Gatsby Africa

East Africa

Trends Report – Projecting the Future

January 2026

Trends shaping the future in East Africa

Executive Summary

Gatsby Africa's work focuses on supporting economic transformation. We work to transform specific sectors directly and seek to empower governments to transform sectors themselves.

Our programmes are long-term and take a systemic approach, as such ambitious change is complex and needs time. Understanding the trends likely to be shaping East Africa's context over the next 10-20 years is therefore central to our approach. These trends help us interpret the shifts under way, identify where the greatest opportunities lie, and guide how we direct our efforts to unlock competitive, inclusive and resilient growth across the region. This report shares our analysis of seven forces likely to shape East Africa's trajectory and aims to prompt discussion on how we can collectively navigate emerging challenges and volatility.

The analysis presented below is purely based on secondary data sources, but we have sought to provide our initial perspectives on the implications of these trends for governments and for philanthropists or funders like us.

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Finance

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Public debt to finance infrastructure is needed but also damaging to private investment.

Debt servicing and limited fiscal room are constraining long-term investment, even as needs grow in energy, resilience, infrastructure and productive sectors.

New sources of finance are emerging – from domestic pension capital to targeted bonds for green or diaspora investments – but these remain relatively small. Sustained investment at a scale that could transform the economies of East Africa will need more innovative central bank efforts to drive financing into productive growth, climate-aligned infrastructure and long-term development opportunities. Current tax to GDP ratios of 12-16% are too low to enable substantial infrastructure investments without substantial borrowing, but this is in turn crowding out private sector finance by raising the cost of capital. If such loans are not well-targeted to much needed productive infrastructure investments their economic impact is likely to be negative.

Employment and Skills

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Absolute numbers in poverty are rising across the region.

East Africa's youthful population is expanding more quickly than poverty rates are falling.

While GDP per capita growth is between 2-4% the distribution of the benefits of this growth is highly unequal, so median consumption is rising much more slowly than overall consumption.

In some countries, a growing share of young people are neither working nor studying nor looking for work, raising dependency ratios and reflecting a mismatch of skills, aspirations and jobs. Gaining a demographic dividend from the growing working age population will depend on stronger links between skills, labour markets and the expansion of productive industries. This is particularly critical given the impact of AI, as, despite lower levels of exposure to AI amongst the workforce in East Africa than in the rest of the world, potentially hundreds of thousands of formal low skilled jobs across the region are at risk.

Technology and Governance

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Technological change is widening capability gaps.

Digital platforms, mobile finance and AI are transforming government services, agriculture and enterprise growth.

Yet unequal access, affordability barriers and weak data governance risk reinforcing exclusion. Productivity gains are possible but remain limited by skills shortages and uneven adoption among firms. In the coming decades, establishing robust governance mechanisms for technology, while building trusted government services, could be game-changing for transparency and government accountability. Without this, governments will struggle to contain digital communications and will be faced with a lack of trust, more protests and greater volatility.

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Environment

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Climate risks are increasing the cost of development.

Droughts, floods and water scarcity are disrupting food systems, energy supply, infrastructure and urban services. The frequency of major drought events in East Africa has tripled since the 1970s, while flooding has risen tenfold. Climate priorities are now inseparable from economic planning, from clean energy and water resource management to irrigation systems and resilient urban infrastructure. Current finance levels remain insufficient relative to escalating risks. Climate-aligned growth will require systems that protect people and infrastructure while enabling productive investment and energy access.

Urbanisation

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Urban growth is outpacing planning systems.

Cities and towns are expanding rapidly, often through informal and low-density growth that increases infrastructure costs and weakens labour-market connectivity. Urban populations are growing at around 5% a year which means they are doubling every 14-15 years. Planning systems struggle with enforcement, financing and coordination, limiting cities' ability to raise productivity and resilience. While urbanisation can be catalytic, the current trajectory is for increasing shares of urban residents to be living in informal settlements without effective access to services and with costly commutes to reach opportunities for work.

