

# Towards a **MORE INCLUSIVE** Zanzibar Economy

ZANZIBAR POVERTY ASSESSMENT 2022





# ABSTRACT

This report assesses recent progress in poverty reduction in Zanzibar. It is based on Zanzibar's last three household budget surveys and considers the period between 2009 and 2019, with a focus on the last four years of this decade: 2015–2019. Poverty — based on household consumption — fell by 9 percentage points over the decade before the COVID-19 pandemic: it dropped from 34.9 to 25.7 percent. However, the pace of poverty reduction was slow relative to population growth and as such, the number of poor dropped by only 27,000. The drop was fastest in urban areas and because poverty levels were already lower than in rural areas, the gap between rural and urban poverty widened, driven by differences between the islands of Unguja and Pemba. Simulations suggest that the COVID-19 pandemic increased urban poverty increased by 1.8 percentage points in 2020–21 while rural poverty dropped by 0.8 percentage points.

Substantial progress was also made across a range of non-monetary poverty indicators, notably in improved access to basic services including electricity and education. During the period 2009–2019, access to the electricity network increased from 38 to 57 percent, while education indicators also improved considerably. For example, between 2015 and 2019, lower secondary gross enrolment went up from 68 to 90 percent. Despite progress, gaps remain especially among the poor living in rural areas, notably in Pemba. Results from a multi-dimensional poverty index (MPI) calculated based on 3 dimensions and 13 indicators using the HBS 2019–20 indicate that 36.6 percent of Zanzibaris were multi-dimensionally poor, that is, they were deprived in at least a third of the MPI indicators used.

The relationship between economic growth and poverty reduction was weak as during 2009–19 growth did not sufficiently translate into improved well-being of the poorest. Although during the period 2014 to 2020–21 Zanzibar witnessed a large shift of people out of low-productivity agriculture into services, particularly of women (a 10-percentage point shift according to labor force survey data), 'decomposition analysis' shows that population shifts to other sectors of work barely contributed to poverty reduction. Many likely adopted low-productivity work in the services sector. In fact, the creation of quality jobs was limited, and informality increased during this period.

To accelerate poverty reduction in Zanzibar, a combination of policies are required to (i) make tourism, the main growth engine of the economy, more inclusive, for example through the diversification of tourism products; (ii) improve labor market outcomes for women and youth through better skills training and internship programs; (iii) improve the distribution of public spending in education and health to make it more pro-poor; and (iv) improve the business operating and regulatory environment of SMEs and better connect farm smallholders to high-value markets to enhance value addition, job creation and poverty reduction.





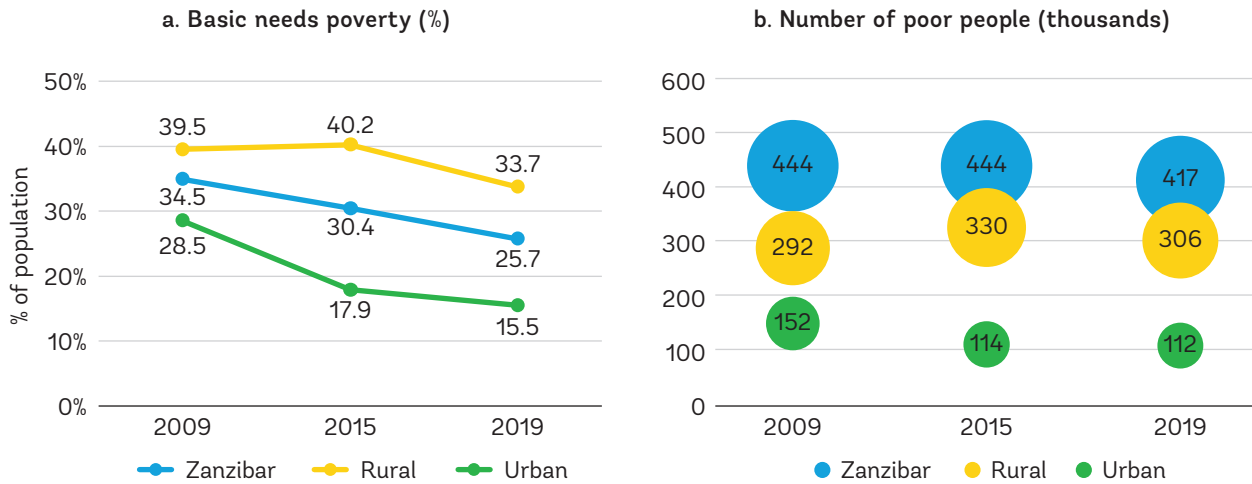


## EXECUTIVE SUMMARY

*Poverty dropped before COVID-19, but the pace was slow relative to population growth, and the gap between rural and urban poverty widened, driven by differences between Unguja and Pemba*

