



## REPORT ON THE JOINT ANNUAL CONFERENCE

### Increasing the Fitness to Build a Prosperous Future through Digital Transformation and Innovation Financing

Hosted by:

President's Office - Finance and Planning, Zanzibar.

Zanzibar Research Centre for Socio-economic and Policy Analysis (ZRCPC)

President Office Labor Economic Affairs & Investment

United Nations Capital Development Fund (UNCDF)



6<sup>th</sup> - 7<sup>th</sup> May 2023 at Sea Cliff Resort, Mangapwani, Zanzibar

Report Prepared by: ZRCPC

## I. BACKGROUND

- The pursuit of social wellbeing and economic development has been a basis of all national policies, plans and initiatives in Zanzibar. Since achieving independence in 1964, the Revolutionary Government of Zanzibar (RGoZ) has made impressive progress in social investments that led to universal access to public financed social services. The current RGoZ regime intends to make significant steps in translating the economy from lower-middle income to upper-middle income status in the next 30 years as part of the implementation of the Zanzibar Development Vision (ZDV) 2050. The digital economy and private capital formation offer the country unprecedented opportunities for accelerating national development and achieving the objectives of Vision 2050 through the implementation of Zanzibar Development Plan (ZADEP) 2021-2026.
- Despite the anticipated expectation placed towards public investment in accelerating economic development in Zanzibar, trends in fiscal performance suggest that additional new sources of financing are crucial, if social economic development goals are to be achieved. Although, on average, the ratio of tax revenue to GDP has reached 19.2% between 2017/19 and 2019/20, public expenditure to GDP ratio averaged 26.6% during the same period<sup>1</sup>. Owing to the absence of domestic capital markets, most of the fiscal deficit has been met through traditional external financing, largely consisting of grants and concessional loans.
- Most of the public spending (about two third) was usually directed to recurrent expenditures, but now the RGoZ is poised to address this undesirable situation in its current budget of fiscal year 2023/24 by shifting significant funds from re-current expenses to development expenditures. Yet, the largest part of the recurrent expenditure will continue to be allocated to finance wage bills. As such, a high wage bill does crowd out other recurrent budget expenditures, such as staff development programs and investment in ICT, which affects the management and modernization of public service management<sup>2</sup>.
- Consequently, the public investments have been heavily relying on external financing and the tourism industry which is the main driver of Zanzibar's economy generating about 50% of fiscal resources. Performance of the tourist industry, however, has remained very vulnerable to frequent occurrence of global shocks, revenue leakages and lack of synergy with other sectors resulting in a situation whereby between 70% and 80% of the goods and services in the tourism sector are currently sourced from outside. Thus, Digital Transformation can help narrow development investment financing gaps by creating more transparency and accountability for business to accurately declare their income and bringing more efficiency in revenue collection. It could also create linkages between tourism and other sectors within the local economy through improved communication and cost of doing business.
- In classical accounts of economic development, Digital Transformation and prioritising the digital economy have potential to catalyse economic growth and efficient allocation of scarce resources, respectively. This is mainly because Digital Transformation lessens asymmetric information between and across the sectors, whereas Digital Economy provides platform for

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<sup>1</sup> Zanzibar Poverty Assessment 2022 - *Towards a more inclusive Zanzibar Economy*. World Bank & OCGS.

<sup>2</sup> World Bank 2023 – *Zanzibar Diagnostic Study to Enhance Public Service Governance*. The trends over the past 6 years indicate that the wage bill is, on average over 45%, of the recurrent budget, which is well above the RGoZ's aspiration of maintaining it below 35%. The situation worsened in FY 2021 when the wage bill shot up to 60%, significantly above the global average (27.4%) and the sub-Saharan average (28.7) during the same period.

diminishing undiversifiable risks. Against this background, the RGoZ needs to place substantial emphasis in creating an enabling business environment to promote private sector investment as well as stimulating development financing beyond traditional practice. This includes securing funds through private and innovative financing mechanisms, as a leading source of funding for strategic economic projects, especially those under the blue economy, and social investments. These options are based on securing finance by tapping into new funding sources or by engaging new partners, including approaches that enhance the efficiency of financial flows by reducing delivery time and/or costs and make financial flows more results oriented. Nonetheless, capital accumulation through Private and Innovative Financing may not have a catalytic impact without being supported by meaningful digital transformation.

