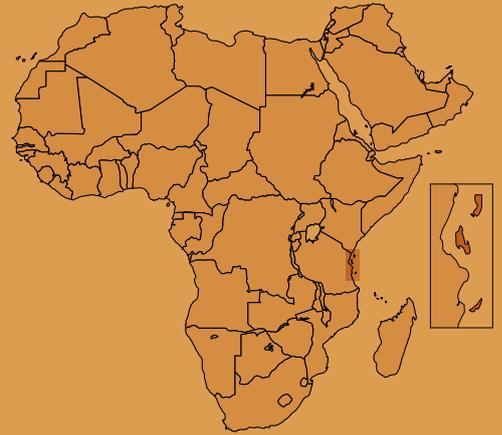


# Zanzibar



## Social Protection Expenditure and Performance Review and Social Budget

### Executive Summary

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## Introduction

This document is the Executive Summary of the final Social Protection Expenditure Performance Review and Social Budget (SPER and SB) of the ILO-DFID project “ILO Global Campaign for Social Protection and Coverage for All – As a Means to Reducing Poverty in Africa and Asia” for Zanzibar. The main report sets out the current situation of existing social transfers within the social protection system in Zanzibar. It will provide the foundation for future analysis of policy options and for any supporting social dialogue. The purpose of this Executive Summary is to highlight key issues and findings rather than to summarize the main SPER and SB report chapter by chapter.

It is hoped that the project outputs will be a useful contribution to the ongoing work on social protection now being carried out in Zanzibar within the MKUZA process; and to the future reform of the contributory social protection scheme. The ILO supports national development plans such as MKUZA with its Decent Work Country Programmes (DWCPs), which seek to promote opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. The report also contributes to the ILO Global Campaign on extending social protection.

The ILO is promoting the reform of national social security systems based on progressive universalism with benefit levels increasing as economic development and fiscal space emerge for the implementation of redistributive policies. Importantly, a new concept of a social protection floor has been endorsed as part of the Global Jobs Pact adopted at the International Labour Conference in June 2009. In addition, at an ILO Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage, held in Geneva between 2 and 4 September 2009, there was a consensus on the need for an international standard to underpin a social protection floor. The social floor has been defined by the UN Chief Executives as having two elements: the first being access to services and the second a basic set of social transfers in cash and in kind paid to the poor and the vulnerable to provide a minimum level of income security and access to essential services such as health care. The SPER and SB address both of these elements.

The main objective of undertaking the analytical work in Zanzibar was to build a comprehensive baseline of contributory and non-contributory public social security/social protection provisions; and to project on a status quo basis overall social security expenditure incorporating social insurance, social assistance, education and health care – i.e., a country’s social budget – for a 15-year period. These baseline projections are expected to be the foundation of any future policy options analysis supporting the process of a national policy debate on the future of social protection in Zanzibar.

The overall aim of the project is to be able to identify the amount of fiscal space<sup>1</sup> needed to begin to implement a minimum social protection package. This package would include affordable universal access to essential health care services; targeted social assistance; basic cash and in-kind benefits for children (mothers and carers); and a basic universal pension for the elderly and for persons with disabilities. This minimum package would be implemented gradually according to national priorities and available funding. The package would help to reduce substantially the

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<sup>1</sup> The availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position. Peter Heller, IMF, 2005.

incidence and depth of poverty and vulnerability and, as a consequence, improve productivity and thus growth.

The main finding is that neither existing contributory (social insurance) nor non-contributory (social assistance excluding education and health care) provisions are adequate in terms of the numbers of the population covered, the scope of coverage and the adequacy of benefits/payments received in relation to poverty alleviation. There is a need to reform the existing social insurance scheme to make it financially sustainable in the long term, with special studies looking at health care and maternity. There is a need to look at the adequacy of financial control and management systems as well as the viability of financing government policy plans for education and health care, which are highly dependent on donor funding. Finally, there is a need to consider policy options for cash benefits for the elderly and the most vulnerable.

The policy costings show that a minimum package including a universal old age pension, a child benefit and targeted social assistance would cost less than 2.5 per cent of GDP in the long term and would have a significant impact on poverty alleviation.

Social protection is an important part of economic development, especially in countries such as Zanzibar where around half of the population live below the basic needs poverty line (HBS 2004/05).

## Extension of coverage: The problems

### *The labour market*

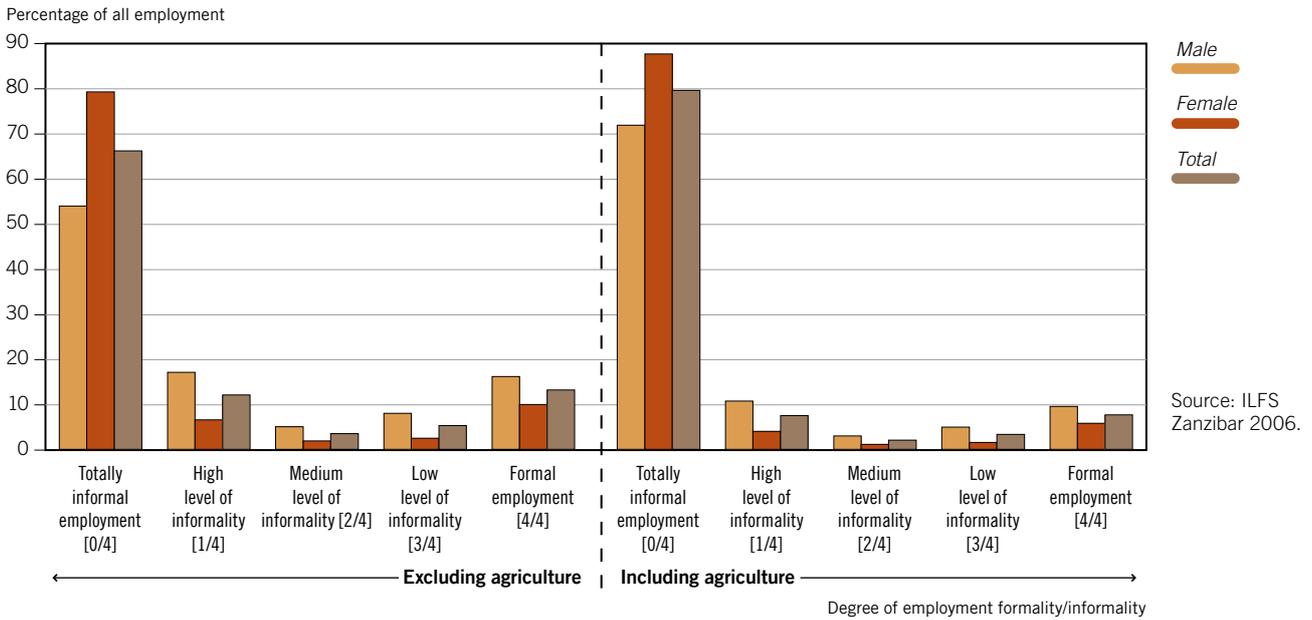
A key issue is how to extend social protection coverage in a highly informal labour market environment. As with the findings in Tanzania Mainland and Zambia, the predominantly informal nature of the labour market presents a major challenge to the extension of social protection coverage. This is because contributory/formal/mandatory social protection schemes are based on the contractual relationship between worker and employer. New solutions have to be found where there is high informalization of the labour market and no employment contractual relationship. The Report concentrates on the issue of “informality of employment”, a multidimensional concept that enlarges the previous concept of the informal sector and seeks to take into account precarious or unprotected forms of employment, including those of employees in formal-sector enterprises in both the formal and the informal economy.

