4:

The government will take measures to put in place an incentive system that will retain the trained personnel and facilitate more effective human resource utilization and promote professional development.

Strategic Objective 18:	To achieve coordination and harmonization of training in entrepreneurship and business management to create a pool of job creators.
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Strategic Intervention 18.1:

The government will design programmes and facilitate private providers of training to

establish programmes which will facilitate the educated persons to venture more aggressively into business and actually own and run private enterprises. Measures will be taken to stimulate creativity and encourage the spirit of trying out new ways of doing things.

Strategic Objective 19:	Develop human capacity and attain high health standards for productive labour force to participate effectively in productive process in society.
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Strategic Intervention 19.1: The government will take measures to address the key health concerns, to ensure enhancement of workers' productivity. Attention will be paid to health care aimed at vulnerable groups including women, children and people with disabilities. *Action will be taken to promote prevention and treatment of HIV/AIDS, malaria and infectious diseases which have potential to erode productivity.* The government will raise awareness of HIV/AIDS, malaria and other community health challenges in the public as well as private sector and encourage all players in the economy to make their contribution by streamlining intervention for prevention of diseases and management of health.

5.4.9 Access to Land

Land is one of the scarce resources in Zanzibar. This has been so because of high land demand for economic and social uses. Implementation of urban and rural land use planning is keys for achieving results in business growth

and expansion. Effective and pro-active urban land use planning is practised to meet existing demand and stimulate additional demand for physical space for doing business, farming and settlement.

Strategic Objective 20:	To institute land tenure, land use and availability of land for business purposes and that is conducive to promoting private investments in farms and firms.
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Strategic Intervention 20.1: The government will undertake comprehensive urban planning and adopt practices that will make appropriate land available for business premises with the necessary infrastructure especially for MSMEs.

Establish sites for the disadvantaged sections of the Zanzibar society including setting aside industrial plots in Fumba and Micheweni for allocation to MSMEs and other business plots.

The government will commission a comprehensive study to locate and measure land for different uses. The government will take initiatives to educate the population on the 1992 Land Tenure Act so that all land transactions are conducted in accordance with the laws governing land in Zanzibar.

5.4.10 Economic Empowerment

The main challenge posed by economic empowerment is the public and private sector to come up with targeted empowerment actions.

Strategic Objective 21:

To empower Zanzibaris so that they are enabled to control the bulk of the economy and to build capacity of vulnerable groups to enable them participate meaningfully in the economy

Strategic intervention 21.1: The Government will come up with programmes for building capacity of targeted groups through education and training in various trades and promote and strengthen institutions supporting small businesses towards quality improvement, credit and market accessibility.

Strategic intervention 21.2: The Government will put in place institutions, which cater for the vulnerable groups with particular attention to institutions which will facilitate vulnerable groups to access credit and land.

Strategic intervention 21.3: The Government will use affirmative action to enable citizens participate in Government contracts through unbundling large lots into small ones and preferential procurement. Also certain activities will be demarcated for nationals.

Strategic intervention 21.4: Develop collective investment schemes in order to open up investment opportunities for the small-savers while increasing mobilization of domestic savings.

Strategic intervention 21.5: Institutionalize gender mainstreaming processes in programmes developed for the implementation of Zanzibar Growth Strategy.

Strategic intervention 21.6: The Government will develop a strategy for private sector development to address the legal, administrative and regulatory barriers that are preventing women from contributing fully to the economy. On the other hand, it will address the particular obstacles when accessing justice and strengthen dissemination of knowledge about women's property rights and how they can be enforced. In particular, training manuals will be established for primary courts which may not be aware of legislations that are redressing the disadvantaged position of women in the legal and regulatory framework.

6.0 IMPLEMENTATION STRATEGY

6.1 Resource Mobilization

6.1.1 Current Status

The Zanzibar Vision 2020 Development objective on increasing domestic financial resource is based on initiating investment programmes that shall generate domestic revenue, create employment, boost other economic sectors and support other development programmes for increasing people's welfare. The largest impact on the financial base will derive therefore, from improvements in economic development, sound financial practices and capacity to mobilize domestic and external resources, control expenditures and manage budgets efficiently.

