

8

Zanzibar



"Zanzibar is known internationally as a major exporter of spices and a significant tourist destination. The recent high growth rates have had a modest impact on poverty reduction which remains at 44 percent."

This chapter focuses on agriculture and tourism in Zanzibar, the two key sectors of the economy for job creation and poverty reduction. Zanzibar is known internationally as a major exporter of spices and a significant tourist destination. The recent high growth rates have had a modest impact on poverty reduction which remains at 44 percent. A relatively high rate of population growth combined with limited formal sector employment has resulted in the Zanzibar government prioritizing the growth of agriculture and tourism. With a population of 1.45 million in 2015, on a total land area of 2,654 square kilometers on the two islands of Unguja and Pemba, and with almost half the population under the age of 15, the government is committed to improving the challenging business environment. Since the union with the mainland in 1964, Zanzibar has been a semiautonomous nation within the United Republic of Tanzania. It implements its own development plans and is responsible for its own financial affairs.

More than two-thirds of the Zanzibar population depend on agriculture for their livelihood. Zanzibar, known internationally as the "Spice Island," for its cloves and other spices, also produces cassava, sweet potatoes, rice, corn, plantains, citrus fruit, and coconuts. There is a sizable artisanal fishing industry. In recent years, seaweed, which is mostly grown in the eastern part of Zanzibar, has also become an important export commodity. Despite the success with seaweed, exports are limited. Zanzibar imports most basic foodstuffs, including rice, cooking oil, sugar, and wheat and flour from outside the region and maize from mainland Tanzania.

The Zanzibar Development Vision 2020, released in 2000, envisaged Zanzibar as a middle-income

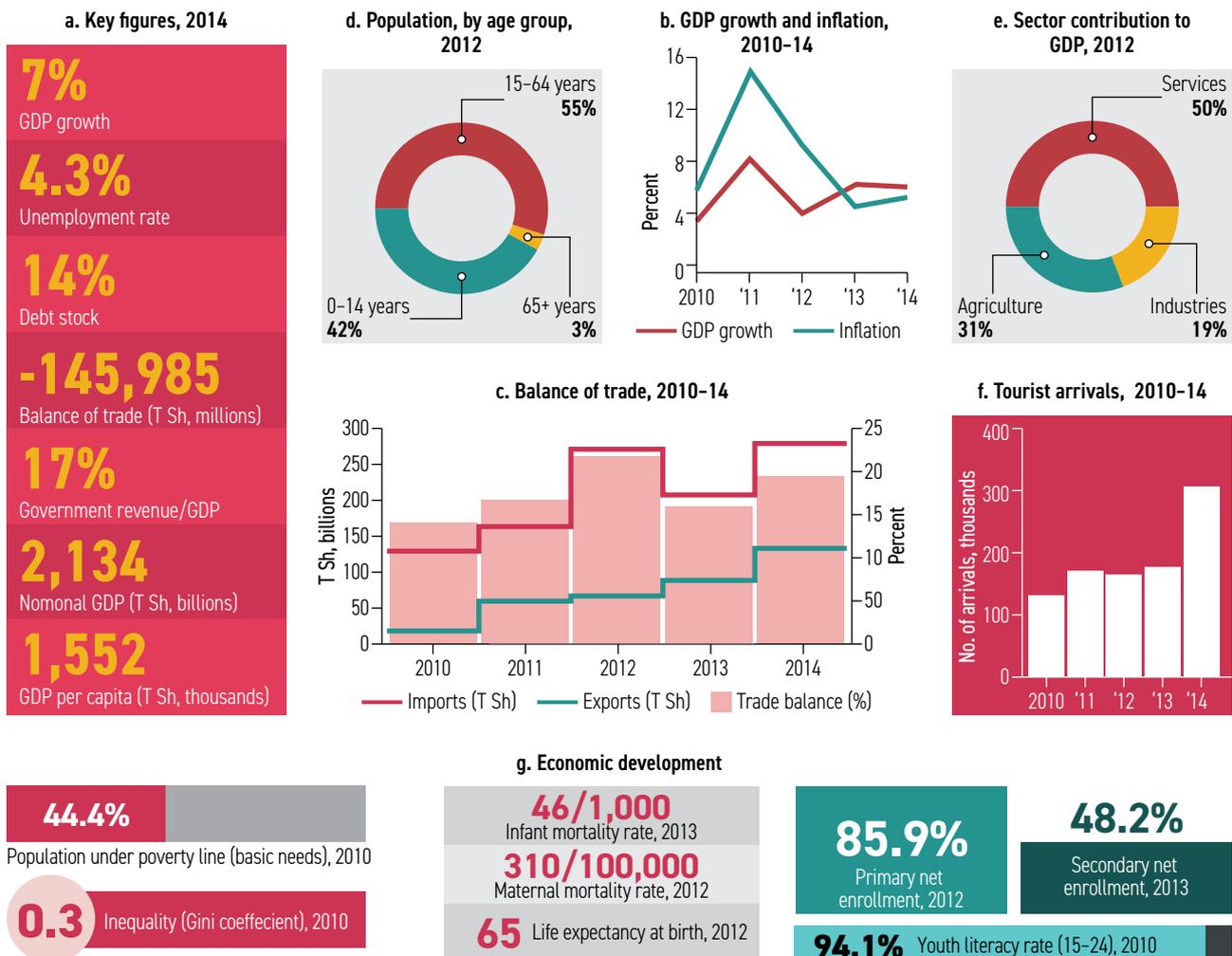
country by the end of the period. This long-term socioeconomic development goal was updated in 2010 with an emphasis on eliminating absolute poverty while reaffirming the commitment to achieve middle-income country status. The Vision guided the design of the ambitious Zanzibar Poverty Reduction Plan (ZPRP), covering the period 2002–05 and the subsequent Zanzibar Strategy for Growth and Reduction of Poverty phase I (widely known in its Swahili acronym as MKUZA I 2005–10). The successor strategies, MKUZA II and, now since June 2016, the Draft MKUZA III, all highlight the importance of continuing growth of the tourism sector and to increase value added in agriculture to realize Vision 2020.

The Zanzibar economy is dominated by the services sector, which account for almost half of gross domestic product (GDP) (45 percent), followed by agriculture

(28 percent) and industry (17 percent). Over the past decade, the services sector, dominated by tourism, has continued to grow while the share of agriculture, forestry, and fishing stagnated and industry declined. The recently released MKUZA performance review report (2016) and Zanzibar Socio Economic Survey Report for 2015 recorded high aggregate annual growth rates of 6–7 percent which has resulted in a 69 percent increase in average GDP per capita over the period 2009–15 (from US\$555 in 2009 to US\$939 in 2015).

The high growth rate has not translated into a broad-based reduction in poverty, particularly in the lagging sectors of agriculture and fisheries. Less than 20 percent of the active working age population (between 15–65 years old) was employed in the formal sector. The Informal Sector Survey (2013) recorded approximately 350,000 people working on informal activities out of

FIGURE 8.1: Zanzibar's Economy Factsheet



Source: Derived from MKUZA III.

a total population of 1.45 million (2016). With over 40 percent of the population aged 14 or younger, Zanzibar faces the challenge of expanding the labor market to absorb school leavers and graduates. There are also significant gender imbalances in the labor force, with women having both a lower employment rate and lower education levels. In Zanzibar, just over 75 percent of women are “engaged in the labor market whether employed or unemployed,” compared with 83.8 percent of the men (OCGS 2014a). And only 6.7 percent of women had formal training of any kind beyond and/or instead of primary school. Men had a higher employment rate than women, 78.4 percent versus 58.3 percent respectively. Of the women employed, 44 percent were working in services with 9.6 percent working in accommodations and food services.

The Zanzibar government forecasts annual economic growth of 4–7 percent in the medium-term (3–5 years). The MKUZA review did not expect Zanzibar to achieve a 10 percent economic growth. They noted that, in 2014, growth was 7 percent, and growth rates over the last decade rarely exceeded this number, typically remaining within the four to seven percent range. Furthermore, the outlook for 2016 was not particularly favorable as production of both cloves and rice (Zanzibar’s major crops) were expected to decline. Further, political uncertainty ahead of the election in 2015, which was subsequently postponed to January 2016, also suppressed investment.

Mobilizing private investment and increasing government efficiency are key to advancing broad-based growth. Large fiscal deficits will continue to constrain public investment and serve to highlight the importance of increasing public sector efficiency and improving the policy environment to encourage increased private sector investment.

