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# Industrial Policy in a Service-Led Economy

Structural transformation, productivity, and the policy margins that matter for Uganda

SERVICES

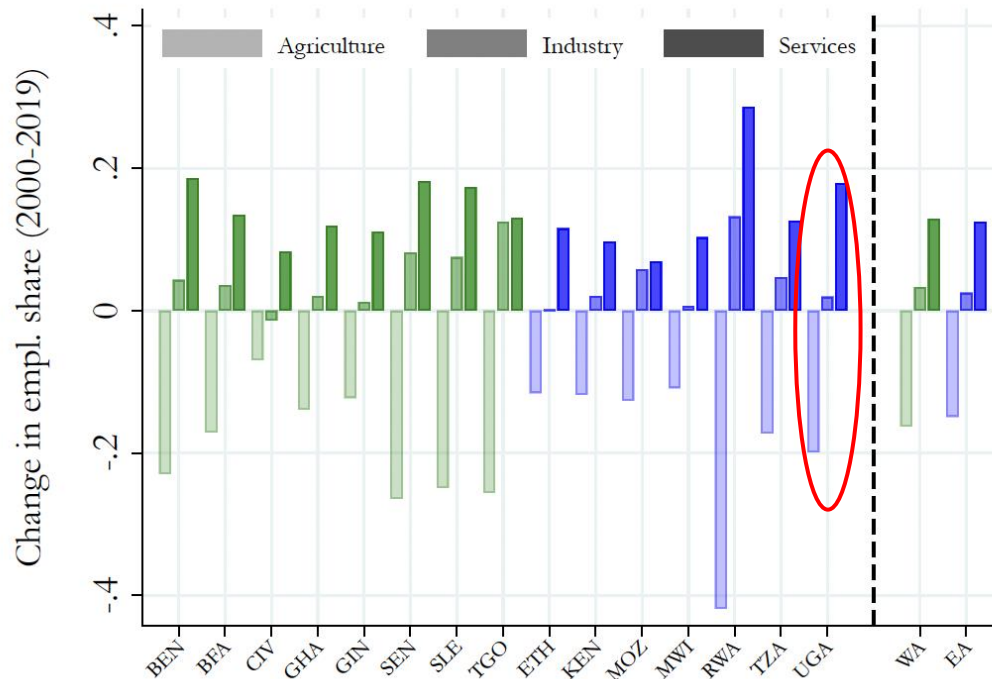
PRODUCTIVITY

POLICY

**Anna Vitali** | Assistant Professor, New York University  
10<sup>th</sup> High-Level Economic Growth Forum, Kampala, August 27<sup>th</sup> 2026

# Africa is following a different path of structural transformation

(b) GROWTH OF THE SERVICE SECTOR



-18 pp

agricultural employment share

+15 pp

services employment share

+3 pp

industry employment share

**The classic East Asian path** moved workers from agriculture into manufacturing before services

**The recent African path** is predominantly agriculture to services, with only modest industrial employment growth

→ **Structural transformation is happening, but not through the factory-first sequence**

# Consumer Services drive *employment* growth

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1

## 1. Consumer Services

Primarily serve **households locally**: retail, personal services, health, education

2

## 2. Producer Services

Primarily serve **businesses**, highly **tradeable**: finance, ICT, professional, scientific, technical