The focus of the Zanzibar Strategy for Growth is directed at promoting growth of the economy which will finally improve the standard of living of the Zanzibaris as well as reducing poverty. The strategy will dwell on the contribution of all sectors in terms of collaboration and linkages in order to achieve the desired outcomes.

Coming up with realistic resource mobilization will require a comprehensive budget framework that supports adequate resources to finance recurrent and development activities. The financing framework for ZGS (internal and external sources) will be guided by the same assumptions that are guiding MKUZA. The main assumptions are as follows:

- i. An increase in real GDP growth rate from the current level of 5.6% (2005) to 10% by 2010.
- ii. Inflation rate to decline and stabilize to around 5 percent in this medium term period reflecting such a rate in the Mainland and other trading countries.
- iii. A tax to GDP ratio (tax effort) of 18.5 percent per annum,
- iv. A Gross Domestic Investment of higher than 25% by 2010 from the current investment-GDP ratio of 18%.

- v. Relations with the development partners will continue to improve such that resources can be mobilised through concessionary aid, that is, overseas development assistance.
- vi. Debt relief will continue to be realised and debt management will be improved.
- vii. Domestic investment will be complemented by foreign direct investment. The investment climate for attracting both domestic and foreign direct investment will be improved.

6.1.2 Reform Programs and Policies

A number of Financial and Economic Reforms have been initiated since 2002 when ZPRP was developed and implemented. These had included restructuring of public enterprises, improvement in the procurement system as well a series of financial and fiscal reform measures like improvement in debt management system, establishment of central payment system, establishment of MTEF budgeting system, establishment of Fiscal Policy Unit and improvement in tax collection.

In accessing financial resources that will be required for the growth strategy, the Government will continue to implement financial management reform programs and continue to take effective measures to mobilize resources from internal and external sources.

6.1.3 Costing of the Strategy

The full financial requirement for implementing the strategy will be determined after a comprehensive costing of the interventions and their associated activities has been completed. In this regard Ministries, Department and Agencies (MDAs) will have to identify and cost their activities. The aggregation of MDAs' costs will thus quantify the resources envelop required to realise the growth strategy.

It is important to stress that different costing methodologies will lead to different outcomes. Therefore, it is important to observe certain principles:

- Costing must be addressed with flexibility and give room for learning.
- Cost-effectiveness of specific interventions will depend on the institutional and policy environment in which they occur. Therefore, selecting the best delivery mechanism and defining the appropriate policy framework will typically reduce costs.
- Operational targets are interrelated and many involve synergy and generation of externalities in terms of resource use. Adding up their individual costs should therefore be done with great care to avoid serious over-estimation of the total cost.
- Absorptive capacity will influence the efficiency and effectiveness of reaching the growth targets. Provision should be made for resource allocation for capacity building with a view to relaxing binding constraints on capacity for implementation of the strategy.

6.1.4 Financing Framework

Between 2006 and 2010 the Government will enhance domestic revenue collection, resource allocation according to priorities and expenditure control and management in order to implement the growth strategy.

The main challenges are to:

- Widen the tax base
- Implement accepted recommendation from the past revenue based studies.
- Capture into the tax net the bulk of revenues from tourism
- Minimise leakages of local government resources
- Update the legal and regulatory framework governing resource mobilisation and utilisation
- Improve tax administration including minimising tax exemptions.
- Improve capacity and professionalism of revenue collection institutions
- Enhance capacity and professionalism of private institutions

Strategic Objective 22:	To mobilise resources from internal and external sources and to ensure their prudent utilisation for effectively implementing the growth strategy.
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Strategic Intervention 22.1: On the revenue side,