- Equally, the RGoZ has recognized the importance of Information and Communications Technology (ICT) to the economy and aims to invest in communications infrastructure (with the National Fibre System as a backbone) and administrative systems. It also prepared the National ICT Policy and its Implementation Strategy, as well as various legal frameworks that are currently being used to regulate the Digital Transformation process in Zanzibar. Perhaps there are too many legal and regulatory frameworks<sup>3</sup> to the extent that they may need to be streamlined to respond to the needs of the Digital Economy and encourage innovation and new business models.
- The RGoZ has also devised and put into effect the Zanzibar Digital Health Strategy 2020/21 - 2024/25 to promote the use of digital health technologies in a streamlined, cost-effective and cost-efficient manner for improved delivery of quality health services at all levels of the health system. However, the digitisation of the health sector has not yet produced notable outcomes.
- In Zanzibar, if one gauges the potential benefits against the costs, it is easy to see that the efforts of using digital technologies to accelerate capital formation by linking financing to results and redistributing risk. Integrating investors from the domestic and international markets presents a unique opportunity to create critical conditions for operationalising and accelerating digital transformation.
- The challenge facing Zanzibar is how to find a common understanding (or consensus among public stakeholders) on ways to use digital transformation for encouraging the movement of capital from the relatively unproductive sectors to the more productive sectors. This important onus of embracing digital transformation and facilitating significant accumulation of private capital presents a great opportunity to realise its strategic direction as prescribed in the ZDV 2050: “*Pursuing the development of the creative and digital economy to diversify and complement the service sector*”.
- In this context, ZRCP held a two-day high level joint annual policy conference on *Increasing the Fitness to Build a Prosperous Future through Digital Transformation and Innovation Financing* from 6<sup>th</sup> to 7<sup>th</sup> May 2023 at Seaciff Resort, Mangapwani in Zanzibar.

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<sup>3</sup> Cyber Crimes Act, No. 14 of 2015; e-Government Act, 2019; Anti-Money Laundering and Proceeds of Crime Act, No 10 of 2009; Tanzania Communications Regulatory Authority Act, 2003; the Universal Communication Service Access Act, 2006, Electronic and Postal Communications Act, 2010; Electronic Transactions Act, 2015, National Payment Systems Act, 2015, Bank of Tanzania Act, 2006; Telecommunications Authority Law, No. 12 of 2003; Electronic Transactions Law, No. 13 of 2015; Electronic Communications and Postal Law, No.3 of 2010., as well as Postal and Communications Regulations of 2018.

- It was hosted and convened by Zanzibar Research Centre for Socio-economic and Policy Analysis (ZRCPC) and President's Office - Finance and Planning (PO-FP) Zanzibar. It was financially supported by the United Nations Capital Development Fund (UNCDF), Office of Government Chief Statistician (OCGS), Zanzibar Investment Promotion (ZIPA) and People's Bank of Zanzibar (PBZ).
- The conference was officially opened by Dr. Juma M. Akil the Principal Secretary, President's Office - Finance and Planning on behalf of the Minister President's Finance & Planning, Dr. Saada Mkuya. It commenced with remarks from Ivana Damjanov - Country Lead, Tanzania, Inclusive Digital Economies at UNCDF and Marketing Manager of the PBZ. ZRCPC Executive Director, Juma H. Reli gave the opening remarks.



## 2. DISCUSSION THEMES

- All presentations were presented physically except one which was facilitated virtually. Building on the fact that digital transformation and private financing entailed the interlinked causality connection, the agenda of the conference was based on the identification of what can possibly work for Zanzibar in terms of their effective operationalization.
- The discussions were interactive and focused on identifying Zanzibar specific policies and practical mechanisms for reaching realistic shared goals concerning the digital transformation and private/innovative financing as a tool for attaining inclusive economic growth and sustainable human development.