**Poverty fell over a decade before the COVID-19 pandemic, but the pace was slow relative to population growth.** Zanzibar's poverty rate fell at almost one percentage point per year during 2009–19, falling from 34.9 percent in 2009 to 30.4 percent in 2015 and 25.7 percent in 2019, translating to a 9.2 percentage point drop in 10 years (Figure ES1a). Urban poverty fell much faster, it almost halved while rural poverty saw a relative drop of only 15 percent. This relatively larger decline in urban areas, where poverty levels were already lower, and the slow reduction in rural areas, where poverty was already higher, resulted in a widening of the gap between rural and urban poverty. By 2019, rural poverty was double the urban rate. During 2015–19, however, rural poverty reduction was faster than in urban areas, but the pace was not enough to compensate for the widening gap between poverty in rural and urban areas in the preceding five years. Further, at around 2.8 percent per year, population growth continues to be high relative to the reduction in the poverty rate. As a result, the number of poor declined only marginally, and in rural areas, the number of poor people increased between 2009 and 2019 (Figure ES1b).

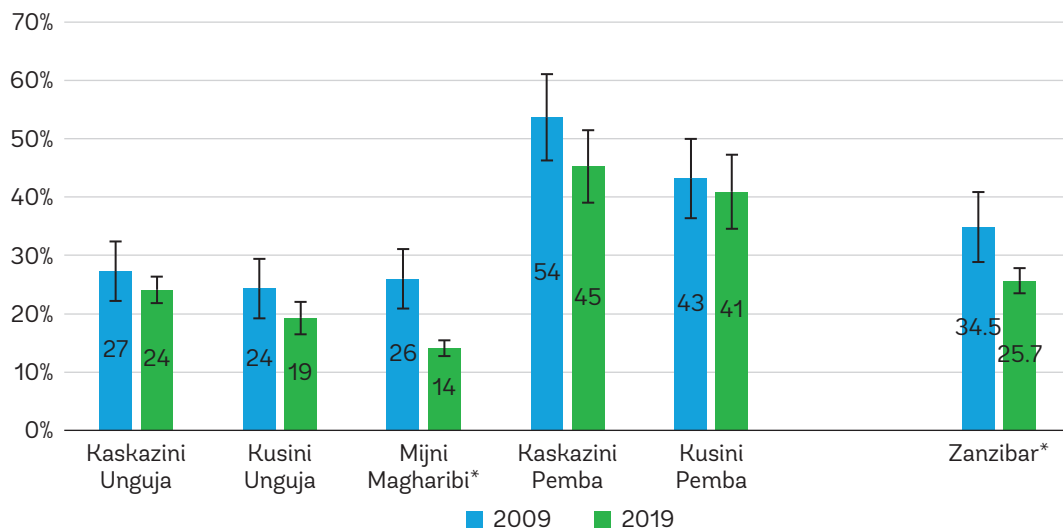
**FIGURE ES1** Poverty incidence and number of poor people, by location in 2009, 2015, and 2019



Source: Based on OCGS HBS 2009/10, 2014/15, and 2019/20. The HBS 2009/10 fell mostly in 2009, the HBS 2014/15 fell mostly in 2015, and the HBS 2019/20 fell mostly in 2019. We therefore refer to 2009, 2015 and 2019 in the report to simplify notation.

**There are large differences in poverty across regions and regional differences are widening.** Poverty almost halved in Mjini Magharibi Region but barely fell in Kusini Pemba Region (Figure ES2).

**FIGURE ES2** Poverty headcount rates (%) with 95% confidence intervals, by Region, 2009 and 2019



Notes: The vertical lines in the bars are 95% confidence intervals. Confidence intervals are wide. If they overlap for the two survey years the difference is not significant, which is the case for all regions except one (Mjini Magharibi). The drop for all of Zanzibar is also statistically significant. \* means the change is statistically significant at 95%.  
Source: Based on OCGS HBS 2009/10 and 2019/20.