Business-Enabling Environment

Starting a business and registering property in Zanzibar remain challenging. The 2010 Doing Business (World Bank) survey reported that starting a business costs more than the global average and totaled more than two-thirds of average income per capita. The relatively high cost and time-consuming registration requirements effectively crowd out many small businesses from entering the formal sector.

The Zanzibar government has begun to streamline business and property registration, but further simplification is still required. The Business and Property Registration Agency (BPRA), was established in 2012 as a dedicated office for registering businesses and properties and has started the process of setting up an online business registration system. The Companies Act, Insolvency Act, and Company Business names and regulations are all under review. The BPRA faces many challenges including understaffing and a shortage of resources to effectively implement its mandate. Staff shortages in record management result in delays with time allocated to document search.

Many sectors are required to register with multiple agencies. In addition to registering with the BPRA, many activities are required to obtain additional registration from other government agencies businesses. These include businesses engaged in food, drugs, and cosmetics. The Zanzibar Food and Drugs Board (ZFDB) registers all businesses engaged in food, drugs, and cosmetics, while also issuing import and export permits. The ZFDA does not have an accredited laboratory and experiences serious staffing constraints, which limits its capacity to effectively discharge its mandate. The Zanzibar Bureau of Standards (ZBS) was established to increase conformity assessment with approved standards, however, to date, there are only two products with the ZBS mark and 50 approved standards. Further there appears to be limited coordination with the Tanzania Bureau of Standards (TBS) on technical regulations.

Starting a business is also not easy in Zanzibar, and it is even less so in the case of smaller enterprises. The World Bank’s Doing Business in Zanzibar (2010) report showed that complying with all the registration requirements takes 10 procedures, 28 days, and about US\$355 (or 72 percent of Zanzibar’s income per capita at that time) to set up a limited liability company. While incorporation with the Registrar General’s Office, in Zanzibar, is relatively simple and takes less than one week (six days), the postincorporation procedures—such as preparing a company seal, applying for all required tax numbers from the Tanzania Revenue Authority (TRA) and the Zanzibar Revenue Board (ZRB), obtaining a business license, registering with the Zanzibar Social Security Fund (ZSSF) and with the National Insurance Corporation, and submitting employees’ contracts

at the Labour Commission—can take up to 18 days to complete.

Zanzibar remains one of the most difficult places in the world to register property. In 2010, it required 10 procedures, which would take about 39 days and cost 20.2 percent of property value. It ranked 170th out of 183 economies measured in the 2010 Doing Business report, which placed it in the bottom 10 percent globally. In comparison, in Dar es Salaam, a property transfer required nine procedures, which would take 73 days but cost much less—just 4.4 percent of property value—ranking ahead of Zanzibar at 145th place. Compared to 34 other small island economies measured by Doing Business, Zanzibar fell in the bottom third and would rank 27th.

Zanzibar Tax administration remains complex and burdensome for private businesses. Businesses are required to pay taxes separately to the TRA, the ZRB, and municipal and district councils. Whilst the TRA administers central government taxes in the mainland as well as Union taxes in Zanzibar, the ZRB collects inland consumption taxes other than customs, excise, and income taxes on behalf of the Zanzibar government. Among those, the main ones include value added tax (VAT), excise duty local, hotel levy, restaurant levy, tour operation levy, stamp duty, airport service charge, sea-port service charge, road development fund, petroleum levy, fuel sector development fund, road license fees, motor vehicle registration fees, driving license fees, ministry collections, and parastatal contributions. Zanzibar taxpayers must transact with multiple authorities, and deal with a multiplicity of taxes, levies, and fees—the cost of compliance, in terms of both time and financial resources, becomes higher than it could be when taxes are administered under a single umbrella, and particularly burdensome for small businesses. This increases the likelihood of tax evasion, with subsequent significant revenue losses for the government.

Access to finance is another major constraint for micro, small, and medium enterprises in Zanzibar. In 2010, the island would rank 167th on the ease of getting credit amongst the 183 economies measured by the Doing Business—compared to other small island economies, Zanzibar would rank 30th out of 35. Despite the existence of a securities registry in Zanzibar, the Registrar General's Office, information is neither centralized nor

BOX 8.1: Zanzibar Business Licensing System

The Ministry of Trade, Industry and Marketing review of trade licensing identified 87 separate acts, regulations, and bylaws relating to business licenses. Almost 240 licenses and permits are issued by multiple authorities. Licenses and permits are valid for 12 months and are required to be renewed annually. One business or commercial activity frequently requires multiple licenses from a wide range of different regulatory bodies and government authorities. There is no coordination between the different agencies, and many of the licensing requirements are outdated. The processes required to obtain a license are varied, with many being rather opaque, and there is no provision for complaining or appealing.

The review described the existing system of issuing business licenses as “unfriendly, costly, cumbersome, and time consuming.” The review recommended establishing a single licensing authority to increase transparency and to streamline the process.

Onerous licensing requirements create incentives for small businesses to operate informally. Zanzibar has 5,000 companies in business but the Zanzibar Revenue Board (ZRB) only has records on 3,000 companies. This means significant revenue is being foregone by the ZRB.

The report recommended a series of reforms aimed at increasing transparency and reducing the cost through streamlining the process and providing for licenses to be valid for 36 months.

indexed by grantor's name, making it hard to obtain quality information on the movable assets used as collateral. Further, Zanzibar's credit system limits the type of assets that can be pledged as collateral (for instance, account receivables or future—or after—acquired assets are not admissible as collateral).

Zanzibar offers fiscal incentives to all investors—however, they need to be more transparent and automatic with the Zanzibar Investment Promotion Agency (ZIPA) empowered to act as a one-stop shop. Although available for all investors, many local investors are unable to meet the requirements. Registering for incentives requires (a) minimum investment capital requirement; (b) application procedures for issuance of investment certificate; (c) investment certificate fee; and (d) approval of incentive application. Whilst the procedure for securing an investment certificate can be burdensome, a minimum capital requirement for local investors, ranging from US\$10,000 to US\$300,000, is not attainable by many small businesses. Further, the entire process of obtaining an incentive can be extraordinarily lengthy,

ranging between three and six months to obtain approval (ZNCCIA 2013a). The ZIPA aims to function as a one-stop shop for investors (both domestic and foreign), however, the Ministry of Finance has intervened in the decision-making process. This reduces the transparency of the published incentives and encourages rent-seeking behavior.

Zanzibar's investment law offers what the Chamber of Commerce considers to be generous tax and duty-free incentives for approved foreign and national investors in the free zones. This includes a 10-year holiday from corporate taxation followed by 10 years at 25 percent. In addition, Zanzibar investors are also eligible for incentives offered by the Tanzania Investment Act of 1997, the Income Tax Act of 2008, and East African Community (EAC) Customs Management Act 2004, which removed income tax holidays (except for firms located in free zones).

Zanzibar Trade

Almost two-thirds of imports are sourced from mainland Tanzania. In 2015, Zanzibar's total imports declined by more than 40 percent to US\$78 million from 2014 as major infrastructural projects were completed. Over 60 percent of imports are sourced from the mainland. In 2015, imports from the mainland totaled US\$47.7 million. Most of the goods from mainland Tanzania are agricultural produce, mainly vegetables, meat, and rice. Clothes, electronics, and building materials are primarily sourced from Asia, the Middle East, Kenya, and, to a lesser extent, Europe and the United States.

Merchandise exports are relatively modest at less than 4 percent of GDP, while tourism accounts for more than a quarter of GDP. Exports of merchandise rose from 3.9 percent of GDP in 2009 to 6.0 percent in 2014. When services, especially tourism, are included, this percentage increases significantly. Historically, cloves have been the major export, although recently, fish and seaweed have increased in importance. Recently, Zanzibar has begun exporting a range of new projects including charcoal, timber, foods, commodities, and veterinary medicines. Exports from Zanzibar to mainland Tanzania of US\$200 million in 2015 significantly exceeded imports. Many of these are reexports from Zanzibar to the mainland and include wheat flour, milk, wheat bran, and sweet potatoes.