3

## 3. Logistical Services

Serve both **businesses** and **households**: transportation and storage

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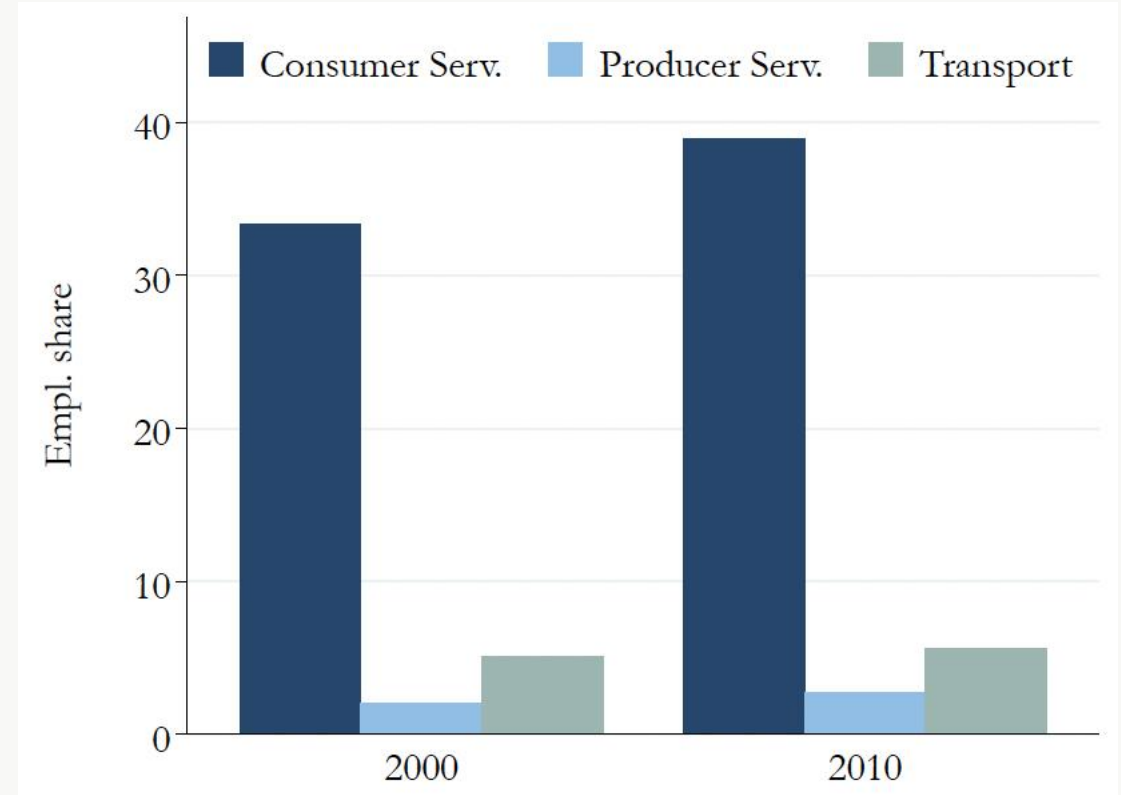
3

## 3. Logistical Services

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### Change in Employment Shares

Sub-Saharan Africa, urban



**Labor growth driven by Consumer Services → may offer greater labor absorption**

# Producer Services drive *productivity* growth

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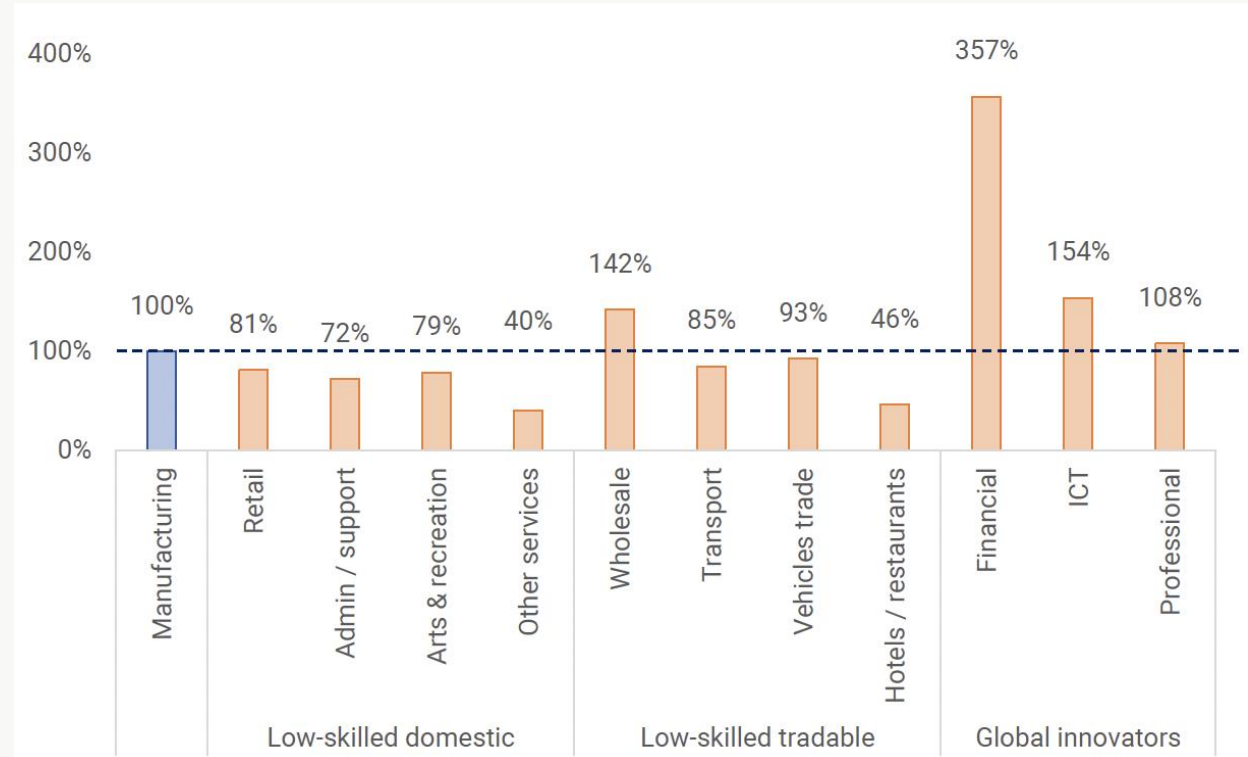
## 3. Logistical Services