## **Economic growth during 2009–19 did not sufficiently translate into improved well-being of the poorest, and ‘growth elasticity of poverty reduction’ was low as is often seen in Sub-Saharan Africa**

Zanzibar experienced substantial growth in gross domestic product (GDP) per capita between 2009 and 2019, but transmission of growth into increased consumption of households was low. Household consumption growth during the 2009–15 period and the 2015–19 period was moderate and relatively low given the high economic growth that took place. Real GDP per capita has grown at an average rate of 3 percent per year and rose from US\$712 in 2009 to US\$950 in 2019, an increase of 33 percent. Real consumption per capita, as measured by the Household Budget Surveys (HBSs), grew by only 18 percent between 2009 and 2019. Only a little more than half of GDP per capita growth translated into increased household consumption and better welfare, as measured by the HBS, suggesting that quality of growth was insufficient to translate into a commensurate improvement in the population’s welfare. Growth elasticity of poverty reduction was low, as is not uncommon in Sub-Saharan Africa.





**Despite relatively high GDP growth, job creation between 2014 and 2019–20 was limited and unemployment went up from 17 to 19 percent, while inactivity increased from 21 to 24 percent, according to the labor force surveys of 2014 and 2020–21.** This trend was particularly strong for women for whom unemployment rose from 26 to 30 percent, which was partly driven by youth unemployment among girls, which went up from 41 to 48 percent.<sup>1</sup> Inactivity among women increased from 24 to 29 percent. The percentage of people with wage jobs was only 1.5 percentage points higher in 2019–20 than in 2014 and the proportion of people in the informal sector rose by 4 percentage points (7 percentage points for women). A survey conducted for the evaluation of the MKUZA III plan recorded that when asked about progress seen in the last 5 years, only 0.3 percent of respondents mentioned tourism activities. Insufficient employment opportunities were most often mentioned as the biggest challenge respondents face.<sup>2</sup>

**Richer households benefited more from consumption growth between 2009 and 2019, and as a result, inequality, though relatively low, increased slightly along various inequality indicators.** All household groups saw a small increase in real consumption between 2009 and 2019, but it increased faster for richer households than for poorer ones. The poorest 40 percent experienced slower consumption growth than for the whole population, and thus the “shared prosperity premium” was negative. This triggered a marginal increase in inequality, reflected in the Gini index increasing only modestly, from 30.3 to 31.1. This remains much lower than in mainland Tanzania (39.5 in 2018) and is among the lowest in Sub-Saharan Africa. Inequality is higher in urban than rural areas.

<sup>1</sup>Youth unemployment among males remained constant at 21 percent.

<sup>2</sup>RGoZ (2017). Zanzibar Strategy for Growth and Reduction of Poverty ZSGRP III (MKUZA III). 2016–2020. Zanzibar, Revolutionary Government of Zanzibar.



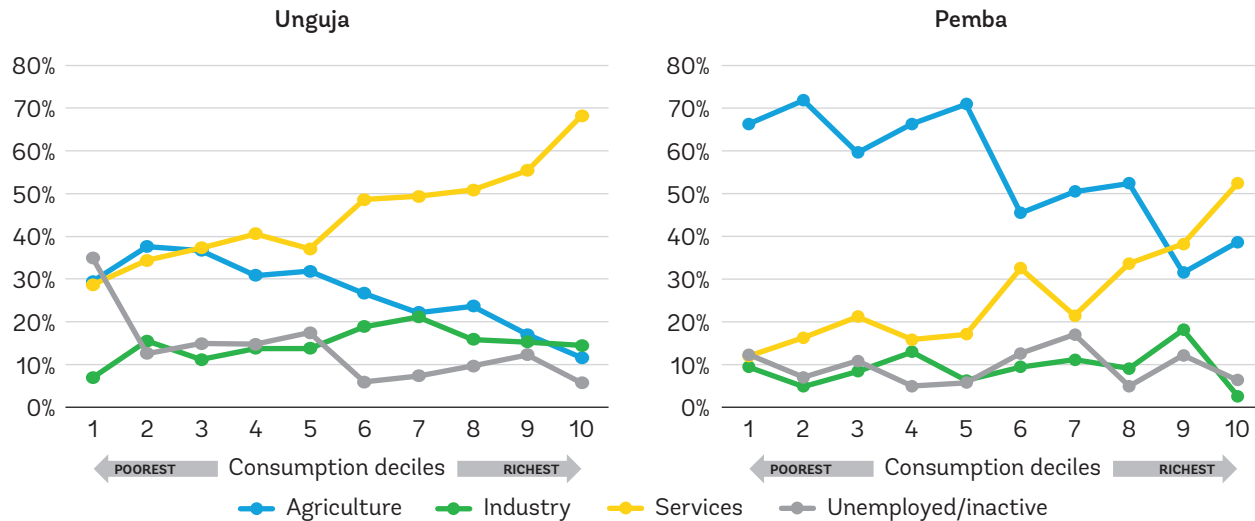
**The large shift of people out of low-productivity agriculture into services, particularly of women, barely contributed to poverty reduction. In Unguja a large proportion of the poorest parts of the population are in the services sector, suggesting that they have been unable to benefit from the fast-growing tourist industry.**

During 2014 to 2020-21 Zanzibar witnessed a large shift of people out of low-productivity agriculture into services<sup>3</sup>, particularly of women (a 10-percentage point shift), but decomposition analysis shows that population shifts to other sectors of work barely contributed to poverty reduction. This suggests that the work they found in the services sector was of insufficient productivity to raise them above the poverty line. As this happened at a time when the tourism sector was growing fast, this would imply that the tourism industry's impact on the population's welfare has been limited. Other research has shown that most tourism industry purchases are from outside Zanzibar.

