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Urbanization without structural transformation in Dar es Salaam, Tanzania

Ally Abubakar Samiji¹ and Darlene K. Mutalemwa²

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Abstract: The study examines Dar es Salaam's potential as a focal point for structural transformation, highlighting its emergence as a significant economic hub. Through a mixed-methods approach, the research investigates how urban development is shaped by institutional, economic, political, and spatial factors. Findings indicate a shift toward a service-oriented economy, although the informal sector remains dominant, characterized by low productivity. Key challenges include infrastructure gaps, skills shortages, limited entrepreneurial spirit, and bureaucratic inefficiencies. The political settlement, marked by the long-standing dominance of the ruling party, has both enabled and constrained transformation. To unlock Dar es Salaam's potential, a strategic mix of policies, including infrastructure investment, skills development, regulatory simplification, and support for the informal economy, is essential. Addressing these issues will enable the city to leverage its economic strengths and achieve sustainable urban development. By fostering inclusive growth, Dar es Salaam can harness its opportunities and overcome its challenges for long-term prosperity.

Key words: structural transformation, informal sector, urban development, political settlement, Dar es Salaam

JEL classification: R12, C31, P00

Note: A previous version of this working paper contributed to the ACRC's structural transformation domain report (Danquah et al. 2025) as well as WIDER Working Paper 2024/50 (Sen 2024).

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1 Introduction

For the last four decades the structure of most sub-Saharan African (SSA) economies has largely remained unchanged (Totoum et al. 2019). Africa's industrial sector is so small that, while global manufacturing value-added doubled from US\$4,753 billion in 1990 to US\$9,228 billion in 2014, it contributed only approximately 1.6% of Africa's gross domestic product (GDP) in 2014 (UNIDO 2015). This suggests that SSA makes a compelling case study for the analysis of structural transformation. Tanzania stands out as an interesting case study in SSA for two reasons. Firstly, agriculture is the mainstay of its economy as more than 60% of the labour force is still involved in agriculture (World Bank 2020). Secondly, the economy, particularly in urban areas, is largely informal. It has been estimated that the informal sector of Tanzania's economy accounts for more than 75% of all non-agricultural employment (ILO 2012).

Since Tanzania gained independence in 1961, Dar es Salaam has served as the country's economic hub. The city's highest recorded population, according to the 2022 Tanzania National Bureau of Statistics census, is 5.38 million people (URT 2022). This indicates a consistent increase in the population compared to the population in the previous 2002 and 2012 censuses. Dar es Salaam is on track to become a mega-city by 2030, with projections exceeding 10 million residents (World Bank 2021). The city contributes a significant 17.02% to the national GDP and employs 8.1% of the workforce (URT 2022).

Dar es Salaam mirrors the process of urbanization without structural transformation as seen in other African cities. As in much of Africa, agriculture has served as the city's economic backbone. However, urbanization has resulted in a decline in the agriculture sector's contribution to GDP as well as employment. This drop is mirrored by Dar es Salaam's population growth resulting from both rural–urban migration and the attractive opportunities and improved quality of life of urban centres. This has been accompanied by a rise in business activities, including informal and low-productive economic activities in service sectors.

Due to these economic changes, Dar es Salaam serves a vast market and acts as a 'headquarter' economy for a diverse range of enterprises. This includes competition between international and domestic enterprises alongside state-owned enterprises vying for market share with private and cooperative businesses. Export-oriented firms seeking global markets coexist with those focused on serving Tanzania's domestic needs. The city's economic activity spans various sectors—from manufacturing and extractives to agriculture and services. Firm sizes range from large transnational corporations and domestic giants to the numerous (informal) small and medium enterprises (SMEs) that are the backbone of the economy. Furthermore, the formal sector shares space with a significant informal sector, which contributes a substantial portion of Dar es Salaam's economic activity. The city's business environment also reflects its multicultural heritage, with indigenous Tanzanian firms operating alongside those owned by Tanzanian Asians and Arabs of descent. Finally, a dynamic exists between established players and new ventures, constantly reshaping the city's economic landscape.

For policy makers looking to better the productivity of the diverse business community, the city poses a challenging puzzle in terms of its complex governance structure, which exemplifies the challenges and opportunities associated with managing a rapidly expanding city. Today, Dar es Salaam is governed by the municipal councils of Kigamboni, Kinondoni, Temeke, and Ubungu, with the centrally

located area of Ilala having been elevated to city council status in 2018 during President Magufuli's administration (2015–21). While the continued dominance of the Chama Chama Cha Mapinduzi (CCM—Swahili for 'Revolutionary Party') since independence offers a potential advantage for pursuing focused development, concerns linger regarding fairness, transparency, and long-term sustainability. The broad dispersed city political settlement in Dar es Salaam mirrors that of the national settlement. The city remains an important source of rents for small business and real estate, as well as regime-linked conglomerates. Being the commercial capital, its importance for the national economy has grown over time. However, the city-level political settlement remains fragmented, with the mayors of the five municipalities of Dar es Salaam having limited political power relative to elites at the national level. The transition from Magufuli to Suluhu Hassan has led to a weakening of centralized authority and the emergence of low-level (petty) corruption in the city. State–business relations are in flux, with the current regime assiduously courting large businesses over the lower-income self-employed (street vendors).

The extant literature largely ignores the crucial role played by institutional and political economy dynamics in shaping structural transformation in Dar es Salaam (Collord et al. 2021) despite exploring a number of limitations (Collier 2016). In this study we employ the political settlement lens to understand the intersection between urbanization and structural transformation in the city and emphasize the importance of spatial distribution in the explanation of structural transformation. In order to advance a new urban agenda that fosters prosperity, inclusive growth, and economic transformation, the study attempts to address the complex interactions between the city and structural transformation. It significantly advances the body of knowledge by examining these neglected areas in more depth.

The remainder of the paper is organized as follows. Section 2 details the research design employed in this study. Section 3 analyses the spatial distributions and patterns of structural transformation, while also examining the drivers and constraints that shape structural transformation in the city—with particular emphasis on the political economy factors that act as both catalysts for and inhibitors of this process. Finally, Section 4 concludes the paper with policy recommendations.

