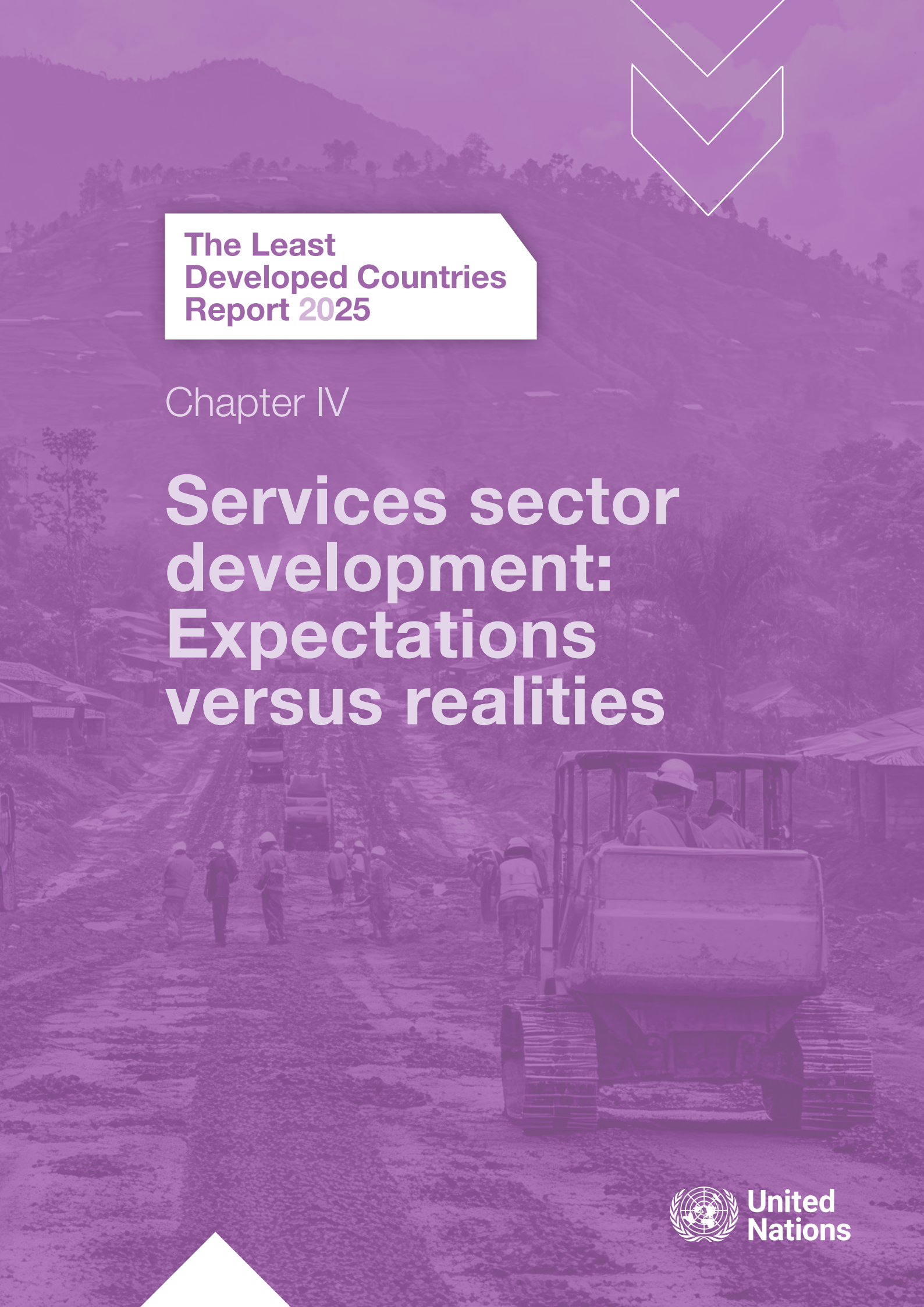
The Least Developed Countries Report 2025

Chapter IV

Services sector development: Expectations versus realities



United Nations

A. Services: A growing pillar in least developed country development approaches?

This chapter assesses recent policy developments in least developed countries (LDCs) to find clues of policy shifts that signal that policymakers are broadening their perspective beyond the manufacturing industrialization pathway to grow productive and export-oriented services sectors as the preferred pathway to structural transformation and jobs creation.

1. The role of services in least developed country development strategies

The current landscape and underlying trends

To assess policy shifts and the growing role of services in the development of least developed countries (LDCs), the analysis focuses on business process services, financial services, logistics, tech-enabled services, tourism and transportation. These sectors reflect efforts by LDCs to find new ways to address the complex and interconnected challenges of sustainable development. Their selection aligns with regional priorities outlined in frameworks such as the African Continental Free Trade Area (AfCFTA) (financial services, business services, communications, transport and tourism); the Association of Southeast Asian Nations (ASEAN) (financial services, telecommunications, maritime and air transport, construction, tourism and business services); the Pacific Agreement on Closer Economic Relations (PACER) Plus; and the Pacific Island Countries Trade Agreement (PICTA) (tourism, transportation and business services).[1] Sector-specific patterns, risks and challenges are explored, followed by comparative case studies.

Case study countries were selected based on recent hub ambitions expressed in policy documents or official statements, with one hub strategy per country considered (except for financial services).[2] LDCs increasingly adopt hub strategies to drive job creation, revenue and economic diversification. These strategies often combine spatial planning, infrastructure investment and regulatory reform to create regional growth centres.[3] Similar to industrial clusters (box IV.1), hubs can foster specialization, innovation and productivity.[4]

[1] AfCFTA and ASEAN are the reference regional visions for African and Asian LDCs, respectively. The Parties to the Agreement of PACER Plus include Kiribati, Solomon Islands and Tuvalu. The Parties to the Agreement of PICTA include Solomon Islands and Tuvalu.

[2] Hub strategies are not necessarily a recent trend. For instance, the national strategy for the emergence of Senegal for the period 2014–2018 states the objective to position Dakar as a regional industrial logistics hub and a multi-service and tourist hub. This chapter targets development strategies from the 2020–2025 period.

[3] See case study in section A2 on the Kigali Financial Centre, which targets transforming Kigali city into a financial centre.

[4] Niche services sectors can be led by innovation-minded entrepreneurs facilitated by capabilities and infrastructure accumulated over time, agglomeration effects, favourable time zones or strategic geography, as seen in Silicon Valley for technology and London for finance (Mollan and Michie, 2012; Hackford, 2019).

Box IV.1.
The power of clusters: Driving economic growth and innovation

Popularized by Michael Porter in the 1990s, the cluster approach has been widely adopted by developing countries as a catch-up strategy. It focuses on concentrated geographic development to foster knowledge exchange, innovation and productivity. Clusters – whether in manufacturing, finance or technology – serve as incubators for specialization and capability-building. At the geographic level, they often outperform other regions economically and socially, and can serve as a spatial planning tool to address regional disparities.

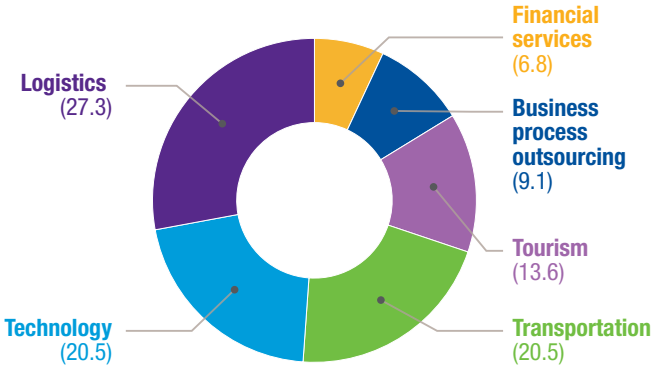
Manufacturing hubs (such as special economic zones and industrial parks) are the most recognized, but the model applies across sectors.

When supported by strategic policies and strong linkages to the broader economy, clusters and hubs can drive structural transformation, innovation and inclusive development, but need to be supported by targeted policies to establish linkages with the wider economy beyond static gains or enclave growth.

Source: Davis et al. (2023); OECD (2001).

Available data (figure IV.1) suggest that LDC policymakers are prioritizing logistics hubs,[5] leveraging maritime ports often interconnected with transportation hub strategies focused on transit corridors, export zones, rural development and inland dry ports. These efforts jointly support export-led goods trade growth and regional integration. Technology hubs – driven by goals to expand Internet access, harness youth potential, and promote e-commerce and e-government – are also popular. Fewer countries explicitly target tourism and financial services hubs, with only six and two countries, respectively, adopting explicit strategies.

Figure IV.1.
Least developed countries prioritize logistics hubs
Rate of adoption of services sector hub frameworks among least developed countries (Percentage)



Source: UNCTAD calculations based on publicly available national development plans and strategies.

[5] Transportation refers to the physical movement of goods, while logistics encompasses the broader management of goods and information flows across the supply chain (UNCTAD, 2021a). However, this distinction is often blurred in LDC hub strategies. For the purposes of this chapter, maritime port-linked strategies are referred to as logistics hubs, and dry port or road network strategies as transportation hubs.

2. Delivering additional value through hubs and spokes

Logistics and transportation

In developing countries, logistics improvements, especially roads and ports, have been shown to reduce trade costs by up to 15 per cent, enhancing competitiveness in global markets (Luttermann et al., 2020). The potential to enhance efficiency, reduce costs and time, modernize transportation modes, establish integrated digitalized logistics systems and foster low carbon practices is galvanizing LDC policymakers to gear their investments towards driving economic growth while generating an added boost through selling services to others.

Most LDCs are parties to several regional integration arrangements, making trade connectivity a top priority for them. A total of 30 LDCs are pursuing enhanced network linkages related to regional integration. Many coastal LDCs also serve as transit gateways for neighbours. Moreover, 16 LDCs are landlocked countries. For example, four out of the six Central Asia Regional Economic Cooperation Programme (11 member countries) corridors traverse Afghanistan. Accordingly, establishing logistics hubs, often tightly interconnected with the expansion of regional integration and international trade or transportation corridor infrastructure investments, has emerged as a distinct feature of economic and development strategies in LDCs.

Twelve LDCs (Djibouti, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Rwanda, Sierra Leone, the United Republic of Tanzania, Timor-Leste and Togo) have explicitly signalled the intention to establish logistics hubs. Of these countries, four also target establishing transportation hubs. A total of 9 LDCs seek to position themselves as transportation hubs, while 30 are investing in regional integration corridor or domestic transportation network infrastructure development. Countries such as Mali and Nepal have taken significant steps to establish inland logistics hubs.

Given that over 80 per cent of the volume of international trade in goods is seaborne, and the percentage is even higher for most developing countries (UNCTAD, 2024), maritime ports are a logical focus of services and infrastructure-led development. Djibouti, Mozambique and Togo are among LDCs whose maritime ports benefit from unique locational advantages, and which are the main catalyst for regional logistics corridors transiting freight. However, while contributions to gross domestic product (GDP) growth of port operations are significant, their contributions to job creation and structural transformation in the national economies remains less obvious.

The Port Autonome de Lomé (PAL) has ranked among the top 100 global ports by Lloyd's List since 2021 (Lloyd's List, 2021).[6] It is ranked the highest among LDCs in the UNCTAD liner shipping connectivity index, followed by Dakar (Senegal), Djibouti and Sihanoukville (Cambodia).[7] The ports' modernization boom in these LDCs involves large investments in infrastructure and technology by multiple funders (box IV.2). In terms of their development stages, the port of Djibouti can be categorized as a third-generation logistics node port, while Lomé and Maputo are second-generation ports.[8]

[6] Rankings in terms of the number of containers handled by a port annually expressed in twenty-foot equivalent units (TEUs) of incoming and outgoing containers.

[7] See UNCTADstat, available at https://unctadstat.unctad.org/datacentre/dataviewer/US.PLSCI. The port connectivity index measures how well container ports are connected to global maritime networks. Rankings are as reported for the third quarter of 2025.