BOX 8.2: Zanzibar Fiscal and Other Incentives

Fiscal incentives include corporate tax relief, investment allowance on capital expenditure, reinvestment allowances capital expenditure, preferential tax rates for withholding tax on dividends, royalties, and interest, preferential rates on indirect taxes, and double deductions of approved and/or specified costs and expenses. The nonfiscal incentives include access to land, priority connections to utilities, transportation, and communication services, employment of expatriates not available locally, benefits accruing from duty-free access to the mainland, the East African Community and Southern Africa Development Community markets.

Zanzibar maintains reduced tariffs on rice and sugar, has its own investment regime, and independent policies for government procurement, privatization, completion policy, and intellectual property rights. The EAC Common External Tariff applies to the United Republic of Tanzania, however, Zanzibar has a dispensation to maintain much reduced tariffs on the imports of rice and sugar destined for domestic consumption. The Zanzibar government justifies the exceptions to the common external tariff as benefiting Zanzibar consumers, however, the volumes imported consistently exceed domestic demand. The informal leakage of rice from Zanzibar to the mainland is estimated at 30,000 tons per year, which is modest relative to the scale of the import licenses issued to major mainland importers.¹

The trade between Zanzibar and mainland Tanzania faces fiscal as well as institution arrangement challenges. These include the requirement of payment of tax differences on cargo that is traded from Zanzibar to the mainland where traders are required to pay additional costs. Further, the payment of extra tax to goods sold in the mainland. Zanzibar Freight Forwarders complain of the need to apply for an export permit with authorities in the mainland for all goods that are exported through Dar es Salaam port. However, from July 1, 2017, it was reported that the tax difference would be settled in Zanzibar prior to shipment to the mainland. This would obviate the need for clearing the same goods on the mainland.

International trade and customs management are union issues, while internal trade and industry and consumer protection are the responsibility of the Zanzibar government. Zanzibar passed the Standards Act in 2011, which

provided for the establishment of the ZBS in 2012. Prior to 2012, standards issues were managed through the TBS. Since international trade is harmonized between the mainland and Zanzibar, the TBS risks duplicating procedures on intra-union trade, which increases compliance costs. The ZBS has sought to minimize duplication through close collaboration with the TBS. The ZBS does not have any accredited laboratories and remains seriously understaffed.

The ZBS's good cooperation with the TBS allows resources to focus on specific Zanzibar issues. The ZBS applies all the TBS standards in Zanzibar. The ZBS and the TBS have established a task force to coordinate and harmonize administrative and procedural issues.² Further, the TBS director general sits on the ZBS board. When the ZBS participates in external meetings such as the International Organization for Standardization (where they have observer status), they join with the delegation from the TBS. The Zanzibar quality assurance scheme is equivalent to the TBS scheme and managed by the same private conformity assessment company. Given the financial and technical resource constraints facing the ZBS, their strategy of working closely with the TBS is sound. However, ZBS's lack of capacity also creates challenges in ensuring effective day-to-day cooperation with the TBS. The Zanzibar private sector highlighted the importance of the ZBS coordinating and working more closely with other trade facilitation agencies to reduce delays and streamline approvals. Given the dearth of technical and financial resources, the ZBS should aim to build expertise in areas of specific commercial interest to Zanzibar, for example, seaweed and fisheries while harmonizing with the mainland TBS for most products.

Sanitary and phytosanitary (SPS) administration requires improved coordination and technical capacity building. There is a lack of inter-agency coordination between the multiple agencies responsible for regulating agricultural and food products include the ZBS, Zanzibar Food and Drugs Authority (ZFDA), the Chief Government Chemist Laboratory Agency (CGCLA), and the Weight Verification Authority (WVA). The ZFDA and the CGCLA largely mirror the functions of their counterparts on the mainland. All of these regulatory agencies face shortages of technical capacity and trained personnel, which limits their ability to enforce the SPS. There is also a need to increase awareness of the importance of

SPS and food safety through the provision of outreach and improved information and notification mechanisms.

Export permits are required for all agricultural products. All exporters must be registered with the Ministry of Industry, Trade and Marketing (MITM), obtain an export permit from the Ministry of Agriculture, Livestock and Fishing (MALF) and a certificate of origin from the Zanzibar Chamber of Commerce and Industries Association (ZNCCIA). The MALF levies a royalty of 1–2 percent ad valorem on all agricultural exports. For exports to third countries, the ZNCCIA charges their members US\$13.75 (T Sh 30,000) while nonmembers pay US\$18 for the certificate of origin. Issuing the EAC certificate of origin costs US\$2.25.

All exported containers pay a US\$100 weighing fee. The WVA requires all exports to obtain a certificate prior to shipping. The WVA charges US\$100 per container for weighing the goods and issuing the certificate.

Agriculture

The population of Zanzibar is mainly dependent on the agricultural sector for their livelihood. Agriculture employs approximately 60 percent of the nation's labor force, it accounts for 27 percent of GDP and generates half of the foreign exchange. Agriculture has the potential to drive economic growth in Zanzibar. MKUZA II aimed to increase growth of the agriculture sector from 4.4 percent to 10 percent. The agriculture sector grew by an average of 2.5 percent in the five-year period ending in 2014, which is barely equivalent to the rate of population growth. Agriculture sector growth has varied widely over the past decade as the largely rain fed crop production fluctuated with the changes in the weather. Most recently, this included a very poor harvest in 2012. Zanzibar remains vulnerable to climate change.

Growth in the crops subsector has not kept pace with population growth. The crops subsector averaged an annual growth of 0.66 percent between 2010 and 2014. As the largest subsector (see table 8.1) it exerts a strong influence on the aggregate growth trend. The other components of forestry, livestock, and fishing have experienced a relatively stable average growth of 3.70 percent, 5.02 percent, and 6.08 percent, respectively, over the same period. In 2014 and 2015, fisheries and livestock experienced similar growth rates of 8.2 and 7.5

TABLE 8.1: Food Crops Value Produced in Zanzibar, 2014 and 2015

Type of crop	2014		2015	
	Amount (tons)	Value (T Sh billions)	Amount (tons)	Value (T Sh billions)
Paddy	29,564	22.5	29,083	22.8
Cassava	158,704	43.5	132,641	37.4
Banana	57,437	30.7	47,495	26.1
Yams	2,116	1.1	2,409	1.3

Source: Derived from OCGS (2015).

percent, respectively. Although in aggregate, agriculture sector growth was below the 10 percent anticipated growth rate and has thus been unable to make a considerable contribution to poverty reduction.

The review of MKUZA II highlights the limited involvement of the private sector in the provision of support services, value addition, and processing in the agricultural sector. The review attributes the relatively poor performance of the agricultural (agribusiness) sector to a wide range of factors, including inadequate budget for policy implementation, low incentives to farmers which discourage investment, underperforming agribusiness and small and medium enterprises, poor marketing structures, declining soil fertility, and infestation by pests and diseases. Other factors 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. The report also notes the weak links between producers and research institutions and providers of extension services, and poor links along value chains.

The sector has low productivity and high postharvest losses. Along with low domestic production of agricultural commodities is the persistent problem of higher levels of postharvest losses, particularly of food crops, because of poor handling, inadequate processing, and poor storage technology and facilities. The average postharvest losses for rice, cassava, vegetable (tomatoes), and fish is 13, 26, 42, and 25 percent per year, respectively.

Cloves and Spices

Clove exports still account for close to 50 percent of total exports and provide a livelihood for more than 8,000 farmers. Zanzibar cloves are exported to Europe and South East Asia. Zanzibar also produces a range of

other spices, including cardamom, bird's eye chilis, cinnamon, ginger, nutmeg, pepper, turmeric, and vanilla, though in very limited quantities. Private investment research estimated the global market for seasoning and spices was US\$12.7 billion in 2012 and forecast an average annual growth rate of 4.8 percent.³ With the mature markets of the European Union (EU) and the United States accounting for half of total world spice trade, the report noted rapid growth rates in Asia, particularly India. While the aggregate spice trade is growing rapidly, the bulk clove market is more unstable as it is dominated by demand from Indonesia, which is also the largest producer. The EU and India pay a premium for higher-quality cloves. This demand for high quality cloves has been increasing, however, Zanzibar has largely continued to sell into the bulk clove market. The world demand for clove oil estimated at 5,000 tons per annum (Duclos 2012), exceeds existing production levels. Zanzibar has an opportunity to increase value addition through improving clove quality and processing the essential oils. Approximately, 50 percent of spice farmers are smallholders and do not produce for clearly defined grades and standards (Mahmoud 2013).