1.1 Political settlement and Dar es Salaam city business environment

Tanzania has a dominant party-political settlement with the ruling CCM party having been in power for over three decades (Nyamsenda and Collord 2022). Since independence the political landscape of Tanzania has undergone notable changes, with the long-standing dominance of the ruling party playing a pivotal role in shaping the country's trajectory. Although Tanzania pursued a socialist agenda with state-driven development during the leadership of President Julius Nyerere (1961–85), it was evident that this mode of development did not yield the best results. The Ujamaa policy, though well intended, caused economic decline and discouraged the private sector. For the first time in a decade, President Ally Hassan's regime (1985–95) focused on economic liberalization and privatizing state enterprises. But this period of transition was also accompanied by instability and corruption. Under President Benjamin Mkapa (1995–2005) and President Jakaya Kikwete (2005–15), further economic reforms were put in place, making the country more attractive to foreign investors and expanding the private sector. Economic development accompanied these eras, and some stability was also witnessed. President John Magufuli's regime (2015–21) was, however, marked with authoritarianism, with a focus on discipline, anti-corruption, and expediting the development of

infrastructure. There were some positive developments, but the use of stark repressive measures and erratic policy-making created a difficult environment for businesses in Tanzania.

The present regime under President Samia Suluhu Hassan (2021–present) has initiated a series of reforms aimed at improving the investment climate in the country as part of its strategy of ‘reconciliation, resiliency, reforms, and rebuilding’, or the 4Rs. The political settlement is currently semi-settled. President Samia Suluhu Hassan has restored power to political elites aligned with former president Jakaya Kikwete and has followed a pro-business stance. She has also allowed more space for opposition parties to function. Therefore, the elite power configuration has become more dispersed. With respect to the relationship between Dar es Salaam and the national political settlement, the city remains a key revenue source for small businesses, real estate, and regime-linked conglomerates. City-level politics stay fragmented, with Dar es Salaam’s five mayors holding limited power compared to national elites. State-business relations are in flux, as the regime courts large firms while sidelining low-income street vendors. Street vendors are discouraged by the Tanzania Revenue Authority’s (TRA) strict regulations, such as the need to pay taxes when starting a business. However, realizing that street vendors constitute a sizeable electoral bloc, the government has issued an order permitting them to continue doing business. This may stand in contrast to the current regime’s repeated promises to reform and construct modern marketplaces so that street trading can take place in an orderly and safe environment. Issues like corruption, bureaucratic inefficiencies, and access to finance are still a bottleneck. This may have implications for the nature of deals in the current political settlement.

In light of these national political trends, Dar es Salaam, the economic centre of Tanzania, has to a great extent been shaped by these various political eras. Under the Mkapa and Kikwete administrations, political stability prevailed and this period was also able to expand economic and foreign investment activities in the city. On the other hand, the Magufuli era, which was characterized by political tensions, was not friendly to businesses. As the current administration seeks to enhance the business environment, there are still many challenges in the city.

2 Research design

The study used mixed-method approaches, as neither quantitative nor qualitative methods are sufficient to fully explain how cities and structural transformation interact, but the combination of the two methods provides a more comprehensive account of the phenomenon. Due to the unavailability of time series or panel data on enterprises and businesses in Dar es Salaam, the quantitative research used cross-sectional data from Tanzania’s Population and Housing Census (PHC) for 2002 (URT 2002) and 2012 (URT 2012), Informal Sector Surveys for 1991 (URT 1991), 1995 (URT 1995), and 2019 (URT 2019), and the World Bank Enterprise Survey for 2006 and 2013 (World Bank 2015) to construct relevant indicators to proxy structural transformation at the city level. The data is disaggregated at the district level for our analysis. Kinondoni, Temeke, Ilala, Ubungu, and Kigamboni are the five districts that made up Dar es Salaam as of 2018. The data used in this analysis can only be applied to Kinondoni (which previously included Ubungu, separated as a municipality in 2016), Temeke (which previously included Kigamboni, separated as a municipality in 2015), and Ilala.

The research applied geographic information system (GIS) methodologies to examine the spatial distribution of economic activity and patterns of structural transformation at the city level. It used the location quotient (LQ) to examine the spatial distribution of economic activity in Dar es Salaam,

Tanzania. The LQ was calculated using employment, although in principle any measure that can be comparable across industries and districts, such as sales and number of establishments, could have been used (Maulana et al. 2020). The ratio of the spatial concentration of employment in districts relative to the overall region is known as the LQ of employment (Maulana et al. 2020). The share of manufacturing employment as well as the sectoral growth across the sub-city over the 2002–12 period was used to understand the prevalence of high-productivity sectors or structural transformation in the city.

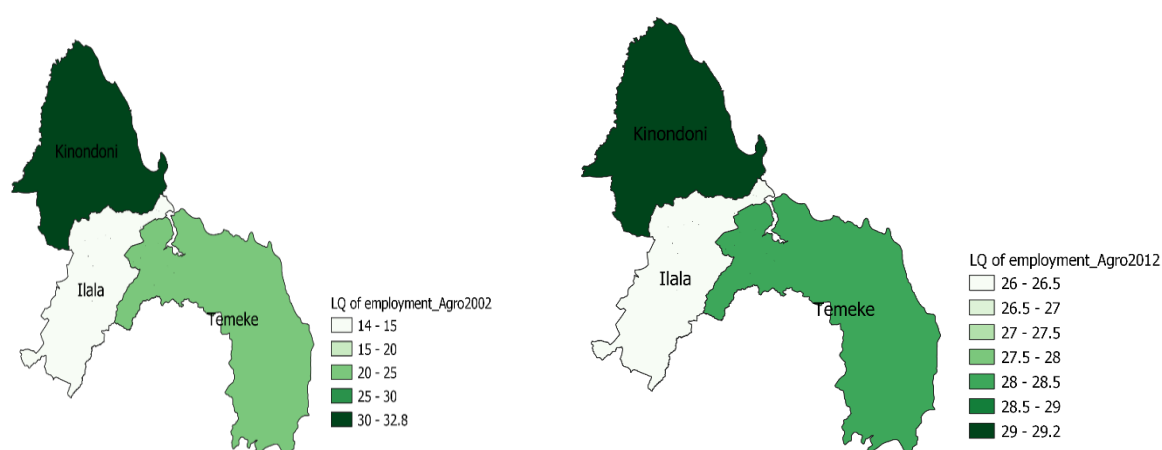
To understand the lack of structural transformation, we conducted interviews with key informants such as business leaders, government officials, residents of various socioeconomic backgrounds, and representatives from the informal sector. These interviews focused largely on the political economy factors. Furthermore, the research incorporated participant observation, drawing upon the researchers' extensive experience of living in the city for over a decade. This lived experience provided valuable contextual insights that enriched the qualitative data collected through interviews.