[8] Port categorization by UNCTAD depends on factors such as service offerings, technological capabilities and integration with global supply chains. First-generation ports focus on basic cargo handling, while second-generation ports add warehousing, distribution and some value added services, with stronger regional logistics links. Third-generation ports are highly advanced, offering comprehensive logistics and supply chain services, and are fully integrated into global trade networks with sophisticated technologies.

PAL is the main port for trans-shipments, including vehicle importation, in the West Africa subregion. It is also the main port for the imports and exports of Burkina Faso and the Niger, and increasingly for the imports of Ghana and Nigeria. The value of transported freight via the Lomé-Ouagadougou (Burkina Faso)-Niamey (the Niger) transport corridor accounts for 72 per cent of the GDP of Togo (UNCTAD, 2023). PAL has contributed to a thriving freight transport sector which, however, remains largely informal and requires professionalization. The development of the logistics sector is hampered by urban congestion (PAL is a city port), deteriorating road infrastructure and insufficiently developed rail and airport infrastructure (Kodjo et al., 2025; UNCTAD, 2023). PAL is important for the mining exports of Togo (mainly phosphate, limestone and construction products), but the sector remains underexploited (UNCTAD, 2023).

The economy of Djibouti accelerated in the second half of 2024, driven by a surge in port activity that has placed the country at the heart of a shifting global trade landscape. According to the International Monetary Fund (IMF), port activity accounts for 80 per cent of variation in GDP growth in Djibouti (IMF, 2025c).

Port operations soared by 31.4 per cent year-on-year in the second half, propelled by a 239.5 per cent increase in trans-shipment volumes, as shipping companies diverted routes around the Red Sea conflict zone (World Bank, 2025a). The port mainly serves Ethiopian exports (primarily agricultural products, with coffee being the most significant). Exports from Djibouti remain low, as the economy is still largely informal. However, the economy has a high dependence on food imports, due to negative impacts on subsistence farming from elevated climate and natural disaster. Emerging free zones targeting manufacturing have yet to have a significant impact on the economy (box IV.2).

Modern, capital-intensive ports do not offer significant employment opportunities, so during the period 2015–2021, the transport sector generated less than 7,000 new jobs in Djibouti, with the most recent estimates of unemployment elevated at 39.7 per cent, while 47.6 per cent of the working age population was engaged in informal employment (Djibouti, 2025). To foster greater local participation in the logistics industry, a training centre specializing in port operations and the logistics sector was inaugurated in November 2024.[9]

The Port of Maputo plays a critical role in alleviating pressure on South African ports, allowing greater fluidity in regional trade.

[9] Available at https://african.business/2025/04/long-reads/port-sector-driving-wider-development.

Box IV.2.
Selected case studies on maritime logistics hubs in least developed countries

Djibouti: A strategic logistics hub in the Horn of Africa

Strategic position: Djibouti's Vision 2035 seeks to leverage the location of the country's port at the strategic Bab el-Mandeb Strait, through which some 30 per cent of global maritime traffic transits, to become an African economic and trade hub.

Annual handling capacity: The Djibouti Port network encompasses seven specialized terminals for different cargo types, equipped with advanced cranes, automated systems and storage facilities. It processes 1.2 million TEUs. In addition to Ethiopia, it is ideally located to serve the Common Market for Eastern and Southern Africa.

Recent major investments: Upgrade of Doraleh Multipurpose Port, costing $580 million, completed in 2017.

Future development: In addition to strengthening the integration of its port, airport, and road and rail logistics, Djibouti is integrating its port into a network of industrial free zones. The newest, Djibouti Damerjog Industrial Free Zone, represents more than $1 billion in investment, and by 2035 is expected to be home to oil depots, a refinery, a cement factory and a power station backed by an oil terminal.

Impact on trade performance: The impact on trade remains unclear. Djibouti faces difficulties in collecting and publishing its foreign trade statistics, with data on trade exports non-existent in 2022. This hampers any assessment of port development on trade performance.

Employment impact: Direct jobs (public and private) estimated at 6,500 in transport and logistics. In 2019, free zones accounted for 20 per cent to 25 per cent of total formal employment in the private sector.

Sources: Du Couëdic (2025); Port of Djibouti (2025); UNCTAD (2024); Ford (2024); Aden (2019); WTO (2022).

Togo: Leading logistics hub in West Africa

Strategic position: Togo aims to become a major logistics centre in West Africa, leveraging the strategic location of the Port Autonome de Lomé (PAL) on the Gulf of Guinea, which is the deepest port along the West African coast, and from which access to several West African capitals is possible within a single day. Main exports include agricultural products such as cocoa, coffee, cotton and palm oil, as well as phosphates and petroleum products. Imports consist of a variety of goods, including food and agricultural products, mineral fuels and oils, vehicles, machinery and consumer goods.

Annual handling capacity: Cargo volumes increased from 300,000 TEUs in 2013 to 2.2 million TEUs in 2022, becoming the busiest port in West Africa in TEU terms. It is projected to process up to 2.5 million TEUs annually by 2025. In 2017, almost 80 per cent of the total traffic in tons was comprised of trans-shipments.

Recent major investments: Investments of $380 million enhanced the port's capacity and infrastructure; and the establishment ($230 million) of Plateforme Industrielle d'Adetikopé (PIA), a new special economic zone, was completed in 2021.

Future development: Priorities are innovation; infrastructure modernization, including the expansion of container terminals and the integration of advanced shipping technologies, encompassing full digitization of cargo clearance procedures and electronic payment systems; and improving sustainable performance.

Impact on trade performance: Trade openness has been declining since the early 2010s, despite growing activity in the Port of Lomé.

Employment impact: PAL provides over 10,000 direct and indirect jobs. According to the port, PIA provides about 6,000 direct and indirect jobs, with the long-term goal of creating 35,000 jobs.

Sources: Ouedraogo (2024); FurtherAfrica (2023); World Bank (2024a); Bridge Africa Consulting (2025); PIA (2020); Supply Chain Outlook Magazine (2025); Edoh (2025); UNCTAD (2022); IMF (2024).

Mozambique: Strategic logistics hub in Southern Africa

Strategic position: Maputo Port in Mozambique leverages its strategic location on the Indian Ocean coast and proximity to South Africa.

Annual handling capacity: The port container terminal handles 170,000 containers per annum. In 2024, the port handled 30.9 million tons. It handles containerized cargo, dry bulk cargo and liquid bulk cargo. Transit cargo is mainly destined for South Africa, and several landlocked countries of the Southern African Development Community. Half of all chromium produced in South Africa is shipped through Maputo.

Recent major investments: The port concessionaire plans further infrastructure investments of $600 million over three years beginning in 2024, representing an almost 90 per cent increase in port capacity.

Future development: Up to $1.4 billion in further port upgrades.

Employment impact: The port employs around 10,000 direct and indirect workers, but supports many more through related industries such as transportation, logistics and services.

Sources: Club of Mozambique (2024); Global Business Council (2024); Ecofin Agency (2024); MPDC (2023).

A 2022 study estimated that, in addition to 33,815 job opportunities, and household income effects, the average annual impact of the upgrade and expansion of the Maputo Port could generate, on average, $605 million (nominal values) in fiscal revenue, and contribute $345 million (in constant 2018 prices) to GDP (Conningarth Economists and Standard Bank Mozambique, 2022). Increased fiscal space from port revenue could drive higher public expenditures on education and health.

Tourism

The tourism sector plays a traditionally prominent role as a source of foreign exchange and driver of export revenues in many LDCs. Four LDCs (Madagascar, Malawi, the Niger and Nepal) have explicitly signalled their intention to establish their countries as tourism hubs.[10] However, tourism is a priority development sector in many LDCs. Those implementing hub policies are not (yet) among the highest ranked LDCs by the 2024 Travel and Tourism Development Index, and Madagascar and the Niger do not feature among the 119 countries ranked by the index (table IV.1).[11] Although at different stages of development, tourism sectors in all LDCs receive policy attention and support as part of broader economic development strategies. In 2024, among the 34 LDCs with available data, travel and tourism contributed more than 5 per cent to GDP in 20 countries, with the top five tourism earners recording shares between 10 per cent and 19 per cent (figure IV.2a).

Especially for the countries targeting to position themselves as tourism hubs, the ability to source tourists from various locations, distribute and transfer them within and across various national tourism destinations, and have an effective tourism management and service function, will be critical to their realizing their hub ambitions. Underdeveloped marketing promotion, geographical isolation, inadequate tourism infrastructure, negative perceptions related to safety and health risks, and limited health and ancillary services are often major weaknesses for tourism sectors in most LDCs.

For example, despite internationally acclaimed biodiversity status, the tourism industry in Madagascar needs to overcome poor infrastructure (with the overwhelming majority of hotels rated at three stars and below), poor roads and expensive airline travel, due to limited international connections (World Bank, 2024b). According to the World Tourism Organization Database, France accounted for 69 per cent (compared with 57 per cent in 2010) of international visitors to Madagascar in 2021. Similarly, Southern Africa is the major source market for tourism in Malawi, with 73 per cent of the 431,999 visitors in 2021 sourced from its neighbours Zambia, Mozambique and Zimbabwe. India (43 per cent in 2021 compared with 19 per cent in 2010) accounted for the highest share of 614,869 international visitors to Nepal in 2021.[12]

[10] While it can be inferred that all countries aspire to position themselves as tourism hubs, articulating a clear strategy signals a commitment to a deliberate and coordinated approach. This entails greater emphasis on developing a unique selling proposition, substantial investment in infrastructure, the provision of high-quality services and amenities, and strategic marketing to establish a world-class destination.

[11] The index measures the set of factors and policies that enable the sustainable and resilient development of the travel and tourism sector, contributing to the development of a country (World Economic Forum, 2024).

[12] With uneven reopening of countries and other markets, 2021 figures may be influenced by the COVID-19 pandemic.