Clove farmers are required to sell their productions to the Zanzibar State Trading Corporation (ZSTC). The ZSTC has operated a compulsory monopsony marketing system since the private sector, Clove Growers Association, was eliminated in 1968. The ZSTC was modernized in 2011.⁴ The new legislation provided for ZSTC to operate commercially and to purchase cloves from farmers for 80 percent of the export price. The new ZSTC operated with a much smaller staff and required an annual government subvention, subsequently ZSTC has operated profitably (see table 8.2). While the prices paid by ZSTC improved significantly after 2011, farmers continue to complain about the lack of transparency in the marketing and pricing of the crop. The Zanzibar Cloves Producers Organization (ZACPO), which represents the smallholders, continues to lobby for increased transparency and more stakeholder involvement in the setting prices.⁵ The ZACPO has also requested the Zanzibar government to actively promote the spice sector through more effectively regulating "buyer collusion," which, they argue, reduces prices to the producer.

Recent reforms guarantee farmers 80 percent of the price obtained by the ZSTC while maintaining the ZSTC monopoly. The increase in the ZSTC purchase price

TABLE 8.2: Quantity and Price of Cloves, 2011–15

Financial year	Quantity purchased (tons)	Quantity Sold (tons)	Average price per kg (T Sh)	Value of purchases (T Sh billion)	Value of sales (T Sh billion)	Ratio of sales to purchases
2012	4,852.9	4,063.0	14,939.5	72.5	93.8	1.29
2013	1,503.3	2,185.0	12,439.3	18.7	32.5	1.73
2014	5,375.4	5,230.9	14,008.3	75.3	94.9	1.26
2015	2,826.5	2,766.0	14,010.3	39.6	53.3	1.35
2016	5,764.8	5,667.0	14,033.4	80.9	98.2	1.22

Source: Derived from Zanzibar State Trading Corporation official data.

(from US\$3 to US\$10 per kilogram) during fiscal 2012, coincided with a large increase in the price of cloves on the international market resulting from the downturn in production by Indonesia (the largest producer in the world).⁶ The price was fixed for the year (and paid) in Tanzanian shillings. The ZSTC classifies cloves into three grades and offers lower prices for the second and third grades. In fiscal 2013, the price was adjusted downwards to reflect the changes in international prices.⁷ The Tanzanian shilling has continued to fluctuate against the U.S. dollar and, over the period 2012–16, has depreciated by approximately 38 percent. The increase in the ZSTC purchase price to 80 percent of the export price has significantly reduced the proportion of production that is sold on the informal market.

Does the ZSTC address the incomplete and missing markets for credit and technical advice? Officials from the MITM justify the ZSTC's continued monopsony by asserting that it protects the incomes of small clove farmers from large price fluctuations. The ZSTC stated that farmers will receive the agreed price in Tanzanian shillings (for that year), regardless of the change in global market, and will be paid the full amount in cash on sale. The ZSTC also rationalize the continued compulsory requirement by referring to their provision of services that will enable clove farmers to increase their incomes. The services include: the provision of seedlings; the transport of cloves from the farm to the marketing points; the supply of subsidized drying equipment; the provision of soft loans to farmers; provision of accident insurance; technical advice on harvesting; and annual award for the best performing farmers. The MITM estimates the value of these additional services as equivalent to approximately 12 percent of the price paid.

Clove farmers wished to have the freedom to choose where to sell their product. Hilal (2013) interviewed 30 clove farmers in six villages in Pemba (where 90

percent of the cloves are grown). The interviewees were selected to include those with 5–10 years of experience and those with 20–30 years. Most of the farmers interviewed expressed concern over the competence of the ZSTC in providing the necessary support. Specifically, farmers were unable to access credit and were very critical of the quality of the extension advice. When the farmers were asked why they considered the marketing restrictions as a constraint they responded, "that the board was not competent in implementing their tasks such as provision of loans [and] extension services..." The farmers stated their wish to have the freedom to choose where they sell their produce.

Low productivity, credit constraints, and weak extension services characterize the sector. Productivity in the clove sector remains low at 1,365 per hectare. This is approximately half the recommended level of 2,700 per hectare. The low productivity is consistent with the reports (from the farmers) of the inadequate extension services. Many farmers have limited knowledge on the prevention of clove tree diseases, poor harvesting practices reduce the yield as does production mishandling, and the absence of advice on the replanting of seedlings leads to unnecessary wastage.

Essential Oil Distillery in Pemba

Zanzibar accounts for 10 percent of the world trade in clove stem oil and has potential for future growth—providing the market is liberalized. The present state-owned distillery in Pemba is the sole producer and exporter of clove oils. The distillery produces between 2,500–3,000 tons of oil yearly, extracted from: clove stems and leaves. Presently, the oil distillery has extended its operations to include the production of other oils including: eucalyptus (utilized in medicine and perfumery), cinnamon, sweet basil, lemongrass, and bitter orange (extracted from orange tree leaves) (see table 8.3). Plans are also currently underway to start the

TABLE 8.3: Production of Essential Oils in Pemba, Kilograms, 2016

Fiscal year	Clove stem	Clove bud	Lemon grass	Cinnamon leaf	Eucalyptus citriodora	Eucalyptus camaldulensis	Basil oil	Clove leaf
2007	9,914.0	362.0	46.96	165.76	481.5	186.0	24.3	1,558.85
2008	3,290.8	-	66.691	64.81	739.1	325.0	4.25	991.61
2009	19,319.9	-	58.65	80.0	504.0	471.5	-	520.8
2010	7,957.0	-	55.34	35.75	661.5	426.5	18.0	671.9
2011	13,549.0	-	61.2	61.5	416.5	395.5	9.4	299.0
2012	28,88.5	-	48.2	11.4	719.5	554.5	18.9	-
2013	18,231.0	-	46.8	104.5	253.5	454.0	7.0	1,258.5
2014	11,895.0	-	48.8	42.8	635.5	472.5	6.45	2,042.5
2015	23,500.0	-	45.97	140.0	659.0	-	7.0	1,266.0

Source: Derived from Zanzibar State Trading Corporation data.

production of rose water and bath salt for export purposes. The 2014 Zanzibar Clove Report considers that market trends are favorable for growth of the Zanzibar clove industry. At present, Indonesia produces 70 percent of the world clove oil, followed by Madagascar, with Zanzibar's share standing at 10.4 percent.

The ZSTC faces the challenge of improving both the quantity and quality of services to smallholders that will enable them to increase their productivity. Increased transparency over price setting in conjunction with assisting farmers to increase the quality of their product (and hence obtain higher prices) will all work towards improving the willingness of farmers to choose to sell their cloves to the ZSTC. The ZAPCO, established in 2004, welcomed the new (2011) reforms and a more commercial ZSTC, however, as noted earlier, they wished for more transparency and information on production and marketing.

The Zanzibar government should monitor the ZSTC to ensure it supports increasing productivity in the clove sector. Justifying the continuation of the ZSTC monopsony on cloves from an economic perspective requires the ZSTC to enable clove farmers to increase their productivity through addressing credit and technical constraints as well as price discovery. The experience of state marketing boards under monopsony indicates that they generally fail to eradicate the constraints facing farmers and producers. It is important for the government to monitor the performance of ZSTC. Should productivity fail to increase, the Zanzibar government may wish to consider further regulatory reforms, including removal of their monopsony privilege.

Performance of Livestock Subsector

The livestock sector has been growing at more than 5 percent per year over the past six years. The MKUZA II review highlights the importance of the livestock sectors as a source of growth. It contributes almost one-third of agricultural GDP and about 13 percent of the total GDP. The sector has continued to grow, however, in the absence of better quality data, it is difficult to say whether this represents an increase in the quality of livestock products or simply an increase in the number of animals. Average annual growth in the livestock subsector has been 5 percent over the past five years and by 7.5 percent in 2014 and 2015. Although some of this increase may be explained by improved data collection methods, efforts by the government to empower livestock keepers to vaccinate, improved collaboration between the livestock keepers and the Zanzibar government in increasing the availability of drugs are all potential contributing factors.

Growth in the dairy subsector is linked to the increased use of cross-bred cows with higher productivity. The success of the Tsetse Fly Eradication Program and Livestock Development Project has also encouraged increased investment in improved breeding stock. Milk production and productivity increased from 7–11 liters per cow per day in 2014 to 14 liters in 2015, and total production grew by 17 percent albeit from a relatively low base of 30,000 liters.