What these trends mean for East Africa's development

These trends collectively demonstrate the volatile mix of external and internal challenges facing countries in East Africa currently and for the foreseeable future.

Establishing dynamic industries with more productive work for the population does not happen organically, yet creating many more productive jobs is probably the most urgent agenda for governments across the region. Growth to date for many countries has not brought much poverty reduction, partly because it has been driven by consumption, extractive industry exports and domestic service sectors – creating a few highly productive jobs but much informal and unstable work. Navigating the trends reviewed in this report while delivering the millions of jobs required over the coming decades will require focused and innovative governments.

More critically, these trends suggest a narrowing window of opportunity.

East Africa's advantages – a young population, expanding regional markets, high potential for enhanced regional integration, abundant natural and renewable resources – can support transformative growth. But the window may well be time-bound. Current opportunities from flows of capital allied to relatively low tariffs that bring access to technologies and business capabilities are likely to diminish. Equally, the opportunities for rapid urban growth to create workforce efficiencies, for infrastructure to be built with climate resilience in mind or for digital services and new technologies to enhance governance and accountability, will all be lost if there is business as usual in the coming years.

Economic transformation will need clear strategic choices and focused implementation.

Establishing efficient trade infrastructure, building cities with productive work and public services at their core; while ensuring electricity is a major driver of green growth must be non-negotiable priorities. Enhancing government transparency, raising efficiency of public spending and demonstrating a will to discipline the private sector in pursuit of inclusive growth will be core capabilities required of governments. While, aligning policy efforts to target the growth of more productive jobs in competitive sectors will be essential if East African countries are to turn the region's youth into a dividend rather than a time bomb.

Economic Transformation

East Africa is set to remain the continent's fastest-growing region, but the impact of this growth on poverty and inequality will fall short of its full potential without stronger productive job creation and structural transformation.

East Africa is expected to remain the continent's fastest-growing region...

...with real GDP projected at over 7% for Rwanda and Uganda, around 6% for Tanzania, and about 5% for Kenya over 2025-2027 (World Bank, 2025). This outlook is supported by rapid population growth, ongoing infrastructure investment and improved trade logistics.

However, per-capita gains remain modest given average population growth of nearly 3% per year. Longer-term modelling from the ISS African Futures (2025) suggests that growth could remain strong through 2050, with Kenya's GDP surpassing USD 250 billion by 2043, Rwanda's per-capita income nearly tripling by 2050, and Uganda's rising significantly by the mid-2040s, while Tanzania's industrial and LNG investments are expected to sustain expansion into the 2040s.

Real GDP projected at over 7% for Rwanda & Uganda, around 6% for Tanzania, and about 5% for Kenya over 2025-2027.

These high growth rates are not translating into rapid reductions in poverty.

A large share of the population still lives below the international poverty line of USD 2.15 a day, with notable progress only in Rwanda and Uganda over the past two decades. On current trends, absolute numbers in poverty may continue to rise, as ISS African Futures modelling shows that without major productivity and job gains, the number of people living in extreme poverty could keep increasing well into the 2030s, even as GDP expands.

High inequality further limits the impact of growth. In Kenya, the Gini coefficient was 0.41 in 2019 and is projected to fall only slightly to 0.37 by 2043 under a business-as-usual trajectory. However, targeted improvements in manufacturing, education, and trade and financial flows could push it down to 0.31 by 2043 – a 16.6% decline relative to the baseline.

A large share of the population still lives below the international poverty line of USD 2.15 a day, with notable progress only in Rwanda and Uganda over the past two decades.

Rwanda shows similar dynamics: its Gini coefficient of 0.44 in 2019 is projected to fall to 0.41 by 2050 if current trends persist, but to 0.36 by 2035 and 0.32 by 2050 under a scenario that combines stronger governance, human capital, infrastructure, regional trade integration (AfCFTA) and manufacturing performance (ISS African Futures, 2025).