In order to find solutions, it is necessary to have a good understanding of the informality of employment in Zanzibar. In particular, the Report looks at the employment status of a person and where he/she is employed. Analysis of the 2006 ILFS was undertaken using a set of criteria to characterize employment in formal or informal enterprises on the one hand (formal recognition, size and location of enterprises); and on the other hand another set that relates to workers' employment conditions – (i) the existence (or awareness) of a formal contract (permanent or fixed-term) with an employer; (ii) the existence (or awareness) of entitlement to paid leave; and (iii) that the employer contributes to social security.

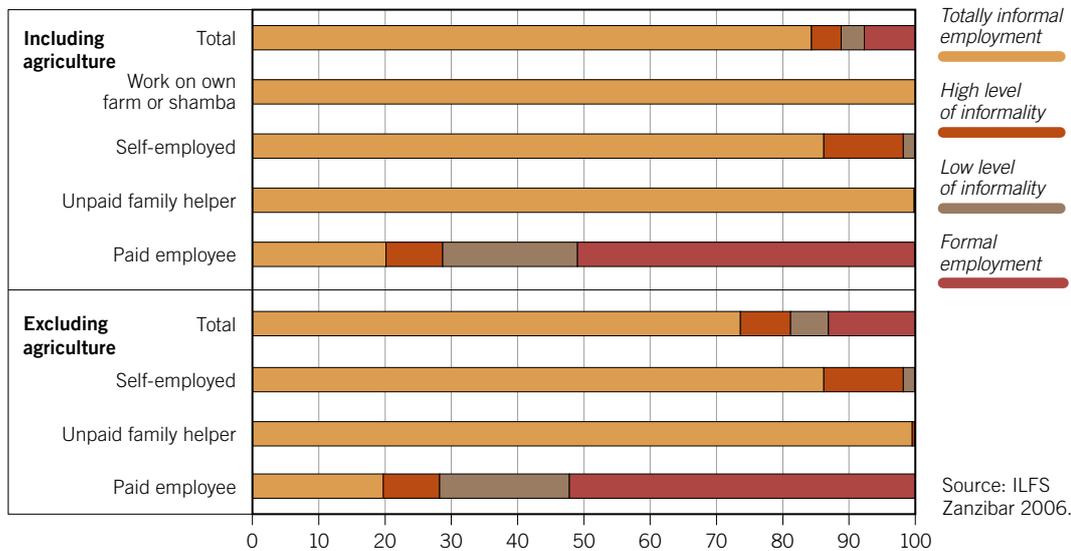
According to the 2006 ILFS, using the methodology developed by the ILO (which has also been used for comparable analysis in Tanzania Mainland and Zambia), the percentage of people working in the informal sector represents 84.3 per cent (including agriculture) of total employment. Figures 2.12 and 2.13 (all figures presented in this Executive Summary follow the numbering in the main report) show the distribution of all persons in employment and according to various employment statuses along a degree-scale for informality, resulting from the combination of the above criteria. Interestingly, the composition of employment in Zanzibar is different from that of Tanzania Mainland. In Tanzania Mainland, the largest sector in terms of employment is agriculture, but it represents only 41 per cent of total employment in Zanzibar compared to 74 per cent in Tanzania Mainland.

Similar to the Mainland, the employment to population ratios are high: almost 80 per cent of those aged 15 years and over were employed. The ratios were higher for men than women (82 per cent and 72 per cent respectively), and in rural areas compared to urban areas (86 per cent compared to 66 per cent respectively.) Despite such high employment to population ratios, half of employed women, and four-tenths of employed men aged 15 years and over were employed as unpaid family workers. One quarter of children aged 15 years and under were employed, with the large majority of this employment being unpaid family work. Employment rates of older people aged 60 years and above were high, with two-thirds of all older people found to be in employment, of whom more men (approximately 80 per cent) were in employment compared to women (approximately 50 per cent of all older women were in employment.) This finding indicates a lack of income security in old age.

**Figure 2.12 Distribution of employment along the scale of informality excluding and including agriculture for the main activity (percentage of total employment)**



**Figure 2.13 Distribution of employment along the scale of informality by status in employment (excluding and including agriculture) (per cent)**



The analysis shows that there is considerable scope to further extend social protection to individuals who have a formal employment relationship. There is also scope to extend coverage to those who come into the category of low informality. Efforts need to be made to tackle the gender differences.

### ***Poverty and vulnerability in Zanzibar***

The development of social protection policies needs to be based on a thorough understanding of how all citizens are able to function in a society. A good starting-point for a country such as Zanzibar is to look at poverty and vulnerability, focussing on the majority of the population that is officially classified as “poor”, and also on the poorest and most vulnerable. This needs to be put into a demographic envelope in order to see how the structure of the population will change over time and what this does to policy priorities. There is a strong body of evidence that poverty and vulnerability are major issues in Sub-Saharan and Eastern Africa.

The Office of Chief Government Statistician (OCGS), using the 2004/05 Household Budget Survey (HBS), has done a great deal of useful analysis on these issues. Two poverty lines have been calculated: 1) a food poverty line; and 2) a basic needs poverty line.

Those who fall below the food poverty line can be thought of as being unable to meet minimum food needs, whilst those who fall below the basic needs poverty line are those who fail to meet minimum food and other basic (e.g. clothing, shelter) needs. A person is defined as being in food poverty if his/her consumption is less than 12,573 TZS over a 28-day period. The basic needs poverty threshold is consumption of less than 20,185 TZS per 28-day period. The basic needs poverty line is the main measure of poverty in Zanzibar (those formally defined as being “the poor”).

At the point in time of the survey (2004/05):

- Just under one-half of the Zanzibar population lived below the basic needs poverty line.
- Splitting the poverty analysis by area, around 55 per cent of the rural population lived below the basic needs poverty line compared to 40 per cent of the urban population. There were considerable variations by district, with a small number of districts scoring badly on a number of poverty and vulnerability indicators.
- More seriously, approximately 13 per cent of the Zanzibar population were food poor, which is also significantly higher in rural (16 per cent) compared to urban (9 per cent) areas.

In terms of other identifiable “measures” of poverty, the main Report looks at housing conditions in Zanzibar, access to education and importantly educational attainment, and some other measures of the degree of “vulnerability” – meeting food needs, accessing health services, HIV/AIDS prevalence and extent of orphanhood. The analysis shows that:

- General living conditions in Zanzibar are good, with those living in urban areas being more likely to live in better-quality housing. Very few people appear to have problems accessing drinking water, or have problems with sanitation.
- Regarding educational attainment, a high proportion of the population can read or write in at least one language; however, around a third of the whole population have not received any education. This statistic needs to improve markedly for the country to progress and grow in an equitable manner.
- In addition, too few people are receiving tertiary-level education. This is likely to limit Zanzibar’s economic development prospects.
- There appears to be some correlation between low levels of school enrolment, subsequent low levels of educational attainment, and poverty, particularly in Micheweni.

- Similarly, a small proportion of the population have problems accessing health care due to cost or distance of travel.
- HIV/AIDS prevalence is low, as is the number of orphans in Zanzibar.

