



DEVELOPING AN ISLAMIC MICRO-ENTERPRISE
MODEL FOR THE AGRICULTURAL SECTOR: THE
CASE OF CLOVE INDUSTRY IN ZANZIBAR

BY

ISSA SALIM MOH'D

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International Islamic University Malaysia

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ABSTRACT

The contribution of the agricultural sector to the development of Zanzibar Islands is considerable. This very important sector through clove industry was the economic backbone upon which the then government of Zanzibar relied for its foreign exchange and national revenue. However since the Arabs-ruled government was overthrown as a result of the so-called Zanzibar revolution in 1964, agricultural productivity particularly clove production has continually significantly decreased due to many problems and challenges, especially financial ones. A country that was a world leading exporter of the crop i.e. clove has now witnessed a drastic decrease for the last five decades. Several programmes, measures and policies on the other hand, have been adopted by various administrations to find solutions to the dwindling clove production but they have been fruitless. These solutions have mainly focused on alleviating the financial problems the farmers face. Normally financial intermediaries including banks, cooperatives and micro-enterprises would provide micro-financing to the farmers but with high interest rates along with collateral requirements. Thus, this mode of financing has produced no significant result. This study has therefore examined the problems facing the clove industry in Zanzibar with a special emphasis on the private sector participation and proposed a waqf-zakat-muzara'ah- supply chain model (WAMSCM). Under this model the waqf and zakat resources will be used for the human capital development (of) and provision of a piece of land (to) the farmers. There will be a relationship between farmers and financial institutions primarily based on a partnership where profit and loss are shared by both parties. This will enhance the commitment by and cooperation between both parties to ensure the success of the business. Furthermore, the issues of high interest rates and pledging of collateral that constrain the financial ability of the farmers and their agricultural output are integrally solved by this model. In addition to that, the model has the features of investment and risk diversification for both the private institutions and the farmers that will lead to high clove production and employment generation in the economy of the country. This study used a convenience sampling method to collect data from the sample (Pemba Island) whereby 263 questionnaires were collected representing 97.4% of the distributed questionnaires. The findings of this study are relevant to the current situation facing the clove industry in the isles and satisfactory to the extended proposed model of this study i.e. waqf-zakat-muzara'ah –supply chain model (WZMSCM). The study found that, clove industry in Zanzibar is currently facing enormous challenges namely; prices, monopoly, lack of funding, production cost factor, lack of involvement of private sectors, poverty of farmers, and lack of a viable model. Furthermore, the findings of this study are pleasing to tackle the problems facing the clove industry in Zanzibar. As such, the majority of the respondents agreed that this model will remedy the situation and improve the economic productivity of the crop.