Table IV.1.
Travel and Tourism Development Index 2024 overall rankings

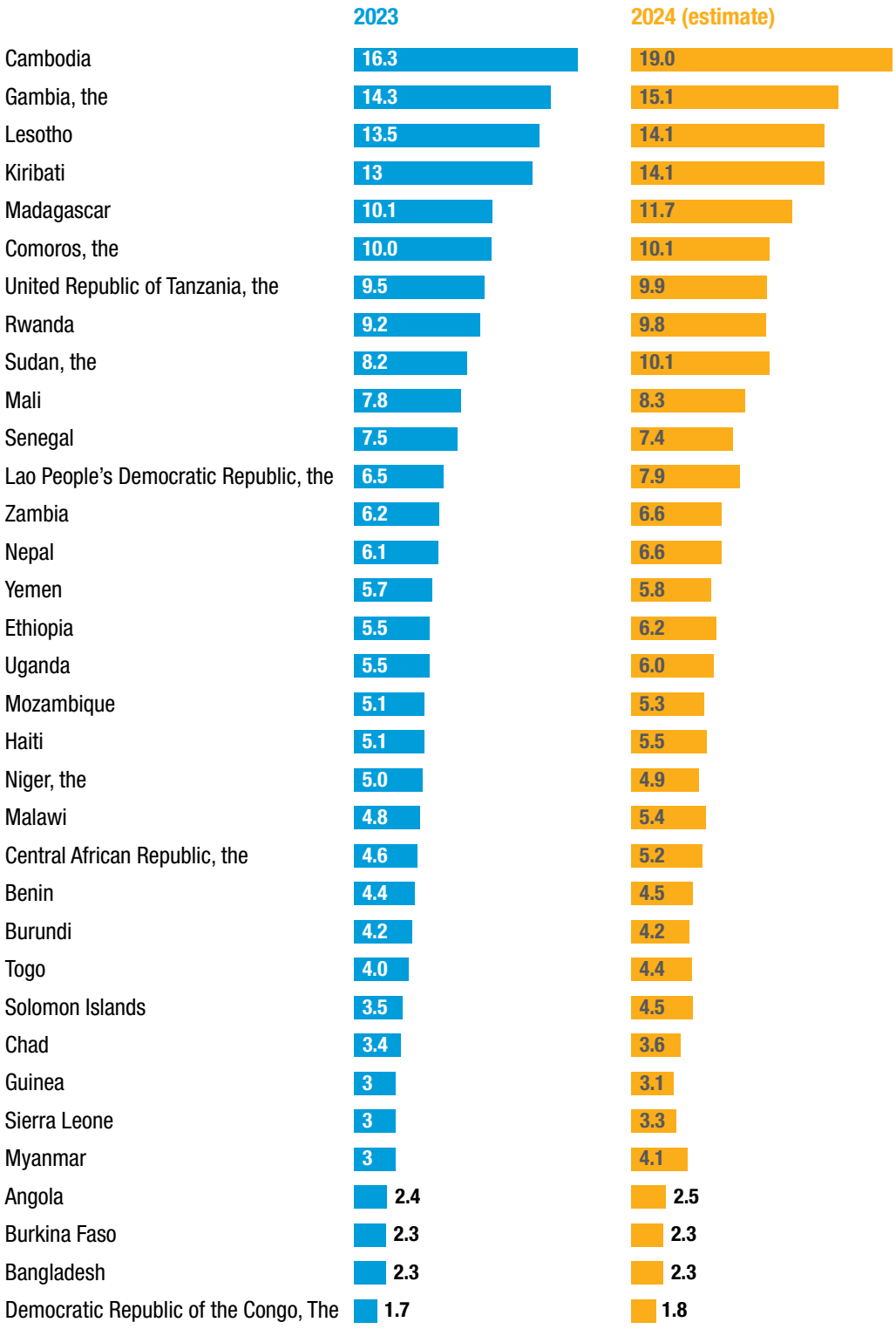
Economy	Rank	Change since 2019
United Republic of Tanzania, the	81	7
Cambodia	86	4
Lao People's Democratic Republic, the	91	2
Rwanda	93	6
Zambia	104	-2
Nepal	105	0
Senegal	107	2
Bangladesh	109	2
Benin	113	-1
Malawi	115	0
Angola	116	-2
Sierra Leone	118	0
Mali	119	0

Source: World Economic Forum, 2024.

As shown in figure IV.2b, high tourism export earnings do not necessarily correlate with significant job creation. The top five LDC tourism earners demonstrate a strong capacity to retain tourism revenue, yet tourism is not always the leading job creator in the economy. For instance, Cambodia, Kiribati and the Gambia rank high in both tourism revenue and employment, whereas Haiti, the Lao People's Democratic Republic and Nepal show relatively high employment figures, despite generating much lower tourism revenues.

Figure IV.2.
Tourism earnings and job opportunities show a complex relationship in least developed countries

(a) Tourism contribution to GDP, 2023 and 2024
(Percentage)

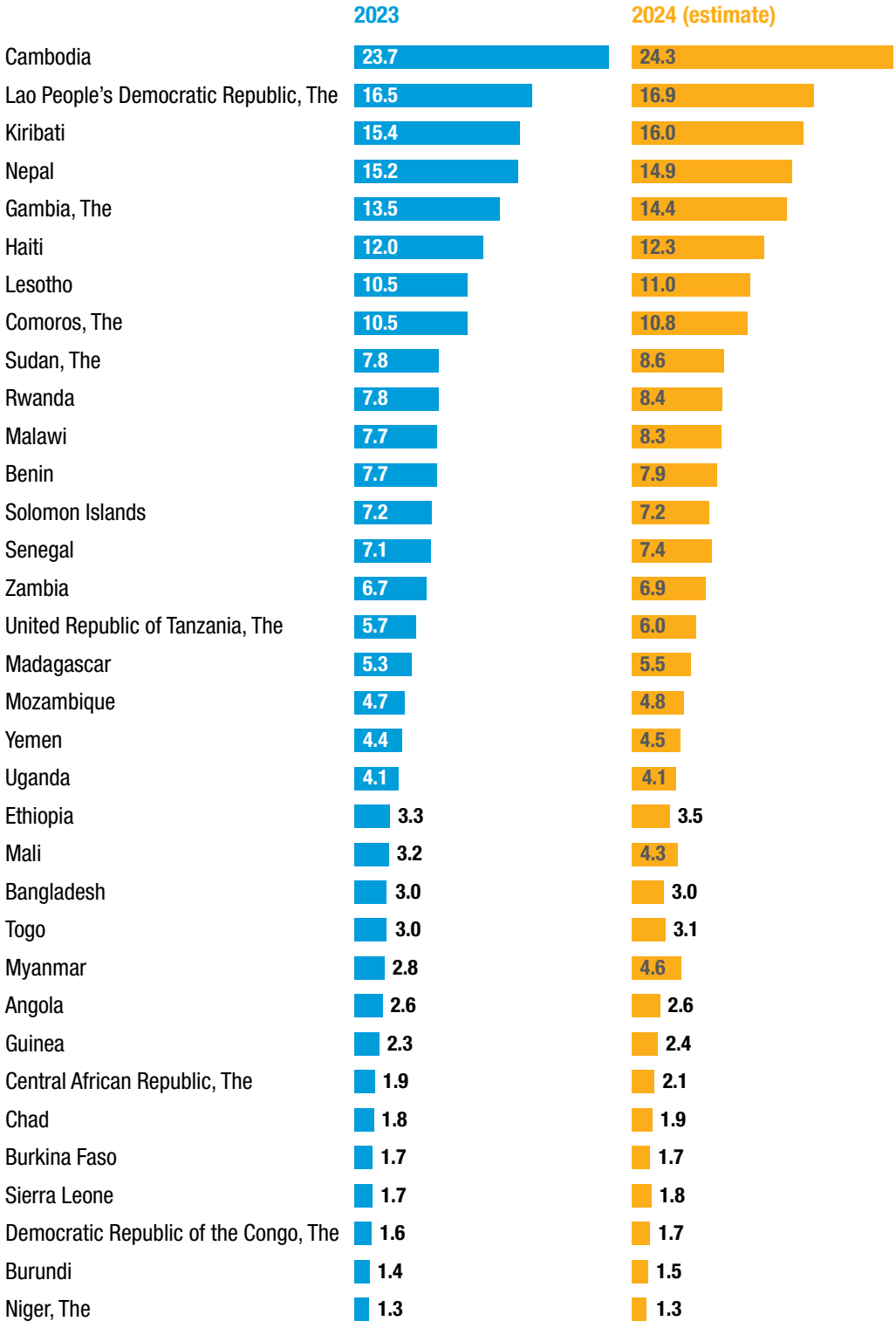


Source: UNWTO, 2024.
Note: Information unavailable for Afghanistan, Djibouti, Eritrea, Guinea-Bissau, Liberia, Mauritania, Somalia, South Sudan, Timor-Leste and Tuvalu.

Figure IV.2. *continued*

Tourism earnings and job opportunities show a complex relationship in least developed countries

(b) Share of tourism and travel jobs in total employment, 2023 and 2024
(Percentage)



Source: UNWTO, 2024
Note: Information unavailable for Afghanistan, Djibouti, Eritrea, Guinea-Bissau, Liberia, Mauritania, Somalia, South Sudan, Timor-Leste and Tuvalu.

Several factors contribute to the complex relationship between tourism revenue and employment. Certain segments of the industry – such as luxury hotels or high-end tours – can generate substantial income while employing relatively few people. Technological advancements and automation further reduce the demand for human labour (UNCTAD, 2025). Moreover, tourism jobs are often seasonal or part-time, meaning that even high revenue levels may not translate into a proportionate number of full-time equivalent jobs or widespread high wages. In some cases, a large share of tourism revenue may not remain in the local economy, especially when tourism operations rely heavily on imported goods and services, and foreign investors repatriate profits, weakening the link between tourism earnings and local economic impact, thus diminishing the sector's potential to generate foreign exchange.

A closer examination of leading tourism earners Cambodia and the Gambia reveals similarities and differences in fostering backward and forward linkages with contributions to structural transformation. In the Gambia, "sun and sand" tourism accounts for approximately 80 per cent of the sector, driven largely by a repeat and ageing European tourist demographic. Ecotourism and birdwatching have recently gained popularity. The Gambia has achieved high levels of local ownership in tourist accommodation, and strengthened the capacity of domestic stakeholders, including tourism professionals (see box IV.3), through supportive government policies. These include the 2005 Tourism Development Area initiative and tax incentives, provided by the Gambia Investment and Export Promotion Agency, which have encouraged local investment and community participation in tourism development. As a result, the country has transitioned from reliance on large international hotel chains to a more diversified and locally-driven tourism sector.

Furthermore, streamlined regulatory procedures and financial support for the construction and upgrading of hotels, lodges, transport infrastructure and essential services have created strong forward linkages with the local construction industry, while also stimulating demand for transportation, financial and telecommunications services.

The tourism sector in the Gambia predominantly attracts female workers, both skilled and unskilled, and offers substantial opportunities for micro and small enterprises. Although a 2018 survey (box IV.3) suggests that the sector's direct contribution to employment may be as low as 2 per cent – despite its notable share of GDP – estimates from the World Travel and Tourism Council indicate that tourism directly accounted for approximately 6.5 per cent of employment in 2019, rising to 17.1 per cent when indirect and induced effects are included. Tourism is also a key driver of foreign direct investment (FDI), having attracted over $45 million between 2017 and 2022 (World Bank, 2022a). Strong backward linkages with domestic agriculture and manufacturing span a wide range of local suppliers – including horticulture, meat, dairy, fruit juices, seafood, poultry, crafts, locally produced furniture, and cosmetics – highlighting tourism's potential to stimulate broader economic activity. Initiatives such as "Gambia is Good," launched in 2004 (box IV.3), have strengthened connections between tourism and the fruit and vegetable sector. More recently, the "Gambia's Good Market" initiative, launched in 2025, targets youth and women entrepreneurs, promoting home-grown products and services, and enhancing market access for small businesses in the tourism and creative industries.[13]

Tourism supports women, youth entrepreneurs and local value chains in the Gambia

[13] Available at https://x.com/ITCnews/status/1941134194719195474.

As with the Gambia, the economy of Cambodia is highly dependent on tourism. Prior to the COVID-19 pandemic, the sector experienced a period of rapid growth, with the number of international tourist arrivals reaching 6.6 million and tourism receipts totalling $4.9 billion – equivalent to 18.2 per cent of GDP – in 2019. When accounting for indirect impacts, the total contribution of tourism to GDP rose to 31.4 per cent, with employment impacts reaching 31.2 per cent (ADB, 2023).

As in the Gambia, tourism has strong forward linkages with infrastructure development. Although some estimates suggest that backward linkages with agriculture through the use of local inputs for food and beverage sales to tourists translated to about $1.6 million at the farm gate in 2013 (WTO et al., 2013), more recent sources suggest the sector since relies heavily on imported food products (Mao et al., 2014; Kanha, 2025). Traditional handicrafts – such as silk products, stone carvings and lacquerware – benefit from tourism markets, providing income opportunities for disadvantaged rural youth. Local ownership in tourist accommodations in Cambodia is substantial, with many establishments owned and operated by Cambodians. In 2019, the number of guesthouses and hotels increased by 16.9 per cent and 24.1 per cent, respectively. This high level of local ownership has helped distribute tourism's economic benefits domestically, but also amplified the sector's vulnerability to external shocks.

The pandemic caused tourism's GDP contribution to fall to 7.2 per cent in 2020 and 4.7 per cent in 2021, with employment declining by 21.7 per cent in 2020 (ADB, 2023). While the Ministry of Tourism projects 7.5 million foreign tourists in 2025 – up from 6.7 million in 2024 – recovery in tourism receipts remains sluggish. This is partly due to a shift in the composition of arrivals, with fewer air travellers and a growing share of tourists from ASEAN countries replacing high-spending Chinese visitors, whose numbers remain well below pre-pandemic levels (IMF, 2025a).