The livestock sector faces poor animal health services, a shortage of efficient abattoirs, and weak domestic purchasing power. During the period 2010 to 2015, no new slaughterhouses were constructed and the seven that

exist are poorly equipped. There continues to be poor delivery of good animal health services. Other major constraints include the continued practice of traditional livestock husbandry, land limitation, weak extension services, fodder shortages, animal diseases, low investment, and a dearth of improved breeds of dairy cows and milk goats.

Fisheries Subsector

The fisheries sector has underperformed other sectors of the economy with its share of GDP declining in the past decade, while the share of the population relying on fishing for their livelihood increased from 20 to 25 percent. Average growth in the fisheries sector has been lower than expected for much of the period of implementation of MKUZA II. The apparent high growth in 2014 stems from the one-off adjustment from moving seaweed production from the crops subsector to the fisheries subsector within the GDP calculations. This subsector contributed about 5 percent to agricultural GDP and 2.5 percent to the overall GDP in 2015 from 4.6 percent in 2007, which shows a negative trend. The subsector employed about 25 percent of the population in 2015 as compared to 20 percent in 2007, either as fishers or as providers of supportive fisheries services. In 2010, fishermen earned a premium of 84 percent over the annual average income—US\$765 compared to US\$415. In 2014, production of fish in Zanzibar amounted to about T Sh 127 billion, more than 15 times the total value derived from the production of seaweed. The value of fish catch in 2007 was T Sh 34.6 billion, showing a steep increase in the value over the period. At the same time, the share of seaweed in export of marine products was over 95 percent in 2015.

Now, the sector is dominated by small artisanal fishing. Expanding employment and creating more value-added investments in downstream processing requires investing in larger-scale deep sea fishing and onshore cold storage facilities. Artisanal fishing is mainly carried out close to shore and it is hard to regulate. In 2010, 84 percent of all fishing vessels operating were propelled by sail, poles, or paddles, only 15.6 percent were motorized. Dhows and planked boats are used in Unguja and outrigger canoes are more common in Pemba. The Zanzibar government provides boats and fishing equipment to artisanal fishermen. Improved fishing equipment along with increasing the number of fishermen and vessels may lead to overfishing in these waters.

However, to date this had not occurred, rather, there has been an improvement in marine conservation (in the Menai, Chwaka, Mnemba, and Pemba areas). There has been no significant improvement in fish processing; investments in this area would enable storage and the export of higher-value fish. Postharvest losses through poor handling remains a serious problem and have been estimated at 25–50 percent of the catch (Hoof and Kraan 2017). This is due to ill-treatment on board, poor processing facilities and practices, and losses further up the marketing chain through lack of an effective cold chain for transport. Currently, the fish catch in Zanzibar does not meet domestic demand and fish is imported from China. Large-scale investment in the fisheries sector in Zanzibar requires approval from both the Zanzibar government and the government on the mainland. To date, there appears to be limited awareness of the major constraints holding back investment in the fisheries sector.

Zanzibar requires an updated fishery policy addressing government and management issues, including links with tourism and conservation issues. Much has changed since the 1985 fishery policy, which focused on increasing the supply of fish, creating jobs, and conserving marine resources. The Fisheries Act dates from 1988 and the regulations from 1993. Increased population growth and growing demand from the tourism sector have increased fish prices. Fish is no longer considered a cheap source of protein for lower-income groups. The strong demand for fish from the tourist industry is encouraging more artisanal entrants to the sector. There is increasing competition for land and beach landing sites between the tourism and fishing sectors. There is no up-to-date assessment of the state of the fish stocks since the 1980s. The Zanzibar government is currently preparing a Fisheries Policy (first draft, June 2014) with the support of the EU Smartfish Initiative. The policy document notes the potential for fisheries to play a larger role in the economy, and recognizes the necessity of addressing governance and management issues, with the aim of increasing the formalization of fisheries activities, promoting artisanal fishing, developing aquaculture, and promoting value addition.

Seaweed Subsector

Seaweed is Zanzibar's second-largest export and the largest marine export product. Further, approximately two-thirds of seaweed farmers are women. Increasing

seaweed production has the potential to contribute to poverty reduction. Almost two-thirds of seaweed production take place in Pemba, and is either *Cottonii* or *Spinosum* seaweed. Between 1990 until 2012, Zanzibar *spinosum* seaweed production grew from about 800 to more than 15,000 tons per year. A November 2016 report to the National Seaweed Committee estimated that 23,654 farmers were employed in the sector, consisting of 10,258 men and 13,393 women. The *cottonii* seaweed (genus *Kappaphycus*) which commands a higher price, has been plagued by repetitive crop failures despite substantial farm development effort since the late 1980s. During 2012, total Zanzibar *cottonii* production was only about ninety tons, which was less than 1 per cent of total seaweed production. A recent survey by the ZAPCO, a seaweed farmer organization in Pemba, considered the prospects for expanding *cottonii* production to be poor owing to a combination of environmental concerns⁸ and the technical information required for successfully increasing productivity. Innovative methods of farming in deep water return higher growth rates than the off-bottom method, which remains widespread.

Seaweed has multiple uses and world demand continues to grow. Seaweed are used to extract carrageenan, which is used as an emulsifier, stabilizer, and gelling input in the food, pharmaceutical, and cosmetics industries. Seaweed value-added products produced in Zanzibar and marketed commercially include soaps,

seaweed powder, body creams and powder. Foreign investors from Denmark, the Philippines, and the United States are involved in international marketing.

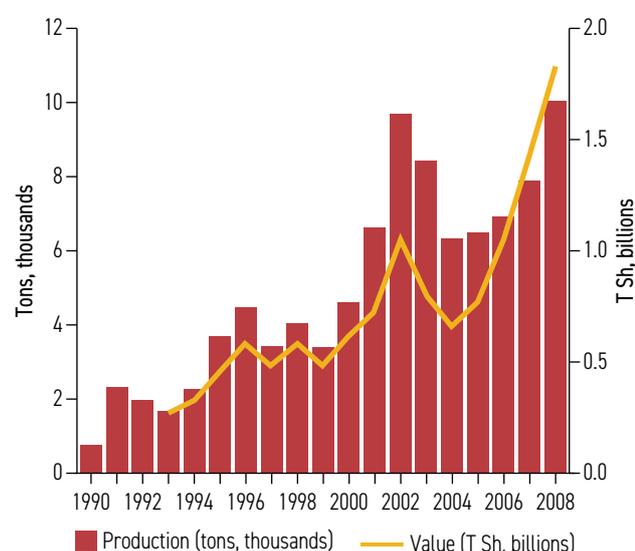
In 2012, estimated income from seaweed production was US\$25 per month, such low prices discourage private investment and research into improved productivity and switching to higher-value varieties, ensuring it remains largely the preserve of small-scale informal activity. Zanzibar exported about 16,700 tons of *spinosum* in 2015 (the trend since 2010 is shown in table 8.4). The average production per farmer was approximately 100 kilograms per month, which at farmgate prices ranging from T Sh 300–400 per kilogram (US\$0.19–0.25 per kilogram) would yield a gross monthly income per farmer from seaweed of US\$19–25. The bulk of such income went to farmers' labor, but some farmers incurred costs of planting material, transport, and other operating costs.

TABLE 8.4: Production of Seaweed in Zanzibar, 2010–15

Year	Production (tons)	Value (T Sh millions)
2010	12,516	2,983
2011	13,040	5,533
2012	15,088	6,063
2013	11,044	4,135
2014	13,302	6,008
2015	16,724	9,469

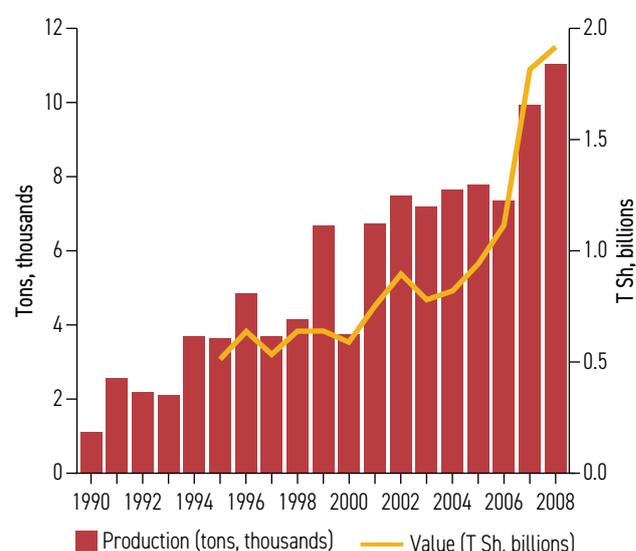
Source: Derived from the Department of Fisheries and Marine Resources.