ملخص البحث

مساهمة القطاع الزراعي في تنمية جزر زنجبار ليست بالقليلة. هذا القطاع المهم جدا من خلال صناعة القرنفل كان عماد الإقتصادي، والذي كانت تقوم عليه الحكومة القديمة بزنجبار (الحكومة بسطان في ذلك الوقت) في الصرف لعمليتها مع العملات الأجنبية وللدخل الوطني. لكن منذ أن أُطيح بالحكومة السلطانية نتيجة ما يسمى بالثورة زنجبار عام 1964، انخفض الإنتاج الزراعي وخاصة إنتاج القرنفل باستمرار وبشكل ملحوظ بسبب العديد من المشاكل والتحديات، خاصة تلك التحديات المالية. لذا فالبلد الذي كان مصدرا رائدا في العالم شهد إنخفاضا حادا خلال العقود الخمسة الماضية. وقد تم من ناحية أخرى اعتماد العديد من البرامج والتدابير والسياسات من قبل مختلف الإدارات لإيجاد حلول حول تساؤل إنتاج القرنفل ولكن كانت غير مثمرة. وقد تركزت هذه الحلول أساسا على التخفيف من مشاكل مالية تواجه المزارعين، والتي عادة ماتكون من خلال الوسطاء الماليين. بما في ذلك المصارف والتعاونيات والمشاريع الصغيرة والذي من شأنه أن يوفر تمويل المشاريع الصغيرة للمزارعين. لكن ومع ارتفاع نسبة الربا و متطلبات الضمان (الرهن)، فلم يؤدي هذا النموذج من التمويل أي نتائج مهمة. ولذلك فإن هذه الدراسة تبحث عن المشاكل التي تواجه صناعة القرنفل في زنجبار مع التركيز بشكل خاص على دور مشاركة القطاع الخاص، واقترح نموذج يدعى: الوقف-الزكاة-المزراعة نموذج سلسلة التوريد (WMSCM) والذي بموجب هذا النموذج من التمويل يتم استخدام الأوقاف وموارد الزكاة لتنمية رأس المال البشري وتوفير قطعة الأرض من وإلى المزارعين. وسوف تكون هناك علاقة بين المزارعين والمؤسسة المالية الخاصة التي يفترض أن يستند في المقام الأول على الشراكة حيث سيتم تقاسم الأرباح والخسائر من قبل الطرفين. والذي سوف يعزز ذلك الإلتزام والتعاون بين الطرفين لضمان نجاح التجارة. وعلاوة على ذلك فإنه من خلال هذا النموذج من التمويل سيتم حل مشاكل ارتفاع نسبة الربا وتكاليف التعهدات والضمانات (رهن) والتي تحد من القدرة المالية للمزارعين والإنتاج الزراعي. إضافة إلى ذلك، فإن هذا النموذج المقترح من التمويل يحتوي على ميزات الاستثمار وتنويع المخاطر بالنسبة لكل من مؤسسات القطاع الخاص والمزارعين، والذي من شأنها أن تؤدي إلى زيادة إنتاج القرنفل بنسب أكبر وتوليد فرص عمل في اقتصاد البلاد. استخدمت هذه الدراسة أسلوب العينة المريحة لجمع البيانات من عينة (جزيرة بيمبا) حيث تم جمع 263 الاستبيانات والتي تمثل 97.4% من الاستبيانات الموزعة. النتائج في هذه الدراسة هي ذات صلة بالحالة الراهنة التي تواجه صناعة القرنفل في الجزر، ومرضية للنموذج المقترح الممتد من هذه الدراسة. ووجدت الدراسة أيضا أن صناعة القرنفل في زنجبار يواجه حاليا تحديات ضخمة وهي: الأسعار، والاحتكار، والافتقار إلى التمويل، عامل تكلفة الإنتاج، وعدم إشراك القطاع الخاص، وفقر المزارعين، وعدم وجود نموذج قابل للتطبيق. وعلاوة على ذلك فالنتائج التي توصلت إليها هذه الدراسة مرضية لمعالجة المشاكل التي تواجه صناعة القرنفل في زنجبار. فعلى هذا النحو فقد وافقت الأغلبية من المستطلعين أن هذا النموذج سوف يصحح الوضع وسيساهم في تحسين الإنتاجية الاقتصادية للمحصول.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science in Islamic Banking and Finance.

Mustafa Omar Mohammed
Supervisor

This research was submitted to the IIUM Institute of Islamic Banking and Finance and is accepted as a fulfilment of the requirement for the degree of Master of Science in Islamic Banking and Finance.

Ahamed Kameel Mydin Meera
Dean, IIUM Institute of Islamic
Banking and Finance

DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for my other degrees at IIUM or other institutions.

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I dedicate this work to my dear and beloved mother Zuhura Habib Suleiman, my father Salim Moh'd Salim, my uncle Adi Habib Suleiman and my brother in-law Kassim Suleiman Moh'd who rendered me all the love, support, motivation and courage during my study. May Allah reward them in this world and hereafter as well.

