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REPOA Brief

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Business Environment Reforms and Structural Transformation in Tanzania

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Key Messages

- Business environment reforms have not driven the long-sought structural transformation.
- Economy-wide productivity growth is mainly determined through within-sector growth, with labor reallocation from low-to high-productivity sectors playing a limited role.
- Tanzania's development challenge is not only about accelerating growth, but is more about boosting labor productivity and transforming the structure of the economy.
- Although economic freedom is positively associated with labor productivity growth within sectors, human capital and technology adoption support structural transformation, although more efforts are needed.

Introduction

Tanzania has implemented wide-ranging business environment reforms since the mid-1980s, transitioning from a state-controlled to a market-oriented economy through measures such as trade liberalization, privatization of state-owned enterprises, and financial sector reforms. In the 2000s, Tanzania deepened its efforts through targeted policy, institutional, and regulatory initiatives designed to strengthen private sector participation. Notable programmes include Business Environment Strengthening for Tanzania (BEST) and continued financial sector reforms, which contributed to improving the investment climate and supporting economic growth. Consequently, the country has witnessed steady growth in domestic and foreign investment, as shown in Figure 1. More recent initiatives include the Blueprint for Regulatory Reforms (2019), the Tanzania Electronic Single Window System (TeSWS), and digital payment platforms such as the Government Electronic Payment Gateway (GePG), which have further streamlined administrative processes. These reforms have reduced bureaucratic barriers, improved efficiency, and lowered the costs of doing business in the country.

Figure 1: Tanzania public and private investment (in percent of GDP)

Source: Author's Own Compilation Based on Various Data Sources

Recent assessments of Tanzania's business environment have indicated tangible progress. Fees and permit application timelines were reduced, with average processing times declining from 14 days to approximately 3 days for most permits. The introduction of electronic systems has further shortened these times, reducing bureaucratic red tape and corruption. Furthermore, overlaps in mandates between regulatory authorities such as the Tanzania Food and Drug Authority (TFDA) and the Tanzania Bureau of Standards (TBS) have been successfully addressed.

However, despite these sectoral improvements, several systemic challenges persist. While coordination within ministries is relatively strong, weak collaboration across ministries continues to hinder effective reform implementation. In addition, fragmented and non-interoperable electronic systems create inefficiencies in applications, data sharing, and reporting, despite partial integration through platforms such as the Government Enterprise Service Bus (GovESB). Technical and institutional constraints further limit effectiveness. Frequent system downtimes and slow performance disrupt business operations, while one-stop service centres often face capacity and staffing shortages. This policy brief presents an assessment of whether Tanzania's business environment reforms over the past three decades have translated into productivity-enhancing structural transformation of the economy. Utilizing shift-share decomposition and econometric analysis for the 1990–2018 period, this brief presents stylized facts about structural transformation in Tanzania and analyses the impact of reforms on productivity growth and labour reallocation across sectors (i.e., structural transformation).

Structural Transformation in Tanzania

Data from the UNU-WIDER Economic Transformation Database (ETD) show that economy-wide productivity measured as value added (in thousands 2015 TZS) per worker grew steadily from 1990 to 2018 (Table 1).

In Tanzania, the industry (mining, utilities, and manufacturing) and construction sector record the highest labour productivity, followed by services, while agriculture has the lowest. Although labour productivity in the services sector declined between 2000 and 2010, it subsequently experienced steady growth.

Table 1. Value added per worker (in 2015 TZS) 1990–2018

Sector	1990	1995	2000	2005	2010	2015	2018
Agriculture	974	1,125	1,255	1,381	1,522	1,853	1,995
Industry & construction	8,207	11,620	16,598	17,397	16,446	18,111	24,396
Services	8,445	8,493	9,218	7,614	6,814	7,293	8,731
Whole Economy	2,117	2,360	2,796	3,141	3,459	4,297	4,983
Productivity ratio per worker by sector							
Agriculture	0.04	0.03	0.03	0.03	0.04	0.04	0.03
Industry & construction	0.87	1.21	1.58	1.93	1.97	1.98	2.27
Services	0.48	0.34	0.27	0.20	0.19	0.19	0.17

The second panel in Table 1 shows that since the 1990s, the average productivity per worker in agriculture, which has consistently been the largest employer since independence, produces only three to four percent of what an average worker in other sectors produces. In contrast, those working in industry are almost twice as productive as the average workers in other sectors, and this gap has steadily increased over time.