### Day 1: Full Day Discussions

- **KEYNOTE PRESENTATION** - *The World is Changing, Fast: leaders are challenged to rethink what's possible to benefit from digital transformations and modern financing options* by **Dr Nicholas Haan** - Faculty Chair of Global Challenges, Singularity University & ZRCPC Associate
  - The World is Changing Fast due to digital transformations and new technologies (digital banking, block-chains, crypto-currencies, and innovative social media platforms), major and rapid economic, societal and environmental changes occur resulting in new economic opportunities worldwide. To benefit from these changes, leaders are challenged to rethink what's possible.

- 2<sup>nd</sup> PRESENTATION: *Filling the Funding Gap – Options for boosting private financing and initiating domestic capital markets in Zanzibar* by **Dr. Twahir. M. Khalfan** from ZRCP.
  - **Options for creating Domestic Capital Markets and readiness to operationalize private and innovative financing.** It covers option for leveraging on digitalization to identify realistic Innovative and Private Financing Options to mobilise funds for social investments, accumulate capital for strategic economic projects and initiation of domestic capital markets.
- INTERACTIVE SESSION facilitated by **UNCDF/Silicon Zanzibar & CPS, Wasoko & Breakthrough Attorneys** on these topics:
  - *Creating a digital innovation hub in Zanzibar to attract international technology operators and investors and transform Zanzibar into an investment and digital haven.*
  - *Silicon Zanzibar vision: On-going activities/actions challenges & opportunities*
  - *Breakout session on challenges & opportunities*
  - *Group insights & Conclusion / Way Forward*
- KEYNOTE CLOSING PRESENTATION – *Lesson learnt about government innovation efforts across different parts of the world* by **Salim Ismail**, Founding Executive Director, Singularity University & chairman OpenExo

## Day 2: Half Day Discussions

- PRESENTATION 1 - *'Key update on efforts for establishing digital management system for taxation on tourism service'* by Zanzibar Association of Tour Operators (ZATO). Discussed ways for creating readiness to operationalize digital transformation and private/ innovative financing through digitalization of tourism sector
- PRESENTATION 2 - Shared lessons from carbon trade for forest protection in Tanzania Mainland. It examined the potentiality of attracting innovative financing in Zanzibar through carbon credit.
- KEY TAKEAWAYS - *Shared Vision on how to leverage on Digital Transformation to attract more private and innovative financing in Zanzibar* by all stakeholders. It covered the next steps for Implementation including leadership, skills for the Digital era, practical strategies for financing, regulating, and operationalizing Zanzibar's future Innovation Vision.
- Closing Remarks – The conference was closed by the Principal Secretary (PS), Ministry of Blue Economy and Fisheries, Dr. Aboud Jumbe, who assured the participants that the RGoZ will work closely on the proposed suggestions to ensure digital transformation is inclusive and benefit all people in Zanzibar. He highlighted the fact that this is a remarkable opportunity for Zanzibar to realise and maximise potential benefits attached to the strategic sectors. The PS recognized the political will of the President of Zanzibar in fostering digital transformation and securing private financing. Further to that, he argued that various initiatives are currently being implemented but not well communicated to various actors, and this calls for aligning these efforts to identify a shared path for moving forward in line with the national development agendas.
- In brief, in his closing comments by Principal Secretary, Ministry of the Blue Economy and Fisheries covered these issues:

- Importance of independent think tanks such as ZRCP and the private sponsors to host policy dialogues on the important initiatives and policy issues related to the private financing and digital transformation.
- Need of using artificial intelligence and big data for fostering digital transformation and private/innovative financing.
- Highlighted the fact that administrative and policy challenges still exist. Continued dialogues between RGoZ and all other stakeholders, including investors and research institutes to discuss existing challenges but also to propose win-win solutions is crucial. This should include the identification of integrated and mutual strategies to address the challenges.
- Benefits of digital transformation should be inclusive.
- National plans and policies are ready to absorb the issue of digital transformation and private/innovative financing
- RGoZ is ready to engage in a journey in digital transformation and enjoy its benefits.
- Joint implementation efforts are crucial for digital transformation to succeed.