**The proportion of the population working in the service sector increases sharply when moving from the poorest to the richest decile of the population, but in Unguja a large proportion of the poorest deciles are in the services sector** (see Figure ES3). This indicates that working in the services sector is not a guarantee for escaping poverty. In Pemba nearly everyone in the poorest groups is in agriculture. The population shift to the urban area of Mjini Magharibi on western Unguja coincided with a reduction in the poverty rate there during 2009–14, but poverty reduction stagnated in this region during 2015–19, suggesting that during this period many poor households that migrated to Mjini Magharibi no longer escaped poverty.

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<sup>3</sup>Based on the Integrated Labor Force Survey data of 2014 and 2020-21, but the HBS 2014/15 and HBS 2019/20 show a similar trend: the proportion working in agriculture, forestry and fisheries dropped by 3.5 percentage points, while the proportion working in services went up by 2 percentage. And industry went up by 2.5 percentage points

**FIGURE ES3** Sector of work of main jobs in Unguja and Pemba, by welfare decile

Note: The average age of the women in the poorest decile in Unguja that are inactive or unemployed is much younger than the rest of the population.  
Source: Based on OCGS HBS 2019/20.

**Strikingly, a large proportion of the poorest women in Unguja are comprised of young women who are unemployed or inactive.** This proportion is much larger than among poor men. Clearly, the inability of women in Unguja to find work, despite having substantial years of schooling, is forming an important constraint for poverty reduction. While the tourism sector is the key driver of the economy it appears unable to provide employment to sufficient numbers of young women. This may be partially related to the reluctance of women to engage with foreigners displaying behavior that does not reflect Zanzibari habits and customs. But it may also relate to the lack of skills required by the private sector and limited job creation more broadly.