A combination of trade-offs between tourism revenue and job creation is likely present across all LDCs, as these economies increasingly pursue diverse tourism diversification strategies. Among these, ecotourism – alongside broader sustainable and high-end tourism – is the most widely favoured, with 38 LDCs actively seeking to develop these segments. Countries such as the Lao People's Democratic Republic, Rwanda, Timor-Leste and Vanuatu exemplify this trend. Some LDCs are exploring less conventional tourism niches. For example, in addition to ecotourism, Eritrea aims to position itself as a leading conference and cycling hub in Africa, targeting both business and sporting events. The Niger, while prioritizing domestic tourism, also seeks to become a centre for international events. In Ethiopia, a private investment firm recently announced plans to develop a multispecialty hospital complex in Addis Ababa, aimed at transforming the city into a medical tourism hub. [14]

[14] This illustrates how investment funds and some multilateral institutions increasingly promote private healthcare solutions. With reported estimates of $500 million and $1 billion in annual expenditure on international health services spent by Ethiopians and Nigerians, respectively, this private initiative is betting on existing demand from the local economy and the rest of the continent (MedEdge, 2024; Adeoye, 2023; Getachew, 2024). See also https://rohamedicalcampus.com/medical-campus/.

Box IV.3.
Resilient tourism: The path of the Gambia to recovery and growth

The Gambia has a high dependence on tourism, averaging 20 per cent of GDP and accounting for 48 per cent of exports prior to the COVID-19 pandemic. European countries account for up to 80 per cent of international arrivals. Proximity to Europe, combined with a reputation for pristine beaches and strong international flight connectivity, has traditionally attracted seasonal tourists seeking to escape the European winter. Between 2009 and 2019, leisure and business tourism segments grew by 269 per cent and 200 per cent, respectively. Marketing efforts have primarily been led by international tour operators, as government capacity to collect and utilize tourism data remains limited. As a result, most tourists purchase all-inclusive packages, with much of the tourism value chain captured by the tour operator and destination hotel. Nonetheless, out-of-pocket tourist spending – averaging around $304 per visitor on items such as food, shopping and excursions – accounts for roughly one third of the tourism value chain. This is higher than in comparable markets – such as Ethiopia, Mozambique and Uganda – where the availability of discretionary products is more limited.

According to a survey undertaken in 2018 by the Gambia Bureau of Statistics, Gambian ownership (62.1 per cent) is spread across all types of tourism accommodation establishments. However, the accommodation type (apartments) with the highest turnover had the highest levels of foreign ownership (56.9 per cent). Gambians similarly dominate ownership of ground tours (95.7 per cent), but 65.2 per cent of operators realized low turnover.

In 2020, the tourism sector experienced a sharp 62 per cent year-on-year decline in international visitor arrivals, falling below 1997 levels. This was accompanied by a $152 million drop in tourism receipts, equivalent to 9 per cent of GDP. The sector's contribution to GDP contracted by 52.8 per cent, while employment fell by 30.5 per cent. It is estimated that 94 per cent of the financial losses were absorbed by accommodation providers, with the remainder borne by ground tour operators, restaurants and beach bars. The resulting impact on employment was severe. By 2018, the sector was estimated to support over 41,800 direct and 65,500 indirect jobs – equivalent to 18 per cent of total employment.

In 2022, the Gambia secured a $68 million grant from the World Bank to support the Gambia National Tourism Policy Strategy 2021–2031. The strategy aims to build on the sector's previous achievements, address both existing and emerging challenges in the aftermath of the COVID-19 pandemic, and enhance overall competitiveness of the tourism industry.

Sources: UNCTAD (2017); Huma (2022); The Gambia (2018a, 2018b); GiEPA (2020); IMF (2025b); World Bank (2022b).

Financial services

Financial hubs[15] that specialize in cross-border financial activity, often located in small economies, have become a well-established feature of the global financial system. This trend is driven by factors such as geographic positioning, regulatory frameworks and tax regimes, which counterbalance the natural tendency of financial activity to concentrate in a few major global centres. The prominence of FDI in these cross-border hubs, frequently in the form of funds that transit with minimal local economic engagement, reflects the significant role of tax and regulatory considerations in shaping financial flows (Pogliani et al., 2022).

Developing a financial hub can yield significant economic benefits, as these centres attract investment and enable the efficient allocation of capital, thereby fostering growth and development.

Being a financial hub also enhances a city or country's integration into global markets, facilitating international trade and investment for local businesses. The concentration of financial services can generate substantial employment opportunities, not only within finance, but also in related sectors such as law, accounting and information technology. The convergence of finance and technology often positions financial hubs as centres of innovation, attracting top talent and driving the creation of new financial products and services.

While the overwhelming majority of LDCs (37 countries) focus on fostering financial inclusion, with the goal of poverty reduction,[16] just three LDCs explicitly aim to position themselves as financial hubs – namely, Djibouti, Rwanda and Senegal. Rwanda is the only LDC to have made significant progress in establishing its capital as a financial hub (box IV.4).

[15] Also referred to as financial centres.

[16] Financial inclusion initiatives often focus on household-level access, with limited spillover to productive enterprise financing.

Box IV.4.
Kigali International Financial Centre in Rwanda is setting a high bar for excellence

Officially launched in 2020, the Kigali International Financial Centre (KIFC) is the flagship initiative for Rwanda to position itself as a financial hub in Africa, aimed at attracting international investment and facilitating cross-border financial transactions. Rwanda has signed memorandums of understanding with financial centres in Luxembourg, Qatar, Astana (Kazakhstan), Jersey and Abu Dhabi (United Arab Emirates), fostering collaboration in areas such as financial expertise, financial technology (fintech) development and capacity-building. These partnerships enhance the role of KIFC by promoting international financial integration and knowledge exchange.

Within just three years of its establishment, KIFC rose to seventh place in the Middle Eastern and African Centres category of the Global Financial Centres Index, surpassing more established hubs such as Cape Town, Johannesburg, Nairobi and Lagos. Rwanda has also become the domicile for 25 investment funds, with sectoral targets set to reach 300 fintech companies and create 7,500 jobs by 2029.

KIFC debuted in the 30th edition of the Global Financial Centres Index ranked 83rd out of 116 centres in 2021 – a notable achievement for a newly launched financial centre. Since then, Kigali has climbed 11 places, to rank 72nd globally in the 37th edition, and is among the top five centres expected to gain global significance. In fintech, KIFC ranks 64th worldwide.

As of December 2024, the financial system of Rwanda comprised 696 regulated institutions, up from 664 in December 2023. These included 11 banks (commercial, microfinance, development and cooperative); 13 pension schemes (public and private); 18 insurers (covering life, non-life, microinsurance, captive, health maintenance organizations and mutual insurers); 434 community-based microfinance institutions; 78 foreign currency dealers; 37 payment service providers; 104 non-deposit-taking financial institutions; one stock exchange; and 1 credit bureau. Credit risk remains low across all subsectors. The banking sector – dominated by Pan-African groups, with the five largest banks holding 75.6 per cent of total banking assets – accounts for 67.5 per cent of the financial system's total assets. The insurance subsector is closely linked to the broader financial system, with 40.8 per cent of its assets invested in financial placements and equity, underscoring its role in financial stability and economic growth. Notably, the non-life segment represents 89.2 per cent of the insurance sector's total assets.

Sources: Z/Yen Group and China Development Institute (2025); Rwanda (2025b). Also see KIFC website, available at https://kifc.rw/ (consulted April 2025).

Rwanda's financial and insurance industries grow, boosting employment and contributing to economic development

In Rwanda, successive government-led policies have been instrumental in driving the structural transformation of the economy – from agriculture-based to services-led. Rwanda stands out as a successful early mover riding the financial services hub wave (box IV.4 and box IV.5). The country implemented its Financial Sector Development Programme (FSDP I) from 2008. The programme helped increase access to financial services from 47 per cent to 80 per cent of the population by 2017. KIFC was launched in 2020 under FSDP II.[17]

In 2024, the services sector grew by 10.3 per cent, contributing 5.1 percentage points to overall GDP growth, with financial services a growing component, representing approximately 3 per cent of GDP and accounting for an average of 5 per cent of services output between 2006 and 2022 (Vanguard Economics et al., 2024). The depth of the financial sector, measured by total assets as a share of GDP, increased from 64.3 per cent in December 2023 to 68.5 per cent in December 2024, highlighting its growing role in supporting economic development (Rwanda, 2025b). This expansion is being driven by efforts to mobilize savings, particularly long-term savings, and attract long-term capital for investment. The financial and insurance industries accounted for 0.8 per cent of total employment in 2024, with the number of people employed in these sectors rising from 22,000 in 2017 to 37,000 in 2024 (Rwanda, 2025a).

Strategic initiatives and supportive regulatory factors that explain the upward trajectory of KIFC are detailed in table IV.2.

Looking ahead, Rwandan authorities acknowledge financial services' heightened exposure to cyber risks from digitalization and the growing threat to financial stability from climate-related risks (Rwanda, 2025b). The microfinance subsector faces several challenges, including the transition to full automation and digitalization, as well as weaknesses in corporate governance and internal controls.[18] Non-deposit-taking financial service providers have become a key alternative lending channel, and are expected to play a significant role in curbing illegal lending practices and promoting formal credit access (Rwanda, 2025b). Growth in lending from these providers is driven by digital microlending, particularly float financing and lease agreements for electric motorbikes, which support the expansion of the transport sector and related entrepreneurial activity.

Overall, the efforts of Rwanda to establish Kigali as an international financial centre and fintech hub are showing promising results. The country's network of information exchange agreements on tax matters spans 151 jurisdictions, 20 bilateral double taxation agreements, and relevant East African Community regional agreements. The first peer review report by the Global Forum on Transparency and Exchange of Information for Tax Purposes[19] concluded that the legal and regulatory framework in Rwanda was satisfactory, though the banking sector's information-sharing practices needed some improvements (OECD, 2024).

[17] FSDP II comprises four main programmes: (a) financial inclusion; (b) developing financial institutions, markets and supporting infrastructure; (c) enhancing investment and savings to transform the economy; and (d) protecting consumers and maintaining financial stability. Available at https://www.minecofin.gov.rw/1/accountant-general-1-1-1.

[18] Launched in 2008 to promote financial inclusion, Rwandan Umurenge Savings and Credit Cooperative Organization (U-SACCOs) have evolved from community savings schemes into key players in the microfinance sector. They have fostered a culture of saving, credit management, entrepreneurship and investment. Despite their progress, concerns persist about their transition to formal banking. The Government is now consolidating and strengthening SACCOs, having completed the automation of 416 U-SACCOs in June 2024, with ongoing efforts to merge them into 30 District SACCOs (D-SACCOs) (Rwanda, 2025b; Diop et al., 2023).

[19] The report constitutes the Phase 1 review, which assesses only the adequacy of the existing legal and regulatory framework of Rwanda. The assessment of the practical implementation of the legal framework will be the focus of the Phase 2 review, to be launched by June 2027.