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LIST OF ACRONYMS & ABBREVIATIONS

ASDP-L	The Agricultural Sector Development Programme – Livestock
ASSP	Agricultural Services Support Programme
CGA	Clove Growers' Association
GDP	Growth Domestic Product
MKUZA I	Mkakati wa kukuza uchumi na kupunguza umasikini Zanzibar (Swahili), i.e. the Zanzibar strategy for growth and poverty reduction, phase I
MKUZA II	Mkakati wa kukuza uchumi na kupunguza umasikini Zanzibar (Swahili), i.e. the Zanzibar strategy for growth and poverty reduction, phase II
OCGS	Office of the Chief Government Statistician
PADEP	Participatory Agricultural Development and Empowerment Project
RGoZ	Revolutionary Government of Zanzibar
SMOLE II	Sustainable Management of Land and Environment Programme, Second Phase
Tshs	Tanzania Shilling (currency)
ZACPO	Zanzibar Clove Growers Organisation
ZATFSD	Zanzibar Agricultural Transformation, Food and Security Development
ZHDR	Zanzibar Human Development Report
ZIP	Zanzibar Investment Policy
ZSTC	Zanzibar State Trading Corporation
MANR	Ministry of Agriculture and Natural Resources
GS	Government Scheme
SIB	Sudanese Islamic Bank

CHAPTER ONE

INTRODUCTION

1.1 AN OVERVIEW OF ZANZIBAR

Zanzibar is a very vital semi-autonomous part of Tanzania which is geographically located in East Africa, bordering the Indian Ocean. Historically Zanzibar was known as an international trade gateway and had been an entrepot (Sheriff, 2001; & Bennett, 1978: 198) between the United States, France and Britain and maintained good trade link with India (Bhagat and Othman, n.d). Zanzibar comprises two sister large islands of Unguja and Pemba and several other smaller isles, some of which are inhabited (ZSGRP, 2007). The islands have been strategically blessed with virgin land and fertile soil with plenty of water resources making it arable and productive for agriculture.

On the other hand, Zanzibar has a young and small but rapidly growing population. The total population of Zanzibar is 1,303,568¹ (this is according to the last and recent census of 2012) with a steady annual growth rate of 3.1% (population and housing census of 2002) where 51% of its population is female while 49% is male¹. Both male and female are involved in agricultural activities as their main economic undertakings and endeavours. Zanzibar population is predominately rural (68%) and youthful (MKUZA II; 2010). Most of the main agricultural activities take place in rural areas where the young population (68%) constitutes the main labour-force².

¹ Speech by his Excellency Jakaya Mrisho Kikwete (Tanzania President) during census and population inaugural ceremony http://www.mjengwablog.com/habari-za-kijamii/item/374-hotuba-ya-rais-kwa-taifa.html#.UOWx0G_qkUU

² See, Zanzibar “Social Security Department International Labour Office “– Geneva January 2010

1.2 ECONOMY OF ZANZIBAR

According to (MKUZA II²; 2010), Zanzibar's national accounts categorise the economy into three major sectors, namely, (i) Industry³, (ii) Service sectors and (iii) Agriculture which is the main economic activity in Zanzibar⁴. Agriculture contributes over 75 percent of the national GDP (speech of the Zanzibar minister of finance Burhan Sadat Haji, 2009/2010). On average, 70 percent of the population depends directly or indirectly on the agricultural sector as their main economic activities (OCGS, 2007). However, the country depends on limited agricultural commodities primarily for exports, namely; clove and seaweed. Clove is a very essential cash crop in the agricultural sector in Zanzibar. Since its introduction, clove as an agricultural cash commodity has been contributing 75 to 90 percent of the foreign exchange earnings in the isles (Sheriff, 2001).

1.3 CLOVE IN ZANZIBAR

Clove occupies a prime position in the history and agricultural system of Zanzibar. It had been a major foreign exchange earner in Zanzibar for the last hundred and fifty years. It can be said that, Zanzibar and clove are inseparable historical twins. The island was once the largest producer of clove in the world, and her economy was based on large incomes thus derived (RGOZ, 2010). Clove was the mainstay of the Zanzibar's economy during the colonial period (Sheriff, 2001). Clove is still a major export in the isles and this has made the agricultural sector to be considered as an engine of the growth of the Zanzibar economy and a priority sector for poverty reduction. Clove accounts for an average of 23% (ASDP-L and ASSP, 2009) as of

³ Manufacturing industries, textiles etc.