FIGURE 8.2: Trends in Seaweed Production and Value, 1990–2008



Source: Derived from Msuya 2013.

FIGURE 8.3: Trends in Seaweed Exports from Zanzibar, 1990–2008



Source: Derived from Msuya 2013.

Information from farmers during the previous 2005 DTIS in Pemba revealed that Zanzibar seaweed was ultimately purchased by companies that used it as raw material for the manufacture of refined alcohol-precipitated iota carrageenan. This carrageenan was sold primarily to dentifrice and food ingredients markets. Recent increases in seaweed purchase prices from T Sh 400 per kilogram in 2014 to T Sh 700 per kilogram in 2015 were linked to the availability of better equipment for processing and handling of the seaweeds. Prices fluctuate with cottonii selling (depending on the quality) for more than double the price of spinosum (Hoof and Kraan 2017). Improving the quality of the seaweed through extension work and disease monitoring, promises to significantly increase farmer incomes.

The earlier DTIS noted the absence of domestic processors as a major constraint along with the inability to offer both cottonii and spinosum. The studies of Msuya (2013) and the earlier DTIS identified a number of constraints, including the costs associated with transporting seaweed from farms to the drying areas, the challenges with drying seaweed during rainy periods, low seaweed prices that farmers say is not proportional to the amount of work and investment they put into producing the seaweed, inadequate market volume for the amount of spinosum that farmers can produce (associated with limited markets for the iota carrageenan that is made from spinosum), and health problems, such as backaches, itching eyes, dry skin and other issues related to long exposure under the sun and in the sea. Generally, occupational hazards are higher in aquaculture than in agriculture. Increasing awareness and understanding of the health and safety risks will assist with the development of appropriate mitigation measures.

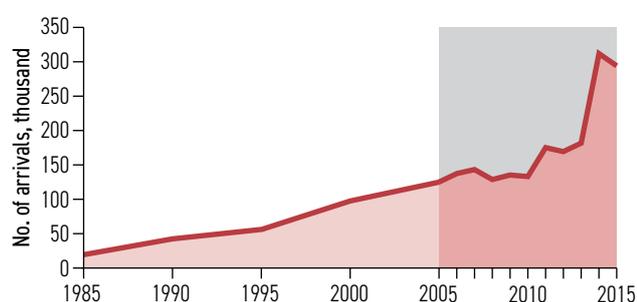
The seaweed sector has the potential to expand production and increase value addition. Currently, virtually all the seaweed is dried and then exported for further processing. International agencies, including the Food and Agriculture Organization and United Nations Industrial Development Organization, have identified opportunities for improving productivity through better farming and postharvest handling, and transforming the seaweed into value-added products (such as powder, seaweed soap, body creams, and food). The Task Force on Seaweed Development would benefit from a study tour to Indonesia and the Philippines, which have successfully grown their seaweed industry.

Tourism Sector

Zanzibar's tourism sector is showing signs of stagnation. While Zanzibar is home to a diverse range of natural attractions and cultural heritage that have a global tourism market, the first generation (over the past 25 years) of public and private tourism investments have not created a strong enough economic platform to support Zanzibar's longer-term development objectives as outlined in the Zanzibar Vision 2020, the Zanzibar Growth Strategy, and the National Strategy for Growth and Reduction of Poverty (MKUZA I and II). For instance, by 2020, the Zanzibar government hopes that 50 percent of all employment will be generated by tourism (ZCT 2014); currently, tourism supports a little over 10 percent of all jobs in Zanzibar (the industry directly supports 11,500 jobs and an additional 45,000 engaged in tourist-related activities (RGOZ 2013), which is about 10.7 percent of total employment—just over 528,000 recorded in the 2014 Integrated Labour Force Survey). In addition, by 2020, the government hopes to record 500,000 tourist arrivals from roughly 300,000 in 2016. Achieving these targets will require careful planning and focused investment driven by committed leadership.

Tourism growth has not been planned in Zanzibar and this has placed enormous pressure on an already strained infrastructure platform that includes water, energy, waste management, roads and access, and human and natural resources. The organic tourism growth that has occurred, largely led by accommodation investments, has also been opportunistic and has not been properly linked with the rest of the economy. Zanzibar has not benefitted from tourism as much as they might, and the industry has had some negative environmental and social consequences. Tourism is inherently multi-sectoral, and to be successful, needs integrated planning and policy making, and strong governance structures to guide and monitor sector growth.

Tourism arrivals are growing, but yield is not. Figure 8.4 shows tourism arrivals to Zanzibar have increased steadily since 1985, with 294,243 international arrivals in 2015. The growing value of tourism-related services in Zanzibar from 2007 to 2014 is shown in figure 8.5. The contribution of tourism to Zanzibar's GDP has steadily grown as well, from T Sh 72.2 billion in 2007 to T Sh 200 billion in 2014 (OCGS 2014b)—approximately one-fifth of Zanzibar's economy (see table 8.6).

FIGURE 8.4: International Arrivals to Zanzibar, 1985–2015

Source: Derived from the Zanzibar Commission for Tourism.

TABLE 8.5: Average Length of Stay for International Tourists, 2010–14

	2010	2011	2012	2013	2014
Seychelles	10.4	10	9.9	10.2	10.2
Maldives	7.6	7	6.7	6.3	6.1
Mauritius	-	-	-	10.8	10.9
Sri Lanka	10.0	10	10.0	8.6	9.9
Zanzibar*	-	-	6.1	6.0	6.0

Source: Derived from UNWTO (2016).

*The calculation for Zanzibar is based only on surveys of departing tourists from the international airport. Considering that 59,000 tourists arrive by ferry or cruise ship and are likely to be short-stay visitors (cruise ships only for half a day), the real average length of stay is likely much lower.

TABLE 8.6: Contribution of Tourism to Zanzibar GDP, 2007–14

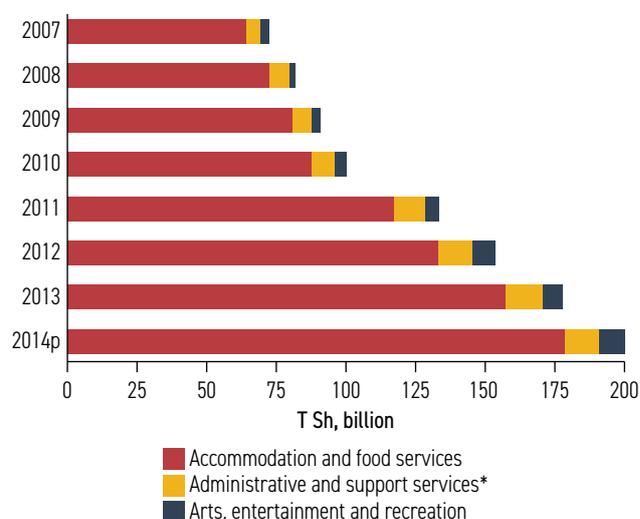
Tourism segment	2009	2010	2011	2012	2013	GDP contribution (T Sh billions)
Accommodation	62.4	70.5	87.9	93.8	104.4	124.4
Food and beverage services	18.0	17.3	29.1	39.6	52.9	54.4
Administrative and support services*	7.7	8.3	11.0	12.4	13.0	12.9
Arts, entertainment, and recreation	2.8	3.6	5.8	7.7	8.0	8.2
Total	90.9	91.4	133.8	153.5	178.3	200**

Source: Derived from OCGS (2014b).

*Includes travel agencies and tour operators.

**Equivalent to US\$91.2 million.

Zanzibar earned approximately US\$294 per visitor in 2014,⁹ which is about half of what competitors in the region earned. Kenya, for example, earned US\$643 and Uganda US\$628 per visitor. However, expenditure per visitor data cannot reliably be calculated because nearly half of the international tourists are short-stay visitors. (More than half of all visitors [168,136] arrived directly to Zanzibar through the international airport, while 67,000 arrived on domestic flights and 59,000 by cruise ship

FIGURE 8.5: Zanzibar Tourism-Related Services, 2007–14

Source: Zanzibar Commission for Tourism.