Overall, inequality and slow structural transformation limit how far growth translates into poverty reduction. As most new labour market entrants remain confined to informal, low-wage activities, each additional unit of economic growth reduces poverty by less, because income gains disproportionately accrue to higher earners.

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Another indicator of this disconnect between GDP growth and lived experience is stagnant household consumption.

In Kenya, despite robust GDP growth, median consumption actually fell from about USD 4.54 per day in 1992 to USD 3.14 in 2022. In contrast in Rwanda, it increased from USD 1.80 in 2005 to USD 3.51 in 2023. Tanzania and Uganda show more modest progress, rising from USD 2.04 in 1991 to USD 2.96 in 2018, and from USD 1.87 in 1989 to USD 2.56 in 2019, respectively.

By contrast, Vietnam's median consumption increased from USD 3.51 in 1993 to USD 13.87 in 2020, driven largely by rapid industrialisation (World Bank, 2025). This divergence highlights how East Africa's growth has not yet translated into substantial improvements in living standards.

East Africa's growth has not yet translated into comparable improvements in living standards.

These patterns of inequality are closely tied to the structure of employment, with too few formal jobs available to absorb the rapidly growing labour force.

In Kenya, around one million young people enter the labour market each year, yet formal job creation averaged only about 100,000 annually in the early 2010s, rising to roughly 130,000 by 2024 (KNBS, 2024). In Tanzania, nearly 900,000 youth join the labour market annually, while new formal jobs averaged below 100,000 in the mid-2010s and increased to about 365,000 in 2024 (NBS, 2024). Most new jobs are concentrated in low-value sectors such as wholesale and retail trade, transport, public administration and education, reflecting the limited scale of productive employment. At this pace, demographic pressures will continue to widen the gap between labour force growth and formal job creation.

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Policy responses have often addressed symptoms rather than structural constraints.

Small-scale entrepreneurship funds and public works programmes offer temporary relief but do little to expand productive employment.

In Kenya, initiatives such as the Hustler Fund and similar youth enterprise schemes provide microfinance that sustains small businesses but rarely enables them to grow, formalise or integrate into higher-value supply chains (ISS African Futures – Kenya, 2025). In Tanzania, many enterprises remain survivalist due to a weak regulatory environment and limited access to productive assets, keeping informality dominant (ISS African Futures – Tanzania, 2025).

These measures ease short-term pressures but do not tackle the underlying drivers of low productivity and constrained formal job creation.

Labour productivity remains low across East Africa, reflecting limited structural transformation.

GDP per person employed is a good measure of how productive work is on average. Across East Africa these figures have been rising but at rates slower than other lower middle income countries and too slow to transform these economies with possible exception of Rwanda.

In 2024, GDP per person employed (PPP) stood at USD 14,600 in Kenya (up from USD 10,427 in 2010), USD 7,678 in Tanzania (USD 5,634 in 2010), USD 6,505 in Uganda (USD 6,285 in 2010), and USD 9,326 in Rwanda (USD 5,721 in 2010) (World Bank, 2024). In contrast to economies undergoing structural transformation like Vietnam, where output per worker reached USD 25,850 in 2024, up from USD 12,790 in 2010 (World Bank, 2024).

Productivity growth has also been slow. Between 2010 and 2018, labour productivity increased at a CAGR of 2.0% in Kenya, 2.7% in Tanzania, 2.3% in Uganda, and 4.2% in Rwanda – well below Vietnam's average annual rate of 5.1% over the same period (World Bank, 2024). In Tanzania, Uganda and Kenya, most workers remain in low-value agriculture and informal services, limiting productivity gains and slowing poverty reduction. This stands in contrast to economies that have shifted labour into higher-value manufacturing and tradable services. Future projections reinforce this gap.