Table IV.2.
Strategic drivers behind the progress of the Kigali International Financial Centre

Strategic initiatives	
Attracting cross-border investments	Facilitating cross-border investments and financing across Africa. For example: $350 million Fund for Export Development in Africa established by AfreximBank; $250 million Virunga Fund created through a partnership between Qatar Investment Authority and the Rwanda Social Security Board; $10 million Angel Investment Special Purpose Vehicle registered in Kigali by the Dakar Network of Angel Investors; $2.2 billion cross-border payments firm Chipper, co-founded by a Ghanaian and Ugandan.
Building a domestic talent and skills base	Investing in developing local talent and skills to support the financial sector. This includes partnerships with educational institutions and professional training programmes.
Promoting Kigali as a financial destination	Strategic marketing and international partnerships.
Hosting major events	Organizing significant events that attract global attention, such as the Inclusive Fintech Forum.
Supportive regulatory factors	
Modern legal and regulatory framework	Rwanda has implemented a modern and innovative legal framework that supports financial operations, including a regulatory sandbox to encourage fintech solutions, as well as partnerships and educational initiatives such as the Rwanda Imbaraga SMEs Ecosystem (RISE), which facilitates the Bank of Kigali extending loans to RISE-certified small and medium-sized enterprises (SMEs).
Good corporate governance	Emphasizing strong corporate governance and compliance with international financial regulations.
Ease of doing business	A regulatory environment designed to help businesses set up and operate, including streamlined processes for registration and licensing and the Open Finance Framework, which facilitates data-sharing, enabling more inclusive financial services for SMEs.
Investment incentives	Extending various incentives to attract international investors, including tax benefits and other financial inducements.

Sources: Rwanda, 2025b. Also see KIFC website, available at https://kifc.rw/, consulted April 2025.

Box IV.5.
An integrated approach to fintech and technology startups
Rwanda optimizes the ecosystem for financial innovation

Following the launch of KIFC, Rwanda introduced its FinTech Strategy (2024–2029) to systematically and holistically develop the ecosystem needed to strengthen Kigali's position as a regional financial services hub. The strategy targets $200 million in fintech investments by 2029, and aligns with the Rwanda National Payment System Strategy (2018–2024), which promotes a cashless economy, expanded financial inclusion beyond payments, and advanced financial sector development.

The FinTech Strategy identified the majority of fintech firms in Rwanda as operating in payments, clearing and settlement services, and as fintech enablers (22 firms). Others are engaged in deposit lending (16), insurance (5), savings (5), capital raising/alternative finance (4), and crypto assets (1). Most firms operate in business-to-consumer (56 per cent) and business-to-business (36 per cent) segments, with the remainder serving government-to-consumer, business-to-government and consumer-to-consumer markets.

Existing interoperable payment platforms have supported innovation by enabling cost-effective integration between financial institutions and fintech firms. Fintech is widely credited with advancing financial inclusion. According to the National Bank of Rwanda's Financial Inclusion Dashboard, launched in March 2025, 90.2 per cent of the population was financially included as of 25 August 2025. The mobile payments ecosystem has grown rapidly, with retail digital transactions rising to 301 per cent of GDP in 2024, up from 179 per cent in 2023.

As of April 2025, StartupBlink reported 54 fintech firms operating in Kigali. Several notable companies have expanded into Kigali, including:

- Chipper Cash (founder origin Uganda, 2018) – cross-border payment solutions;
- Flutterwave (founder origin Nigeria, 2016) – online payments and money transfers;
- Ampersand (founder origin New Zealand, 2014) – electric motorcycle taxis and driver financing;
- KAYKO (founder origin Rwanda, 2020) – bookkeeping and accounting for small businesses;
- Viebeg (founder origin Kenya, 2012) – data-driven logistics for healthcare procurement.

The national and city-level startup ecosystem in Rwanda has become a key driver of competitiveness. In 2025, StartupBlink ranked five LDCs – Bangladesh, Senegal, Uganda, Rwanda and Somalia – among the world's top 100 startup ecosystems. Rwanda ranked 12th in Africa and 3rd in Eastern Africa. Given the relatively small domestic market, Rwandan startups are mainly oriented towards global markets. Public support includes tax incentives, accelerated equipment depreciation and intellectual property protection.

New initiatives such as the Centre for the Fourth Industrial Revolution (C4IR) – which promotes emerging technologies including artificial intelligence (AI), blockchain and Internet of Things (IoT) – and the roll-out of 5G in June 2025, have further strengthened the innovation infrastructure of Rwanda. While the startup ecosystem benefits from growing private sector and international support, challenges remain, particularly in infrastructure and access to early-stage funding.

Source: StartupBlink (2025); Rwanda (2024, 2025b). Also see https://afr.rw/rwanda-launches-national-fintech-strategy-to-drive-growth-and-innovation-2/.

One of the key challenges facing the financial services sector in Rwanda is the limited availability of a skilled talent pool. Existing gaps in both technical and soft skills are expected to become more pronounced as Rwanda expands its international financial services offering (Vanguard Economics et al., 2024; World Bank, 2019b). Although Rwanda produces a significant number of finance and accounting graduates, the current skills base is not yet sufficient to support the development of a globally competitive financial centre. Non-specialist roles, such as administrative staff and cashiers, make up 57 per cent of the workforce, while specialized positions account for 40 per cent. The typical financial sector employee is a male undergraduate with less than five years of experience, and under 40 years old.[20] Projections indicate that by 2027, the sector will need to fill approximately 1,700 senior banking roles, 4,500 mid-level roles, and 5,000 non-specialist roles, all requiring tertiary education. Meeting this demand will be challenging: average years of schooling were just 4.9 in 2023 and the training system in Rwanda remains fragmented (UNDP, 2025; Vanguard Economics et al., 2024). To address these gaps, Rwanda is actively engaging its diaspora, particularly financial professionals based in Canada and the United States.[21] [22]

Rwanda faces challenges in moving from access to financial services towards full financial usage. The slow uptake of financial and insurance services in the domestic market, despite high levels of financial inclusion, limits the broader impact of the financial sector on the country's structural transformation. In agriculture, the lack of tailored financial products beyond agri-insurance[23] continues to hinder the development of diverse value chains (Rwanda, 2022). Only 19 per cent of farmers are banked, with 76 per cent relying on other formal (mainly mobile money) and informal financial services (AFR, 2024).

According to the Finscope Survey 2024, formal credit uptake rose slightly, from 22 per cent in 2020 to 24 per cent in 2024, while informal credit, mainly from family and friends, stood at 38 per cent (AFR, 2024). At just 22.61 per cent of GDP in 2024, domestic credit to the private sector has been declining since 2022, below the government target of 30 per cent of GDP.[24] Poverty remains the major constraint: in 2023, over half the population lived below the income poverty line, limiting their ability to save or access credit. To deepen the capital market and improve yields, the Government began issuing bonds with maturity periods of up to 20 years in 2023.[25]

Enabled by fintech (box IV.5), there has been a notable increase in the uptake of private financial products (particularly microinsurance) and pension schemes. These segments are growing, although most of the population remained uninsured in 2024.

Business process outsourcing

Companies increasingly outsource both customer-facing and internal functions to focus on core activities, while leveraging the specialized expertise of the business

[20] In 2023, the share of the population aged 25 years and older with secondary education was 20.5 per cent and 24.5 per cent for female and males, respectively (UNDP, 2025).

[21] Available at https://www.idiaspora.org/en/opportunity/finance-sector-technical-and-vocational-education-and-training-experts-diaspora.

[22] A report commissioned by the Government of Rwanda revealed that Rwanda loses ICT professionals to other countries around the world, including Canada. The report also notes that the most common title among such Rwandan professionals having a LinkedIn account was "founder", and a good number of them were self-employed. Available at https://rdb.rw/talent-insight-report/ict.pdf.

[23] The insurance market in Rwanda is at an early stage of development. Penetration is still low, even compared with some of its regional peers.

[24] Available at https://databank.worldbank.org/.

[25] Government bond yields serve as a benchmark for capital costs and long-term bank loans. Available at https://bkcapital.rw/IMG/pdf/bk_capital_investor_handbook.pdf.

process outsourcing (BPO) industry. BPO plays a vital role in both manufacturing and services, though its application and impact differ across sectors. Overall, BPO helps streamline production and logistics in manufacturing, while improving customer experience and operational efficiency in services (PwC, 2024).

The emergence of BPO firms in LDCs is closely tied to the implementation of digitalization and information and communications technology (ICT) policies, as illustrated by case studies of Bangladesh, Madagascar and Nepal (box IV.6). Expanded global Internet connectivity also creates a conducive environment for growth. BPO enterprises in many LDCs have gained global visibility.

The experience of Madagascar offers valuable insights into how competitive conditions can influence the trajectory of emerging industries. From having the fastest broadband in Africa in 2018 (AXIAN, 2018), the position of Madagascar declined by 2025, likely due to a combination of infrastructure limitations, affordability issues and policy challenges. According to the Speedtest Global Index, Madagascar ranked 13th in Africa by median download speed in 2025, falling short of the continent's top performers. Table IV.3 presents a comparative analysis of key Internet connectivity indicators in the case study countries, and these provide evidence of far more positive prospects for the BPO industry in Bangladesh. The data also underline the importance of latency, when comparing Internet speeds – although download and upload speeds are faster in Nepal compared with Bangladesh, latency in Bangladesh is low, meaning connectivity has a more responsive performance.

Connectivity quality crucially shapes the prospects of BPO and digital industries

The BPO industry in Bangladesh traces its origins to the launch of the "Digital Bangladesh" initiative in 2009 – a national vision aimed at transforming the country into a technologically advanced and digitally empowered society. By leveraging ICT, the initiative sought to improve governance, drive economic development, and enhance the overall quality of life for citizens.

Since then, the Government has continued to mainstream and update the vision through successive development strategies and plans. A key institutional driver has been the Bangladesh Computer Council, established under the Ministry of Posts, Telecommunications and Information Technology. The Council plays a central role in promoting ICT-related activities, formulating national ICT strategies and policies, setting standards for government ICT tools, and fostering human capital development in the sector.

The ranking of Bangladesh in the United Nations E-Government Development Index improved significantly, from 150th in 2012 to 100th in 2024.[26] The country's digital economy comprises three key components: a domestic market-oriented segment (e.g. e-commerce, F-commerce, and IT-enabled services); a global-facing segment (e.g. digital service exports and freelancing); and global digital platforms operating within Bangladesh (Rahman, 2023).

Catalysed by World Bank support, between 2012 and 2019, IT sector revenues and exports increased by $280 million and created 35,000 digitally-enabled jobs, with over one third going to women (World Bank, 2020b).

Current initiatives aim to further strengthen the digital ecosystem, including improving cybersecurity, training youth and professionals in emerging technologies such as AI and cybersecurity, promoting digital adoption among SMEs and strategic industries, and fostering innovation through research and innovation centres. In addition, an integrated, cloud-based system for government agencies to drive cost savings on IT investments and ensure continuity of essential services is envisaged.[27]

[26] Available at https://publicadministration.un.org/egovkb/Data-Center.

[27] Available at https://edge.gov.bd/.

Box IV.6.
Business process outsourcing sector growth: The cases of Bangladesh, Madagascar and Nepal

Bangladesh: International expansion and joint ventures

The BPO sector in Bangladesh has experienced rapid growth, evolving from a few hundred employees to over 50,000 within a decade, and becoming a vital component of the national economy. A total of 2,686 companies are listed as members on the Bangladesh Association of Software and Information Services website, reflecting the sector's expansion.

The industry services offered include data entry, customer support, telemedicine, medical transcription, web design and software development. One industry source states that, by 2022, Bangladesh had 200 call centre service providers, 4,500 registered software and ICT-enabled services companies, and over 500 other BPO firms. Bangladeshi services are competitively priced – up to 20 per cent cheaper than those in India and 30 per cent lower than in the Philippines. A key advantage is the country's large pool of skilled workers, including an estimated 600,000 freelancers in 2022, who collectively earned around $150 million through international payment gateways.

By 2022, approximately 30 Bangladeshi companies had established overseas offices in countries including the United States of America, the United Kingdom of Great Britain and Northern Ireland, Japan, Denmark, the Republic of Korea, Germany, the Netherlands, Australia and Canada. Not all companies are wholly locally owned. Some are operated through joint ventures with international partners.