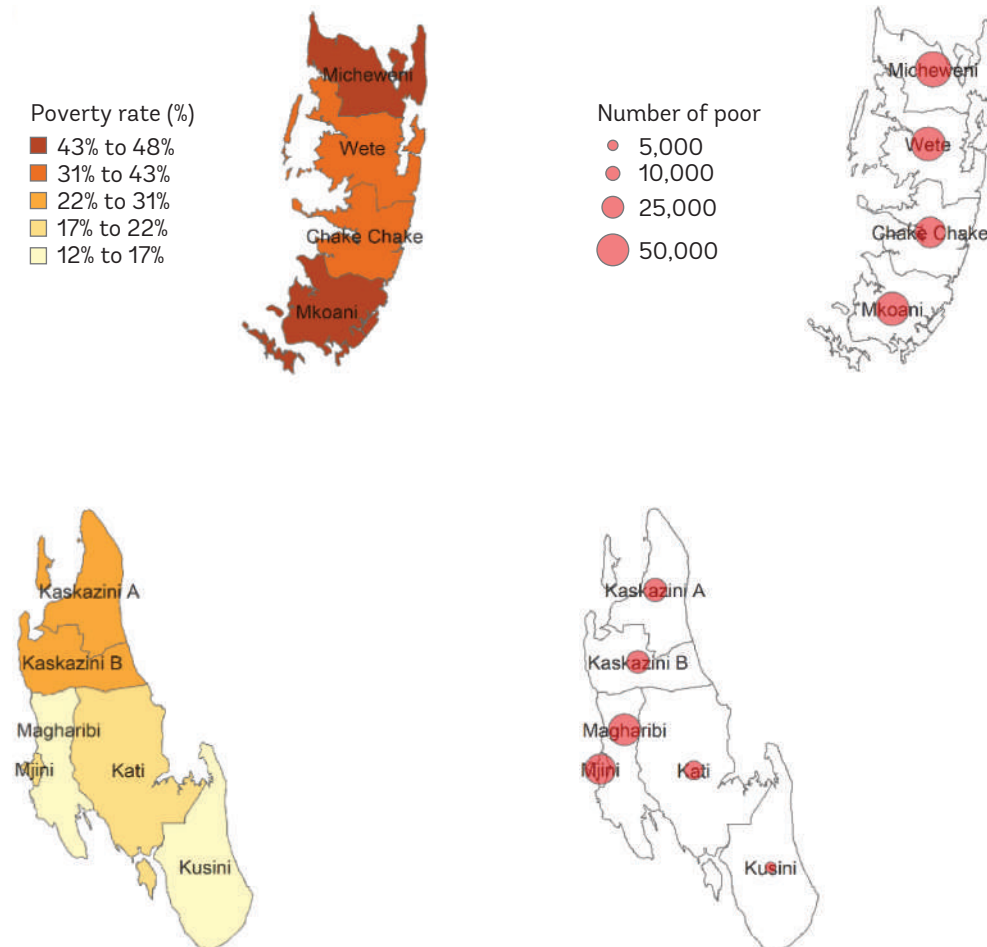


**A high concentration of the poor in Pemba, combined with lower quality social services and limited economic opportunities, suggests the poor there are stuck in a spatial poverty trap**

Spatial inequality is substantial and increasing, as poverty reduction is uneven across space, with many of the poor stuck in a spatial poverty trap (see Figure ES4). More than half of the poor (57 percent) live on Pemba Island, although only 27 percent of the population lives there. Even when correcting for differences in educational attainment and sector of work, households in Pemba have a 6 percentage

**FIGURE ES4** Geographical distribution of poverty in Zanzibar

a. Proportion of the population that is poor      b. Number of poor in that live in the district



Source: Based on OCGS HBS 2019/20.



points lower consumption per adult equivalent than those in Unguja. Pemba's population is much younger and only 27 percent of the people are of working age (26–60 years) compared to 36 percent on Unguja, and, as a consequence, dependency rates are much higher in Pemba. Despite a fast increase, educational attainment continues to lag in Pemba, especially for women (see Table ES1). Although access to electricity has risen fast, the proportion of the population with access to the electricity grid is still only half that of Unguja.

**The poverty profile of those in Pemba is very different from that in Unguja.** In Unguja, a large proportion of the poorest groups work in the services sector, while in Pemba they are nearly all in agriculture. Only a fraction (6 percent) of the tourist accommodations in Zanzibar are found in Pemba. The growing spatial inequality and the consistent low scores of the poorest regions, especially those in Pemba, across many social indicators suggest the poor there are stuck in a spatial poverty gap.

**TABLE ES1** Average years of schooling (adult population 25–64 years of age)

	2015			2019		
	Male	Female	Total	Male	Female	Total
Unguja	8.4	7.5	7.9	8.9	8.2	8.5
Pemba	6.1	4.6	5.3	6.7	5.2	5.9
<b>Total</b>	<b>7.8</b>	<b>6.7</b>	<b>7.2</b>	<b>8.3</b>	<b>7.3</b>	<b>7.8</b>

Note: This refers to amount of successfully completed school years.  
Source: Based on OCGS HBS 2019/20.



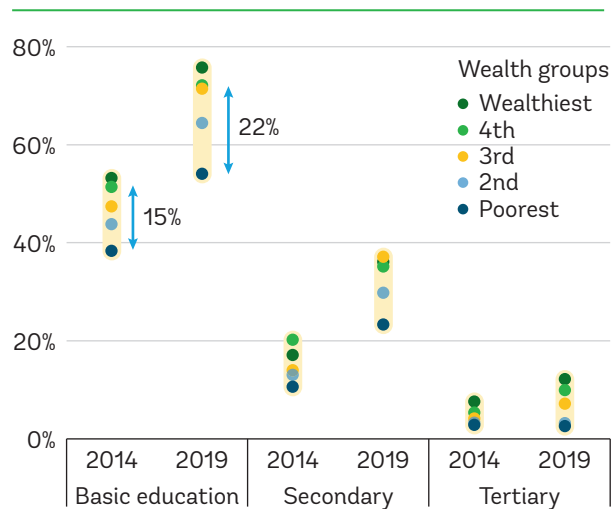


## Zanzibar has made impressive progress in social services delivery, but gaps remain, especially in poorer districts, caused by public spending on education and health that is insufficiently pro-poor

The last 10 years witnessed a spectacular increase in access to basic social services. Access to key social services rose fast in all districts. This follows a substantial investment drive in the provision of these services over the past years as part of the implementation of the Zanzibar Development Vision 2050.<sup>4</sup> This has led to a substantial improvement in living standards and is likely to have played an important role in reducing poverty.