Serve both **businesses** and **households**: transportation and storage

### Total Factor Productivity

Relative to Manufacturing (=100)

Latest available year, 2010-2017



**Producer Services display higher productivity → more skills, capital, and R&D intensive**

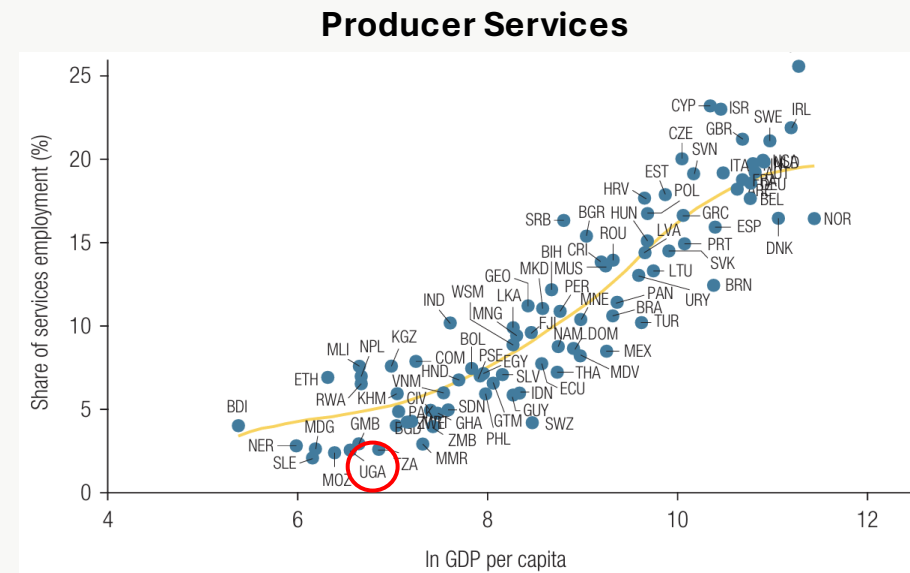
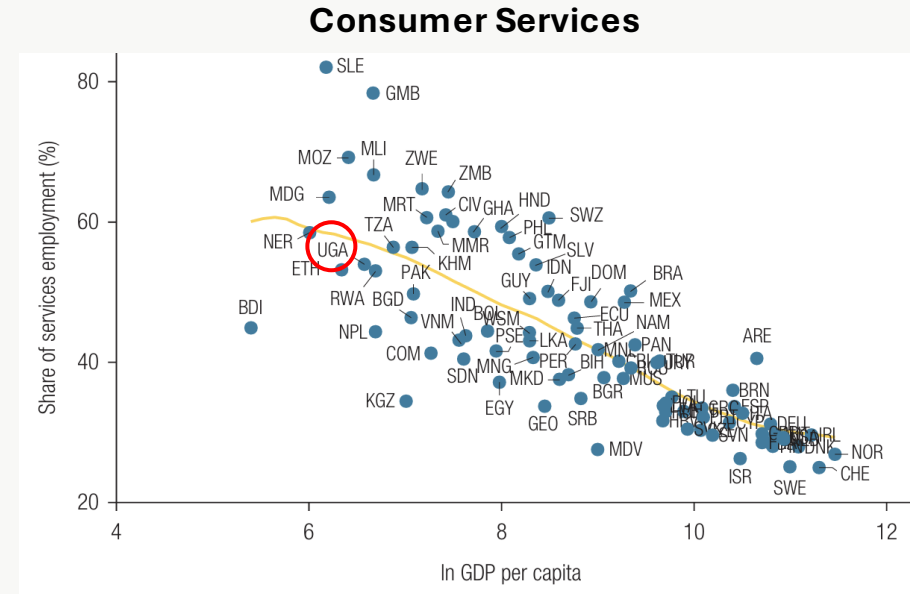
## Large productivity gaps relative to service sector in HICs

## Two factors driving productivity gaps:

1

## 1. Sectoral distribution within the service sector

- In LICs, labor is concentrated in low-productivity Consumer Services
- HICs employ a larger share of individuals in Producer Services