Madagascar: Broadband Internet and competitive advantage

Madagascar briefly held the distinction of having the fastest broadband Internet in Africa in 2018, thanks to its early connection to the Eastern Africa Submarine Cable System providing a head start in fibre connectivity. This helped attract efficiency-seeking FDI from technology-intensive BPO companies. These firms provided telecommunications and data processing services to major international clients such as Air France, Amazon and Deliveroo. At its peak, the BPO sector generated an estimated $115 million in revenue, accounting for 1.6 per cent of GDP. In 2019, the sector employed around 15,000 people, with projections suggesting this could rise to 100,000 by 2030.

Up to 2020, BPO activities in Madagascar were largely concentrated in lower value added services such as call centres and back-office operations, with France representing 75 per cent of firms' sales, followed by the United States, Switzerland and Belgium. By 2023, the export-oriented BPO sector had grown to approximately 230 firms, and a niche segment focused on higher value added services – such as ICT, software development and AI – had begun to emerge, supported by a pool of well-qualified local software developers.

Flexible and remote work arrangements helped reshape the geographic distribution of job opportunities, encouraging the expansion of activities beyond the capital city. This shift has particularly benefited women, who occupy around 50 per cent of entry-level positions and nearly 40 per cent of management roles in the sector.

Nepal: Growth in economic activity and foreign currency reserves

ICT services exports have emerged as a key driver of GDP growth and foreign currency earnings in Nepal. In 2020, they accounted for 1 per cent of GDP and 2.9 per cent of foreign exchange receipts. By 2022, these figures had risen to 1.4 per cent and 5.5 per cent, respectively. ICT companies alone contributed 0.5 per cent to GDP and 2.2 per cent to foreign exchange inflows. Notably, one study found that freelancers outpaced ICT firms in 2022, contributing 0.8 per cent to GDP and 3.4 per cent to foreign exchange earnings. The BPO sector in Nepal serves both domestic and international clients.

Sources: BASIS (2022); World Bank (2019a, 2020a); FNCCI (2024); IIDS (2023); AXIAN (2018); Recom (2024).

Table IV.3.
Median broadband speeds and affordability: Comparative data on Bangladesh, Madagascar and Nepal

Country	Rank 2024	Median country download speed (Mbps)	Median country upload speed (Mbps)	Latency (ms)	Affordability (% of gross national income per capita)
Bangladesh	98	59.2	52.8	4	1.28
Madagascar	123	31.9	13.0	38	51.8
Nepal	89	78.6	62.2	5	7.19

Sources: Speedtest Global Index, available at https://www.speedtest.net/global-index; and ITU datahub, available at https://datahub.itu.int.
Notes:
1. Mbps stands for megabits per second.
2. ms in latency stands for milliseconds.
3. Lower latency means a faster, more responsive connection, while higher latency can cause delays, buffering and lag in online activities.

Key components of the operationalization of Bangladesh's Vision include:

1. *Comprehensive digitalization of government services,* supported by multi-billion-dollar investments in digital infrastructure and communications networks (BASIS, 2022; World Bank, 2020b).
2. *ICT capacity-building initiatives,* aimed at enhancing the digital competencies of the national workforce and strengthening the local ICT industry, with a particular focus on promoting ICT-enabled services (ITES) and BPO (BASIS, 2022; World Bank, 2020b).
3. *Regulatory reforms,* to support the evolving digital ecosystem (BASIS, 2022; World Bank, 2020b).

To stimulate industry growth, the Government offered tax exemptions and profit repatriation for ICT and ITES companies, and cash incentives for ICT/ITES exports. The ICT infrastructure includes 39 high-tech and ICT parks designed to attract investors (PwC, 2023).

Government-led digital initiatives have significantly contributed to workforce upskilling. The BPO sector has diversified foreign exchange sources in Bangladesh, reducing reliance on the ready-made garment industry and supporting structural transformation. The country's BPO firms offer an expanding range of services – from data entry and call centres[28] to property reservations, bookkeeping and ICT support – enhancing productivity for both domestic and international clients (Asad, 2022). Demand for ICT and ITES services also comes from the manufacturing sector, including garments, textiles and pharmaceuticals (BPO.com, 2021). The rise of BPO companies has triggered positive spillover effects across ancillary industries, creating new business opportunities for local enterprises, and contributing to broader socioeconomic development and structural transformation (Asad, 2022).

[28] A licence from the Bangladesh Telecommunication Regulatory Commission is required to operate a call centre in Bangladesh. When the Government began promoting the information technology-enabled services and business process outsourcing industry, it eased the cost of call centre licenses. Available at https://www.thedailystar.net/news-detail-36686 and https://www.bacco.org.bd/blog-details/burgeoning_local_demand_to_spur_call_centre_business.

As of 2025, Bangladesh ranks second only to India in global freelancing, with over 650,000 active freelancers, of which 96 per cent are under 30 years of age and 80.8 per cent are tertiary graduates, generating more than $500 million annually in foreign exchange (Jobbers, 2025).

Looking ahead, both established and emerging firms are embracing AI. The integration of home-grown AI solutions (Briones, 2025; Recom, 2024) suggests a shift in skill requirements rather than a net loss of jobs. However, a significant barrier for the export-oriented sector is the lack of formal English training, reported by around 60 per cent of freelancers (Alam et al., 2021). Infrastructure limitations – including unreliable power supply, limited high-speed Internet and poor telecommunications – continue to hinder growth. The tech parks and investments in submarine cable networks contribute to addressing these concerns (Yadav, 2024; Bangladesh, 2025).

Industry trailblazers

National productivity growth is often driven by a few firms that make a disproportionately large contribution to productivity growth in the overall economy (Mischke et al., 2025). This section presents a case study of Ethiopian Airlines and tech startup, ShopUp.[29] Ethiopian Airlines provides an example of an LDC enterprise that has strived to scale high-productivity models, optimize portfolios, enhance customer value and redesign operations through cost reduction. Similarly, ShopUp exemplifies a layered expansion-driven strategy underpinned by market fit and agility.

Ethiopian Airlines was one of the few global carriers to maintain profitability during the COVID-19 crisis (Nwokolo, 2025; DLD, 2025). Ethiopian Airlines management has implemented strategic vision, brokered effective partnerships, and made investments in technology and human capital, delivering sustained profitability (box IV.7). Revenue exceeded $7 billion in the 2023/2024 fiscal year, contributing 5.7 per cent to the GDP of Ethiopia and employing 19,000 people directly (DLD, 2025).

[29] ShopUp is a business-to-business (B2B) platform that manages the entire B2B value chain, from initial sales and marketing to complex operations and customer service.

Box IV.7.
Ethiopian Airlines: Strategic moves to diversify, increase productivity and drive profitability

Founded in 1945, Ethiopian Airlines has evolved into a major global player in the aviation industry. As a State-owned enterprise in a least developed country, it has consistently demonstrated profitability and resilience through strategic planning and effective management. It has long prioritized technological advancement and human capital development, having established the Ethiopian Aviation Academy in 1956, its own maintenance facility in 1957, and the first pilot school in Africa in 1964.

The airline has implemented three transformative strategic plans:

Vision 2010, launched in 2005, aimed to significantly expand operations and market presence by 2010.

Vision 2025, achieved eight years ahead of schedule, resulted in a fourfold increase in revenue and fleet size, and the transformation of the airline into a diversified aviation group. This expansion included aviation training; flight catering; maintenance, repair and overhaul; and ground services.

Vision 2035 sets ambitious targets: transporting 65 million passengers and 3 million tons of cargo annually, generating $25 billion in revenue, doubling its fleet from 140 to 271 aircraft, and expanding its destination network from 131 to 207.

Ethiopian Airlines maintains operational independence and employs an incentive-driven management approach. Its hallmark qualities – flexibility and rapid decision-making – have enabled it to navigate crises effectively. For instance, during the 1991 internal conflict, the airline swiftly relocated aircraft and operations to Nairobi to ensure service continuity. More recently – in response to revenue declines, inflation, high fuel costs and global supply chain disruptions due to COVID-19 – the airline pivoted towards cargo, hospitality, and maintenance, repair and overhaul services. It converted 25 passenger aircraft into freighters, delivered essential medical supplies across Africa and South America, and provided maintenance services to carriers in the Middle East and Africa – actions that helped sustain financial stability.

The airline's investment in cargo infrastructure has positioned it as the largest cargo operator in Africa, with facilities capable of handling up to 1 million tons annually. In 2024, the airline inaugurated a new e-commerce logistics hub in Addis Ababa to meet growing demand from African online shoppers and retailers, partnering strategically with Chinese e-commerce giants. The airline also engages in joint ventures with DHL to develop its cargo business, and with Boeing for aircraft parts manufacturing.

Ethiopian Airlines has expanded its global footprint through its membership in the Star Alliance since December 2011, enabling strategic partnerships and code-sharing agreements that enhance connectivity to over 1,300 airports in 195 countries. Regionally, its partnership with ASKY Airlines, based in Lomé, Togo, serves 28 destinations across 26 African countries.

Sources: Waters (2024); Xinhua (2024); DLD (2025); Nwokolo (2025); Ombonga (2020).

The airline contributes significantly to the economic transformation of Ethiopia through its substantial foreign exchange earnings, job creation and the high value added nature of its operations. The airline has also played a catalytic role in the development of related export industries, including floriculture and high-value agricultural products such as coffee. Ethiopia has also embarked on the initiative to manufacture sustainable aviation fuel, which will contribute to reducing Ethiopian Airlines' carbon footprint (RSB, 2021).

In 2024, Ethiopian Airlines announced plans to construct the largest airport in Africa in collaboration with the African Development Bank. The first phase, scheduled for completion in 2029, is designed to accommodate 60 million passengers annually and generate thousands of new jobs. Ultimately, the airport aims to handle up to 110 million domestic, international and transit passengers each year (Ethiopian Airlines, 2024; Insight, 2025). The new facility will be part of a broader airport city development, featuring hotels, office spaces, retail outlets and other amenities, with plans to connect it to the existing airport via a high-speed rail system.

Ethiopian Airlines also has a partnership with Pan-African carrier ASKY to establish a regional maintenance, repair and overhaul centre, and an aviation academy in Lomé, Togo (Bekele, 2016).

ShopUp (box IV.8) stands out as a model of good practice, having successfully navigated many of the common pitfalls that hinder startup success. A key factor in its success was the development of a scalable and modular platform.

Box IV.8.
ShopUp: Powering small retail in Bangladesh

ShopUp, launched in 2016, is one of the most successful tech startups in Bangladesh. Based in Dhaka, the B2B commerce platform empowers small and medium-sized neighbourhood retailers (serving 31 million people) by facilitating product sourcing and logistics services. Initially focused on leveraging integration with Facebook Messenger to help small businesses without credit card capabilities via Facebook (e-commerce) – by offering order management automation, promotional tools, and basic logistics support – by the end of 2019, it had expanded its offer to enable the shops to procure inventory easily via a mobile app (Mokam), with access to over 10,000 products directly from manufacturers. As the business matured, ShopUp expanded into logistics – first through partnerships and eventually establishing early in 2020 its own logistics company, REDX, focused on last-mile delivery and logistics infrastructure across Bangladesh. By early 2022, REDX had grown to over 250 delivery points across 493 subdistricts in 64 districts, establishing itself as one of the largest logistics firms in the country. This was swiftly followed by its working capital and credit service, Baki, delivered in collaboration with BRAC Bank and other microcredit institutions. This evolutionary path transformed ShopUp into a full-stack B2B commerce platform.

In 2020, ShopUp enhanced its technology assets and experienced talent through the acquisition of Voonik, an Indian fashion e-commerce startup. By 2024, the company transitioned into its profit-generating phase, and raised over $198 million across eight funding rounds. Funding milestones include raising the largest Series B investment ($110 million) achieved by a B2B commerce platform in South Asia.

In May 2025, ShopUp announced a strategic merger with Sary, a Persian Gulf region B2B marketplace creating the SILQ Group, targeting markets across the Persian Gulf and emerging Asia. According to the Group, the combined network of ShopUp and Sary has processed over $5 billion in transactions; facilitated over 100 million shipments, serving more than 600,000 retailers; and collectively disbursed over $750 million in embedded financing. The merger came with $110 million in funding led by Sanabil Investments (a wholly owned subsidiary of the Saudi Arabian $925 billion Public Investment Fund) and Peter Thiel's Valar Ventures.