3 Analysis and findings

3.1 Spatial distribution and patterns of structural transformation

To understand the patterns of economic activities and structural change at the city level, we compute and discuss LQs and share of manufacturing employment at the sub-city level. The LQ figures present a quantitative assessment of the degree of specialization and concentration of economic activities within each sector at the sub-city level. The LQs for agro-industries, mining and quarrying, manufacturing, and services were calculated. The four sectors are the main economic activities in Dar es Salaam. The agro-industry LQ is shown to have been dominated by Kinondoni district in 2002 and 2012, as shown in Figure 1. This is in line with the findings of Hoogland (2003) that there are 12,000 farmers in Ilala, 15,000 in Kinondoni, and 7,700 in Temeke. This indicates that there are more farmers in Kinondoni than any other districts in Dar es Salaam. The LQ for agro-industry looks larger than other sectors such as manufacturing and services. This may be explained by the fact that the country's economy relies heavily on agriculture, with Dar es Salaam leading in the trade of agricultural products and serving as the main destination and the region with the largest irrigated area, approximately 51,936 hectares (Bisheko and Rejikumar 2024; Eskola 2005; URT 2021).

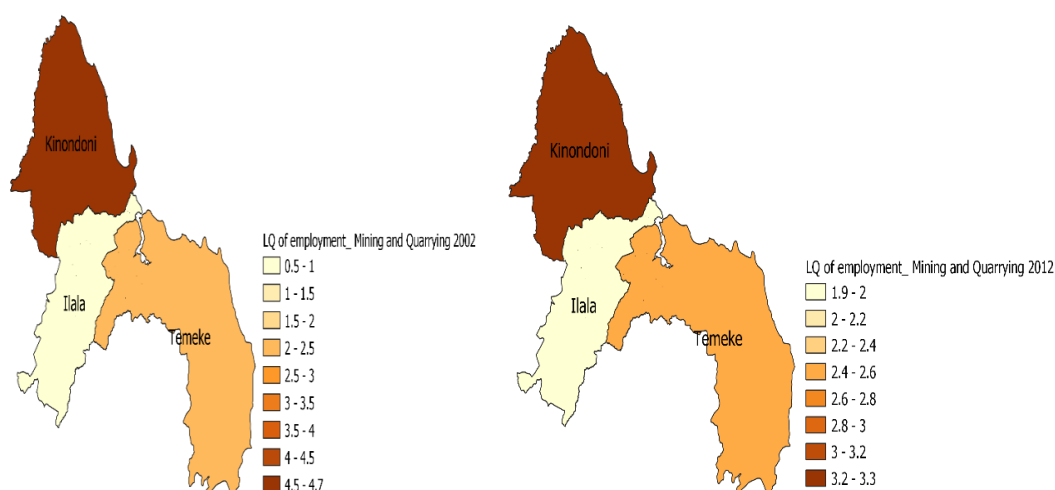
Figure 1: Location quotient (LQ) of employment in agro-industry by district for 2002 and 2012



Source: authors' computations based on data from URT (2002, 2012). This map was created using QGIS (version 3.28.1). GIS shapefiles were downloaded from the Tanzania National Bureau of Statistics at: <https://www.nbs.go.tz/statistics/topic/gis>.

The mining and quarrying LQ in Kinondoni districts seems to have reduced from 4 in 2002 to 3.2 in 2012. However, the LQ in Kinondoni is higher than in other districts. This may be due to the construction that was taking place in the district relative to other districts in Dar es Salaam. Notably, Mbweni, Boko, and Bunju are places where it is generally preferred to build houses nowadays. The LQ of Temeke was almost the same from 2002 to 2012. However, in Ilala there was some improvement as the LQ moved from 0.5 in 2002 to 1.9 in 2012. The details are shown in Figure 2. These results concur with those of Loan (2014). Quarry activities were dominant in Kunduchi, Boko, and Bunju in Kinondoni, which may have significantly contributed to Kinondoni being the leading mining and quarrying sector in Dar es Salaam (URT 2018, Temeke Municipal Council 2018).

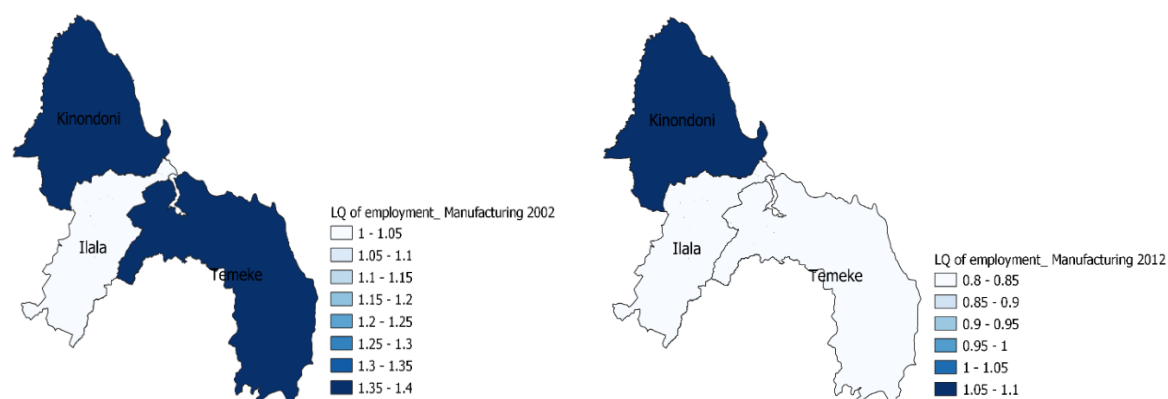
Figure 2: Location quotient (LQ) of employment in the mining and quarrying industry by district for 2002 and 2012



Source: authors' computations based on data from URT (2002, 2012). This map was created using QGIS (version 3.28.1). GIS shapefiles were downloaded from the Tanzania National Bureau of Statistics at: <https://www.nbs.go.tz/statistics/topic/gis>.