This indicates that Zanzibar has reasonable access to services on which to build a comprehensive income benefit system. The detailed poverty analysis gives policy makers the possibility of effectively and efficiently using resources to significantly reduce poverty and vulnerability.

### ***Contributory schemes***

There are problems concerning the extent of coverage, the scope and levels of benefits of the Zanzibar Social Security Fund (ZSSF) which is the only public pension scheme in Zanzibar. There is the additional problem of the interaction of the ZSSF pension scheme with the five social security schemes operating on the Mainland in relation to comparability of contribution and benefit levels and portability of benefits between schemes, which impacts on labour market flexibility.

ZSSF is a young scheme as it was established in 1998 and as such the levels of benefit paid out are low. This situation will improve over time as the scheme matures. However, it is a generous scheme and the most recent actuarial valuation has identified the need to undertake a number of reforms if the scheme is to be financially viable in the longer term. There is sufficient time in which to put in place such reforms and to do so in consultation with all stakeholders.

Pension protection in Zanzibar is provided as follows:

- ZSSF for the public and private sectors for service after July 1998;
- Service accrued by civilian employees under the Pensions Act No. 2 of 1990 (pre-July 1998) is paid by the Government from the Consolidated Fund;
- Old age pensioners on July 1998 received a pension from the Government from the Consolidated Fund.

For the year 2007/08 there were 9,965 people receiving a pension from the Government compared to 1,590 people receiving a ZSSF pension in June 2006. These figures show the importance of the role of the Government in providing pensions to civil servants.

Table 4.1 shows the low coverage of the social insurance schemes in Zanzibar (and Tanzania Mainland).

Table 4.6 shows the differences in numbers of pensioners and levels of benefit between the different pension schemes and types of benefit.

**Table 4.1** Number of persons covered by social insurance schemes: Tanzania Mainland, Zanzibar and Tanzania overall

		Mainland	Zanzibar	Tanzania
Covered population (all schemes)	male	467 533	25 635	493 168
	female	223 347	15 337	238 684
	total	690 881	40 971	731 852
Total population	male	19 103 653	558 800	19 662 453
	female	19 819 631	577 783	20 397 414
	total	38 923 284	1 136 583	40 059 867
Working age population 15-69	male	10 079 477	299 737	10 379 214
	female	10 811 884	321 522	11 133 406
	total	20 891 361	621 259	21 512 621
Coverage rates	male	4.6%	8.6%	4.8%
	female	2.1%	4.8%	2.1%
	total	3.3%	6.6%	3.4%

**Table 4.6.** Overview of pension schemes: Comparison between Zanzibar and Tanzania Mainland

Type of pension	Number of pensioners	Average monthly pension (TZS)
<b>Zanzibar</b>		
<i>ZSSF (June 2006)</i>		
Invalidity pension	1 563	8 711
Old age pension	27	10 750
<i>Government Zanzibar (2007/08)</i>		
Total pension	9 965	33 458
<b>Tanzania Mainland</b>		
<i>PPF (June 2006)</i>		
Invalidity pension	257	47 563
Survivors pension	255	80 553
Old age pension	14 077	37 560
<i>PSPF (June 2006)</i>		
Invalidity pension	58	80 041
Survivors pension	484	57 093
Old age pension	5 849	85 825
<i>NSSF (June 2006)</i>		
Old age pension	1 277	52 904
<i>Government Mainland (January 2006)</i>		
Total pension	54 510	40 165

Sources: ZSSF, PPF, PSPF, NSSF and the Government of Tanzania Mainland.

The low level of pension benefit is not a problem in itself for government employees as they are eligible for the government pension for pre-June 1998 service, but it is for employees working in the private sector.

In addition there are problems with the inadequate provisions for survivors, as well as medical care and maternity benefits schemes which come under the administration of ZSSF.

Thus coverage and adequacy of contributory social protection are low in Zanzibar, which contributes to the number of elderly persons living in poverty. The

introduction of a universal old age pension would reduce the numbers of elderly persons living in poverty regardless of whether they have been employed in the formal or the informal economy. The social insurance scheme needs to be reformed in accordance with the recommendations in the last actuarial valuation. A special study needs to be carried out for medical and maternity benefits. Jurisdictional issues arising from Mainland schemes operating in Zanzibar need to be resolved.

Consideration needs to be given to the scope of benefits provided, numbers covered and adequacy of benefit levels. The inconsistencies and issues of jurisdiction between the schemes on the Mainland and the scheme on Zanzibar must also be resolved.

### ***Non-contributory schemes***

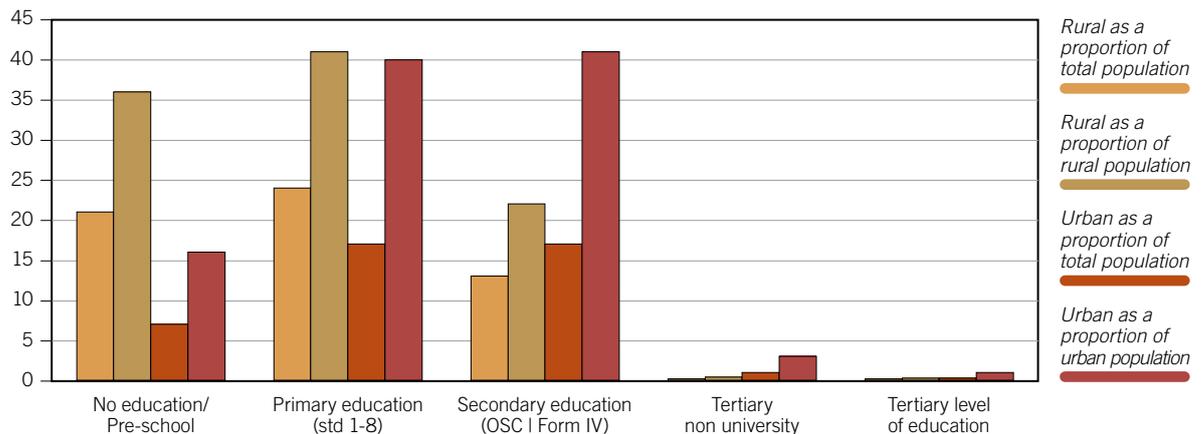
#### Education

Education has always been a priority for the people of Zanzibar. However, in recent years, it has moved to centre stage as a tool for long-term economic development and poverty alleviation. There is an acknowledged problem with data concerning education in Zanzibar, which inhibits strategic planning. Steps have been taken to improve the situation with a new education management information system (EMIS), which is not fully operational.

Zanzibar has relatively high literacy rates, with the 2004/05 HBS showing that three-quarters of the population aged 15 years and over are able to read and write in at least one language (Swahili), and just under 30 per cent of the population are also able to read and write in English. Literacy rates are lower in rural areas, particularly for females, with 40 per cent of females aged 15 years and over in rural areas unable to read or write.

Just over 40 per cent of school-age children (5-14 years) were found not to have received an education (HBS 2004/05). This equates to around a quarter of the total population not receiving an education, and this correlates with the literacy rates. Thus, it appears that the vast majority of the population who have received some form of education are able to read and write in at least one language as a result of their education. A quarter of the population aged 15 years and over has achieved a Standard 5-8 level education, with nearly 40 per cent of those aged 15 and over attaining an OSC-Form4 level education. Very small proportions (less than 5 per cent) of the population have achieved post-school level qualifications (Figure 3.11).

