

REPOA Brief



Dynamics of Service Sector in Tanzania and its role in structural transformation

By Asiya Maskaeva & Mgeni Msafiri

Key Messages

Economic structural reforms implemented since the late 1990s have positively impacted the expansion of the service sector.

Growth of services, especially in finance, insurance, and ICT sectors, has been driven by FDI and trade liberalization.

Tanzania consistently records service trade surpluses, underscoring competitive strengths, particularly in tourism and regional transportation.

Limited diversification of trade in services, however, constrains the expansion of high-productivity sectors, such as finance, insurance, and ICT, which are critical for transitioning to a more productive economy and achieving a meaningful structural transformation.

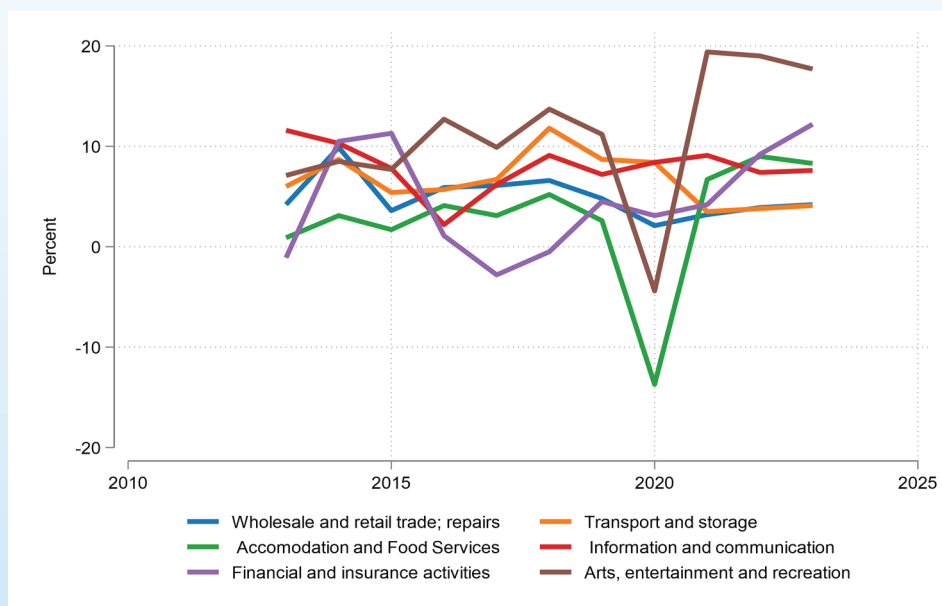
Introduction

The service sector in Tanzania has become increasingly dominant in the country's economic landscape, significantly contributing to GDP and offering potential avenues for inclusive and sustainable economic growth. This policy brief examines the evolution of the service sector, identifies key opportunities, and presents econometric results on the drivers of the service sector expansion for the period 1990 -2023 obtained from a time series Autoregressive Distributed Lag Model (ARDL). The brief also recommends actionable strategies to capitalize on the service sector potential for economic growth and structural transformation. By focusing on high-growth sub-sectors, enhancing trade facilitation, promoting innovation, and investing in human capital, Tanzania can unlock the full potential of its service sector, driving sustainable and inclusive development.

Findings: Evolution of the Service Sector

From 2000 onwards, Tanzania's service sector has expanded notably, increasing its share of value-added to GDP from 40.6% in 2000 to 48.3% in 2023. Despite a temporary slowdown during the COVID-19 pandemic, the sector rebounded, achieving an annual growth rate of approximately 5.8% by 2023. Wholesale and retail trade, repairs, transport and storage, public administration and defence, finance and insurance, and real estate significantly contribute to the country's GDP. Nevertheless, key growth areas within the industry include arts, entertainment, and recreation, finance and insurance, and accommodation and food services (Figure 1). Leveraging opportunities such as job creation for youth in tourism, music, film, and fashion, fostering export of creative products and travel services, as well as integrating arts into tourism packages to boost tourist expenditures can increase Tanzania's regional competitiveness and further promote growth.