In the manufacturing sector, Kinondoni and Temeke were in the lead in terms of LQ in 2002, but by 2012 only Kinondoni was in the lead, and only by a margin of 1.05 to 1.1 over other districts (see Figure 3). This indicates the slow growth in the manufacturing sector at the sub-city level. The marginal sectoral growth in Kinondoni may be attributed to the presence of industries in many parts of Kinondoni such as along the Bagamoyo and Morogoro road (URT 2018). In addition, in 2002, Temeke was the industrial district of the city where both heavy and light industries were located (TMC 2018).

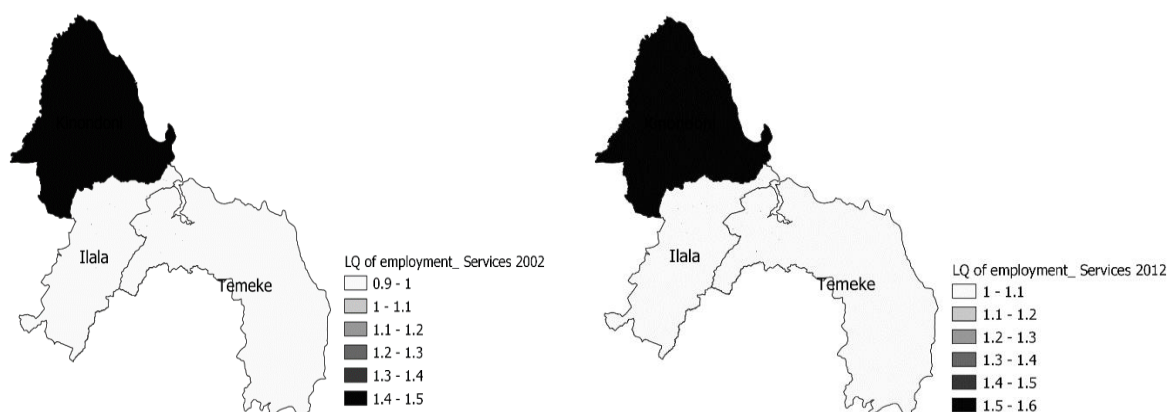
Figure 3: Location quotient (LQ) of employment in the manufacturing industry by district for 2002 and 2012



Source: authors' computations based on data from URT (2002, 2012). This map was created using QGIS (version 3.28.1). GIS shapefiles were downloaded from the Tanzania National Bureau of Statistics at: <https://www.nbs.go.tz/statistics/topic/gis>.

As depicted in Figure 4, the service sector accounted for most of the employment in Kinondoni during the 2002 and 2012 census periods. Kinondoni recorded a modest increase from 1.4 in 2002 to around 1.5 in 2012. This may have been because of the existing trade centres like Magomeni, Kinondoni, Mwenge, and Wazo. Similarly, the work by Lutta et al. (2021) demonstrates that a significant number of people living in urban centres, such as those located in areas like Mlalakuwa in Kinondoni, are employed in small-scale service industries, including vehicle repair workshops. Kinondoni is also the home of the largest mall in Dar es Salaam —Mlimani city, which was established in 2006 (currently in Ubungo district). Although Ilala is home to the majority of offices, including government offices and the popular market Kariakoo, the high number of offices does not necessarily convert to employment, owing to technological advances. Other districts, on the other hand, expanded their employment quotients in services, albeit at a much lower rate. One plausible explanation for the smaller LQ shift in the service sector between 2002 and 2012 is the widespread expansion of services in all regions.

Figure 4: Location quotient (LQ) of employment in service industry by district for 2002 and 2012

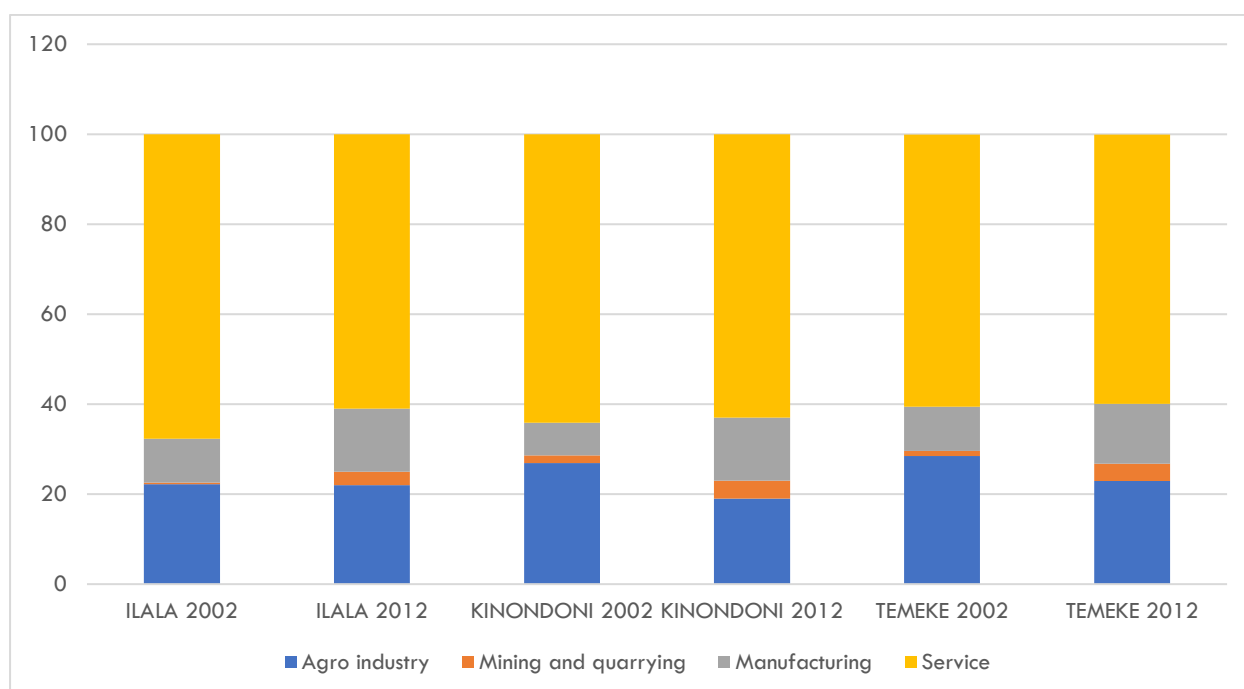


Source: authors' computations based on data from URT (2002, 2012). This map was created using QGIS (version 3.28.1). GIS shapefiles were downloaded from the Tanzania National Bureau of Statistics at: <https://www.nbs.go.tz/statistics/topic/gis>.

