



REVOLUTIONARY GOVERNMENT OF ZANZIBAR

Zanzibar Treasury Sukuk1 Limited

RATING ACTION ANNOUNCEMENT

17 February 2025



RATING ACTION

SAR Sovereign Rating Model Creditworthiness Score 589/1000.



On 17 February 2025, Sovereign Africa Ratings (SAR) assigned local currency long-term and short-term issuer credit ratings of BBB+ and B+, respectively, to the Revolutionary Government of Zanzibar (in its capacity as the Sukuk Originator). The outlook on the ratings is stable. Concurrently, SAR has assigned local currency long-term and short-term issuer credit ratings of BBB+ and B+, respectively, to the Zanzibar Treasury Sukuk1 Limited's proposed Sukuk issuance of up to TZS 1,115,000,000,000.00.

Local Currency Ratings:			
Date	Rating Category	Rating	Outlook
17 February 2025	Long-term	BBB+	Stable
17 February 2025	Short-term	B+	Stable

Sukuk Rating Rationale

SAR has assigned the Zanzibar's Tanzanian Shilling (TZS) denominated Sukuk trust certificates, issued through The Zanzibar Treasury Sukuk1 Limited¹ (in its capacity as the Sukuk Issuer/Trustee/SPV), BBB+ and B+ long-term and short-term ratings, respectively. The outlook is stable. The Sukuk's ratings are fundamentally linked to Zanzibar's creditworthiness. This connection underscores the importance of Zanzibar's overall financial health considering that the issuance is an asset-based Ijarah Sukuk. Some important features of the Sukuk include the following:

- In case of a default by the Sukuk Originator, the Sukuk investors will have recourse to the Revolutionary Government of Zanzibar guarantee and assurance which is the Originator and Obligor for the Sukuk certificates. Furthermore, this Sukuk has been secured by bond

¹ Zanzibar Treasury Sukuk1 Limited, a government entity, registered as a Limited liability company incorporated in the Zanzibar Islands under the Companies Act No. 12 of 2023. The Issuer/Trustee/SPV has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents to which it is a party as the Special Purpose Vehicle (SPV) of the Revolutionary Government of Zanzibar.

performance guarantee from ZIC Takaful Company Limited for the coupon payments ensuring that there will be no periodic returns payment failure.

- To prepare for the redemption amounts, the government will open a fixed-deposit Mudaraba profit-generating account and an Escrow/Sinking Fund account at a Shari'ah-compliant commercial bank.
- The Sukuk documentation also incorporates a negative pledge wherein the Government has agreed in the Purchase Undertaking that for so long as any Trust Certificate remains outstanding, it will not create or permit to subsist any Security Interest upon the whole or any part of its present or future assets or revenues to secure any Relevant Indebtedness or Relevant Sukuk Obligation, or any guarantee or indemnity in respect of Relevant Indebtedness or a Relevant Sukuk Obligation, of any Person.

Key Rating Drivers

Zanzibar's demonstrated ability to generate revenue provides a solid foundation for its debt repayment capacity, directly supporting the Originator's creditworthiness. This revenue generation capacity, coupled with prudent debt management practices, reinforces the government's ability to meet its financial obligations. Furthermore, effective control for inflation and a relatively stable local currency contribute to economic stability and ensure long-term sustainability, benefiting Sukuk holders.

Several structural features of the Sukuk enhance investor protection. The negative pledge provision restricts the Originator from securing its other debt with assets unless the Sukuk obligations are equally secured, prioritising Sukuk holders' claims. Restrictions on the Issuer/Trustee/SPV's ability to merge or sell assets ensure the continuity of the Sukuk's underlying obligations. Additionally, the Originator's right to substitute assets (with conditions) offers flexibility while maintaining the asset pool's value and integrity.

Finally, defined protocols for total loss and revocation events provide clarity and mitigate risks. The total loss event protocol, including lease termination and redemption via insurance proceeds, protects investors in case of unforeseen circumstances. The revocation event protocol outlines a clear process for redemption and trust dissolution.

Zanzibar's ratings are underpinned by several key factors, including:

- **Strong Revenue Performance:** General Government Revenue (% of GDP) averaging a healthy 23.1%.
- **High Growth Rate:** GDP growth rate is projected to average 6.7% between 2025 and 2026.
- **Moderate Debt Levels:** Gross government debt (% of GDP) 3-year average of 19.24%.
- **Low Inflation:** A low and stable inflation rate averaging 4.5%.
- **Strong Debt Repayment History:** A long and consistent debt repayment record, with no default or restructuring events.
- **Adequate Foreign Currency Reserves:** Foreign currency reserves (% of total external debt) at a comfortable 15.78%.
- **Stable Socioeconomic Indicators:** Consistent reduction in the unemployment rate, moderate and improving HDI, and increasing energy generation and availability (population with access to electricity).