Note: P = projection.

*Includes travel agency and tour operator services.

and ferry.) Without disaggregated data, it is difficult for the government to develop tourism growth strategies.

Regional Integration

Increasing regional cooperation throughout East Africa on public goods and services would stimulate additional tourism. The private sector has begun joint marketing through the East Africa Tourism Platform. Increasing coordination on safety and security standards and programs, and adopting internationally standardized hotel classifications standards would all contribute to increasing the attractiveness of Zanzibar as a tourist location. While a visa-on-arrival scheme operates at Zanzibar's international airport, the tourism sector would benefit from introducing a single regional visa. To date, Tanzania and Zanzibar have not joined the East Africa single-visa scheme.

Regional Labor Mobility

The EAC Common Market Protocol for the Free Movement of Labor/Workers, which allows workers from any partner state to accept employment within any other EAC country, is also applicable to Zanzibar, although as mentioned earlier, Tanzania has not specifically liberalized for mode 4, "presence of natural persons." The tourism sector experiences difficulties in recruiting skilled and experienced staff for higher-level positions, and faces hurdles in obtaining work permits for expatriate staff. Enabling the movement of workers in the EAC would allow the tourism sector to grow more rapidly.

Access

Air service liberalization has benefited Zanzibar with 11 airlines offering direct services (compared to 28 airlines serving the mainland.). Although the airport has undergone expansions and improvements over the past decade, it will continue to need additional improvements. A new airport terminal is scheduled to open in 2018.

Enhanced Links

Both the Zanzibar government and local tourism industry are trying to diversify beyond the beach resort segment with more excursions and activities. For Zanzibar, these experiences include ecotourism (Jozani, Ngezi, and Kiwengwa forests), marine tourism (kite surfing, scuba diving, snorkeling, and dolphin watching), and cultural tourism (handicrafts, cuisine, monuments, and museums) have the potential of becoming important links in Zanzibar's tourism value chain and thus offering expanded opportunities for more local microenterprise, jobs, and incomes. Zanzibar has the potential to significantly increase the contribution of tourism to the economy growing and diversifying potential income generating and job growth opportunities for Zanzibar's international tourism value chain.

There are substantial opportunities for increasing the links with local communities. Tourism can benefit the communities when, as some already are, they are supplying goods, services, and activities for tourism—for example, food, beverages, handicrafts, guiding, cultural demonstrations, lodging services, and so on. One 30-room hotel, purchasing fish and meat locally, was spending approximately US\$500 per day.

Considerable potential exists for developing incremental value-added activities in-country. For example, the Zanzibari operator will earn approximately US\$45 more per person for excursions. On average, each of his customers purchases three excursions—Moto Handicraft Museum and Workshop in Pete, Jozani Forest, and Stone Town—at US\$35 per person. The operator receives on average US\$15 per person after payments to the village or local restaurant for lunch, admission fee to Jozani or, if his own guides are unavailable, US\$10 for a licensed guide. From the \$45 (or \$30 if the operator has to pay for an independent licensed guide) the tour operator is also required to pay 18 percent VAT, thus leaving him US\$44.25. The cultural tourism excursion to the Moto Handicraft Museum and Workshop includes

a lunch, and offers opportunities for increasing visitor engagement with and purchases from local communities. Some of the activities include learning batik design, weaving demonstrations, and experiencing a traditional Swahili lunch.

Development Constraints

Supply Side Constraints

Skilled Labor

Zanzibar faces similar challenges to the mainland, namely a shortage of skilled labor to develop and offer higher quality, more competitive tourism experiences and services. This is lacking for the same reasons—weak education and training programs and disincentives for industry to formally hire and train workers. The Jambiani Tourism Training Institute, for example, trains 300 students a year, 100 of whom drop out before graduation. Even at 300, though, it is not enough to meet demand because the institute is not providing the skills that are needed by the industry.¹⁰ The main workforce weaknesses are in business skills, understanding visitor needs and expectations, customer service, and online communications (Fernandes and other 2013). Improved local training programs would address the issue.

Capital

Access to finance from banks and investors for tourism businesses in Zanzibar is generally not a binding constraint for medium- and large-scale operators, however, it remains a constraint for microenterprises. Zanzibar is attracting investment. From 2010 to 2014, almost US\$723 million was invested in 84 hotel and restaurant projects in Zanzibar, with nearly half of that capital invested in 2014 alone, the highest amount invested in that period. However, for hotel investors, the minimum amounts needed for the Zanzibar Investment Promotion Agency approval—a requirement for all projects—is US\$0.3 million for local investors and US\$2.5 million for foreign investors. For other tourism-related projects, local investors must invest at least US\$0.005 million and foreigners US\$0.5 million. For local entrepreneurs who are starting new businesses, this can be a serious barrier to entry, one that perhaps constrains new product development and innovation.

Potential Action: Provide incentives to local and foreign investors to assist with the financing of small-scale local

entrepreneurs, especially those whose product ideas would add value to the offers of their hotel and restaurant developments.

Land

There is a dearth of new land available for tourism in Zanzibar because of past land allocations. New developments are required to be on existing development sites. The ZIPA have noted, “the land is almost finished now” for tourism development. Nevertheless, since 2010, the agency has approved 84 tourism-related projects, which are moving forward, all of which presumably secured the rights and permits from the Ministry of Lands to invest and develop or redevelop plots for tourism.

Potential Actions: Establish a centralized land registry and regional one-stop shops for land registration. This would assist potential tourism investors and developers. Update the Land Registration Act of 1954 in line with the National Land Information System that the World Bank’s Competitiveness Program is supporting (Christie and others 2013).

Demand Constraints

The business-enabling environment facing investors and operators in the tourist sector suppresses demand. Major constraints include a multiplicity of taxes, levies, and fees and a confusing, often overlapping collection system spread across multiple government entities from the local to the island-wide levels. In 2013, the Tanzanian National Business Council, through the Big Results Now - Business Environment Lab (BRN-BE Lab), reported on the “multiplicity of laws and regulations, licenses, permits and certifications...the involvement of regulatory bodies/institutions with duplicative mandates; hampers enterprises’ competitiveness and limits their growth potential” (Fernandes and others 2013). This remains a major challenge for investors in the tourism sector. Increasing transparency by making information on licensing requirements more readily and easily accessible is also important.

Simplifying taxation and reducing the multiplicity of levies and fees are a priority. The priority reform areas identified by the BRN-BE Lab for the mainland are also relevant to the Zanzibar tourism sector, especially realigning of regulations and institutions, simplifying taxation and reducing the multiplicity of levies and fees,

and improving labor law and skills development.¹¹ These areas were, to an extent, reiterated in a ZNCCIA (2013b) study. It emphasized the “triple aims of (i) greater clarity, (ii) less complexity, and (iii) sound tax structure.” It also provides a list of tourism-related taxes and fees (shown in box 8.3).

Zanzibar ranked behind its regional competitors on tax issues. The ZNCCIA (2013b) study included a useful comparison with the tax regimes of other small island economies in terms of the ease of paying taxes which ranked Zanzibar 103. The rankings of the regional comparators are particularly noteworthy, with Zanzibar significantly behind the Maldives, Mauritius, and Comoros. “In [the] Maldives, a typical medium-size company makes one payment, pays 9.1 percent of its commercial profit in

BOX 8.3: Tourism-Related Taxes and Fees

- **Zanzibar Revenue Board**
Taxes include:
 - hotel levy - 18 percent
 - value added tax - 18 percent
 - stamp duty - 3 percent
- **Tanzania Revenue Authority**
Taxes include:
 - income tax - 30 percent
 - pay as you earn, stamp duty, withholding tax, skills development levy on gross payroll - 5 percent
- **Lands tax:** Rental per hectare annually
- **Zanzibar Social Security Fund:** Social Security fund for all employees - 10 percent
- **Commission for Tourism:** From US\$1,000 to US\$15,000 per year depending on the size of the company
- **Zanzibar Investment Promotion Agency:** Annual payment for investment license, from US\$500 to US\$1,500
- **Fisheries:** US\$5 per tourist per day to enter marine reserves; 30 percent goes to the local community
- **Community Fund:** One percent of turnover payable to local authority (new tax)
- **District Council**
 - Liquor license: from T Sh 1.5 million to T Sh 2.5 million per year
 - Signage: from T Sh 100,000 to T Sh 500,000
- **Port Authority:** Boat licenses for boat and radio
- **Environment:** Regional Inspections certificates from T Sh 100,000
- **Food safety:** Regional Inspections certificates from T Sh 100,000
- **Good governance:** Public broadcast TV or music (new) from T Sh 2,000,000 to T Sh 5,000,000

Source: Derived from ZNCCIA (2013b).