With respect to providing some insights on the patterns of structural transformation at the sub-city level, we draw on the available Population Housing Census data for 2002 and 2012, Informal Sector Surveys, and World Bank Enterprise Surveys. Using the census data for 2002 and 2012, we construct the sub-city shares of manufacturing sector employment as well as the patterns of growth and the spatial distribution of employment. Using the World Bank Enterprise Surveys, we attempt to show the variation in labour productivity across sectors in the city.

Figure 5 presents the shares of sectoral employment across districts for 2002 and 2012. Here, the focus is on how well a high-productivity sector such as manufacturing absorbed labour. We see that the service sector consistently dominated all districts as the largest employer. The sector employed more than 60% of workers across all districts. Compared to other industries, it employed a significant number of individuals in the districts. Manufacturing was the second largest sector for employment, followed by mining and quarrying and agro-industry. Although, the growth in the shares of manufacturing employment seems to have increased across districts, it still employed less than 20% of workers. Nonetheless, what has become increasingly apparent is the rise of informal labour in the service sector, while only a handful of workers engaged in informal manufacturing (URT 1991, 1995, and 2019).

Figure 5: The percentage shares of employment across sectors



Source: authors' computations based on data from URT (2002, 2012).

The dominance of the service sector in Dar es Salaam raises questions about the role of politics and political economy. The first relates to the role of the government and whether the CCM government is prioritizing the service sector at the expense of others. The second relates to how the dominance of the service sector plays out differently in the municipalities. Finding answers to these questions is crucial, as they are intricately linked to the constraints to and drivers of structural transformation. These will be explored in Section 3.2.

Table 1 displays patterns of growth in population and formal employment by sector in Dar es Salaam.

Table 1: Patterns of growth in population and employment in Dar es Salaam

Growth in population and formal employment by sector	Growth rate (%)
Population	5.6
Agro-industry	-2
Mining and quarrying	51
Manufacturing	20
Services	10

Source: authors' computations based on data from URT (2002, 2012).

Based on the data presented in Table 1, it is evident that, while the population of Dar es Salaam grew by 5.6% between 2002 and 2012, formal employment in the agro-industrial sector declined by an average of 2% annually. In contrast the manufacturing industry experienced growth, with formal employment increasing by an average of 20% annually. The services sector also saw positive growth, with formal employment expanding by 10% on annual estimates. Moreover, the mining and quarrying sector exhibited remarkable growth, with formal employment increasing by an impressive 51% on average each year. These trends highlight a significant structural shift in formal employment within the

city. The city's economy seems to have undergone a transformation, with a greater emphasis on industrial and service-oriented activities, while the agro-industrial sector experienced relative stagnation.

However, there was a significant amount of employment in low-productivity sectors. Wearing apparel and furniture-making in areas such as Keko are examples of informal manufacturing in Dar es Salaam. In addition the city has a number of informal services such as trading, particularly street hawking.

Further analysis on the spatial distribution of employment across districts over the period from 2002 to 2012 shows that the employment growth in the agro-industry sector experienced a decline in Kinondoni and Temeke. In contrast there seems to have been a significant increase in employment growth in the same sector in Ilala during the same period. This can be partly attributed to the presence of an established vegetable market within the city where vegetables cultivated in Ilala are sold. These vegetables are available in various marketplaces, including Kariakoo, Buguruni, Kisutu, and Chanika.

Employment in mining and quarrying increased in all Dar es Salaam districts between 2002 and 2012, with Ilala showing the greatest rise. Additionally, manufacturing employment also increased in all three districts between 2002 and 2012. Kinondoni had the highest employment rate in manufacturing. Furthermore, employment in services increased in all districts of Dar es Salaam between 2002 and 2012, with Ilala leading the way.

Clearly, disaggregating employment growth across districts, we observe Ilala to be the leader in agricultural, services, and mining and quarrying employment growth. This is for a number of reasons including: (i) Ilala's long history as a home for street hawkers and vendors; (ii) Ilala being the location of the majority of large industries in Dar es Salaam; (iii) Ilala being the location of many businesses' headquarters; and (iv) Ilala being the location of the popular market Kariakoo, which also serves East and Central African countries and Nyerere International Airport (The Citizen 2017). Notably, the rapid rise in mining and quarrying in Dar es Salaam is attributed to the country's expanding construction sector, which includes infrastructure and housing (Kikwasi and Escalante 2020). Kinondoni is the leader in manufacturing employment. This is due to the presence of large-scale industries which are located in Mikocheni, Kunduchi, Kijitonyama, and Wazo (KMC 2016, 2017). According to the literature, the disparity in employment levels across districts is primarily attributable to economic performance (Loan 2014). This is evidenced by the direct tax revenue by districts in fiscal years 2011/12, 2012/13, and even 2021/2022, with Ilala leading the way followed by Kinondoni and Temeke (TRA 2023).

Using the World Bank Enterprise Survey 2013, we compute labour productivity across sector (see Table 2).