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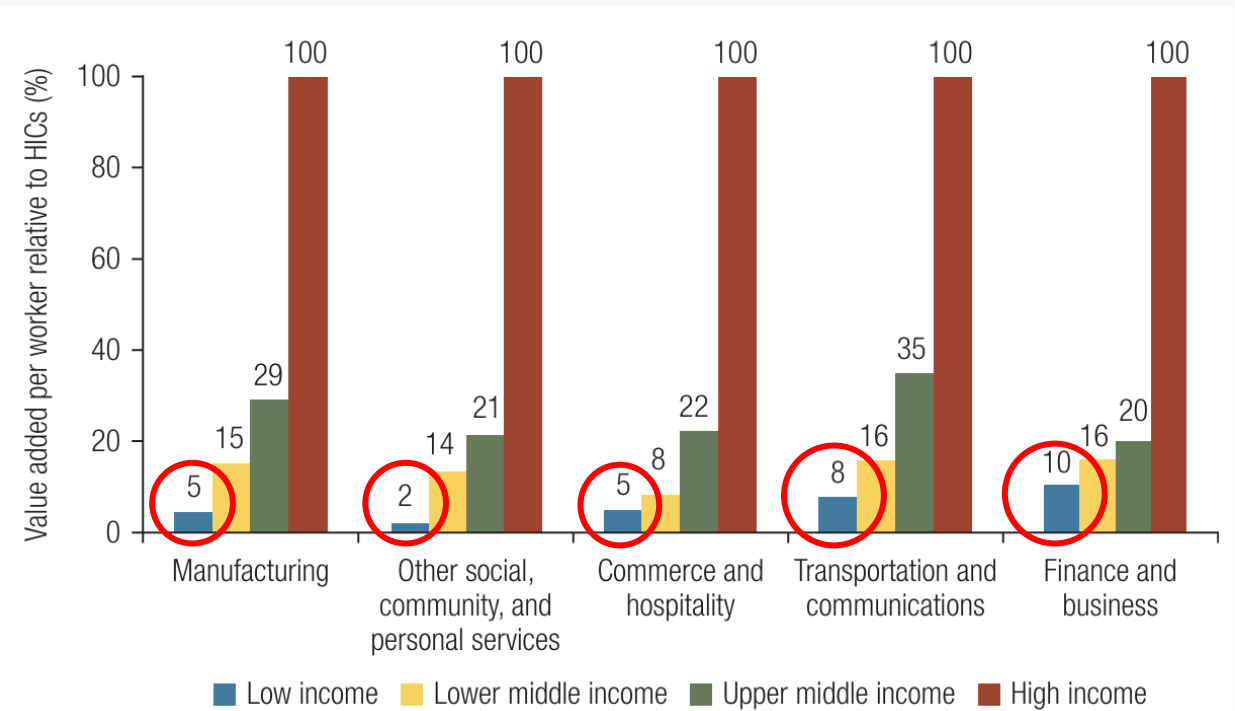
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2

### 2. Lower productivity within each sector

- Labor productivity in LICs is 5-10% that of HICs
- Similar patterns across different types of sectors, with the largest gap being in Consumer Services

**Labor Productivity in LICs relative to HICs**  
2010, Selected Sectors



# Uganda's industrial policy already extends beyond manufacturing

**Industrial policy is about promoting dynamic industries, not a manufacturing label**

## **Rodrik (2004)**

Promote restructuring toward activities with learning, scale and spillovers - in manufacturing, agriculture or services.

## **Fernandes & Reed (2026)**

Government action to grow a strategic business activity.  
“Industrial” does not mean manufacturing only.

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Uganda's Tenfold Growth Strategy already reflects this broader view

DIRECT SERVICE  
PRIORITY

Tourism &  
travel

DIRECT SERVICE  
PRIORITY

Science, technology  
& innovation

SERVICES AS  
CRITICAL INPUTS

Agro-  
industrialization

SERVICES AS  
CRITICAL INPUTS

Minerals, oil  
& gas



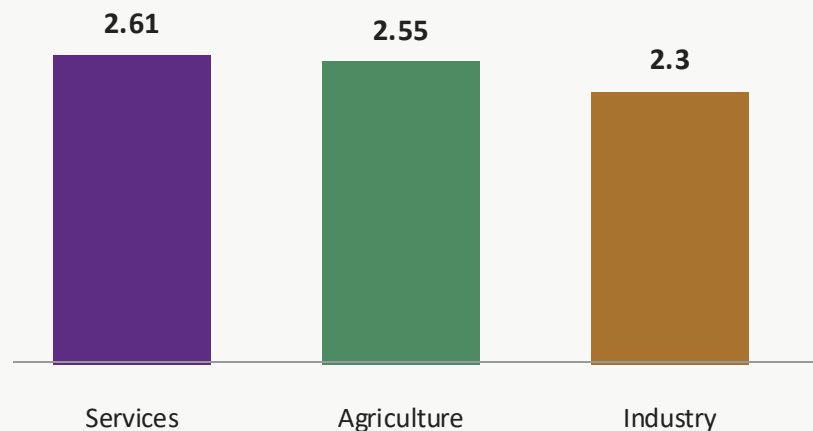
1. Which industries generate learning, scale, spillovers and good jobs?
2. Which market failures prevent them from growing?