TABLE 8.7: Ranking for Ease of Paying Taxes for Selected Small Island Economies, 2015

Country	Ranking
Maldives	1
Singapore	4
Mauritius	12
Timor-Leste	20
Seychelles	32
Comoros	40
Dominican Republic	70
Fiji	80
Zanzibar	103
Jamaica	178

Source: Derived from World Bank's Doing Business.

taxes, and spends less than one hour per year on tax compliance, whereas in Zanzibar Town, such a medium-size company makes 48 payments, pays 40.8 percent of its commercial profit in taxes, and spends 158 hours per year on tax compliance" (ZNCCIA 2013b).

The private sector is actively engaged in highlighting the importance of tax reform to support future growth and profitability in the tourism business. The Zanzibar Association of Tourism Investors, which counts 100 members representing all types of businesses, was conducting a tax review study to prioritize issues and actions.¹² The results of this study are expected to reinforce the priority for improving the tax regime and will assist with identifying specific actions.

Potential actions and solutions:

- Improved tax collection and licensing system: A one-stop shop for industry licensing.
- Establish online registration of businesses.¹³
- Streamline the list of public charges (licenses, permits, taxes, levies, fees, and so on) applicable to the tourism sector that is published on the Ministry of Natural Resources and Tourism website through a government-initiated process that is based on private sector participation.

Small-Scale Tourism

In the tourism sector, most operators are small scale, apart from a few large hotels. Zanzibar counts 407 accommodation establishments accounting for 8,263 rooms (of which 33 percent do not meet international

standards) and 34 restaurants, few of which provide international level service (ZCT 2014). There are also now more than 300 listings on Airbnb, which include apartments and houses. For the latter, the lack of registration, taxation, and licensing requirements will become issues as this accommodation option continues to grow in popularity.

It is important to use registered local guides and operators. The government requires all operators and guides to be registered. This has the potential to create employment for small Zanzibari businesses, however, there was some concern that foreign tour group managers had sold and organized island tours directly rather than through locally licensed operators. (insert end note reference). It is important for the ZTC to effectively monitor compliance by the registered guides and operators. Zanzibari women are involved in small-scale trade, selling handicrafts and food products to tourists. This provides for an uneven income flow due to seasonality (especially in the case of trade in food and vegetable products), and, only in a minority of cases, provides for a sustainable livelihood in the long-term.¹⁴

Women appear to be discouraged from being more engaged in the tourism sector through providing indirect services, such as tour guides for cultural heritage sites and translation and marketing services. However, they are also constrained by the low-education levels, cultural and resource constraints. As typically, men own the resources (land, capital, cars, boats, and/or fishing equipment) required for engaging in tourism-related activities or services. Women's property or inheritance rights may be subject to discriminatory provisions resulting from concessions, made by the government and courts, to customary and Islamic law. For instance, while the Tanzania Marriage Act provides for certain inheritance and property rights for women residing on the mainland, it does not apply in Zanzibar (Gregerson 2006). Also, since property and production assets are often used as collaterals in the context of bank loan applications, women's ability to access credit can be severely limited.

Policy actions are required to facilitate women's access to finance, jobs, training, and markets, as well as to increase their voice and agency in the tourism industry.

Notes

1. In 2013, the mainland Ministry of Industry and Trade issued licenses for 85,000 tons.
2. Though the ZBS and the TBS are scheduled to meet quarterly, due to funding, they rarely do.
3. www.transparencymarketresearch.com/seasoning-market.html.
4. The Clove Act No. 39 of 1968 was repealed and replaced by the 2011 Act.
5. Masare (2016).
6. International prices surged to US\$13 per kilogram.
7. The difference between first grade and third grade widened from T Sh 1,000 to T Sh 4,000 per kilogram. In fiscal 2012, first and third grade were T Sh 15,000 and T Sh 14,000, respectively, and in fiscal 2013, it was T Sh 14,000 and T Sh 10,000, respectively (Hilal, 2013).
8. Seaweed production is very sensitive to sea temperature increases due to climate change.
9. Calculated by dividing the total estimated earnings from tourism by the number of visitors and the average length of stay.
10. February 2016, interviews with Dr. Miraji Ussi of the Zanzibar Tourism Commission, Fatma Khamis, executive secretary of the Zanzibar Association of Tourism Investors, and hotel managers.
11. Program Document for a Proposed Credit, the United Republic of Tanzania for the First Business Environment for Jobs Development Policy Operation, June 2015, p. 13.
12. Interview with Fatma Khamis, executive secretary of Zanzibar Association of Tourism Investors, February 23, 2016.
13. ZNCCIA (2013b), p. 18.
14. Ali Amour, chairman of the Zanzibar Association of Tour Operators and chief executive officer of Fisherman Tours, gave two examples of illegal selling and excursions undercutting locally licensed operators and guides. However, it appears that at least one case the manager was charged and deported.

References

- Christie, Iain, Eneida Fernandes, Hannah Messerli, and Louise Twining-Ward. 2014. *Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods*. Africa Development Forum. Washington, D.C.: World Bank and Agence Française de Développement. <https://openknowledge.worldbank.org/handle/10986/18688>.
- Duclos, T. 2012. Le girofler de Madagascar. l'exotisme par excellence ! Expression cosmétique, 13, 208-213.
- Gregerson, Brittany. 2006. "Brittany Gregerson on Islam and Gender Relations in Zanzibar." JYAN Blog, October 1. <https://berkeleycenter.georgetown.edu/posts/brittany-gregerson-on-islam-and-gender-relations-in-zanzibar>.
- Hilal, Zuweina Abdulla, 2013. The Implications of Prevailing Marketing System in Production and Export: The Case of Cloves Production in Zanzibar, Research Paper, Institute of Social Studies, The Hague.
- Hoof, Luc van and Marloes Kraan. 2017. Scoping Mission Marine Fisheries Tanzania: Mission Report, Research Report C004/17, Wageningen University.
- Mahmoud, Issa Ibrahim. 2013. Inclusion of Small-Scale Farmers in the Spice Value Chain in Zanzibar, Tanzania, Research Paper, Institute of Social Studies, The Hague.
- Masare, Alawi. 2016. "Clove Growers' Plea to Isles Govt." *The Citizen*, October 13. <http://www.thecitizen.co.tz/magazine/businessweek/Clove-growers--plea-to-isles-govt/1843772-3415274-7vqja8/index.html>.
- Msuya, F. 2013. "Social and Economic Dimensions of Carrageenan Seaweed Farming in the United Republic of Tanzania." In Social and Economic Dimensions of Carrageena Seaweed Farming, edited by D. Valderram, J.Cai, N. Hishamunda, and N. Ridler, 15-146. Fisheries and Aquaculture Technical Paper No. 580. Rome, FAO.
- OCGS (Office of the Chief Government Statistician Zanzibar). 2014a. "Zanzibar Integrated Labour Force Survey, 2014." OCGS, Zanzibar.
- . 2014b. "Annual National Accounts Zanzibar, 2007-2014." OCGS, Zanzibar.
- RGOZ (Revolutionary Government of Zanzibar). 2013. "Tourism in Zanzibar." RGOZ, Zanzibar. <http://www.zanzibar.go.tz/index.php?rgo=tourism>
- World Bank. 2010. *Doing Business in Zanzibar 2010*. Washington, D.C.: World Bank.
- ZCT (Zanzibar Commission for Tourism). 2014. "Zanzibar Destination: Five Years Marketing Plan (2015-2020)." ZCT, Zanzibar.
- ZNCCIA (Zanzibar National Chamber of Commerce, Industry and Agriculture). 2013a. *Study for Developing Incentives and Better Regulations of Local Businesses in Zanzibar*. Zanzibar: ZNCCIA.
- . 2013b. *Improving Tax Regime and Business Environment in Zanzibar*. Zanzibar: ZNCCIA.