Sources: Future Startup Team (2025); Zoonop (2025); *The Business Standard* (2021); *Dhaka Tribune* (2025); Kader (2019).

Startups often face a range of strategic, operational and market-related challenges, including poor product–market fit, unclear value propositions, lack of differentiation, inability to keep pace with innovation, overreliance on external funding without a clear path to profitability, and difficulties in scaling (either failing to scale or scaling prematurely). Many of these issues are compounded by limited leadership experience (Santisteban et al., 2023).

ShopUp's leadership proved to be a major asset. Its co-founders held degrees from reputable institutions in business administration, computer science and engineering, and brought substantial professional experience in corporate consulting, financial management and operations. This is particularly important, as venture capital tends to prioritize capable founders over promising business ideas (Eisenmann, 2021).

B. Understanding the risks and trade-offs in services sector development

Services already constitute a driving force shaping LDCs' economics. At the national level, LDC policymakers recognize the transformative potential of modern services to enhance efficiency and competitiveness as a vital complement to export-led growth and regional integration. They also comprehend the contributions of technology-enabled solutions, public service delivery to socioeconomic progress, inclusivity and the expansion of productive activities. However, policymakers need to strategically leverage services subsectors and recognize that technological advancements present both opportunities and risks. Policymakers have a critical role to play by proactively identifying and mitigating risks. Capitalizing on the current "services moment" will require essential preparatory steps involving thorough national-level assessments, careful weighing of trade-offs, and the formulation of risk mitigation strategies.

The risk landscapes that services and manufacturing sectors are exposed to are different. Recognizing these differences is essential for designing tailored and synergistic regulatory frameworks, as well as for implementing appropriate incentives and support programmes. This understanding also helps policymakers assess the costs and benefits of policy interventions, particularly in the context of designing, implementing and evaluating industrial policy initiatives. Failure to account for sector-specific risks may lead to costly policy missteps and ineffective outcomes.

For policymakers in LDCs, a key consideration is that government interventions, especially those involving public financial support, should be based on realistic expectations, and complemented by adequate investments in institutional capacity and ecosystem development. The following discussion highlights critical risks and tradeoffs in the development of modern services sectors, with relevance to the hub strategy case studies presented in the chapter.

1. Exploring the services risk landscape

Table IV.4 outlines a non-exhaustive set of identifiable risks in the services sectors examined. While some risks, such as cybersecurity vulnerabilities, may be cross-cutting and not exclusive to services, their nature and intensity are often more pronounced in service-based industries.

Services and manufacturing

The risk landscapes of the services and manufacturing sectors differ significantly, due to the intrinsic nature of their operations, market dynamics and external influences. Manufacturing is typically associated with higher capital intensity and operational risks, stemming from the physical complexity of production processes and vulnerability to supply chain disruptions. As a result, manufacturing risks tend to centre on operational continuity and physical infrastructure integrity.

In contrast, services sectors generally face lower barriers to entry, with many modern services requiring minimal physical assets. However, these lower barriers often lead to heightened competition, especially in environments shaped by rapid technological change. Although both sectors must adapt to technological advancements and growing cybersecurity threats, service industries face more immediate pressure

Table IV.4.
Services risk landscape

Services sector	Risks
Business processing services and technology	May not increase availability or quality of jobs
	May not increase availability of formal sector jobs
	Systemic infrastructure weaknesses
	Vulnerability to cybersecurity threats
Financial services	Heightened financial instability
	Financialization
	Rise in inequality
	Vulnerability to cybersecurity threats
	Political/macroeconomic instability
	Vulnerability to terrorism and crime
	Changing nature and scale of consumer risks
Logistics/transportation	Competition issues
	Sustainability and environmental risks (systemic infrastructure weaknesses)
	Vulnerability to supply chain disruptions/failures
	Customs and legal compliance issues
	Vulnerability to cybersecurity and terrorism threats
	Political and geopolitical disruptions
	Regulatory changes
	Aid dependence and indebtedness
Tourism	Aid dependence and indebtedness
	Sustainability and environmental threats
	Systemic infrastructure weaknesses
	Political and geopolitical disruptions
	National and global economic crises
	National and global epidemics
	Terrorism and crime
	Leakages

Source: UNCTAD secretariat compilation.

to integrate emerging technologies such as AI, automation and digital platforms, to enhance customer experience and operational efficiency. Customer-facing technologies (such as chatbots and mobile banking apps) make innovation cycles more visible and intensify the need to stay competitive. Consequently, services sectors tend to carry elevated risk profiles related to technology adoption, data privacy and digital platform reliability, all of which are critical to maintaining customer trust and satisfaction (Baldwin and Freeman, 2021). The rapid pace of digitization and platform competition places traditional service providers under pressure to adapt or risk obsolescence.

Moreover, certain services subsectors mirror the vulnerabilities seen in manufacturing-led export development, such as low-value export traps and dependence on FDI. For instance, as highlighted in the tourism case studies, tourism sectors in LDCs often rely heavily on foreign investment, and capture minimal value within the tourism value chain. Similarly, high-value services sectors typically require highly skilled workforces (as discussed in chapters II and III), which many

LDCs cannot yet supply at scale and have difficulty to retain. As a result, BPO services in LDCs tend to cluster around low-value activities such as call centres and data entry, which are particularly susceptible to automation. Emerging evidence suggests that, as AI substitution becomes more feasible, global demand for entry-level workers, even within complementary skill clusters, is contracting significantly (Teutloff et al., 2025). In the case of freelancers in Bangladesh who possess some skills that are complementary to AI, these skills span a wide wage spectrum. Similarly, for LDCs, there may be structural limits on the expansion of modern financial services – as evidenced by the KIFC case study.

Financing economic transformation

The development of services sectors in LDCs requires prior or concurrent investments in complementary infrastructure, institutional and regulatory capacity, and enabling ecosystems. These efforts are often supported by selective industrial policy instruments that come with high fiscal costs.

Big-push public investment programmes in LDCs, especially those involving hub strategies financed through external debt, often require significant fiscal adjustment to avoid unsustainable debt dynamics or to accommodate higher debt levels over the long term. Investments in education, essential for developing dynamic services sectors, typically yield productivity gains only after six to eight years (Buffie et al., 2020).[30] Without new sources of development finance, such as greater involvement from domestic and regional development banks or sovereign wealth funds,[31] trade-offs between short-term fiscal consolidation and long-term human capital development may be unavoidable.

The high public debt levels in some case study countries illustrate these challenges. For example, after two decades of State-led investment in large-scale infrastructure and public development projects, Ethiopia announced in 2024 a halt to all government-funded capital projects due to unsustainable debt accumulation (UNICEF, 2023).[32] High levels of spending on infrastructure development have also led to financial constraints in Togo, with two thirds of all government revenue used to service public debt in 2019.[33] Public debt stood at 78.7 per cent of the GDP of Rwanda in January 2025, prompting the Government to institute "economic shock therapy".[34]

Many LDCs pursue multiple hub strategies, often targeting similar services sectors, which risks international overcapacity – a classic fallacy of composition. In logistics, for example, countries need to carefully assess their competitive advantages. With over 100 ports along the West African coast, competition is fierce.

[30] According to Buffie et al. (2020), it takes more than 15 years before net national income, the private capital stock, real wages for the poor and formal sector employment surpass their counterparts in a programme that invests mainly in infrastructure.

[31] As of 2025, 13 LDCs had established sovereign wealth funds, though some (Benin, Guinea and South Sudan) remain uncapitalized, and the fund of Djibouti, created in 2020, was dissolved in 2025. The fund of Ethiopia, established in 2021, is now the largest in Africa, while Mozambique launched its fund in 2024. Available at https://www.swfinstitute.org.

[32] External borrowing financed major infrastructure investments in Ethiopia, including the Addis Ababa–Djibouti Railway, as well as projects in education, healthcare, manufacturing, urban development and digital infrastructure. While these investments contributed to growth and poverty reduction, they generated fewer jobs than expected, and exacerbated inflation and foreign exchange shortages (World Bank, 2025b). Debt pressures intensified due to the COVID-19 pandemic and other economic and political challenges. Ethiopia entered negotiations under the G20 Common Framework in early 2021, reaching only an agreement in principle with official creditors by March 2025. Private creditors, including bondholders, have so far resisted restructuring efforts (Endeshaw and Miriri, 2025; Vieira, 2025).

[33] Available at https://www.bmz.de/en/countries/togo/economic-situation-55910.

[34] Available at https://www.ohchr.org/en/press-releases/2025/05/rwanda-must-avoid-balancing-budget-backs-poor-un-poverty-expert#:~:text=Public%20debt%20reached%2078.7%25%20of,as%20%E2%80%9Ceconomic%20shock%20therapy%E2%80%9D.

Port Autonome de Lomé (PAL) faces strong rivals in Côte d'Ivoire, Ghana, Nigeria and Senegal, and must maintain cost-efficiency and speed to retain its edge.

UNCTAD analysis suggests that, in Mozambique, the Port of Maputo earns four to five times more than Sihanoukville port in Cambodia,[35] due to its strategic location along key Indian Ocean shipping lanes. It generates additional business in bunkering, trans-shipment and cargo handling, and its role in serving landlocked neighbours. Sihanoukville, by contrast, has fewer opportunities for ancillary services, because it lies off major East-West routes, with some Cambodian exports often routed through Viet Nam.

Achieving scale and meeting investment goals will depend on consistent capital inflows, sound governance and strategic positioning amid regional competition.

Employment, jobs and productivity

Services vary in skill and capital intensity, the scale of enterprises supplying them, and their potential for remote delivery (chapter II). Many service jobs are also more susceptible to automation (UNCTAD, 2025). One area requiring close policy attention is the growing platform economy, which has introduced new forms of work, such as gig and freelance jobs, offering flexibility but raising concerns about job security and worker benefits. Compared with their peers in developed countries, freelancers in developing economies face greater instability, weaker social protections and limited rights (ILO, 2022a; Spatari, 2019).

The case studies from Bangladesh and Nepal show that freelancers dominate the BPO sector, with similar trends emerging in Rwanda. While digital employment is not inherently informal, it can create new forms of informal work.

Digital work is often seen as a continuation of the informalization trend (ILO, 2022b). This trend is not confined to LDCs. In Indonesia, digital labour, defined as workers who use digital technologies and the internet for their primary work, has increased rapidly as a share of digital employment, accounting for nearly 40 per cent of the workforce in 2022 (World Bank, 2024c). This increase is associated more directly with the rise in digital platform-based jobs and within digital employment, a significant increase is noticeable in the informal sector – including individual contractors and those self-employed (World Bank, 2024c).

Understanding the distinction between digital labour and digital employment is critical for policymakers. Digital employment represents the formal, skill-intensive jobs that anchor expectations about the transformative potential of the services sector. These roles, such as in IT services, software development, digital marketing, and other tech-enabled fields, are characterized by structured employment relationships, social protections, and greater income stability. In contrast, digital labour largely consists of task-based, platform-mediated, and often informal work. Recognizing this difference is essential for designing policies that not only expand opportunities but also address vulnerabilities in the digital economy. The rise of self-employment – often attracting educated professionals, students and women – may heighten vulnerability and limit upward mobility in contexts of already-high informality in LDCs.

The ILO also notes shifts from standard employment to non-standard forms of employment (including forms like temporary work, part-time work, and disguised self-employment) within the formal sector, underpinned by practices whereby large pools of workers classified as independent contractors rather than employees are created by gig work and the platform economy (ILO, 2016).[36]

[35] UNCTADstat, available at https://unctadstat.unctad.org/datacentre/dataviewer/US.OceanServices.