⁴ Source: OCGS 2007, extracted from Zanzibar Agricultural Transformation For Sustainable Development, 2010-2020 For Agricultural Productivity, Food Security and Sustainable Livelihood

2006 and 32%³ as of 2010 of the Gross Domestic Product (GDP), providing 75% of foreign exchange earnings. Clove farming is a very important traditional export as well as the main contributor to GDP. Official statistics (OCGS, 2007) show that clove contributed an annual average of about Tshs 6.5 billion to smallholder farmers who sold their clove to ZSTC between 2002 and 2006, and Tshs 71 billion in 2011 (USD 44,140,503.575 as of 09/02/2013) (Ibid). Thus, clove contributes significant income that surpassed the contributions of all other economic activities combined.

1.3.1 Key players in clove production

The key players in clove production are: (1) shamba i.e. the clove field/farm (2) the farmers (3) the middlemen and (4) the government agency which is ZSTC. These four key players are explained below:

1. Shamba is a piece of land say acre (s) without which cloves trees cannot be planted and/or grown hence it is very important.
2. Famers from the second key player in the clove industry. They are owner-producers who sell their produce i.e. clove to ZSTC and sometimes there are farmers leasing their shamba to other people.
3. Another player is the middlemen i.e. *wachumaji na wakodishwaji* (clove pickers and renters). This group comprises clove pickers and renters of the clove field i.e. shamba. The former i.e. *wachumaji* are the people hired by the farmers to pick clove from its stalks and dry them while the latter i.e. *wakodishwaji* are the ones who lease clove shamba from the farmers to earn for themselves clove revenue.
4. The last player is the Zanzibar State Trade Corporation (ZSTC), a government agency whose main function is to purchase clove from the

local farmers at different grades and prices and sell them abroad (export), thus deriving government's revenue.

1.4 CHALLENGES FACING THE CLOVE INDUSTRY IN ZANZIBAR

Clove in Zanzibar is a lucrative cash crop and has earned good economic reputation to the islands. However, this part of the agricultural sector continues to face numerous challenges namely; price differentials, lack of access to funding and financing, poverty, production cost, monopoly, lack of involvement of the private sector, lack of logistics and lack of a viable model in the clove industry. These challenges have caused the decline of the clove productivity. For example, since 1964, the ZSTC has been the government monopoly (Sheriff, 2001 & Martin, 1991). Furthermore, due to the high cost of production farmers left their shamba idle (ZCCFSP, 1995). These challenges compelled the Revolutionary government of Zanzibar (RGoZ) to undertake several remedial measures. For example, the RGOZ increased the price of clove in the domestic market; it also provided incentive packages and clove seedlings to farmers (ZCCFSP; 1995 & MKUZA II, 2010).

Despite all these measures taken by the government to address the major challenges facing the clove industry in Zanzibar, productivity in the clove industry continues to decline. For example, over the last five decades the clove productivity has decreased from an annual average of about 16,000 tons in 1970's to a current average of between 1,500 and 3,500 tons in the 2000s (ZATFSD, n.d. & OCGS, 2010). This raises a few pertinent questions. Is the decline in productivity of the clove industry because the government measures are ineffective? Is the decline due to other related challenges that have not been documented yet? Is the decline attributed to the failure of the existing agricultural models in the clove industry?