Rating Sensitivities:

The Sukuk rating is sensitive to Zanzibar's debt composition. Currently, Gross Foreign Currency Denominated Debt represents 69.73% of GDP, while Gross Local Currency Denominated Debt accounts for 30.26%. Significant shifts in this balance, particularly an increase in foreign currency-denominated debt, could negatively impact the rating due to increased exposure to exchange rate fluctuations and external economic pressures.

Income inequality, as measured by the Gini coefficient averaging 0.43, also presents a sensitivity. While not a direct financial metric, worsening income inequality can create social unrest and political instability, which in turn can affect economic performance and government finances. Progress in addressing income inequality through inclusive economic policies and social programmes could positively influence the rating over time.

A demonstrated commitment to fiscal prudence, leading to a sustained balance in the debt-to-GDP ratio, would be viewed favourably. Conversely, fiscal deterioration, such as significant and sustained increases in the debt-to-GDP ratio due to widening deficits or economic shocks, could trigger a negative rating action.

Similarly, improvements in governance, transparency, and accountability, leading to greater institutional effectiveness, would be viewed positively. Conversely, any weakening of institutions, including erosion of governance standards, increased corruption, or declining effectiveness, could negatively impact the ratings.

Analytical Considerations:

SAR has considered various factors in arriving at these ratings, including Zanzibar's macroeconomic performance, fiscal position, institutional framework, the economic contribution of natural resource extraction and beneficiation (including tourism), infrastructure development, and external environment exposure risk. The ratings also reflect SAR's assessment of the potential impact of climate change and other environmental factors on Zanzibar's economy.

Rating Methodology

[Sovereign Rating Methodology: Governments/Sovereign States](#)

[Sukuk Rating Methodology](#)

Rating History

Initial Rating Date	17 February 2025	Current Rating Date	17 February 2025
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Solicitation Status

Solicited credit rating review. The rating assignment was conducted at the request of the rated entity/issuer or a related third party.

SAR confirms that the credit rating has been disclosed to the rated entity/issuer or a related third party.

Participation Status

The Issuer participated in the rating process through the provision of information and data, comments, factual corrections, and the assessment of inadvertent inclusion of confidential information.

Rating Definitions

[SAR Rating Definitions](#)

Information and Data

SAR confirms that data and information adequacy was sufficient to conduct this credit rating. Data and information from reputable sources were used during the credit rating process. The quality of the data and information has been validated via cross-referencing against various data sources for consistency.

Glossary of Terms

Term	Definition
The African Continental Free Trade Area (AfCFTA)	The African Continental Free Trade Area (AfCFTA) is a landmark trade agreement among African countries aimed at promoting intra-Africa trade and economic integration. It was established to create a single market for goods and services on the continent, removing trade barriers and fostering economic cooperation among African nations.
Credit Rating Action	Any of the following is a credit rating action: <ol style="list-style-type: none"> 1. The process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process. 2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating. 3. A change to a credit rating (i.e., upgrade or downgrade). 4. Placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., credit rating confirmation). The assignment of, or modification of, an outlook linked to a rated entity or several credit ratings. 5. A credit rating affirmation. 6. A credit rating withdrawal.
Current account balance	Exports of goods and services minus imports of the same plus net factor income plus official and private net transfers.
Employee(s)	An employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.
Foreign Direct Investment (FDI)	Direct investment conducted by non-residents.
Gross domestic product (GDP)	The total market value of goods and services produced by resident factors of production.
GDP per capita	GDP is divided by population.
Issuer	An issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special-purpose vehicles, companies, governments, and local governments.
Lead Rating Analyst (Lead Analyst)	Lead Rating Analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating.
Manager(s)	Managers (s) are employees who oversee the management of personnel.
Net general government debt	General government debt minus general government liquid financial assets.
Net external liabilities	Total public and private sector liabilities to non-residents minus total external assets.
Outlook	An outlook is an opinion regarding the likely path an issuer's rating could take over the medium term.
Prohibited Recommendation	Any proposals or recommendations made either formally or informally regarding the design of financial instruments on which a CRA is envisioned to issue a credit rating may be made by an employee to a rated entity or its agent to improve the rated entity's rating. This includes suggestions about the rated entity's corporate or legal structure, assets, liabilities, or activities.
Rated Entity(ies)	A rated entity is any entity rated by a credit rating agency (CRA).
Review	A review is an indication that a rating may change in the not-too-distant future.

SAR	Sovereign Africa Ratings (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.
Special Drawing Rights (SDR)	The SDR is an international reserve asset that was created by the International Monetary Fund in 1969 to supplement its member countries' official reserves.
Security	Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (derivative), and warrants.
Total Debt Service (TDS)	Total Debt Service (TDS, current US\$) refers to the total amount of money paid by a country to cover the principal and interest payments on its external debt. External debt includes loans and financial obligations owed to foreign creditors, such as other governments, international organisations, or private entities, by the country in question.
TZS	Tanzanian shilling.



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