Historically the MoEVT has struggled to raise sufficient money for the operation and maintenance of the education system and for investment in infrastructure. Domestic budget transfers have just about covered salaries and personnel costs and donors have provided important additional resources. The Government has a clear set of policy changes it wishes to introduce but this requires a considerable increase in resources for both recurrent and capital expenditures. The Government has shown a commitment to change by announcing a 50 per cent increase in expenditure for 2007/08. Local communities have a high commitment to education and are major investors and there is an expectation that donors will increase their support. Indeed, the World Bank agreement Zanzibar Basic Education Improvement Project will make considerable additional funds available for physical infrastructure:

**Figure 3.11 Educational attainment by area (per cent)**

Source: ILFS 2006

rehabilitation of schools and the building of a teacher-training college in Pemba. In addition, it will strengthen teacher training, curriculum reform and provide books and learning materials in secondary schools. Forty-two million US dollars will be made available until 2013. However, ZEDP will require additional funds over and above committed funds if it is to implement the planned reforms in an effective and efficient way.

### Health care

Health care is a devolved responsibility from the Mainland to the Revolutionary Government of Zanzibar and it is a designated priority for action in the MKUZA report that is supported by a number of more detailed policy and planning reports. The provision of health care has been seriously under-funded for a number of years and many areas of provision are highly dependent on donor funding, eg drugs and HIV/AIDS. According to the 2006 health sector PER, the government contribution accounted for 29 per cent of expenditure in 2004/05 and development partners for the remaining balance of 71 per cent. The Health Sector Reform Strategic Plan 2002/03-2006/07 has been acknowledged to have been too ambitious and has not been implemented at the speed originally envisaged.

A plan running from 2006/07 to 2010/11 is in place, addressing both vertical and horizontal reform. Vertical priorities are infant and child health, maternal and reproductive health, communicable diseases – malaria, HIV/AIDS and tuberculosis. Horizontal priorities are strengthening decentralization of services, improved health care delivery, better coordination and ensuring coverage of vulnerable groups. Particular reference should be made to the difficulty of capturing financial data that is essential for successful long-term planning. This problem was highlighted in the Health Care PER and it is hoped that implementation of the Health Information System will help.

A number of internationally accepted indicators are used to assess the effectiveness of health care systems. They are life expectancy, fertility and mortality and morbidity. There have been improvements in life expectancy and fertility. However, child and maternal mortality rates are high. Preventable diseases such as malaria, tuberculosis and diarrhoea and occasional outbreaks of cholera are the dominant causes of child mortality. Maternal mortality is dominated by the poor care received during

pregnancy and at the birth of the child. The problems of infant and maternal mortality are major vertical policy priorities, and targets have been set in the MKUZA report. Malaria remains the illness most often diagnosed at Primary Health Care Units. HIV prevalence in the sexually active population is low (0.6 per cent).

The HBS gathered data on persons reporting an illness in the four weeks prior to the survey being undertaken. More people in rural areas reported being ill in the previous four weeks (22.9 per cent), compared to those in urban areas (13.1 per cent). Overall, around one-fifth of the population reported being ill in the four weeks period. Marginally more women than men reported being ill.

The highest proportion of reported illness was in the 65 years and over age group (just over one-third), followed by children aged 0-4 years (just over one-quarter). Across all age groups, the predominant complaint was “fever/malaria” accounting for around 70 per cent of all illness. The next major, individually identifiable complaint was diarrhoea, covering approximately 7 per cent of all illness. Malaria was less likely to be the complaint for those aged over 65 (although it still represents around 60 per cent of all complaints), whereas “other disease” was twice as high for the over 65 years of age group than the overall finding for all age groups.

Health sector wages, salaries and other allowances absorb the vast majority of internal resources available to the Government. Donor financing covers all drug expenditures, and much of the expenditure on malaria and HIV/AIDS. It is difficult to accurately assess the geographical distribution of resources and to have a clear picture of the effective use of donor-financed activities. The fact that donor resources are in the main channelled vertically makes it difficult to quickly alter priorities. There are considerable concerns about financial management of the funds, including poor record-keeping, lack of budgeted work plans, varying absorption capacities between government ministries, and financial planning is on a year-by-year basis.

### ***Other provisions***

In order to have as complete a picture as possible of non-contributory provision, the ILO carried out a mapping exercise of government departments and national and international NGOs (including some faith-based NGOs) providing non-contributory social protection in Zanzibar in cash or in kind. This was a similar exercise to that carried out in Tanzania Mainland. The aim of the exercise was to answer the following questions:

- Who is covered by such provision?
- What is the scope of such provision?
- How much is it worth in financial terms?

and to use the data in constructing the baseline of the SPER report and the Social Budget which is to be found in Chapter 5. The findings are interesting and valuable when developing policy options and seeking to implement the social protection strategy as set out in MKUKA. However, it should be noted that the mapping exercise was small, and possibly unrepresentative in statistical terms, as there is little information available on such activities in Zanzibar. A mapping exercise is understood in this context to be an inventory. A full text is to be found at Annex A of the main Report. The findings are summarised in Table 4.7.

**Table 4.7 Summary of main findings from NGO survey**

NGO survey – Main findings	Number of institutions = 92 Number of programmes = 146
Main type of institution	Local or national NGO (58 of 92 institutions)
Proportion of institutions which have a legal basis	95%
Predominant office location	Single office in Zanzibar (65 of 92 institutions)
Main target group	Children (64 of 92 institutions)
Main type of intervention	Education (82 of 92 institutions)
Main source of funding	Donor funding (59 of 92 institutions)
Total funding to all institutions	6,265 Million TZS
Proportion of budget to funding for all institutions	87%
Ratio of average international agency/NGO spending to overall average spending	7:1
Main form of intervention	Benefit in kind
Number of beneficiaries	106484

It was found that 92 institutions provided non-contributory social protection, within 146 programmes. They were mainly national or locally based in Zanzibar and 95 per cent of them operated on a legal basis.

There were approximately 100,000 beneficiaries, nearly 60 per cent of whom were female. The chief beneficiaries were children, who mainly received educational benefits in kind.

Funding for these programmes was mainly through donors, with approximately 90 per cent of the money being used as budgetary expenditure. There is some variation in the average expenditure by type of institution.

The situation for health care is in many ways similar to that for education. For both policy areas a number of very thorough policy reports exist with clear outcome targets that have been the subject of major consultation exercises. At the same time, the new policies draw on an existing base that in many instances is higher than in other parts of Sub-Saharan Africa. The challenge does not lie in the identification of problems and policy priorities but in the area of resource mobilization and capacity to effectively manage extra resources. Other non-contributory provision is insignificant in terms of coverage, scope and adequacy. Faith-based provision has a role to play but needs to be more focused. This type of non-contributory support amounts to 0.4 per cent of GDP.

## Social budget

Chapter 5 in the main Report concerns the Zanzibar Social Budget, which is a method of analysing and forecasting the revenue and expenditure of a social protection system. Social budgeting helps to inform the political decision-making process because:

- It helps one to see how a social protection system operates and would operate financially in comparison to macroeconomic and general government budget developments; and
- It is a tool for analysing the impact on incomes, expenditures and targeted population of modifications or new alternative policies regarding the social protection system.
- It is also a tool for inter-governmental coordination.