# Sector prioritization and policy diagnosis are both necessary

## 1. Which industries generate learning, scale, spillovers and good jobs?

### SEDA output multipliers

Economy-wide output generated by one unit of final demand



**TELLS US:** Strength of economy-wide linkages

**DOES NOT TELL US:**

- Which market failure is binding
- Which **policy instrument** will raise productivity

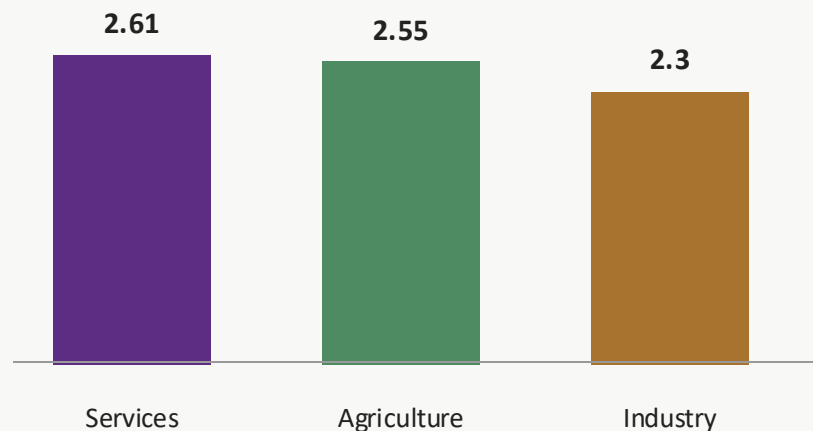
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## THREE POLICY MARGINS:

- 1 Effective market size**  
Reach customers beyond the local market
- 2 Information and digital technology**  
Reduce search and matching and information frictions
- 3 Access to finance**  
Fund high-growth startups with risk-sharing capital

# 1 | Make services more tradable by attracting foreign demand

## Two African examples to escape a small domestic market

### **RWANDA | Tourism & business events**

#### **Bring external customers to locally delivered services**

##### **WHAT CHANGED**

- Rwanda Convention Bureau coordinated bidding and promotion
- Investment in venues, air connectivity and easier entry

##### **FRICTION REDUCED**

Search / coordination costs for event organizers + access costs for visitors

**2025: US\$94.7m in business-events revenue from  
165 international / regional events**

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## MAURITIUS | Education exports

Turn higher education into a regional service market

### WHAT CHANGED

- “Study in Mauritius” information / promotion
- Common portal and streamlined student entry

### FRICTION REDUCED

Information and administrative frictions facing foreign students

**2024: ≈4,800 international tertiary students, mainly from Africa and India**

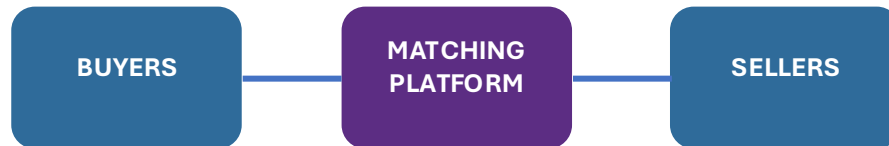
**Tradability is partly technological — but also a policy outcome.**

## 2 | Make services more tradable through digital technology

For services that can serve customers at a distance, digital markets can expand effective market size by solving two frictions:

### 1. Lower matching & transaction costs

UGANDA | Bergquist, McIntosh & Startz (2024)



**Digital matching** connected buyers and sellers across Ugandan agricultural markets, increasing integration

**-21%**

**fixed trade costs** (e.g. travel to find buyer / seller)

**+6%**

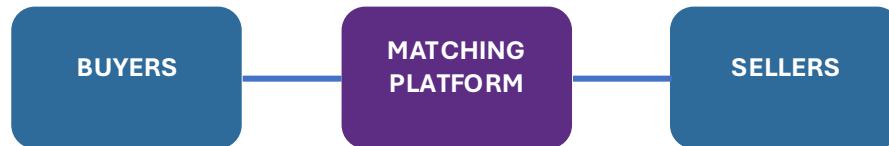
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### 2. Improve trust, accountability & quality

SENEGAL / TÜRKİYE | Wiles & Houeix (2026)

- Connect buyers and sellers through WhatsApp groups
- Information about **quality** and **reliability** of sellers

**+26%**

requested varieties available

**+30%**

goods more likely to be high quality

**TRUST MATTERS** for LT relationships

UGANDA | Vitali (2025)