1.5 PROBLEM STATEMENT

Clove in Zanzibar is a major cash crop and has been the principal source of export earnings hence making lucrative profits⁵ since its introduction to the isles (Martin, 1991). Clove industry is the second major agricultural sector through which the Revolutionary Government of Zanzibar derives its national revenue (Sheriff, 2001). However the industry has been experiencing a drastic decline over the last five decades. Studies show that, the decline has been mainly caused by common problems namely; price differentials, lack of fund, the monopoly of the Zanzibar Trading Corporation (ZSTC), lack of logistics, lack of involvement of private sectors and poverty. Several measures were taken to address these challenges such as, increase in price⁶ of clove, restructuring of the ZSTC, distributing incentive packages (MKUZA II and ZACPO, 2010) and seedlings to farmers⁷. Despite all these measures, therefore, one wonders whether the problems identified by the previous studies are the real problems facing the clove industry. There is also a concern whether the government measures undertaken to solve the problems in the clove industry have been effective. Moreover, one is tempted to assume whether the ineffectiveness of all remedial measures is due to the ineffectiveness of the existing models being used for financing the clove industry. Hence the present study tries to fill these research gaps by conducting an empirical research to primarily investigate the underlying causes for the persistent decline in the clove industry in Zanzibar despite all the necessary measures undertaken by the Zanzibar government to remedy the situation.

⁵ <http://www.essortment.com/zanzibar-19th-century-62112.html>

⁶ <http://www.dailynews.co.tz/home/?n=21391>

⁷ Jarida la kilimo, toleo la nane, Oktoba-Disemba, 2011, ISSN: 1821-8113

1.6 RESEARCH OBJECTIVES

The main objectives of this study are:

- 1.6.1 To examine the challenges facing the clove industry in Zanzibar
- 1.6.2 To investigate the relevance and effectiveness of the existing model in overcoming those challenges mentioned in 1.5.1.
- 1.6.3 To develop Waqf-Zakat-Muzara'ah-Supply Chain Model (WZMSCM) for the clove industry in Zanzibar
- 1.6.4 To test the validity of “WZMSCM” model for the clove industry in Zanzibar.

1.7 RESEARCH QUESTIONS

- 1.7.1 What are the current and existing clove models in Zanzibar?
- 1.7.2 Are these clove models effective?
- 1.7.3 Are there other alternative models for the clove industry in Zanzibar that can be more viable than the existing clove models?

1.8 SIGNIFICANCE OF THE STUDY

This study will have a great significance in the following areas:

This first area that this study will contribute is on knowledge. This study will have a great impact on: First, stock of literature currently available in the clove industry in particular; because as it was briefly shown in the previous section and it will be comprehensively discussed in the next chapter that, literature in the clove industry in Zanzibar is very scanty hence this study will enrich the available literature in the clove industry in Zanzibar. Second, this research adapts and extends the model proposed by Larbani et al. (2011). Larbani et al. (2011) discussed how zakat resources

can be used along with muzara'ah financing together with supply chain model i.e. logistics comprehensively in their model which was termed as Zakat-Muzara'ah-Supply Chain Model (ZMSCM). In addition to the elements proposed by Larbani et al. model, this study will have additional elements namely; Waqf and private institutions. Therefore, this will contribute to the existing micro-enterprises literature. Thirdly, the proposed model in this study will have a practical impact on the clove industry in Zanzibar. The model proposed by Larbani et al. (2011) had been practically tested therefore; the present study is also expected to contribute significantly in the clove industry in Zanzibar.

Another contribution from the present study goes to the stakeholders. Therefore, the three categories of people will derive benefits from this study. The first group is investors. The private institution has been incorporated in this study which can be a financial institution or any investor who wishes to invest in the clove industry. An investor can from the proposed model participate in the clove industry by buying and selling clove from/to any market whether locally or abroad. The second group which will benefit from this study is the farmers. Farmers will also derive the benefit significantly from this model because they can now sell their clove to any market they feel they are expected to get a reasonable price for their clove produce. In addition to this, farmers will benefit as well, because by incorporating, private institutions, Waqf, zakat, muzara'ah and supply chain model. Every element in this model plays its own unique role in such a way that farmers benefit from each of them as will be discussed comprehensively and specifically in chapter three. The third group that will have an impact from this study is the policy makers. As it was briefly mentioned and it will be discussed in the coming chapter that, the clove industry in Zanzibar lacks a viable model for financing which has caused the existing problems in

the clove industry to remain unsolved. One of these problems is the monopoly and the structure of the Zanzibar State Trading Corporation (ZSTC). Therefore, the recommendations proposed in this model will help the policy makers to restructure the current and existing model for the clove industry in Zanzibar hence adopt the proposed new, viable and an alternative model for the clove industry in Zanzibar.