Drawing on the World Bank data series referenced above, Gatsby Africa estimates that a business-as-usual trajectory would see labour productivity rise by less than 10% in Kenya, 20% in Tanzania, 30% in Uganda and approx. 40% in Rwanda by 2030 (2021, PPP). At Vietnam's more transformational rate of growth, these figures would be over 40% higher for Kenya and Tanzania and over 50% higher for Rwanda and Uganda.

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The sectors driving growth are not generating productive employment at scale.

Services now account for roughly 50% of GDP, with growth projected at 6.4% in 2025-26 and 7.8% in 2027 (World Bank, 2025).

But most new jobs within services are concentrated in wholesale and retail trade, which is largely informal, non-tradable and low-skilled, offering limited productivity gains. Rapid urbanisation is likely to reinforce this pattern.

Some traded services are expanding, particularly travel and transport, which make up over 60% of Kenya's service exports, 84% of Rwanda's and 90% of Tanzania's (World Bank, 2025). However, their transformative potential depends on stronger links to domestic manufacturing, export-oriented production and tourism supply chains, rather than simply facilitating transhipment.

Stagnant manufacturing growth remains a concern, as these sectors traditionally provide productive jobs at scale.

Industrial growth has been sluggish across the region, with manufacturing's share of GDP stuck at around 9% since the 2010s and its share of exports declining.

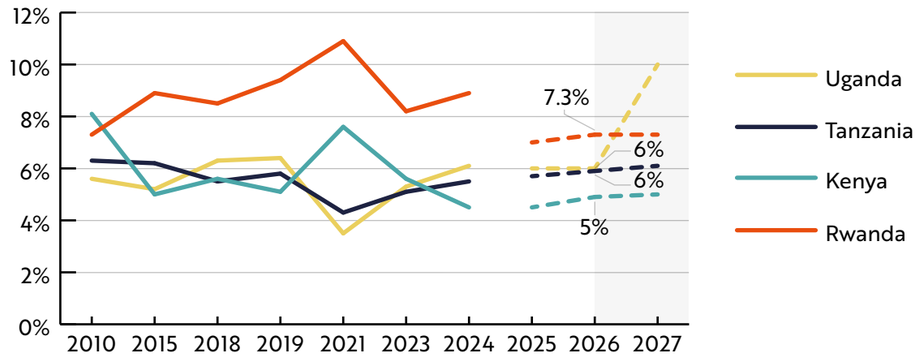
The share of manufactured exports in total merchandise exports has remained flat or fallen: 30% in Kenya in 2024 (down slightly from 31% in both 2015 and 2022), 14% in Tanzania (down from 20% in 2015 and 15% in 2022), 8% in Rwanda (down from 13% in 2015 and 10% in 2022), and 19% in Uganda (a notable decline from 24% in 2015 and 27% in 2022) (World Bank, 2024).

Industrial growth has been sluggish across the region, with manufacturing's share of GDP stuck at around 9% since the 2010s and its share of exports declining.

Taken together, these trends point to a deeper challenge: strong GDP growth is not being matched by productivity gains, because high-potential sectors in manufacturing, high-value agriculture and tradable services are not generating formal jobs at scale. **As a result, most workers remain in low-value informal activities, leading to rising output without corresponding improvements in incomes or living standards.**

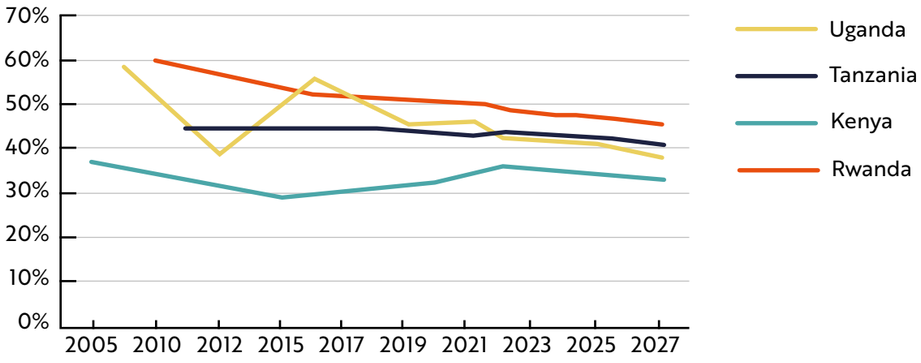
Unlocking more inclusive growth will depend on strengthening the competitiveness of high potential and more productive sectors through targeted investment, value addition, technology transfer and firm-level capabilities, enabling businesses to upgrade and create productive employment at scale.