- (i) the resource envelop projection will consider the 2006/2007 budget scenario and factor in tax issues especially improving tax collection and widening the tax base, developments in the world economy and expectations on external resources. Measures will be taken to develop efficient, fair, equitable and buoyant sources of central and local governments revenue, including taxation, user charges, tariffs and betterment levies and devise new fiscal instruments that penalize environmental damage from both production and consumption activities.
- (ii) Further strengthening of domestic institutions that collect government revenues, mainly TRA and ZRB will in turn boost the mobilization of resources by ensuring continued fiscal reforms and modernization of tax administration to facilitate revenue collection to cope with the expanding and changing economic structures.
- (iii) Action will be taken to improve the management and handling of financial transfers through remittances.
- (iv) Mobilize external resources through promotion of Foreign Direct Investments (FDI).
- (v) Improve relationship with development partners and mobilize external resources from Official Development Assistance (ODA) and debt relief.
- (vi) Strengthen aid coordination institutions. It is expected that there will be financial gains in terms of more ODA resources and of better quality from the process of harmonizing ZGS and MKUZA on the one hand with Tanzania Mainland's MKUKUTA as well as JAST on the other.

Strategic intervention 22.2: On the expenditure side, efficiency of resource use will be enhanced through priority allocations along the lines of

MTEF giving priority to tourism and trade as the lead sectors and to agriculture and manufacturing as the supporting sectors. Priority allocations will be made consistent with the provisions for MKUZA's cluster 1 focusing on growth and reduction of income poverty.

Strategic intervention 22.3: Once public resources have been allocated to priority sectors public finance reforms will be enhanced to ensure that resources are used efficiently to realise value for money. Measures will have to be taken to implement the recommendations in the Public Financial Management Reforms.

6.2 Institutional Arrangement

6.2.1 Role of Institutions

Key Actors

Institutions play a key role in determining the way policies and strategies are formulated and implemented, laws and regulatory guidelines are formulated and enforced, monitoring and evaluation systems work, the service delivery is assured and how the systems relate to each other in terms of feedback mechanisms. The key players in implementation of the proposed growth strategy are the public sector, the private sector, the civil society and development partners. In order for the respective actors to play their roles effectively, it is envisaged that all actors will have ownership of the growth strategy.

(i) Public Sector

Public institutions influence the distribution of assets, incomes and costs as well as the incentives for actors in markets and the efficiency of markets. The situation on the ground has revealed that the capacity of public institutions needs to be built and developed in order to effectively facilitate markets to work efficiently and to promote private investments for broad based growth and employment creation.

Improving the investment climate requires a move away from specific incentives and greater focus on such broad and cross-cutting measures as securing property rights, simplifying business regulations and tax regime, enacting appropriate competition legislation, providing an adequate physical infrastructure, enhancing education and health infrastructure, and improving governance.

Political stability is essential for improving the investment climate that is capable of attracting domestic as well as foreign investments. Political harmony, therefore, is necessary for improving domestic stability and encouraging domestic and foreign investment.

Peace and security are important for development. The government, besides its traditional functions of ensuring peace, law and order, will be involved in those activities which help to create an enabling environment for public and private investment. It will also intervene in those activities which are not likely to be carried out by the private sector or those activities which provide public goods.

The public sector being the main player in ensuring that the growth strategy is implemented, will take the necessary action to mobilize the requisite financial resources for the implementation of the strategy. In this regard, the government will work hand in hand with the private sector, civil society organisations and development partners.

The House of Representatives will continue to oversee government business. To enable the Representatives to fulfil effectively their role, their capacity will be strengthened through upgrading their knowledge and skills through training seminars and workshops aimed at exposing them to growth issues. As an institution, the House of Representatives will be equipped with ICT as well as up-to-date information relevant to the work of the Representatives.

Ministries, Departments and Agencies (MDAs) and Local Government Authorities (LGAs) will continue to play a role in policy formulation, management of public resources, implementation and monitoring of any

progress made. MDAs and LGAs performance will be enhanced by involving non-state actors in policy discussions, budget process, implementation and monitoring. The capacity of MDAs and LGAs staff will be improved by upgrading their skills through specific training.