1.9 SCOPE OF THE STUDY

The scope of this study is to propose a new model for the clove industry in Zanzibar by adapting a model proposed by Larbani et al. (2011). The field was conducted on Pemba Island where the clove is produced abundantly. The sample of this study was taken from Pemba island population. This research has used a convenience sampling method and about 263 questionnaires were collected to solicit stakeholders' opinions.

1.10 ORGANIZATION OF THE STUDY

This research is organized in six chapters which are: Chapter one which introduces the background of the study and briefly mentions the challenges facing the clove industry in Zanzibar. The following chapter two which examines and discusses the challenges from the studies done on the clove industry in Zanzibar and other related literature contributing to this research hence a review of literature. Chapter three illustrates the conceptual framework of the idea for developing and proposing the Islamic microenterprise model to the clove industry, suggesting its justification and why it is suitable and important to adopt this model in the clove industry. Chapter four explains the methodology and methods that were used to conduct this research and how the data were collected. Chapter five discusses the findings of the research generated from

the questionnaires distributed. Finally the sixth chapter provides the conclusion and recommendation for further study in this area.

CHAPTER TWO

2.1 INTRODUCTION

The objectives of this study are to discuss the challenges facing the clove industry in Zanzibar and to investigate why productivity in this industry continues to decline despite the numerous government measures taken to address these challenges.

As will be shown that, a review of the literature shows that not all the challenges facing the clove industry have been identified and empirically investigated. Furthermore, evidences show that, the failure of government measures to overcome the challenges facing the clove industry is related to the ineffectiveness of the existing models used for financing the industry. Yet, the literature has remained silent about developing a viable and alternative model.

2.2 LITERATURE REVIEW

Literature in the clove industry in Zanzibar is very scanty, however the few available gives the general situation of the clove industry in Zanzibar (ZACPO, 2010). Generally, Zanzibar economy (70%) depends on the agricultural sector which is dominated by the clove industry (Bakari, 2001; RGoZ, & MKUZA II, 2010). This part of the agricultural sector since its introduction in the 18th century (Martin, 1991 & Sheriff, 2001) was the source of the national revenue thus deriving earning of about 90% of the foreign exchange (OCGS, 2002; OCGS, 2010 & Sheriff, 2001). Agricultural sector (clove industry) in Zanzibar employs 80%. Despite this contribution, the sector has been facing recurring and common problems namely; price differentials, lack of access to funding, poverty, production cost, monopoly, lack

of involvement of the private sector, lack of logistics and lack of a viable model for financing the clove industry. These problems slowed down the productivity of the clove (OCGS, 2002; MKUZAII and ZACPO, 2010). The following sections will elaborate on those challenges facing the clove industry in Zanzibar.

2.2.1 Challenges facing clove industry in Zanzibar

Clove in Zanzibar is a lucrative cash crop and has earned good economic reputation to the islands. However, this part of the agricultural sector continues to face numerous challenges namely; price differentials, lack of access to funding, poverty, production cost, monopoly, lack of involvement of the private sector, lack of logistics and lack of a viable model for financing the clove industry in Zanzibar. These challenges are the sources of decline of clove productivity. For example, since 1964 the ZSTC has been the government monopoly (Saleh, 2011; Sheriff, 2001 & Martin, 1991). Furthermore, due to the high cost of production farmers left their shamba idle (ZCCFSP, 1995). These challenges are categorically divided into two namely: i) internal challenges in the industry ii) and external challenges for the industry.

2.2.1.1 Internal challenges in the clove industry

The key players of the clove industry in Zanzibar are; shamba, farmers, middlemen, and the ZSTC as mentioned earlier. These players are faced with several recurring and common challenges including the issue of price, the issue of high cost of production and lack of funding and financing. Each one of these issues will be comprehensively discussed in the next sections.