[36] See https://www.ilo.org/topics-and-sectors/non-standard-forms-employment#:~:text=They%20include%20temporary%20employment;%20part,employment%20and%20dependent%20self%2Demployment.

While non-standard employment is not always a concern, it is largely associated with greater insecurity for workers who often share characteristics of informality such as lack of social protection and job security, making their work informal in practice despite operating in a formal economy. Examples of such practices span developed and developing countries (ILO, 2016; Apella and Zunino, 2018).

The fallacy in composition (UNCTAD, 2002) in services can lead to significant churn in employment and jobs. In India, rapid expansion of IT-enabled services in the 2010s has led to excess capacity and price competition, with firms in the IT-enabled business sectors tending to overestimate global outsourcing demand. Academic studies note that saturation in low-end BPO services caused wage stagnation and high attrition rates (Shenoy, 2016; Roy et al., 2024; Taylor et al., 2014). Similarly, the problem of tourism oversupply is recognized as a structural vulnerability in Southern Europe, creating high numbers of often precarious and low-paid positions, and potentially exacerbating labour shortages for local businesses (European Commission, 2025; European Labour Authority, 2024; Bürgisser and Di Carlo, 2023).

Entrepreneurship

While financial inclusion is widely seen as an enabler of entrepreneurship, significant barriers often prevent it from being transformative. Entrepreneurship growth does not always align with financial inclusion, even as household access to finance improves. Similarly, expanding access only to financial tools and fintech is insufficient because finance alone is not enough – entrepreneurial and financial skills, digital literacy, diversity in financial products and connectivity are also critical. A recent study finds that financial inclusion boosts entrepreneurship only after a certain threshold is reached (Logogye et al., 2025). Policymakers should deepen financial inclusion beyond basic access to unlock entrepreneurship potential and navigate risks in the fast-evolving digital finance space, including addressing gender disparities in financial inclusion and the widening gaps for those left behind (UNCTAD, 2018; World Bank, 2022c; Rampaul, 2025; Sanga and Aziakpono, 2023; Logogye et al., 2025).

Access to finance remains a major barrier to the growth of viable tech enterprises in LDCs. Many startups led by the youth or recent graduates lack capital and are not investment-ready. Moreover, traditional bank lending models are ill-suited to tech startups (UNCDF, 2019). In the absence of local investors, startups rely heavily on foreign capital, which may come with limited understanding of local contexts, and introduce structural and cultural biases, including gender disparities. A study of 44 fintech firms in Rwanda found that only seven foreign-owned startups secured growth financing, while most relied on bootstrapping (UNCDF, 2019).[37]

Access to finance remains a major barrier for tech startups, reinforcing inequalities in LDCs

The case study on financial services in Rwanda highlights a widespread disparity in developing countries of significant increases in financial account ownership while the use of credit remains low. In low- and middle-income economies, only about a quarter of adults used formal credit in 2024 (World Bank, 2025b). An additional 35 per cent relied on informal sources. Crucially, of the 15 per cent of self-employed adults who borrowed for business purposes, most also borrowed only informally (World Bank, 2025b). This highlights the need for better access to responsible, formal credit options and the potential of cash flow–based lending models that draw on digital payment histories to assess creditworthiness (World Bank, 2025b; UNCDF, 2019).

Equally important is for policymakers to consider entrepreneurship within existing firms (UNCTAD, 2018). Expectations of the transformative role of ICT and technology in LDCs are high, yet empirical evidence on technology adoption as a driver of

[37] Bootstrapping is the reliance on personal finances or the operating revenues of the new company.

productivity and structural transformation is cautionary. Despite hopes that LDCs can 'leapfrog' technologies, the first challenge is that unlocking ICT potential requires a gradual, costly transition for firms (UNCTAD, 2020). Digital transformation and leapfrogging rely heavily on tacit knowledge, which is a component of technological capability that is difficult to aggregate or disseminate (UNCTAD, 2020). It is also notable that the impact of digital platforms varies by type. "Aggregator" platforms, which connect existing service providers to consumers, generally boost productivity, profits, and employment for those firms. In contrast, "disruptive" platforms that introduce new competitors, often reduce incumbents' mark-ups, employment, and wages without significantly improving their productivity (World Bank, 2024c).

Accordingly, policymakers must realistically assess the capacity of modern IT and tech-enabled services to deliver on entrepreneurship and structural transformation goals. Importantly, innovators and entrepreneurs are not always the same – effective innovation policy should focus on building supportive ecosystems that reflect this diversity (Startup Graveyard, 2025; Kumar, 2025; UNCTAD, 2018). A targeted, ecosystem-based approach can help ensure that public support translates into economy-wide gains in sustainable innovation, productivity growth and social impact.

Regulatory and institutional capacity

As already discussed, opportunities in modern services sectors are neither guaranteed nor evenly distributed. It is also important for LDCs to exploit opportunities in the services sector to foster structural transformation and economic diversification. In OECD countries, for instance, platforms improve productivity, but the effects depend on competition and regulation (World Bank, 2024c), which suggests that the extent to which ICTs and tech-enabled services can drive transformative entrepreneurship and productivity in LDCs will, in part, depend on regulatory and institutional capacities because countries must pursue both liberalization and regulation (World Bank, 2024c). According to the International Telecommunication Union (ITU), while the number of land-locked developing countries (50 per cent of which are LDCs) with advanced ICT regulation has more than doubled since 2014, over half remain at early stages of regulatory development, limiting their ability to foster competition, attract investment, and adapt to emerging technologies. Moreover, implementation gaps are common, even where policies exist (ITU, 2025).

LDC Governments are constrained in their ability to support their services sectors because they themselves need to improve their readiness to engage in and benefit from the evolving data-driven digital economy (UNCTAD, 2021b). In 2021, less than half of all LDCs had data protection and privacy legislation in place (UNCTAD, 2021b). Even in terms of more traditional institutional capacities, LDC Governments face intensified complexities. For example, when it comes to strategic infrastructure, such as ports, there is the added challenge of complex political economy forces at play (box IV.9). Services sectors require stronger and more adaptable regulatory capacity than goods-producing sectors, due to their diversity in roles, modes of delivery and policy objectives (World Bank and WTO, 2023). This diversity demands flexible governance and data-driven policymaking to identify growth, investment and employment opportunities.

Governance of the labour market still largely centres on standard employment relations. It is believed that current social protection systems are not well equipped to address the challenges associated with digitalization (ILO, 2016, 2022b). Existing gaps in coverage could worsen in LDCs. That means policymakers in LDCs need to also adjust labour and tax policies to reflect shifts in employment, especially with the rise of ICT and freelance work.

LDCs risk revenue losses should their tax systems struggle to track remote digital workers. E-formalization[38] has the potential for harnessing new technological progress to achieve decent work and sustainable development.

Many middle and low-income countries, such as Cambodia, China, and the Philippines, have adopted e-formalization initiatives with the development of e-government being an important first step (ILO, 2022b).

Although Bangladesh has achieved much progress on the establishment of e-government, debates around taxing the digital economy highlight the tension between boosting the tax-to-GDP ratio and maintaining competitiveness (Rahman, 2023). Digitalizing tax and customs administrations should align with a country's context and the maturity of its revenue systems. Governments will need to adopt a strategic rather than opportunistic approach, making digitalization a core element of internal planning with clear policy objectives (World Bank, 2022d).

Box IV.9.
Threats from concentration and geopolitics in strategic infrastructure services

The rise of PAL is closely tied to trans-shipment strategies of global shipping lines, which also dominate port operations in West Africa. This has weakened the competitiveness of neighbouring ports and undermined regional hub development efforts, disadvantaging smaller operators. Between 2010 and 2020, the market share of small- and medium-sized shipping firms in West and Central Africa fell from 25 per cent to 15 per cent.

Slot-sharing arrangements have reinforced the dominance of the top three European shipping lines, extending similar concentration patterns to transport hubs. For example, DP World from the United Arab Emirates has expanded its control across trade corridors in Africa, Asia and Europe. These trends – enabled by concession agreements and the landlord model favoured by many LDCs to attract FDI and expertise – raise concerns about competition, State capture and geopolitical influence. They also facilitate monopoly profits and dampen motivation for the pursuit of efficiency and innovation.

Sources: Asia Manufacturing Review (2025); UNCTAD (2022); DP World (2025); Martin (2025); Africa Logistic Network (2018).

[38] E-formalization' refers to the application of new technology in public initiatives, programmes and policies to facilitate the transition from informal to formal employment (ILO, 2022b).

C. Summary and policy considerations

The case study analysis suggests that hub strategies in LDCs do not mark a full shift to services-led economies, but reflect a deliberate effort by policymakers to diversify and broaden development pathways, including boosting fiscal revenues. Investments in logistics hubs (Djibouti, Lomé and Maputo) and transport corridors enhance trade connectivity, support manufacturing and mining exports, and modernize infrastructure. In Djibouti, port investments are even enabling new manufacturing activity. In tourism, LDCs are diversifying into niche segments – such as ecotourism, high-end travel and conferences – to increase resilience and economic impact.

Some LDCs are also proactively developing high-value technology-enabled services supported by digital infrastructure and startup ecosystems. Rwanda and Bangladesh are pursuing policy-driven models focused on talent, incentives, regulation and integration. Strategic policies help address infrastructure gaps, skills shortages and financing constraints, making services sectors more attractive to investors. In contrast, some countries, such as Madagascar and Nepal, are seeing market-led growth in modern services and ICT exports, facilitated by earlier investments in digital infrastructure. Both market-led and policy-driven growth are essential. Market-led growth signals innovation and local ownership, while policy can scale new and emerging sectors through targeted support. The case studies show that services are not neglected in public policy. Home-grown champions such as Ethiopian Airlines and ShopUp (Bangladesh) demonstrate that LDC firms can scale through innovation and partnerships.

However, the case studies also show the difficulties LDCs face in fully leveraging the transformative potential of hub strategies, including from a lack of data to evaluate their policies. Rwanda stands out for tracking job creation and quality linked to its hub strategy, supported by improved statistical systems. In contrast, Bangladesh lacks comparable data, reflecting broader gaps in institutional capacity across LDCs.

Logistics hubs often face integration challenges. In many cases, port investments by concessionaires are not aligned with national development plans, weakening their transformative potential. For example, Lomé's port suffers from congestion due to poor coordination with municipal planning. Similarly, the Cambodian tourism sector needs stronger linkages to other parts of the economy, and other case study countries face infrastructure and connectivity constraints. UNCTAD analysis on the structure of employment and trends in employment by occupation in these countries suggests that, despite potential, services have yet to drive major employment shifts in LDCs. These constraints collectively weaken the contribution of services sectors to structural transformation in the LDCs.

Given infrastructure backlogs, coordinated investments must go beyond physical assets to include institutional capacity, public services and risk mitigation. Leapfrogging into high-value services requires prior investment in skills and digital infrastructure – elements that cannot be skipped. Piecemeal approaches risk undermining returns. Complementary policies are needed for hub strategies to catalyse structural change (table IV.5). A strategic focus on services is thus more complex than attracting low-skill manufacturing FDI, but still essential for balanced and sustainable development in LDCs.

Table IV.5.
Policy lessons for maximizing the growth-pulling role of hubs

Lessons	Implications for LDC policymakers
Integrate hubs into national and municipal development plans	Align infrastructure, urban planning and sectoral strategies to avoid bottlenecks and ensure smooth logistics.
Track outcomes systematically	Measure not only investment and output, but also jobs, wages, productivity gains and sectoral linkages.
Blend policy-driven and market-led growth	Support emerging high-value subsectors with targeted policies (incubators, training and finance), without stifling entrepreneurial dynamism.
Maximize spillovers	Link hub activities to domestic micro-, small and medium-sized enterprises and suppliers to avoid "enclave" effects.
Invest in leadership and governance	As Ethiopian Airlines and ShopUp show, strategic vision, operational autonomy and strong partnerships are decisive productivity drivers.

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