Chapter 5 presents the assumptions, methodology and results of the Social Budget for Zanzibar. The Social Budget is limited to describing the existing baseline and projections based on it. This is an essential first step to being able to model future policy options.

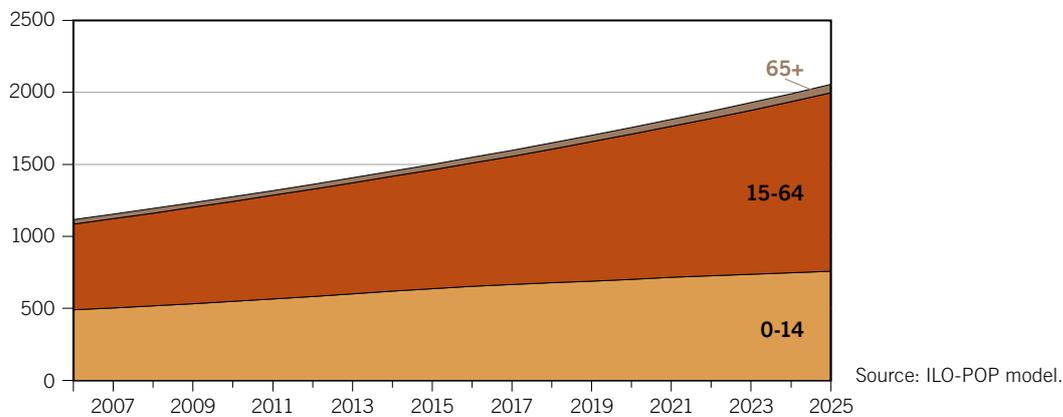
The Zanzibar Social Budget model comprises the following interdependent model components, which can normally also be used stand-alone:

1. a demographic model, used for population projections by single ages and sex;
2. a labour supply model, allowing for projections of the labour force and contributors by single ages and sex;
3. an economic model, which projects Gross Domestic Product, primary incomes, prices, wages, labour productivity and a labour market balance;
4. a government budget model, describing revenue and expenditure of the different levels of public administration.

## Assumptions used in the social budget model

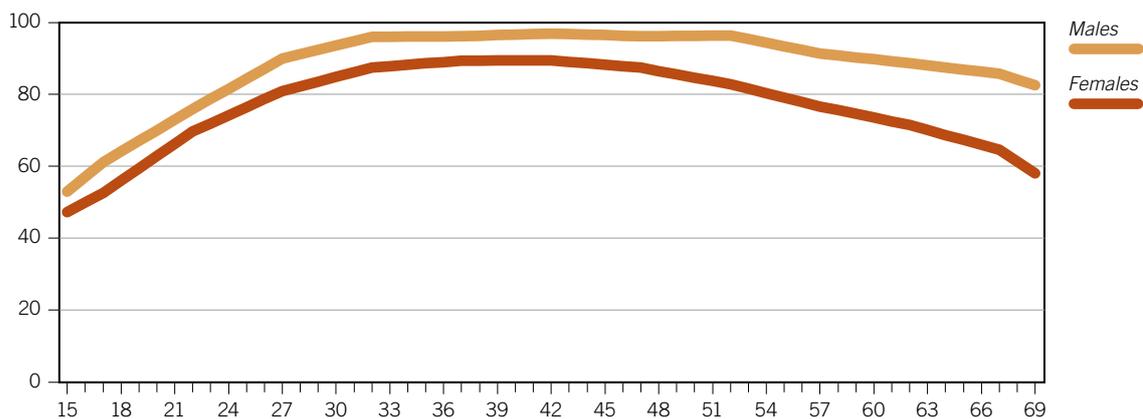
The population of Zanzibar is currently estimated to be around 1.2 million. Over the projection period it is expected to grow to reach 2.0 million persons, an annual increase of 3.3 per cent. Over the next 18 years, the average age of the population will increase from 21.5 to 23.9 years. This development is accompanied by a process of declining fertility rates and increasing life expectancy. The ageing process is important for decisions to be taken in many policy areas, notably old age, health and education. But it is important to realize that at the end of the projection period, Zanzibar's population will still be a young population (see Figure 5.2).

**Figure 5.2** Projected population of Zanzibar, by age groups, 2006/07 to 2024/25 (thousands)



Labour market participation rates are an exogenous input to the labour supply model. Participation rates by age groups and sex for years 2006 to 2025 are derived using the ones observed in the last labour force survey of 2006. Participation rates during working age are relatively high and are estimated to remain at this level throughout the entire projection period. The total participation rate during working age is 83 per cent for men and 75 per cent for women. Use of constant labour participation rates assumptions by age throughout the period is also due to the absence of a long series of past

**Figure 5.6** Labour market participation by age groups and sex (constant from 2006 to 2025) (percentages)



Sources: Database and results of ILO model calculations.

experience permitting analysis in greater depth. Currently, data on the labour force is only available for 1992 and 2006.

Since 2003, Zanzibar's economic performance has been strong and characterized by real GDP growth. In fact, over the last five years, average real GDP growth was 5.9 per cent. During the same period, the employed population and real labour productivity increased on average by 3.8 per cent and 2.1 per cent, respectively. Such economic performance should continue in coming years.

In the ILO model, for every year of the projections, real GDP growth is related to growth in employment and growth in real labour productivity. Annual employment growth is expected to be 3.9 per cent in 2007 increasing to 4.3 per cent in 2025 and we estimate that real labour productivity growth will be constant at 2.0 per cent. The effects of those exogenous assumptions on real GDP growth appear in Figure 5.7.

**Figure 5.7** Productivity growth, employment growth and real GDP growth, 2003-25 (percentages)

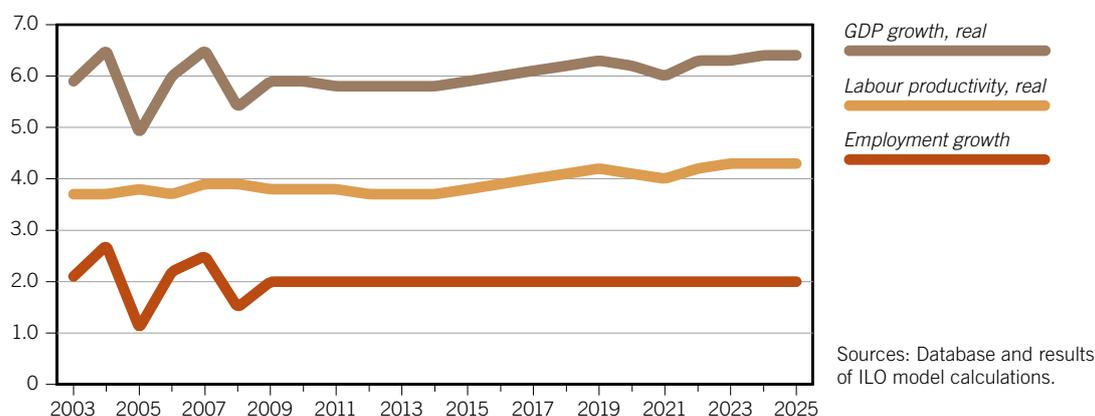
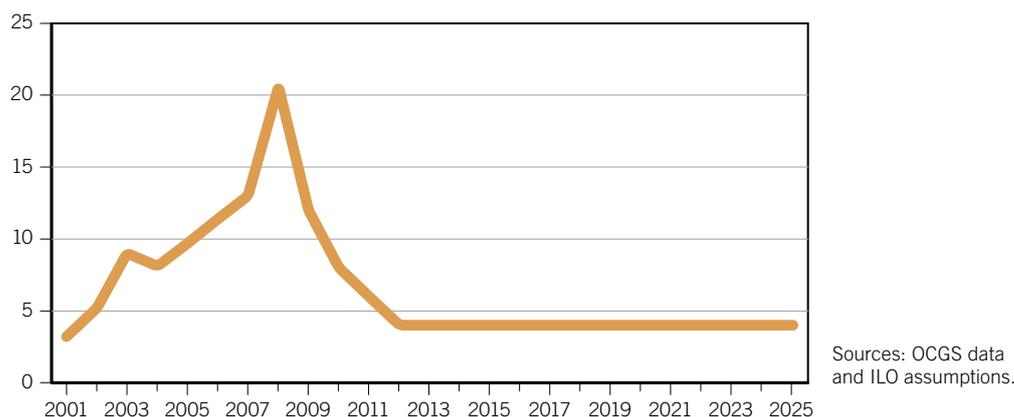


