BUSINESS IN EAST AFRICA: CHALLENGES AND POLICY PATHWAYS

PROFILE Kebirungi Hellen is a multifaceted individual who wears many hats. She holds a Bachelor's Degree of Arts in Education from Kyambogo University and various Certificates in other trainings. As a teacher she is passionate about educating and empowering others does not stop at profession by also an executive direction of eco-justice warriors, a fierce advocate for environmental justice and sustainability. In her work as an entrepreneur she has been so innovative and determined to succeed while advocate for fair trade practice. Hellen also has passion for politics that drives her to create positive change in her community. She is an Alumni of the Uganda Democracy Academy.

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Executive Summary

Businesses in East Africa contribute significantly to economic growth, job creation, and poverty reduction. Yet they face persistent challenges including limited access to finance, weak infrastructure, burdensome regulations, political fragility, and environmental shocks. These constraints reduce competitiveness and slow inclusive development. This challenge is significant because the region depends heavily on small and medium enterprises (SMEs), which employ the majority of the population. When SMEs cannot access credit, navigate fragmented markets, or cope with climate shocks, livelihoods and long-term growth suffer. Inefficiencies in taxation, corruption, and inadequate human capital further weaken the business ecosystem.

This policy brief argues that strategic investments in financial inclusion, infrastructure, regulatory reforms, digital transformation, and youth entrepreneurship reinforced through stronger institutions and regional integration are essential to unlock East Africa's potential for sustainable and inclusive growth.

Introduction

East Africa comprising Uganda, Kenya, Tanzania, Rwanda, Burundi, South Sudan, and Ethiopia remains one of the continent's most dynamic regions. The private sector makes substantial contributions to GDP and is an important driver of employment and innovation. However, businesses in this region are still constrained by systemic weaknesses that undermine competitiveness and sustainability. Entrepreneurs face high borrowing costs, poor transport networks, expensive energy, and slow digital connectivity, while weak institutions and political instability compound these problems. Although the East African Community (EAC) was established to enhance regional integration, market fragmentation persists because of non-tariff barriers and inconsistent regulations, limiting efficiency in cross-border trade. The consequences are wide-ranging from reduced economic opportunities, slow job creation, persistent youth unemployment, gender exclusion, and heightened vulnerability to environmental risks. If these problems are not resolved, East Africa risks losing competitiveness in global markets and failing to fully harness its demographic dividend.

Furthermore, one of the most serious bottlenecks facing businesses is access to finance. Small and Medium Entities (SMEs) continue to encounter lending rates averaging around 25 percent, strict collateral requirements, and limited venture capital. Infrastructure gaps such as poor roads, unreliable railways, congested ports, high energy costs, and weak ICT systems further limit competitiveness, especially in rural communities where digital divides remain severe. Institutional barriers compound these problems with complex business registration procedures, corruption, weak enforcement of contracts, and inefficiencies in taxation reduce investor confidence and discourage long-term investment.

Political and social challenges also further weigh heavily on businesses. Youth unemployment and skills mismatches reduce productivity, while women and minority entrepreneurs face persistent barriers to finance and markets. Environmental shocks such as floods, droughts, and climate variability regularly disrupt operations, especially in agriculture, which remains a critical sector for livelihoods and exports.

Policy Options

- Some policy responses have achieved notable progress. Financial inclusion programs, particularly mobile banking, have expanded access to credit and improved participation in the financial system. Infrastructure investment through donor-funded projects and public-private partnerships has created new opportunities for connectivity and business growth. Regulatory reforms have also introduced digital platforms for business registration in certain countries, helping to reduce some administrative hurdles. Regional integration under the East African Community (EAC) has lowered tariffs, facilitating trade and cross-border collaboration. In addition, youth and women empowerment initiatives have been rolled out, offering targeted support to historically marginalized groups.
- However, these interventions remain inadequate in addressing the structural barriers facing SMEs. Despite greater financial access, high interest rates and limited guarantee mechanisms continue to restrict meaningful borrowing. Infrastructure development has been uneven, with many projects delayed or underfunded, reducing their long-term impact. While digital registration platforms exist, corruption and bureaucratic inefficiencies still discourage formalization. Regional integration efforts are undermined by persistent non-tariff barriers and misaligned policies, slowing down the benefits of trade liberalization. Youth and women empowerment programs, though important, are fragmented and under-resourced, preventing them from scaling effectively.
- These gaps evidence the need for stronger and more coordinated interventions that combine financial, infrastructural, institutional, and social solutions. Through aligning efforts across these domains, policies can move beyond partial fixes and deliver more sustainable, inclusive outcomes for SMEs and broader economic growth.

Policy Recommendations

- Governments should expand access to affordable finance by scaling up credit guarantee schemes, encouraging fintech innovation, and leveraging domestic capital from pension funds and sovereign wealth funds.
- Infrastructure development should be prioritized through public–private partnerships targeting transport, energy, and ICT, with a focus on digital inclusion for rural communities.
- Regulatory institutions in the member states should be strengthened by digitalizing business registration, harmonizing tax regimes across the region, and ensuring reliable enforcement of contracts.
- Investment in human capital is essential and should include reforms in education and vocational training that align with market demands, while also providing targeted support for youth and women entrepreneurs.
- Regional integration should be deepened by removing non-tariff barriers, harmonizing standards, and promoting intra-African trade opportunities that expand markets for local businesses.

Conclusion

East Africa's businesses can drive economic transformation and inclusive prosperity if systemic barriers are addressed. Through coordinated reforms, stronger institutions, and investments in finance, infrastructure, and human capital, the region can build a resilient, competitive, and innovative business ecosystem that advances sustainable development.

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