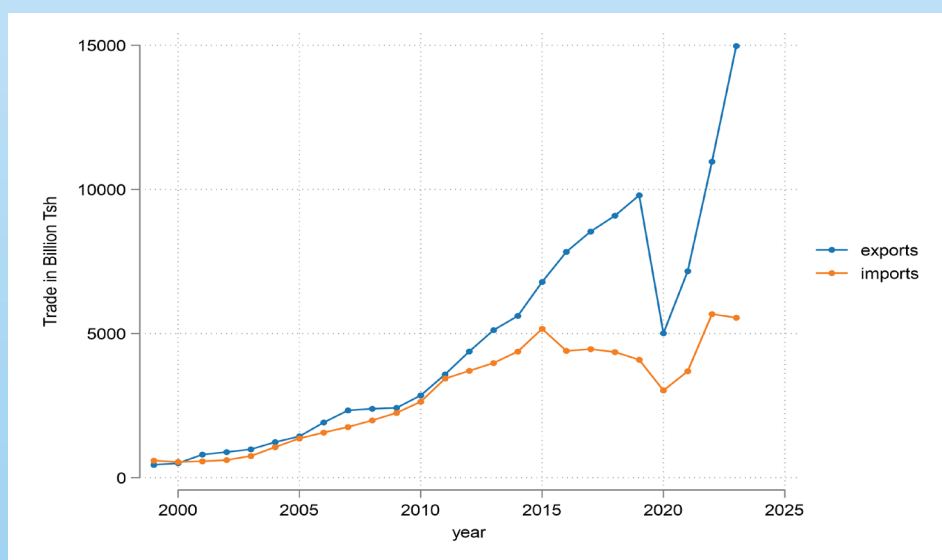
Figure 1: Average Annual Rates of Growth of Services sub-sectors GDP at 2015 prices



Source: National Bureau of Statistics

Since 2001, Tanzania has consistently recorded a services trade surplus, which has increased over time, with a moderate setback during the COVID-19 period, due to the slowdown in travel and tourism activities. In 2023, the service exports reached an all-time high of TZS 14,973 billion (approximately USD 6.3 billion), a 36.7% increase from 2022 (Figure 2). This growth presents opportunities for trade, investment, and job creation in the expanding services sector for inclusive growth and structural transformation.

Figure 2: Trade in services, 1999 – 2023



Source: Bank of Tanzania

Tanzania's services trade reflects global patterns, with transportation, travel, and other business services dominating. Over the past two decades, service export composition has slightly changed, travel and transportation still dominated in 2023, constitution 55.1% and 39.6% of exports, respectively. In contrast, service imports have shifted notably, with transportation's share rising to nearly one-third and travel services falling from 52.2% to 19.5% between 1999 and 2023. Overall, the sector remains highly concentrated in travel and transportation, similar to trends in other developing and transition economies, whereas developed economies specialise in higher-value-added services such as finance (Mashayekhi & Antunes, 2017). Emerging opportunities lie in business services, insurance, and ICT-related services. Diversifying into these

higher-value-added areas could reduce vulnerability to trade shocks, create quality jobs, and support a shift toward higher-productivity sectors.

Drivers of Service Sector Growth

Economic development is characterized by structural changes in the economy, under which the emerging dynamic sectors grow while traditional industries decline. This transformation involves a reallocation of resources across sectors, influenced by differences in productivity growth and varying income elasticities of demand. In Tanzania, sectoral shifts have led to a steady rise in the service sector's share of Gross Domestic Product (GDP), surpassing agriculture, whose contribution fell from 44.1% in 2000 to 28% in 2023. Although this trend reflects progress toward structural transformation, the service sector remains less productive overall, mainly due to its dominance by informal, low-wage, and insecure forms of employment.