Table 2: Labour productivity across sectors in Dar es Salaam

Labour productivity (LP) across sectors (million TZS)	Mean LP
Manufacturing	52.5
Retail	1,618.0
Other services	76.4

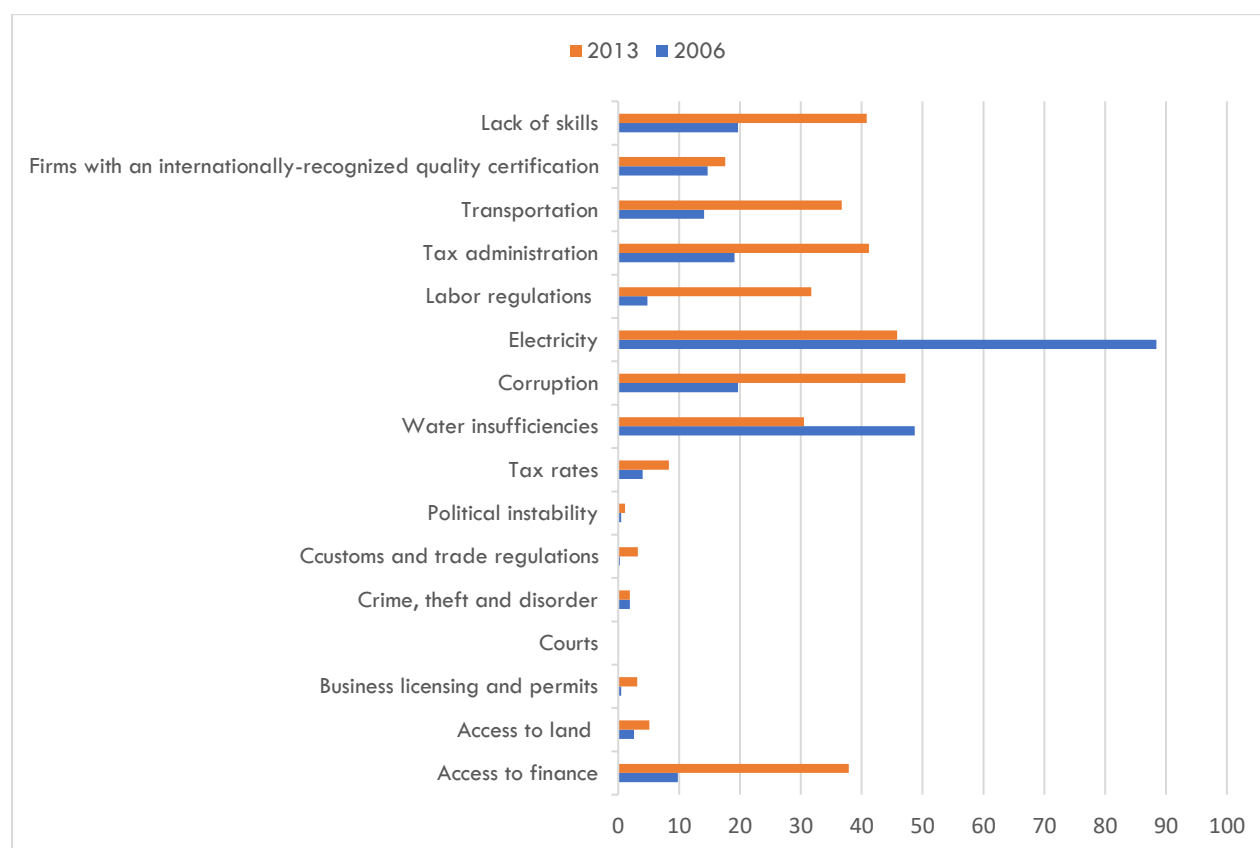
Source: authors' computations based on data from URT (2002, 2012) and World Bank (2015).

Average LP is highest in the retail traders sector, followed by the other services sector. This shows that, although the manufacturing sector seems to be growing, its LP still lags behind that of services and other sectors. This may be due to several factors such as informal manufacturing with low technology. This must be of concern to city and political elites.

3.2 Drivers and constraints of structural transformation

The disparity in employment distribution across sectors in Dar es Salaam implies that there are constraints that cause some sectors to thrive more than others. We first employed firm-level survey data from World Bank Enterprise Surveys to examine this. Secondly, we looked at this through the political settlement lens. Using data from the World Bank Enterprise Survey 2013, we computed constraints to firm performance in Dar es Salaam. Figure 6 provides the details.

Figure 6: Constraints to firm performance in Dar city (%)



Source: own calculations using data from World Bank (2015).

Despite the service sector forming the backbone of Dar es Salaam's economy (as shown in Figure 5), it is apparent from Figure 6 that the lack of a reliable electricity service and water supply are major constraints to firm performance. The next greatest limitations to firm performance are lack of skills and access to finance. Businesses like the Slipway Hotel in Kinondoni's affluent Msasani area grapple with inadequate infrastructure, overly complex regulations, a lack of skilled workers, high crime rates, and corruption. These challenges are not limited to the hospitality industry; supermarkets like the family-owned Shrijees chain (with stores in Kinondoni and Ilala) struggle to source local products due to issues with quality, quantity, transportation infrastructure, market information, and weak legal

enforcement. Despite these challenges, the service sector holds promise. Unlocking its full potential and ensuring sustainable growth across municipalities hinges on addressing these limitations. The informal sector also plays a significant role in service provision but faces similar constraints.

The reality, however, is that these constraints are not unique to the service sector. As shown in Figure 6 and confirmed by interviews, various challenges hinder Dar es Salaam's full potential. To effectively tackle these widespread issues, it is helpful to categorize the challenges as follows:

- (i) **Industry-specific Issues:** Factories in Temeke, the industrial area, struggle with unreliable utilities, forcing them to rely on expensive generators and thereby hindering their competitiveness. Small businesses here also have limited access to finance, and power cuts disrupt their operations. Despite a potential concentration of skilled labour, a lack of investment in education remains a concern.
- (ii) **Private sector obstacles:** The dominance of small, informal firms alongside a few large ones creates a unique business landscape that limits knowledge sharing and growth for smaller businesses. Non-indigenous businesses often benefit from advantages like access to informal networks and credit. Unsuccessful attempts to involve private participation in strategic sectors further limit private sector potential.
- (iii) **Public sector constraints:** Despite improved service quality, public sector capacity is limited by human resources, organization, and finances. This manifests in inefficient land allocation, corruption, and a collaborative structure which favours large enterprises. Implementation of the Dar es Salaam Master Plan, crucial for addressing these issues, faces challenges due to weaknesses within the plan itself, lack of coordination, and limited enforcement capacity.
- (iv) **Weak business environment:** Dar es Salaam has a poor ease-of-doing business ranking (World Bank 2020), with hidden costs like transportation, utilities, and bribes burdening businesses. Access to credit and skilled labour is limited, and complicated regulations with a lack of enforcement expertise add to the challenges. The government released its Blueprint for Regulatory Reforms to Improve the Business Environment in 2018 with the goal of easing the regulatory compliance requirements that businesses must bear (URT 2018).
- (v) **Infrastructure shortcomings:** The city's current infrastructure limits its economic potential by hindering economies of scale, specialization, and agglomeration. This inadequate infrastructure also isolates people from jobs, markets, and services.
- (vi) **Financial services challenges:** Local governments struggle with a growing gap between resources and spending needs. Businesses, particularly small and new ones, have difficulty accessing credit due to high interest rates, strict collateral requirements, and challenging application processes. Building trust between borrowers and lenders is slow, further limiting access to affordable financing.
- (vii) **Human capital and skills gap:** Developing the city's human capital is crucial for improving productivity, business competitiveness, and export markets. However, the city faces challenges in this area, with businesses struggling to find skilled labour.

Investments in education and healthcare services are seen as essential to address this skills gap.

- (viii) **Natural capital and resource management:** Despite having extractive resource firms, the city has not leveraged this wealth to address limitations that hinder development. This is partly due to a lack of strong links between the extractive sector and the rest of the economy.

While identifying the challenges is a crucial step, Nyamsenda and Collord 's (2022) work on the city's political settlement, defined in terms of power configuration, social foundations, and distribution of benefits, offers a critical lens to identify the root causes embedded within this very system that hinders structural transformation.

Firstly, Tanzania has demonstrated exceptional political stability for more than 60 years under the ruling party. Nevertheless, the current administration, known as the 'sixth phase government' under President Samia Suluhu Hassan (2021–present), has taken over a city that is under the authority of CCM and is currently dealing with the consequences of this stability. Although the single-party dominance has ensured an impression of continuity, it also conceals internal changes within CCM. The transformations in Tanzania's political environment, as described by Nyamsenda and Collord (2022), are marked by a decentralized power structure, changing dynamics between the state and businesses, and the possibility of factional politics. Previously, power was concentrated among a select few, and former President Magufuli emphasized state-led projects with a distrust of the private sector. This, coupled with a CCM-dominated government after the 2020 elections, created an uncertain climate for businesses. President Samia's leadership offers a more promising outlook. Her approach suggests a more decentralized power structure with greater influence shared among various elite groups. Tanzania's political settlement is of a 'semi-settled nature' due to ongoing transformations, including a potential expansion of its social foundation along ethnic, religious, and socio-spatial lines, although the full impact of this shift remains debated (Collord et al. 2021).

Secondly, the sixth phase government seems to exhibit greater tolerance towards the opposition parties. These changes attract new supporters, particularly wealthy and middle-class businesspeople alienated by past policies, and create a potential avenue for the return of disaffected factions within the dominant CCM party. They find her economic philosophy and liberal approach more appealing. The new political climate therefore presents potential benefits for businesses. Addressing existing constraints on firm performance, such as poor infrastructure (unreliable electricity and water supply), limited access to finance, and a scarcity of skilled labour, is crucial. A more open and dispersed political environment has the potential to foster policies that effectively tackle the challenges encountered by businesses and stimulate economic progress. Central to President Samia's vision for Tanzania are the principles encapsulated in her 4Rs philosophy of reconciliation, resiliency, reforms, and rebuilding, which aims to develop a modern, competitive, vibrant, and inclusive economy that gives opportunity for everyone. Local governments play an important part in this transformation, as seen by their efforts, for example, to create places and markets for street sellers which promote a more inclusive approach. Furthermore, providing loans to marginalized groups, such as youth, women, and, more recently, the disabled, empowers these communities and encourages entrepreneurship. However, a more pessimistic viewpoint exists. Some believe that businesses will struggle intensely for resources and market domination. This competition may include pushing for policies that promote their specialized interests while potentially overlooking broader social demands such as infrastructure development. Lobbying exemplifies this concern: businesses prioritize short-term profits over long-term economic development, limiting chances for all enterprises.

Thirdly, Dar es Salaam's governance is a complex web of power, dispersed among government, businesses, and associations. Municipalities heavily rely on transfers from the central government, which account for more than 75% of their expenditures and exacerbate this fragmentation. Concerns have been raised nevertheless about accountability and retention of these funds within the city. This clear lack of financial control coupled with weak leadership creates a fertile ground for resource waste, delays, corruption, and abuse of power. These hinder businesses' ability to overcome challenges and attract investment—both of which are essential for economic growth.

Fourthly, there is a clear difference in the level of economic activity and development among the municipalities. This perpetuates a cycle of poverty and impedes the expansion of the city overall. It is especially noteworthy that Kinondoni and Temeke have significantly different levels of manufacturing activity (Figure 3 for the 2002–12 period). Given Temeke's prominence as the city's industrial centre, Kinondoni's recent increase in LQ manufacturing is particularly intriguing, raising concerns about potential changes in central government policies and priorities as well as initiatives undertaken by the local government. For instance, policies that give priority to industries that fit Kinondoni's current resources or facilities could bring in new manufacturing businesses. After the Special Economic Zones Act 2006 was passed, the government set up the Benjamin William Mkapa (BWM) SEZ, located in Ubungu. Prior to its 2016 transformation into a municipality, Ubungu was a part of Kinondoni Municipality. In addition, Ilala—Tanzania's political and economic hub—draws significant investments as reflected in its tax revenue exceeding that of Kinondoni and Temeke in the fiscal years 2011/12–13 and 2021/22 (TRA 2023).