**E-commerce / better product information** reduces information frictions and shifts demand toward higher-quality firms

**Digital markets help solve matching, information, and trust problems → finding a supplier is not enough if quality and performance cannot be verified**

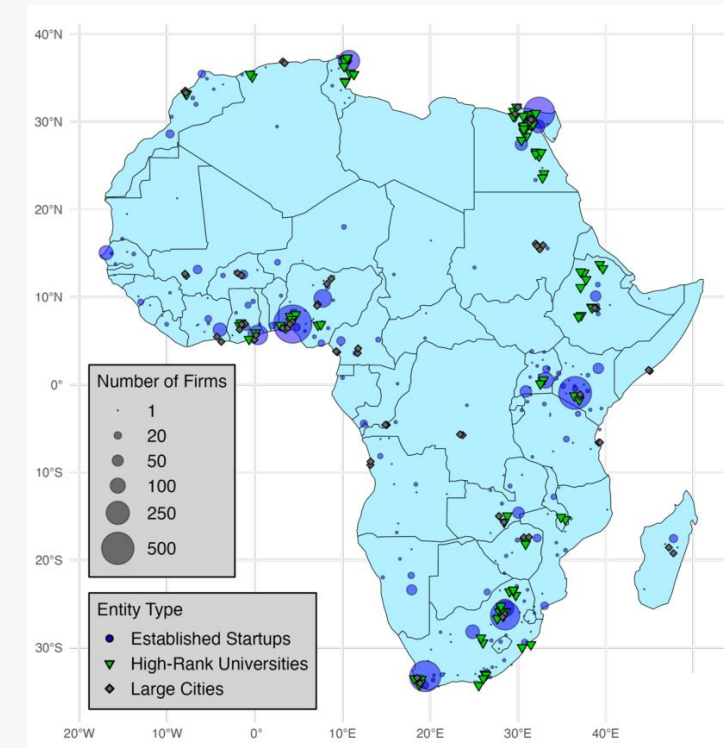
### 3 | Access to equity finance: the missing local equity market

#### WHY STARTUPS?

Startups can **diffuse technologies** and **new business models** - raising productivity beyond the startup sector.

#### Startup activity is concentrated in a small number of hubs

Established startups, high-rank universities and large cities



### 3 | Access to equity finance: the missing local equity market

#### WHY STARTUPS?

Startups can **diffuse technologies** and **new business models** - raising productivity beyond the startup sector.

#### WHAT STARTUPS WANT

**Equity > debt**

Founders strongly **prefer equity** and value **investors with local experience and support**