The public sector will facilitate entrepreneurship development and ensure a level playing field with fair rules for competing in the market and that are fairly enforced. It will also put in place effective regulations that are essential for a market economy and set the rules of the game right and provide for the instruments for management and enforcement of such rules.

Strategic Objective 23:	To implement capacity development of Public Institutions with a view to enabling them to effectively execute the growth strategy by supporting and facilitating the efficient working of a market economy.
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Strategic intervention 23.1: Review the effectiveness and efficiency of all government Agencies which will be involved in implementing the growth strategy and identify capacity gaps

Strategic intervention 23.2: The Government will put in place appropriate capacity development programmes that will evolve well functioning public institutions, which are capable of effectively facilitating markets to work efficiently with a view to promoting investments for high and broad-based growth, competitiveness and employment creation. The Government will facilitate changing and refocusing attitudes of public institutions to be consistent with the overriding growth objective and strengthening public-private dialogue mechanisms for growth promotion. In particular, the Government will strengthen ZIPA and related public institutions in terms of improved service delivery to investors and strengthening the investment climate for broad-based growth. The Government will develop the capacity for tailoring provision of public services to the requirements of the MSMEs in the country.

Strategic intervention 23.3: The Government will improve institutional set up and a system of coordination within MDAs and strengthen institutional arrangements among public sector, private sector, CSOs and development partners.

Strategic intervention 23.4: The effectiveness of existing Union arrangements such as JFC and Union Secretariat will be assessed with a view to ensuring that Union matters are addressed for purposes of implementing the growth strategy.

Strategic intervention 23.5: Undertake capacity assessment of existing capacities in public institutions, with a view to identifying capacity gaps and develop capacity development program

(ii) Private Sector

Since the mid 1980s, Zanzibar, like mainland Tanzania, has been gradually transforming itself from a public sector driven economy to a private sector economy in which the private sector is expected to become the engine of growth. Zanzibar Vision 2020 states that *“it is necessary to re-define the roles of the central and local government institutions in the process of social and economic development by establishing an appropriate legal framework and the creation of a conducive environment for the operation of the private sector”*. One of the key principles of Vision 2020 is private sector led development. In this regard, Vision 2020 accords a leading role to the private sector and SMEs in contributing to the development of Zanzibar by participating in various economic activities in the policy formulation process. Vision 2020 envisages enhancing even further the involvement of private sector and people’s participation in the productive socio-economic activities in the nation.

Other national policies (e.g. on industry, agriculture, investment, tourism, trade) as well as public sector reform recognize the cardinal role of the private sector in socio-economic development. Following the adoption of economic and trade liberalization policy reforms in the mid-1980s the

participation of the private sector in making investments in tourism and the import-export business has been enhanced.

However, the private sector is still at its infancy, fragmented and is facing many constraints. The enactment of the Zanzibar Investments Promotion and Protection Act in 1986, The Zanzibar Free Economic Zone Act of 1992, The Zanzibar Freeport Authority Act of 1998 and Zanzibar Investment Promotion and Protection Act No11 of 2004 have given private investments legal backing.

The role of the private sector in stimulating economic development and implementation of development programmes has been defined and the private sector has substantially contributed to Zanzibar development. Private sector registration includes individual proprietorship, private companies, partnerships or cooperatives. The private sector continues to promote employment opportunities and income earnings for Zanzibaris and to expand goods and services production while emphasizing inter-sectoral linkages and competitiveness regionally and internationally.

Strategic Objective 24:	To develop an inclusive, diversified, competitive and vibrant private sector that effectively contributes to investments for growth.
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Strategic intervention 24.1: To formulate a private sector development strategy that will ensure the development of a robust and diversified private sector which, is capable of implementing the proposed growth strategy in a competitive environment.