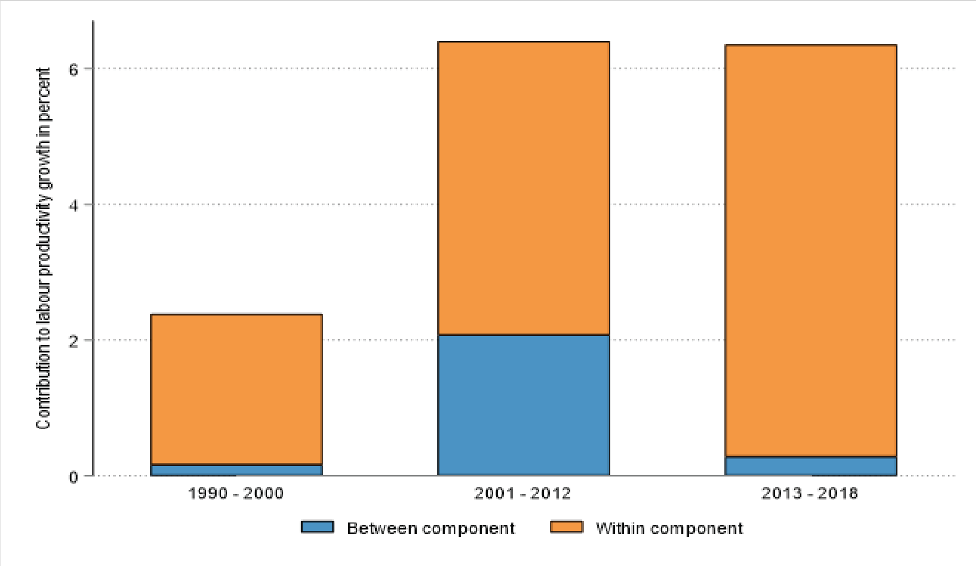
In terms of structural transformation, the challenge becomes evident from the fact that the sectors with the highest average productivity per worker since the 2000s, namely, real estate, financial services, utilities, mining, construction, and business services, account for approximately seven percent of the labour force. However, sectors with the largest share of the labour force, namely, agriculture and trade services, have the lowest productivity, based on computations from the ETD database. Persistent low productivity growth in the agriculture is a major challenge and hindrance to structural transformation in Tanzania.

Recent national statistics show that the share of agriculture employment has declined from 60.4 percent in 2020/21 to 54.2 percent in 2024. By contrast, the share of employment in the service sector increased from 30.3 to 35.5 percent over the same period. In addition, industry has attracted an additional one percent of the workforce from 9.3 percent in 2020/21 to 10.3 percent in 2024. However, most of the labour force leaving agriculture has largely gone into informal trade, transport, personal services, and small retail rather than into modern, labour-intensive manufacturing sectors. This pattern weakens aggregate productivity gains from structural change.

Labour Productivity Decomposition Results

Figure 2 presents the decomposition of Tanzania's labour productivity growth into within-and between-sector productivity growth. Between 1990 and 2000, economy-wide productivity growth was mainly driven by within-sector efficiency. However, the contribution of the structural change component (the between-sector component) increased during 2001 – 2012, implying that much of the observed labour productivity growth was due to labour reallocation across sectors. This finding is similar to the findings in most studies on African countries' structural change. During this period, we observed a shift in labour from agriculture towards informal service sectors. However, this contribution decreased between 2013 – 2018, similar to the pattern observed during 1990 to 2000, indicating a less relevant role of structural change in improving labour productivity in Tanzania.

Figure 2: Average labour productivity growth decomposition



Source: Author's calculations. Note: This graph decomposes year-by-year labour productivity into within and between-sector contributions

Impact of Business Environment Variables on Productivity growth and Structural Transformation

It is acknowledged that an improved business environment is associated with the structural change in the economy, driven by high economic growth. Structural change generates static gains when there is an increase in labour productivity in the economy, which results in workers being employed in more productive sectors. In addition, dynamic gains may occur over time because of higher skills and technology upgrading among workers. Thus, productive structural change involves both within-sector productivity growth and a shift of labour from lower to higher-productive sectors, leading to the creation of decent jobs.

Econometric analysis revealed that business environment reforms, including regulatory changes in business, finance, and labour markets, as well as BEST reforms, have had a limited significant impact on structural transformation in Tanzania. This implies that past reforms have not significantly contributed to the reduction of regulatory barriers to allow flexible labour movement towards high-productivity sectors. Similarly, they have not facilitated an increase in labour productivity in low-productivity sectors, particularly the informal service sector, which absorbs migrant labour from agriculture.

Unlike regulatory reforms, investments in education and technology adoption positively and significantly influence structural transformation. Human capital improves workers' ability to transition between sectors, whereas technological adoption enhances productivity and enables firms to expand into higher-value activities.

Conclusion and Policy Implications

Empirical evidence suggests that Tanzania's business environment reforms, implemented over the past three decades, have not translated into productivity-enhancing structural transformation. While labour productivity has improved, its growth has been driven primarily by efficiency gains within sectors rather than across sectors. This is evidenced by the movement of labour from agriculture to low-productivity activities, particularly informal manufacturing and service sectors, instead of higher-productivity industrial and modern service sectors. For business environment reforms to realize structural transformation gains, it is recommended that: First, there should be further investments in human capital, particularly in education and skills training programmes tailored to industries with high productivity potential, such as real estate, finance, business services, mining, and high-technology industries, thereby facilitating labour movement to these sectors.

Second, coordination across ministries should be strengthened. Strengthening inter-ministerial collaboration and enhancing the use of integrated electronic systems will reduce fragmentation and ensure the effective implementation of reforms.

Third, more efforts should be targeted to promoting quality foreign direct investment inflows that encourage technology transfer and skills development, and enhance domestic supplier linkages to boost productivity within and across sectors.

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