Recent education reforms, including the abolition of school fees, have had a dramatic impact on enrollments in education. Between 2015 and 2019, average levels of education in the working age population rose by 0.6 successfully completed school years and compare favorably with the average for Sub-Saharan Africa. Enrollment quickly improved across the population. However, there are important disparities between wealth groups and significant gaps in educational attainment between rural and urban areas and between the islands of Unguja and Pemba. These gaps in attainment did not close significantly between 2014 and 2019. In 2014, the difference in basic education enrollment rates between the poorest and wealthiest quintiles was 15 percentage points but increased to 22 percentage points by 2019. A similar widening of absolute enrollment rates is evident in tertiary education (see Figure ES5). Enrollment rates in pre-tertiary education are higher for girls than boys.

**FIGURE ES5** Net enrollment rates for different wealth groups, 2014 and 2019



Source: Based on OCGS HBS 2014/15 and 2019/20.

<sup>4</sup> See: <http://planningznz.go.tz/doc/new/ZDV2050.pdf>





Photo by Anil Reddy on Unsplash

**Levels of educational spending per student vary considerably across districts.**

Public spending and the quality of learning environments tend to be lower in districts with higher rates of poverty. For example, in Chake Chake District in Pemba, there are an average of 92 students for each pre-primary and primary classroom compared to 59 students in Kati in Unguja. School planning and teacher deployment systems to ensure that new teachers and infrastructure are allocated across Zanzibar according to need would significantly improve the overall distribution of public spending.

**Health indicators improved significantly.**

The proportion of child deliveries in health facilities increased sharply between 2010 and 2015–16 according to the Demographic and Health Surveys (DHS) for those years. Child mortality also saw a notable decline and is below the value for mainland Tanzania. An increase in the proportion of births that takes place in health facilities and more coverage of child vaccination are important factors in reducing child mortality.

**The poor are ill more often but they seek formal health care less often than the better-off. Therefore, spending on health care is not pro-poor.** Unit cost data on government health care spending from the National Health Insurance Fund (NHIF) combined with HBS data suggest that government spending on health care benefits the rich more than the poor.

**Access to electricity improved dramatically over the last decade.**

The proportion of households with access to grid network grew from 38 to 57 percent between 2009 and 2019



with another 6 percent having access to solar power (mostly in rural areas). The proportion relying on a paraffin/kerosene lamp for their lighting halved. Ensuring the poor have access to modern energy services is one of the strategic priorities for Zanzibar's energy sector, which is detailed in the Zanzibar Strategy for Growth and Reduction of Poverty (MKUZA III).

**Zanzibar's multidimensional poverty rate, using a nationally defined Multi-dimensional Poverty Index (MPI), was estimated at 36.6 percent in 2019.** Being multi-dimensionally poor implies being deprived in at least a third of 13 indicators. Among people who are multidimensionally poor, 16 percent live in urban areas, while 84 percent live in rural areas. More than half of Zanzibaris living in rural areas are multidimensionally poor, while in urban areas this ratio is only 14 percent.

**Just like for monetary poverty, Kaskazini Pemba has the highest proportion (72 percent) of people who are multidimensionally poor,** while Mjini Magharibi, the most populated area, has the lowest rate of multidimensional poverty (14 percent). Distance to social service facilities showed clear correlation with the MPI at the district level. Less than half of the multidimensional poor were also poor in monetary poverty terms, which stresses the importance of using both poverty measures to track progress and inform policies and planning.



**Vulnerability to shocks is high as many households move in and out of poverty; however, few have access to social safety nets, according to the HBS data, and shocks significantly slow poverty reduction; there is scope for improving the HBS to better track coverage of programs targeted at the poor**

**Economic vulnerability is high.** A large share of Zanzibar's population clustered around the poverty line could easily fall back into poverty. And a substantial proportion of Zanzibar's population moves in and out of poverty: between 2008–09 and 2012–13, 22 percent of the population was “transient poor” or “occasionally poor,” based on analysis of the National Panel Survey (NPS) of 2008–09, 2010–12, and 2012–13. This suggests that even before the onset of COVID-19, households were very susceptible to income or health shocks and lacked the capital, savings, or access to social safety nets to cushion these sudden negative impacts on livelihoods.

**COVID-19 is projected to have increased poverty, highlighting the exposure households have to income shocks and their weak ability to manage them.** In Zanzibar, the impact of the COVID-19 crisis on tourist arrivals and subsequent drop in jobs and business activity led to a rise in urban poverty of 1.8 percentage points in 2020–21. According to a national telephone survey,<sup>5</sup> 16 percent of respondents who were working before the pandemic in January 2020 indicated they were not able to keep working consistently during the rest of the year. This proportion is much higher among women: 33 percent vs. 12 percent for men.