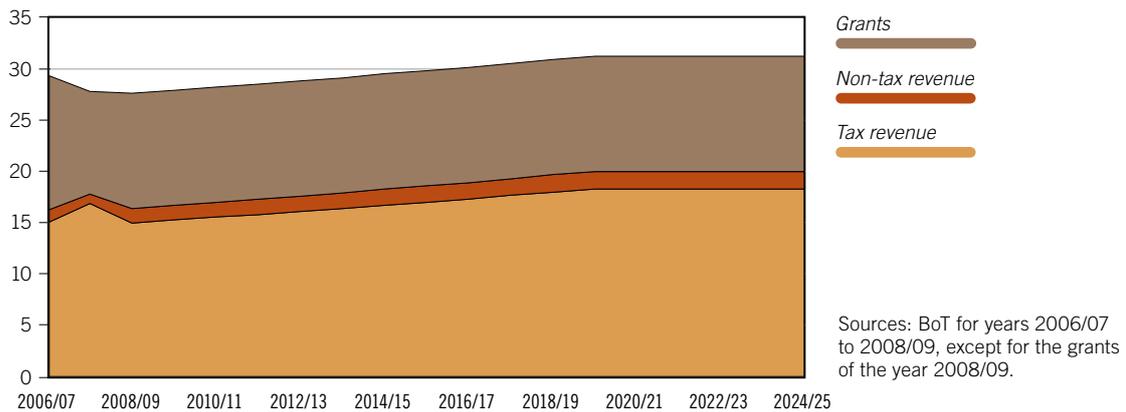
Figure 5.8 shows the inflation rate in Zanzibar since 2001 and the assumptions used. This information comes from data obtained by the Ministry of Finance. In 2008, inflation increased considerably to 20.6 per cent and the upward pressure on overall inflation was driven by increases in food, energy and transport prices. Inflation is presumed to be 12 per cent in 2009, which is slightly above the average of the last four years. Inflation is assumed to decline until it reaches 4 per cent per annum in 2011 and thereafter.

**Figure 5.8** Inflation, 2001-25 (percentages)



If the Government is successful in improving its ‘tax effort’ and reaches its target of tax and non-tax revenue of 20 per cent of GDP by 2020, there is a high expectation that there will be a gradual reduction in the budget deficit, reaching equilibrium by 2017. However, there is some uncertainty around this estimate, given the quality of the data, expectations of donor funding and no change in other government policies. Figure 5.9 represents the evolution of government revenue to GDP for the projection period.

**Figure 5.9** Projected government revenue to GDP, 2006/07 to 2024/25, (percentages)



The assumptions and projections made as part of the Social Budget development process are given in detail in Chapter 5 of the main Report. The expenditure structure for the year 2006/07 is shown in Figure 5.15. Education and public health expenditure represented 78 per cent of all social security expenditure, while pensions and gratuities paid by government represented about 12 per cent.

**Figure 5.15** Proportion of social expenditure for 2006/07, by type of expenditure

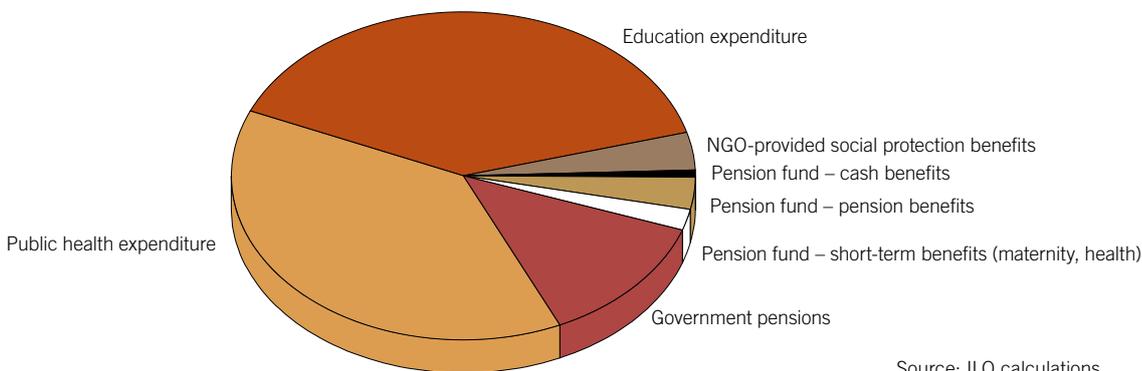
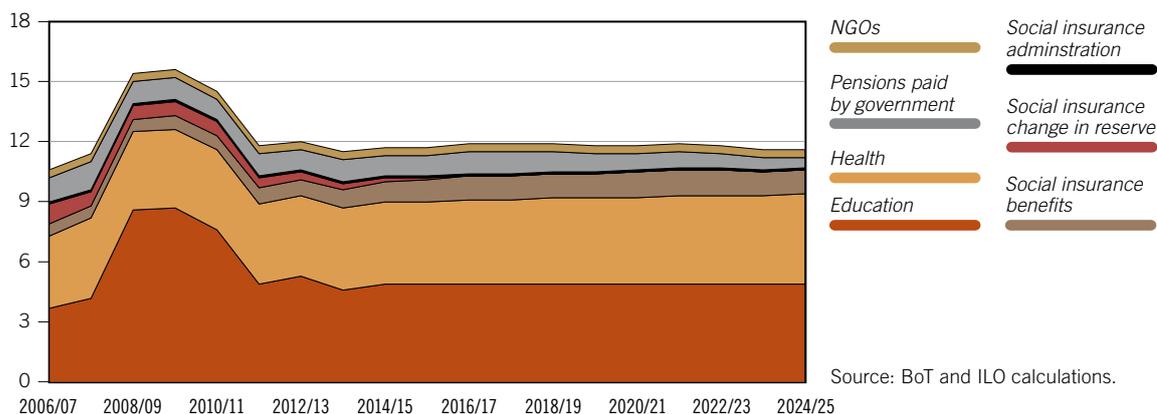


Figure 5.16 from the main Report presents the expected future development of the expenditure side of the social budget: expenditure on education, health, social insurance, government pensions and NGOs. Overall social expenditure will increase from 10.5 per cent of GDP in 2006/07 to 11.5 per cent of GDP in 2024/25. If measured as a percentage of the overall resource envelope (including central government budget,

