

Economic Transformation in Africa from the Bottom Up: Macro and Micro Evidence from Tanzania by Josaphat Kweka

At 4.1 percent per year, Tanzania's labor productivity grew more rapidly between 2002 and 2012 than at any other time in recent history. More than three quarters of this labor productivity growth is accounted for by structural change. Employment growth has also been strong keeping up with population growth at roughly 2.2 percent per year. However, the bulk of the employment growth – 88.6% - has been in the non-agricultural and largely informal private sector. Using Tanzania's first nationally representative survey of micro, small and medium sized enterprises - we show that these informal firms contributed 0.5 percentage points to annual labor productivity growth through structural change. However, most of this labor productivity growth came from a small group of firms - 10% of the total – and this small group of informal firms has annual average labor productivity that is 80% higher than average economy-wide productivity in manufacturing. We also show that this small group of informal firms has the potential to contribute up to 1.3 percentage points to annual labor productivity growth. We conclude with a discussion of nascent but innovative programs in Tanzania designed to target productivity and employment growth among these more productive firms including Sharia compliant lending.