Fifthly, access to resources and opportunities within the diverse business environment of the city is not equal and fair for all. Indigenous Tanzanians face an unequal opportunity structure as a result of Dar es Salaam's historical economic favouritism of Asian and Arab Tanzanians. The state–business relations evolved via the political settlement show that a small handful of Asian and Arab businesses or family conglomerates are the ones thriving. They have thrived due to political connections that have allowed them to secure bank loans (sometimes not repaid), protection from foreign competition, subsidized inputs, and lucrative subcontracts with governmental enterprises and ministries. Only a few black Tanzanian businessmen have been able to compete with these enterprises. Both successful indigenous and non-indigenous enterprises are in close contact with CCM, and some of them contribute money to its political campaigns. Government tendering processes are rife with bribery and unfair competition as a result of poor procurement practices and financial mismanagement. There is also cartel-like behaviour in bidding; for instance, access to haulage loads at the Dar es Salaam port is influenced by politics and favours a few lead firms.

The continued existence of this power disparity makes it impossible to accomplish inclusive structural transformation where economic reforms benefit every individual. The CCM with its strong ties through the mtaa¹ leader and ten-cell systems—the two lowest levels of government—grants some local influence to indigenous residents and businesses. But this local influence comes with strings attached. In order to provide services, resolve conflict, uphold security, and facilitate popular (de)mobilization, these systems essentially depend on petty rent extraction or the extraction of favours. Meanwhile indigenous businesses, despite their potential, are marginalized by political decisions that frequently favour bigger and largely non-tradable businesses owned by Asian and Arab Tanzanians. Two factors dictate this point. Firstly, a concentration of power in the hands of a few

¹ A 'mtaa' is the lowest level of administrative division in Tanzania's urban areas. It is essentially a neighbourhood or street block.

wealthy enterprises and, secondly, the President Samia administration's recent crackdown on street vendors, which is a cautionary tale of neglecting the importance of fostering a thriving local business sector.

As shown in Appendix Table A1, sole proprietorship companies negatively correlate with LP. This may be attributed to various factors, including limited resources, lack of specialization, and limited innovation among sole proprietors.

However, digging deeper, this relationship can be linked to Dar es Salaam's political settlement. The CCM gives top priority to measures that help well-established enterprises with close ties to the ruling party or those that are thought to be essential for significant economic expansion. As a result business laws and regulations that disproportionately burden small and independent businesses like sole proprietors leave them struggling. Furthermore, limited access to other essential services, such as finance, loans, training, and infrastructural development, will inhibit smaller firms from investing, innovating and successfully competing. For instance, agglomeration economies have not taken place as the few manufacturing clusters, such as Keko Furniture Cluster (Ilala), Mwenge Handicrafts Cluster (Kinondoni), and Gerezani Metalwork Cluster (Ilala), are still in survival mode. Cluster firms are generally informal micro-enterprises and SMEs with a small number of regular employees and obsolete technology and manual equipment. These clusters do not receive the needed attention from political elites to spur growth because they do not contribute to the maintenance of the ruling coalition.

4 Conclusions and policy suggestions

This study looks into the economic characteristics of the city of Dar es Salaam using a mixed-methods approach to investigate the relationship between urban centres and structural transformation. It fills an important gap in the current literature, as it examines the dynamics of both the institutional and political economy as well as spatial factors, which are often overlooked in discussions of structural transformation processes.

The findings show that there is conspicuous evidence of change in the economic structure of the city with the service sector becoming the greatest employer in all districts. Even though the manufacturing and the mining and quarrying sectors have experienced growth, the overwhelming majority of employment is still situated in low-productive activities, particularly in the informal sector.

Several factors limit the city's capacity for enhanced structural transformation. The developing economy of the city has to deal with infrastructure challenges, such as inconsistent electricity and water supply. There is a lack of skilled employees, which affects the level of productivity and competitiveness. Complex legal requirements, high costs, and bureaucratic hurdles make it difficult to conduct business. A great number of informal workers are deprived of sources of finance, markets, and opportunities.

The analysis of the political settlement in the city also indicates that the enduring dominance of the ruling CCM party since 1977 has both enabled and constrained structural transformation. Our study also argues that appropriate growth policies and regulations have not been optimally designed to stimulate broad-based economic growth. This highlights the multiple intricate interactions between economic, social, and political forces and institutions that give rise to urban centres.

Although it is evident that Dar es Salaam has made considerable strides, it is crucial for the future to give utmost priority to the various challenges that the city faces. For Dar es Salaam to realize its full potential and achieve sustainable growth, it is also crucial to develop an ecosystem that encourages wealth creation, inclusiveness, and economic change. This calls for creative and enabling state policies that are beneficial to the marginalized sections of the business sector, especially informal businesses.

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APPENDIX

Table A1: Regression results

VARIABLES	Model I <i>Dep. Var: Log (LP)</i>	Model II <i>Dep. Var: Log (LP)</i>	Model III <i>Dep. Var: Log (LP)</i>
Organization type: (<i>base: public company</i>)			
<i>Private company</i>	-0.112 (0.718)		(1.011) 0.661
<i>Sole proprietorship</i>	-1.595** (0.675)		0.767 (1.030)
<i>Partnership</i>	-0.797 (0.758)		1.365 (1.116)
<i>Limited partnership</i>	-0.583 (0.966)		0.810 (1.445)
<i>Other</i>	-2.017* (1.089)		-0.242 (1.395)
Firm size (<i>base: medium</i>)			
<i>Small</i>			(0.480)
<i>Large</i>			0.8306 (0.508)
Formal (1=Yes)			0.203 (0.448)
Improved method of production (1=Yes)			-0.437 (0.417)
Female headed (1=Yes)			-0.883* (0.518)
Improved organizational structures (1=Yes)			0.776* (0.427)
Use mobile phone to offer deals (1=Yes)			1.249** (0.536)
Power outage (1=Yes)			0.374 (0.960)
Raw material inputs from domestic sources			-0.00513 (0.00540)
Raw material inputs from foreign sources			-
Log (age)			0.384 (0.272)
Sector (<i>base: manufacturing</i>)			
<i>Retail</i>		0.367 (0.367)	
<i>Other services</i>		-0.0598 (0.295)	
Constant	17.21*** (0.657)	16.01*** (0.182)	14.28*** (1.493)
Observations	197	197	102
R-squared	0.122	0.007	0.344

Note: standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Source: authors' computations based on data from World Bank (2015).