Figure 5.16 Projected social expenditure, per cent of GDP, 2006/07-2024/25



social security funds and resources devoted to social protection by NGOs), social expenditure will take 36 per cent of overall resources available in 2024/25, compared to 31 per cent in 2006/07. This increase in social expenditure would probably be due to:

1. An increase in expenditure on education from nearly 3.7 per cent of GDP in 2006/07 to 4.9 per cent of GDP in 2024/25, due to the increase in the number of children and more financial resources being put into this sector.
2. Health expenditure is 3.6 per cent of GDP at the beginning of the projection period and is expected to increase to 4.5 per cent of GDP at the end.
3. Pensions and gratuities paid by government are expected to decrease from 1.2 per cent in 2007/08 to 0.5 per cent in 2024/25.
4. An increase in expenditure on pension benefits paid by the pension funds from 0.7 per cent to 1.4 per cent of GDP over 19 years. In 2006/07, the surplus of the social security fund (or the change in reserves) represented 1.0 per cent of GDP. This amount is expected to decrease considerably in future, to reach 0.0 per cent of GDP at the end of the projection period. The reason for this decrease is the inadequacy of the contribution rate of 12 per cent for the pension branch of the ZSSF.

## The costs and benefits of social protection in Zanzibar

In its role of furthering the global extension of social protection, the Social Security Department of the ILO has developed a pragmatic policy framework for social protection that envisages that countries which have not yet achieved universal or widespread social protection coverage should first aim to put in place a basic and modest set of social security guarantees, for all residents, with a longer-term aim of building higher levels of protection as and when further resources can be made available.

In a broad sense, this should include:

- access to basic and essential health care, including health services for maternity protection;
- income security for children, facilitating access to nutrition, education and care;
- some measures including social assistance to poor and unemployed persons; and
- income security through basic pensions for old and disabled persons.

For consistency with the analytical work presented in the SPER and SB report in Tanzania Mainland and Zambia, the following hypothetical benefits make up a “minimum package” that fits with this pragmatic policy framework. The package could be:

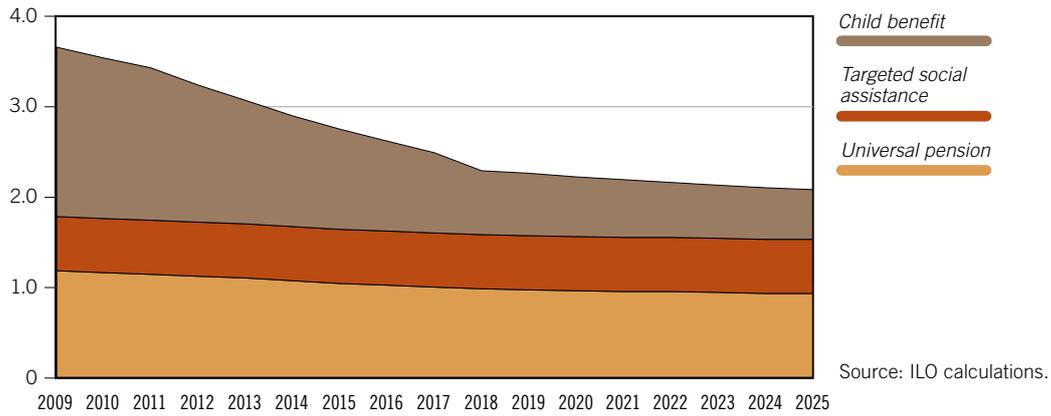
- a universal pension for all persons aged 60 years and over, starting with a monthly amount of 15,000 TZS per month in 2009;
- a child benefit paid to the first child for seven years, at an initial rate of 7,500 TZS per month in 2009;
- a targeted social assistance scheme – this is intended to identify the most vulnerable households in Zanzibar. It is assumed that this scheme would cover the poorest 10 per cent of households in Zanzibar, who would receive a benefit equal to 30 per cent of GDP per capita, per annum. Thus, recipient households would receive  $(0.3 \times 2009 \text{ GDP per capita}) \div 12$  in 2009.

This would allow Zanzibar to start implementing a social protection floor.

If implemented in 2009, the nominal cost of a universal pension is estimated at just under 10 billion TZS, a child benefit would cost approximately 15 billion TZS (which would decline in relative terms over time), and a targeted social assistance scheme is estimated to cost approximately 5 billion TZS. In combination, as a proportion of GDP, this package of non-contributory benefits is estimated to cost less than 2.5 per cent of GDP over the long term. The costs and benefits of the policies presented are based upon the assumptions and data used, which come from the Zanzibar Social Budget model. Changes in the economic environment, be it a change in level of economic growth, or inflation, will have an impact on the cost. This impact can be quite significant, particularly where there is a degree of volatility, e.g. in the inflation rate. Moreover, differences in the demographic profile can have an impact on the number of beneficiaries eligible for a benefit, and thus on costs.

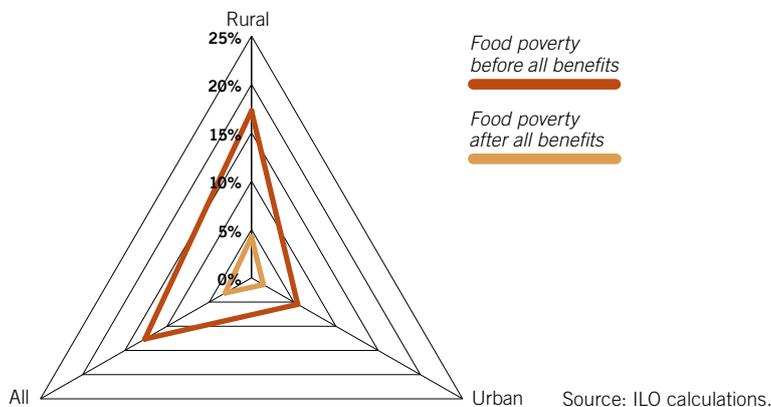
Recently, inflation has been high in Zanzibar, which can have a significant impact on the purchasing power of social protection benefits if they are not appropriately indexed. Some initial analysis of this issue, using economic assumptions from the Zanzibar Social Budget model, suggest that a benefit of 15,000 TZS in 2009 would be worth 49 per cent of its purchasing power in 2025, if it was not tied to the Consumer Price Index (CPI).

**Figure 6.5 Illustrative costs: Package of social protection benefits (percentage of GDP)**

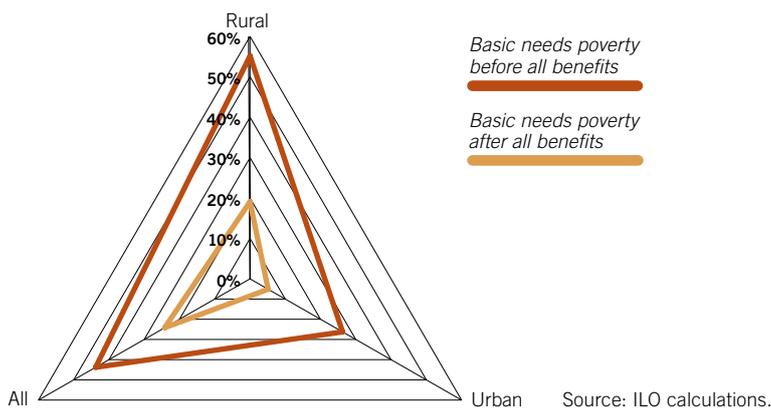


There are clear reasons why non-contributory social protection, such as the package of social protection benefits described, is likely to be beneficial in mitigating the problems apparent in Zanzibar. A poverty impact analysis shows that the combination of the three benefits eliminates almost all food poverty, and could reduce basic needs poverty by around 20 percentage points (Figure 6.7 and Figure 6.8 in the main Report). Payment of the benefits has a greater impact on the conditions for households and individuals in rural areas.