#### BUT CAPITAL IS FOREIGN

**≈80%**

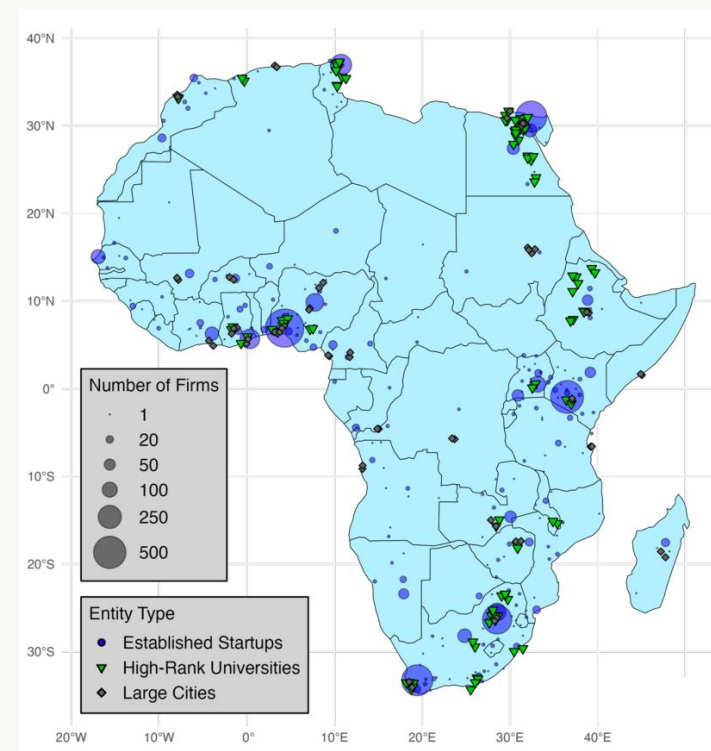
VC deals involve a foreign investor

**>60%**

funded founders studied / worked outside Africa

#### Startup activity is concentrated in a small number of hubs

Established startups, high-rank universities and large cities



#### Why are capital, and funded founders, so foreign?

##### 1 Costly local equity

Local equity is scarce / expensive

##### 2 Thin pool at the financing margin

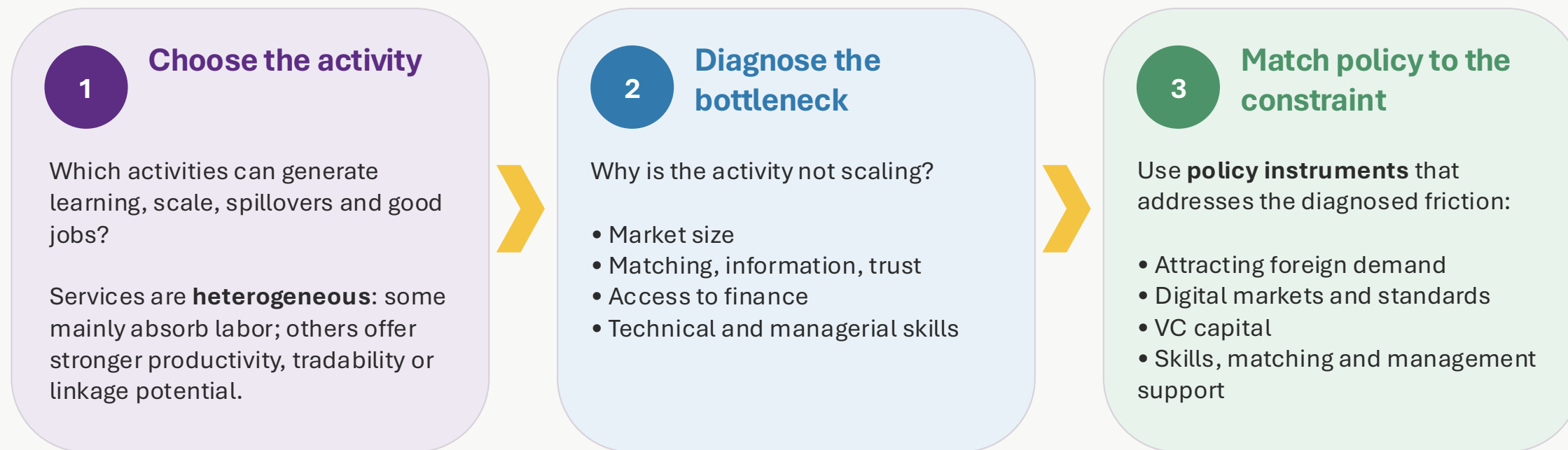
Few local founders sit at the startup-finance margin

##### 3 Limited access to foreign investors

Local founders face network and matching frictions with global investors

# A policy framework for service-led growth in Uganda

**Structural transformation is already happening through services.** The question is whether services remain a low-productivity destination for labor or become an **independent source of productivity growth**



**Bottom line:** do not ask only “which sector should Uganda promote?” Ask which activity can create productivity, jobs and spillovers, what is holding it back, and which policies can remove that constraint

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# Two very different ways for the service sector to grow