Econometric estimates suggest that possible factors driving the growth of the service sector include trade liberalization and foreign direct investment (FDI) inflows. Trade liberalization, driven by policies such as the removal of export licensing and ICT-friendly reforms (e.g., duty exemptions on computers) during the 1990s, enhanced private sector competition, leading to an expansion of service shares in GDP (Kanaan, 2000). Similarly, rising FDI inflows, especially in finance, insurance, information and communication, accommodation, and food services, have significantly contributed to a rise in the share of services in the country's GDP (BOT, 2023). By 2001, data on major foreign affiliates in Tanzania indicated that services were the second-largest sector for FDI in the country, after mining, having surpassed the manufacturing sector (UNCTAD, n.d.). As of 2022, FDI inflows remained concentrated in mining and quarrying, finance and insurance, and manufacturing, together representing 88 percent of total flows. Government initiatives aimed at enhancing financial inclusion and ICT developments have further promoted higher FDI inflows in service sectors, which have fuelled the overall economic growth.

However, domestic consumption of services has remained low in Tanzania notwithstanding rising income levels. This is mainly due to the high proportion of household spending allocated to food (nearly 60%) and a growing preference for investing in fixed assets rather than services such as health, education, water, and transportation, which are essential for stimulating service sector growth (NBS, 2019; BOT, 2004). In addition, capital accumulation, as reflected in Gross Fixed Capital Formation (GFCF), has primarily favoured capital-intensive sectors, such as construction and manufacturing, including large infrastructure, with limited absorption in service sectors due to their less capital-intensive nature. While higher labour productivity should theoretically boost a sector's contribution to GDP, its impact on the service sector remains minimal in Tanzania. This is mainly due to the dominance of informal, low-skilled employment, particularly in the wholesale and retail trade sector, where productivity gains are limited.

Conclusion

Despite challenges posed by the rapid expansion of informal services, the growing service sector offers substantial opportunities to diversify the economy beyond traditional agriculture, promote inclusive growth, and drive structural transformation. With strategic resource allocation and the reduction of regulatory barriers, Tanzania can unlock the full potential of the service sector and convert economic growth into inclusive and sustainable structural transformation. This brief proposes the following policy actions to capitalize on the service sector's growth for inclusive and sustainable development:

- Strengthening diversification of Tanzania's service trade by ensuring that trade policies prioritize diversification into higher-value-added services, such as ICT, finance, and insurance, to enhance Tanzania's competitiveness and foster a more productive structural transformation.

- Increasing government budget allocations toward human capital development to promote innovation, strengthen scientific capabilities, and enhance skills training tailored to high-growth service sectors such as finance, insurance, and ICT.
- Continue upgrading and expanding port infrastructure and regional transport networks, while simplifying customs procedures and improving logistics systems to boost Tanzania's competitiveness in the logistics services.
- Intensifying international marketing efforts to enhance Tanzania's global tourism profile and attracting a more diverse range of visitors.
- Expanding investments in digital infrastructure, such as high-speed internet and data centres, to enhance productivity across various economic sectors.

REPOA Resource Centre

Our Resource Centre provides a good environment for literature research, quicker, easier access and use of knowledge and information. It has full internet connection for online library to support Master's & PhD candidates, researchers and academicians with free access to latest journals, books, reports, webcasts, etc.

Tuesday to Thursday from
10:00am to 1:00pm,
2:00pm to 05:00pm.

Friday
10:00am - 01:00pm

The online library <https://www.repoa.or.tz>
opens 24 hours a day.



REPOA HQs

157 Migombani/REPOA streets,
Regent Estate, PO Box 33223,
Dar es Salaam, Tanzania.
Tel: +255 (22) 2700083
Cell: +255 78 455 5655
Website: <https://www.repoa.or.tz>
Email: repoa@repoa.or.tz

Branch Office

2nd Floor Kilimo Kwanza Building 41105,
Makole East, Kisasa,
Dodoma, Tanzania

@REPOA 2025

Findings and opinions expressed are those of the author(s) and do not necessarily reflect the views or policies of REPOA and any of her partners.