Strategic intervention 24.2: Action will be taken to explore innovative partnerships with the private sector in the mobilisation of resources and in making investments in the context of public-private partnerships. Particular attention will be given to unleashing and mobilizing knowledge and skills in the private sector, developing linkages between different types of private firms (foreign and local, large and small) to facilitate access to markets,

finance, information, skills and know-how and improving corporate governance and transparency.

Strategic intervention 24.3: Undertake capacity assessment of existing capacities in private institutions, with a view to identifying capacity gaps and develop capacity development program

(iii) Civil Society

The Civil Society Organizations (CSOs), a category which includes Faith-Based Organizations (FBOs) and Community-Based Organizations (CBOs) has an important role to play in the implementation of the growth strategy. CSOs have shown that they can contribute to undertaking awareness campaigns and implicit civic education aimed at informing the general public about development in general and community development in particular. CSOs have played the role of bringing about change in the mindset of societies and instilling progressive and developmental cultures, providing moral education and ethics that are consistent with good governance including fighting corruption and other vices in society. The participation of CSOs in policy and planning, budget discussions, implementation and monitoring processes has been useful and can be promoted further. CSOs have been involved in the mobilisation of financial resources for financing of growth related projects/programmes. CSOs have played an important role in the provision of basic social services such as health and education and community development to improve conditions in communities. CSOs can contribute to promoting empowerment of local communities and facilitate mobilization of human, financial and material resources to effectively carry out community-based programs.

Strategic Objective 25:	Support the development of a robust civil society that effectively contributes to development and implementation of the Zanzibar Growth Strategy.
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Strategic intervention 25.1: To encourage the civil society to contribute to bringing about change in the mindset of Zanzibaris and instil a culture that extols hard work and to seriously fight corruption and misappropriation of

public property. CSOs will be encouraged to play the role of attacking corruption at its roots by providing moral education against corruption, mobilising public participation in the war against corruption and other vices in society.

Strategic intervention 25.2: Facilitate effective participation of the civil society in policy and planning, budget discussions, implementation and monitoring processes including mobilisation of financial resources for financing of growth related projects/programmes. The government-CSOs partnership will be strengthened and nurtured through capacity building programmes. The government will build up an environment of trust and frequent consultations with the civil society.

Strategic intervention 25.3: The CSOs will be encouraged to make investments in the provision of social services such as health and education facilities and to play an important role in the provision of adequate and sustainable community services and sensitise people to improve their conditions of living such as public health, community development to improve conditions in communities. CSOs will be encouraged to step up efforts to promote empowerment of local communities and facilitate mobilization of human, financial and material resources to effectively carry out community-based programs.

Strategic intervention 23.4: Undertake capacity assessment of existing capacities in civil society institutions, with a view to identifying capacity gaps and develop capacity development program

(iv) Development Partners

The Development Partners will play an important role in the implementation of the growth strategy by collaborating with the government and other actors in mobilising resources in line with priorities in MKUZA and the growth strategy for Zanzibar. In this regard their support will be in the form of loans, grants and technical assistance. Additionally, in the spirit of Joint Assistance Strategy for Tanzania (JAST) framework development partners will participate in the policy dialogue and monitoring and evaluation processes in which experiences and different perspectives will be shared.

Strategic Objective 26:	To deepen relationships with development partners to facilitate external resource mobilisation and ensure their effective utilisation in the implementation of the growth strategy.
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Strategic intervention 26.1: Participate fully in the implementation of the JAST with a view to continuing to improve relations with the development partners and evolving a development cooperation framework that will ensure enhanced quantity and quality of ODA.

6.3 Monitoring and Evaluation

6.3.1 Objectives

M&E has three objectives. First, the objective of undertaking Monitoring and Evaluation (M&E) is to enable the Government make timely decisions that will keep the implementation of the Strategy on track. M&E derives its value from the flow of relevant information to decision makers, who can then make informed decisions on whether modifications to policies and spending programmes are necessary. Second, M&E functions will provide the implementers with a flow of reliable information and analysis about what works and what doesn't, as a basis for public action. Third, M&E keeps other stakeholders (the legislature, the public, civil society organizations and development partners) informed about the progress being made in implementing the ZGS, and therefore enables them to play their roles and to modify the ongoing policies, programmes and projects under implementation.