**Spending on social protection has increased in recent years, but the true coverage of the social pension and Tanzania Social Action Fund (TASAF) cash transfers cannot be fully assessed from the HBS survey.** Social protection spending remains dominated by social insurance. Available data from the HBS and NPS show that coverage of social assistance programs is low and that there is scope for improving targeting towards the poor. While the TASAF social assistance program mostly benefited those in the lower part of the income distribution, other social assistance programs showed considerable leakage to the non-poor. However, there is reason to believe that coverage is not well-captured in the household budget survey. There is scope to further improve survey design and implementation regarding the capture of data from households for current programs that have been put in place to assist the poor.

<sup>5</sup> Tanzania, high frequency welfare monitoring survey reports: see <https://www.nbs.go.tz/index.php/en/census-surveys/poverty-indicators-statistics/national-panel-survey/743-tanzania-high-frequency-welfare-monitoring-survey>



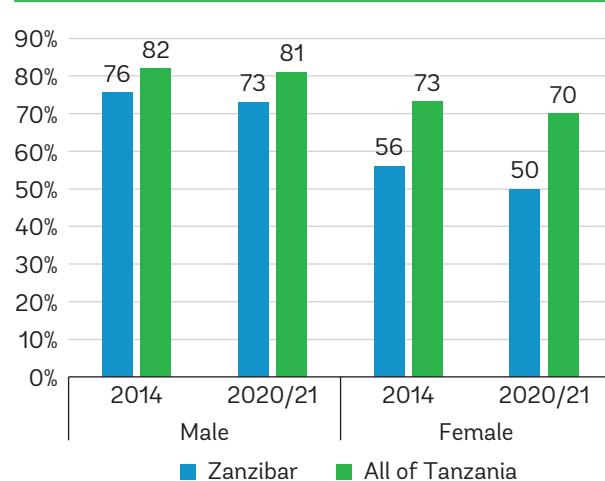


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**Despite only small gender differences in educational attainment, labor market outcomes differ substantially between men and women; a higher proportion of their time spent on unpaid domestic and caregiving plays a role**

Although the educational attainment of women is close to that of men, their employment rates are much lower. Women tend to have one year less education than men, but in 2020–21, only 50 percent of women were conducting work for pay or were self-employed, compared to 73 percent of men. Women’s human capital appears to be underused, leaving their potential to raise household incomes unexploited. The employment rate of women is much lower than those for all of Tanzania despite their higher levels of education (Figure ES6). Among the women that work, the proportion who has a wage job is much smaller than that of men—33 percent versus 21 percent—and the gap is narrowing only slowly.

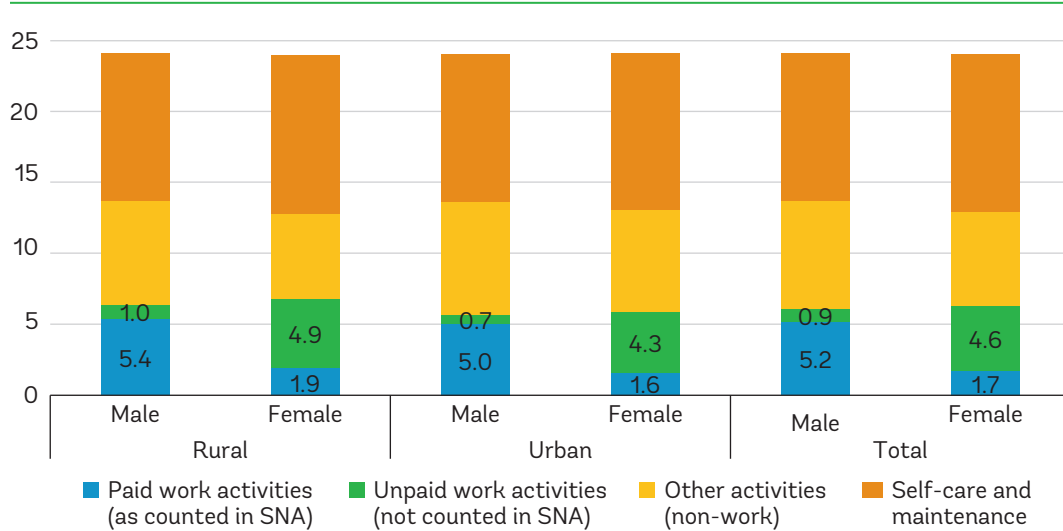
**FIGURE ES6** Employment among men and women, 2014 and 2020/21



Note: Employment is defined as conducting work for pay and includes self-employment.  
Source: Based on Integrated Labor Force Survey (ILFS) 2020-21

**The differences in time spent on paid and unpaid work differs highly between men and women.** On average, men spent just under three times as many hours as women did in paid work activities. On the other hand, females spent over six times as many hours as men doing unpaid domestic work, with a very low amount of time spent by men in unpaid domestic work overall. The gender gap in unpaid work is larger in urban than rural areas (see Figure ES7) but is constant across wealth groups (defined by consumption levels), while women’s time spent on paid work activities, defined as work activities that feed into the compilation of the System of National Accounts (SNA), increases fairly consistently across welfare quintiles.