### **3. KEY INSIGHTS AND SHARED VISION**

During the conference, it was agreed that a systemic reform to bring digital transformation to foster private financing in Zanzibar, among other benefits, is likely to be a relatively complex undertaking given their interconnected and multisectoral nature and extensive financial and human capital requirements. The participants of the workshop jointly pointed out the following key issues for facilitating digital transformation, which are prerequisites for unlocking the establishment of domestic capital markets and accumulation of private capital in Zanzibar:

#### **Broad-spectrum issues**

- Acknowledging that digital forces are not only here to stay but are indeed rapidly accelerating; the most important issue is to identify digital aspects fitting Zanzibar's unique characteristics to focus on to leapfrog its competitors. This requires a strategic and holistic approach engaging multiple government ministries and agencies, and with broad outreach to the private sector and development partners.
- The existing political will and commitment from top Government authorities should be effectively leveraged to facilitate the Digital Transformation and capital formation through private financing.
- Out of many important sectors, Zanzibar needs to select the most appropriate model for implementing a Digital Economy (E-commerce, Transport and Logistics, Knowledge Intensive Industrialization and Financial Services such as Cashless Economy, Fintech, Off-shore banking, and block chain for Mobile phone banking across Africa) as pathway and few sectors such as, Blue Economy including Tourism, Health and Education to be the frontiers of digital transformation and leading sources of attracting private capital (Blue Bonds, Climate Related Financing, Islamic Finance and Special Purpose Investment Vehicles).
- Making comparison between ZADEP 2021-26 and on-going actual investments and initiatives on Digital Transformation and private financing for re-alignment purposes.

## **Policy measures to be pursued going forward:**

- Narrowing down the scope and developing Zanzibar's unique strategic approach for transformation that can have the greatest benefits for the well-being of all Zanzibaris, and which can grow exponentially and anticipate future trends and opportunities for socio-economic development instead of embarking on different technology and innovations with slow growth potential.
- Setting realistic short-term targets as part of longer-term ambitions, but it should be remembered that in the digital sphere the environment changes constantly and rapidly. The challenges will always be there, but the solution is to have integrating efforts, bold ambitions, and readiness and conduct frequent reassessments of Digital Transformation progress.
- Review of the National ICT Policy to ensure adequate inclusion of Digital Transformation policy related matters, among other policy issues and setting up the required regulatory framework and governance structures. Embracing the soon to be launched Zanzibar Digital Transformation Strategy with a clear blueprint to address the gaps identified from the ICT Policy and chart Zanzibar's course for digital economic transformation.
- Preparation of the Digital Economy Strategy to guide legislation enactment for its operationalisation.
- Strategically using digital economy as an instrument for pioneering and leading digital transformation and private capital formation due to its proven ability to bring imminent and wide-ranging outcomes, and then shift more focus towards other components of digital transformation.
- Identification of aspects within the digital economy to be pursued going forward in order to increase prosperity and accelerate digital transformation to other social-economic spheres.

## **Practical measures to be pursued in Short-term and Mid-term should focus on:**

- Taking critical actions based on the assessment of on-going initiatives regarding digital transformation and private capital formation.
- Conducting a digital transformation readiness rapid assessment that highlights the extent and the nature of the missing skills, tools, processes, infrastructure, and legal frameworks necessary for digital transformation and private capital formation to reach desired levels.
- Building robust investment cases are in place to guide investments on the digital transformation and attract private and innovative financing.
- Leveraging the Silicon Zanzibar initiative as a technology innovation hub to attract international technology operators and investors who have the potential to transform Zanzibar into an investment and digital haven.
- Establishing the domestic capital markets should be accompanied by technical analysis which will consider key parameters such as macro-economic dynamics, socioeconomic

characteristics, culture and geopolitical factors and redistributive arrangements to ensure active participation of the local content of the private sector.

- Facilitating capital formation from local investors, especially Zanzibar Social Security Fund (ZSSF) to play a more effective role in de-risking development projects and leveraged to provide a pooling platform to accumulate capital from domestic and foreign investors.
- Seeking technical support from UNCDF, World Bank and local institutes/experts to establish mechanisms for initiating private financing, including the issuance of blue bonds, climate bonds, municipality bonds and setting up of investment funds.