**Figure 6.7 Poverty impact analysis: Food poverty**



**Figure 6.8 Poverty impact analysis: Basic needs poverty**



The poverty impact analysis takes the latest poverty lines calculated by the OCGS, but is limited in a number of ways. First, the dynamics of the poverty situation between the survey period (2004/05) and the point in time of the analysis (2009). Thus, there may be more or fewer people in poverty according to the same poverty line; or in fact it may be appropriate to recalculate poverty lines, to reflect changes in the economic environment, notably in relation to the recent high price inflation experienced in Zanzibar. Furthermore, the poverty impact analysis adds benefits assumed to be paid at this point in time (2009), for example 15,000 TZS to anyone aged 60 or over, but in a timing sense, the poverty impact analysis actually shows the impact of adding 15,000 TZS to expenditures incurred at the time of the survey (some time in 2004 or 2005). Hence, in general the poverty impact may be overstated.

In summary, Chapter 6 of the main Report found that:

- A package of social protection benefits in Zanzibar is likely to cost less than 2.5 per cent of GDP over the long run, which would allow Zanzibar to begin to introduce a social protection floor.
- Indexation of social protection benefits is crucial to ensure that the positive impact of the benefits paid is sustainable over time.
- A package of social protection benefits may be able to eliminate food poverty in Zanzibar, and have a significant impact on reducing basic needs poverty.
- However, it is likely that even with such a package of benefits, there will still be poverty in Zanzibar, as some people may not be eligible for certain benefits, and large households are shown to be more vulnerable to severe poverty, making it difficult to lift them out of poverty without significant expenditure.
- The nature of the poverty situation may have changed in recent times due to high inflation, so the impacts may be overstated.
- However, such forms of social protection can have a positive impact on poverty, general quality of life and wider economic activity.

## Conclusions

The importance of the main Report is that it provides a comprehensive baseline of existing social protection in Zanzibar and allows the reader to look into the future on the basis of status quo projections for the next 15 years. It also includes a preliminary look at the possible provision of three non-contributory benefits: a universal old age pension; targeted social assistance to the poorest households; and child benefit, in order to provide some indicators as to a possible future minimum benefit package aimed at poverty alleviation. It confirms much existing knowledge and points to issues on which there is need for action.

There are eight key findings:

- Data is generally poor (including that of ZSSF) and this creates financial uncertainties for social policy development.
- The demographic profile shows there is a need to give high priority to developing a social protection framework addressing the needs of the poorest households as well as elderly people.
- Half of the population is living below the basic needs poverty line.
- Only 0.4 per cent of GDP is spent on non-contributory provision, excluding government-funded health and education.
- The labour market is highly informal and the degree of informalization is increasing.
- Coverage by both non-contributory and contributory schemes is low, and benefits are inadequate.
- Zanzibar is highly dependent on donor funding, particularly for health care.
- If the Government is able to meet its target of revenue being 20 per cent of GDP by 2020, and as a consequence the budget deficit reduces and moves into surplus, it will be possible to review existing priorities and implement the proposed social protection benefit package.

## Way forward

- There is scope to extend the coverage of contributory and non-contributory schemes.
- A minimum package of universally acceptable benefits would be affordable over time. In the long term the package would cost approximately 2.5 per cent of GDP. A universal old age pension would cost approximately 1 per cent of GDP in the long term, a child benefit would cost 0.6 per cent in the long term and targeted social assistance would cost 0.5 per cent of GDP in the long term.
- The results of the work on informality of employment should feed into discussions on the extension of social protection coverage, together with a job creation strategy targeted at young people.
- The level of women's participation in the labour market and their level of earnings should be the subject of a short study.
- A review of the social insurance scheme needs to take place, in accordance with the recommendations of the actuarial report, with a special study on maternity and medical benefits linked to the health policies set out in the MKUZA report. An agreement needs to be reached with Zanzibar and Tanzania Mainland on the jurisdiction of each of the social insurance schemes.
- In accordance with the MKUZA report, a social protection action plan needs to be drawn up covering contributory and non-contributory provision.

## Abbreviations

ADB – Africa	African Development Bank	NHIF	National Health Insurance Fund
BoT	Bank of Tanzania	NSGRP	National Strategy for Growth and Reduction of Poverty
CCT	Conditional Cash Transfer	NSSF	National Social Security Fund
CDD	Community Driven Development	OCGS	The Office of the Chief Government Statistician
CHF	Community Health Fund	OECD	Organization for Economic Cooperation and Development
DFID	Department for International Development (UK)	PAYG	Pay-As-You-Go
DHS	Demographic and Health Survey	PER	Public Expenditure Review
DSW	Department of Social Welfare	PHC	Population and Housing Census
DWCP	Decent Work Country Programme	PORALG	President's Office Regional Administration and Local Government
ECD	Early Childhood Care and Development	PPF	Parastatal Pensions Fund
EMIS	Education Management Information System	PSPF	Public Service Pension Fund
GDP	Gross Domestic Product	PSRB	Public Service Retirement Benefit Scheme
GEPF	Government Employees Provident Fund	PWDs	People with Disabilities
HBS	Household Budget Survey	RISE	Radio Instructions for Strengthening Education
HIPC	Highly Indebted Poor Countries	SAS	Social Accounting System
IDA	International Development Association	SB	Social Budget
ILFS	Integrated Labour Force Survey	SPER	Social Protection Expenditure Review
ILO	International Labour Office	SWS	Social Welfare Services
IMF	International Monetary Fund	TASAF	Tanzania Mainland Social Action Fund
LAPF	Local Authorities Pension Fund	TDHS	Tanzania Mainland Demographic and Health Survey
MDGs	Millennium Development Goals	TFR	Total Fertility Rate
MKUKUTA	National Development and Poverty Reduction Strategy for Tanzania	TC	Teacher Centres
MKURABITA	Tanzania property and business formalization programme	TZS	Tanzanian Shilling
MKUZA	Zanzibar Strategy for Growth and Reduction of Poverty	UNICEF	United Nations Children's Fund
MoHSW	Ministry of Health and Social Welfare	VAT	Value Added Tax
MoEVT	Ministry of Education and Vocational Training	WPP	World Population Prospects
MoLYWCD	Ministry of Labour and Youth, Women and Children Development	ZAC	Zanzibar AIDS Commission
MVC	Most Vulnerable Children	ZEDP	Zanzibar Education Development Programme
NAP	National Action Plan	ZHSPER	Zanzibar Health Sector Public Expenditure Review
NBS	National Bureau of Statistics	ZSGRP	Zanzibar Strategy for Growth and Reduction of Poverty
NGOs	Non Governmental Organizations	ZSSF	Zanzibar Social Security Fund