**FIGURE ES7** Mean time spent by the men and women age 15 years and above per day on activities, by location (hours per 24-hour day)



Note: 'Paid work activities' is defined as work that contributed to the system of national accounts (SNA), while unpaid work is defined as work not accounted for in SNA, such as unpaid domestic work and caring duties.  
 Source: Based on OCGS HBS 2019-20



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## To accelerate poverty reduction, a series of policy measures should be considered:

### Make tourism more inclusive and promote economic opportunities in Pemba.

**Better exploitation of Zanzibar’s “blue economy” offers sizeable opportunities for more diversified tourism that benefits a larger share of the population.** To maximize the economic and social benefits to the poor, this could include:

- Promoting the establishment of locally owned small accommodation establishments. A quality label program, modeled after the Seychelles Secrets Initiative and a similar program in Cabo Verde, could be prepared to train, certify, and promote locally owned small accommodation establishments in Pemba and Unguja.
- Putting in place infrastructure and promoting investment in Pemba (currently only 5 percent of accommodation beds is on this island).
- Diversifying to small-group rural destinations and activities, possibly managed by communities, including investing in the sustainable development of Jozani Forest, agritourism, and marine tourism.

Greater effort is also needed to minimize environmental degradation, biodiversity loss, and the nondurable use of marine resources.

**There is scope to further strengthen backward linkages of tourism to the local economy, as over 80 percent of the requirements in the tourism sector are sourced from outside Zanzibar.** This is caused by the qualitative and quantitative mismatch between the sector’s requirement and locally supplied goods and services. To meet the food needs of the tourist industry hotels and ensure a year-round supply, irrigation and better aggregation arrangements from smallholders, including contract farming, could help. A network of collection, treatment, and distribution centers under private management could be put in place, with an active role in the training of farmers and other chain operators, and the promotion and dissemination of market information. There are opportunities to reduce costs through digital solutions such as creating digital applications to facilitate licensing and registration, recordkeeping, and contactless payment.



### **Improve labor market outcomes for women and youth.**

Labor market outcomes can also be improved through better skills training and internship programs to enable students to apply what they have learned and build their technical and soft skill sets. Skills strengthening is needed especially in customer service and soft skills required by hotels. Enabling women to better exploit economic opportunities requires a change in gender values and norms regarding unpaid domestic work as well as the availability of affordable daycare centers.

### **Improve educational outcomes for the poor by improving the distribution of public education.**

Narrowing the gaps in service provision between schools would need to include improving school planning and teacher deployment systems to ensure that new teachers and infrastructure are allocated across Zanzibar according to need. Additional public resources will be needed to extend educational opportunities to children that are currently excluded. This would include more public schools, particularly at the secondary school level, and the provision of more teachers and other educational inputs. And, second, a greater is needed on reaching the most marginalized children with more targeted support to help them to enroll and complete their education successfully.



### **Make public spending on health more pro-poor**

#### **Building resilience to income shocks will be key for sustaining poverty reduction.**

Building resilience to enable people to “bounce back” will become increasingly important as the world continues to face crisis after crisis. This requires strengthening access to savings and physical capital and improving access to social protection and health insurance. The coverage and targeting effectiveness of social transfers and health insurance could be better tracked through management information systems, including household surveys such as the HBS. Households living with young children should be supported with cash transfers to enable the family to access adequate healthy food. This could be done with a universal child grant that is disbursed to mothers until the child reaches the age of 2. To facilitate better access of the poor to health care, the quality of care and the coverage of fee and cost exemptions will need to be expanded and should also cover private dispensaries.

### **Improve business operating and regulatory environment of SMEs to boost value addition of local produce and increase job creation**

There are opportunities for improving the business environment for small and medium sized enterprises, as many are essential for aggregating and processing local produce such as seaweed and salt which can be an important income source for poor women. Better financial services for startups as well as strengthening copyright protection and business skills and quality standards will incentivize innovation and job creation. Strengthening the public-private dialogue will be important to realise the needed reforms.