## SERVICE-BIASED GROWTH

### Productivity rises elsewhere

Agriculture / manufacturing



**Higher incomes raise demand for services**

Services expand as a consequence of growth elsewhere

## SERVICE-LED GROWTH

### Productivity rises inside services

Better technology, organization, specialization



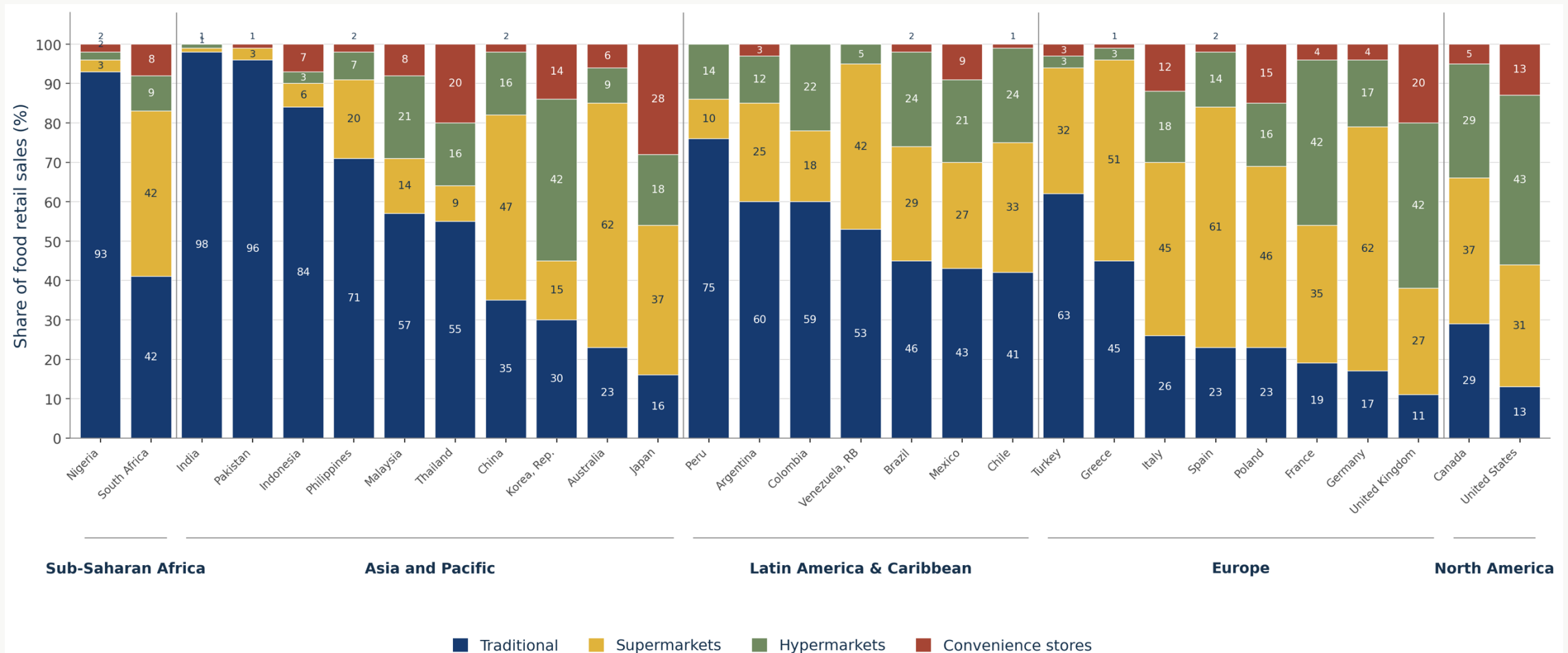
**Lower service prices + higher real incomes**

Services become an independent engine of productivity growth

→ The policy question is not whether services expand. It is whether productivity rises inside the activities absorbing workers

# Two concrete examples that may explain low-productivity

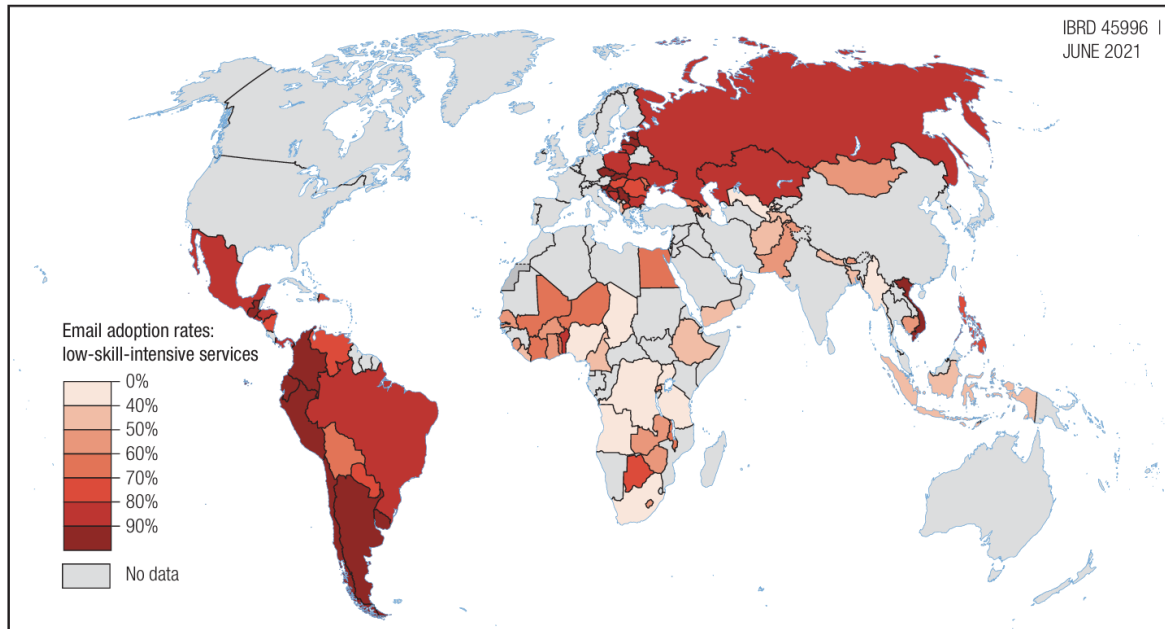
## EXAMPLE 1: Traditional food retail is far less productive, but is prevalent in LICs



# Two concrete examples that may explain low-productivity

## EXAMPLE 2: Service firms in LICs have a limited internet presence

a. Share of firms using email in the retail and hotels and restaurants subsectors



b. Share of firms having a website in the retail and hotels and restaurants subsectors