6.3.2 Benchmarking for Monitoring

The M&E system will have credible and conceptually sound benchmarks against which progress can be regularly monitored with a core reference frame for developing such benchmarks based on MKUZA and MDG targets.

In developing benchmarks for monitoring purposes, it is crucial to distinguish between policy action indicators, outcome indicators and intermediate indicators. It is also important that indicators are SMART.

In order to achieve the objectives of the growth strategy, a number of interventions have to be undertaken. These interventions have to have operational targets, timeframes specified in terms of short, medium and long term, and key actors assigned to them on the basis of which an implementation plan would be developed and costed. The best approach to cost the interventions is through participatory processes, driven by tailored targets for the whole period of the strategy but expressed in intermediate targets and actionable propositions.

6.3.3 Challenges

The challenges include:

- Realising an effective and wide stakeholder representation in each TWG.
- Putting in place an effective Routine Data System at all levels of administration including districts and shehias with strengthened coordination between MDAs and Districts with the OCGS as the centres for data collection.
- Effective harmonisation of the ZGS and MKUZA.
- Making statistics available in time for making decisions.

6.3.4 Monitoring Levels

The M&E system for ZGS will be managed by the existing system of the Secretariat and Technical Working Groups (TWGs) constituted under MKUZA. Members to the TWGs are from all Ministries, Departments and Agencies (MDAs), academic institutions, civil society, Development Partners and the private sector. Indicators for monitoring the progress of ZGS need to be developed, but will not differ significantly from those of MKUZA. The indices will include core indicators for core activities as well as additional sector specific indicators provided by other stakeholders. The Participatory Service Delivery Assessment (PSDA) approach will be adopted in the ZGS as a feedback mechanism from the beneficiaries of the services to the service providers. In a move to accommodate the voices of the poor in the implementation of the ZGS, PSDA will be carried out annually to evaluate progress in the ZGS implementation.

At the national policy level there will be an involvement of the Inter-Ministerial Technical Committee (IMTC) and the Cabinet. The MKUZA Secretariat, which is housed in the MoFEA, will be a major link between ZGS monitoring and the IMTC. The IMTC will use the M&E system to develop appropriate policies based on feedbacks and lessons from implementation to advise Cabinet.

There will be other lower levels of consultation at the District and at the shehias. The District Administrative Office will be the Secretariat to the District ZGS team which will include the District Planning Committee which will implement its plan and M&E activities as part of the ZGS. These activities are associated with inputs, outputs and outcomes which will be monitored and evaluated.

6.3.5 Source of Information

At the national level the sources of information include the surveys and censuses managed by the OCGS. The data produced is usually at national level and disaggregated to sub-national levels, by gender, rural/urban and so on. At the MDA level, the sources of data are the surveys and censuses from the OCGS disaggregated at that level with the official statistics collected by these institutions as part of their routine work (routine data) as well as their annual plans and annual and bi-annual reports. At district level, the sources of data are the surveys and censuses from the OCGS disaggregated to that level referred to as Community Based Management Information System (CBMIS) and district routine data systems.

6.3.6 Key Outputs

The expected key outputs from the ZGS M&E will include quarterly and annual work plans, budget reports, sector expenditure reviews based on the proposed cluster groupings of MKUZA. The annual reports will display trends and results of implementation progress which will be discussed together with the PSDA reports appropriately institutionalized in the ZGS framework.

6.3.7 Communication Strategy

An effective communication strategy will be required to ensure that key messages about ZGS are conveyed to the relevant stakeholders and progress and feedbacks are relayed to the right stakeholders in a timely manner. Considering that the MKUZA will be adopted to accommodate and integrate the ZGS communication requirements.

Annex 1: REFERENCE DOCUMENTS ON ZANZIBAR GROWTH STRATEGY

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