### **Practical Long-term tasks should focus on:**

- Accelerating the digital transformation of the Government while engaging all citizens to understand the importance and benefits of digitalization.
- These strategic moves and incremental innovations are more likely to enable Zanzibar to *enjoy a prosperous future by using Digital Transformation to attract more private and innovative financing and accelerating inclusive economic growth*. Such transformation will be gradual when you consider the limited fiscal space which restricts the ability of engaging in rapid digital transformation and an acute gap in digital literacy among public servants - approximately 55% of public servants do not have basic computer skills and knowledge of word processing, using spread-sheets, and troubleshooting, according to the survey conducted by the World Bank in 2023<sup>4</sup>.
- Having on-going evidence-based dialogues involving all relevant stakeholders to discuss issues' pertaining to the digital transformation.
- Accelerating digital transformation in key sectors education, water, health and land through digital mapping.
- Revamping the education system and re-skilling to consider technological developments/opportunities, Digital Transformation and innovation financing initiatives. One clear strategy is to create a synergy between existing institutes/firms/organisations and emerging foreign actors (African School of Economics and Indian Institute of Technology – IIT) universities which are interested in setting up campuses in Zanzibar.

### **Institutional Arrangements:**

- Utilisation of a Zanzibar Planning Commission (ZPC) and the Second Vice President Office (SVPO) as mandated entities for steering and coordinating the process of digital transformation, respectively.
- Digital Economy initiatives should entail a strong private sector engagement but led by the President's Office Finance and Planning, President's Office Labour, Economic Affairs and Economic Empowerment, e-Government and coordinated by ZPC.

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<sup>4</sup> World Bank 2023 – ZANZIBAR Diagnostic Study to Enhance Public Service Governance.



- General Digital Transformation initiatives need to be implemented by multiple entities (i.e., Ministry of Infrastructure, Communication and Transport and E-Government) in line with their mandate under the coordination of the Second Vice President Office.
- Initiatives to kick-start the Digital Economy and accelerate Digital Transformation could involve a formation of steering committee and technical working group from experts from both public and private entities.



#### 4. LIST OF PARTICIPANTS

The conference was well attended involving a diverse representation of senior officials from these local and international entities:

- 1) Second Vice President Office – Deputy Permanent Secretary
- 2) President’s Office – Finance and Planning: Permanent Secretary (PS) & Director of Policy, Planning and Research
- 3) President’s Office Labour, Economic Affairs and Economic Empowerment - PS & Deputy PS
- 4) Ministry of Infrastructure, Communication and Transport – Permanent Secretary (PS), Director of ICT & Executive Director of ZICTIA
- 5) Ministry of Blue Economy and Fisheries - Permanent Secretary (PS)
- 6) Ministry of Trade and Industry Development – Deputy PS
- 7) Ministry of Agriculture, Irrigation, Natural Resources and Livestock – Senior Officer
- 8) Ministry of Home Affairs Tanzania – Senior Inspector of Immigration
- 9) Bank of Tanzania (BOT) – Branch Manager, Zanzibar
- 10) Zanzibar Revenue Authority (ZRA) – Commissioner General
- 11) Tanzania Revenue Authority (TRA) – Tax Education Manager, Zanzibar
- 12) E-Government – Managing Director
- 13) Presidential Delivery Bureau (PDB) – Digital Manager
- 14) ZIPA – Senior Economist
- 15) ZRCP – Senior Officers

- 16) UNCDF – Country Lead, Tanzania, Inclusive Digital Economies & Policy Specialist
- 17) UNDP – Programme Manager - FUNGUO Innovation Program & Senior Economic Advisor
- 18) World Bank – Senior Digital Development Specialist & Financial Management Lead
- 19) PBZ – Heads of ICT & Marketing
- 20) ZSSF – Investment Manager
- 21) Zanzibar National Chamber of Commerce (ZNCC) – Executive Secretary
- 22) SUZA – Lecturer
- 23) Foundation Botnar
- 24) ZATI - CEO
- 25) ZATO – Senior Officers
- 26) Zanzibar Silicon Initiative – CPS & WASOKO
- 27) Breakthrough Attorneys – Managing Partner