GDP growth (annual %)



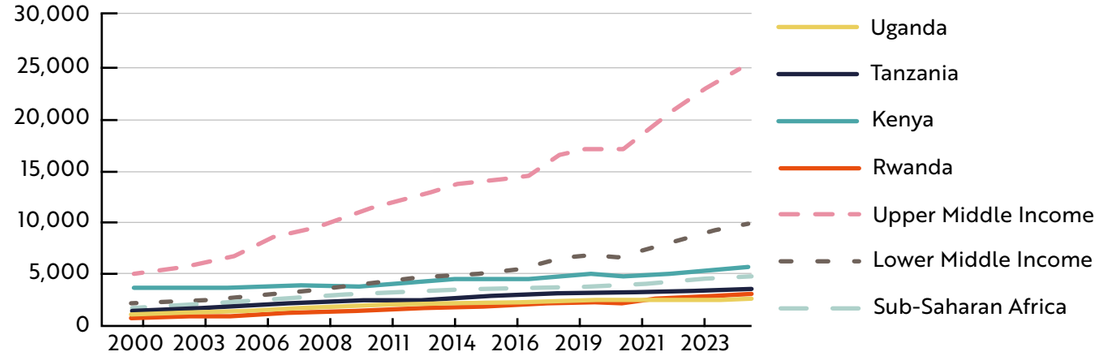
Source: World Bank.

Poverty headcount ratio at USD 2.15 a day (2021 PPP) (% of population) (2021)



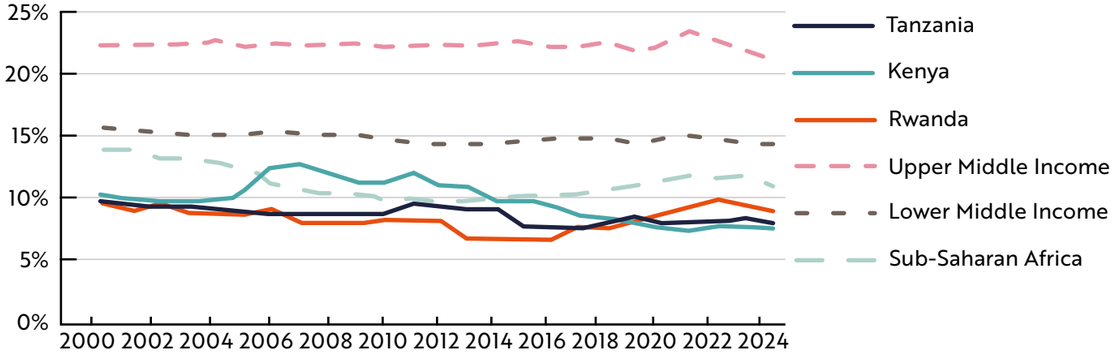
Source: World Bank.

GDP per capita, PPP (constant 2021 international USD)



Source: World Bank World Development Indicators.

Manufacturing, value added (% of GDP)



Source: World Bank World Development Indicators.
Uganda data had a change in definition in 2009 that made comparisons less relevant.

Trade

Shifting trade policy dynamics and emerging green standards create risks of exclusion but also opportunities for greater regionalisation and new global partnerships.

Rising protectionism is reshaping global trade patterns and narrowing market access.

Global trade is increasingly shaped by geopolitical tensions, industrial policy, and competition for strategic influence. Major economies are prioritising national security and domestic manufacturing, particularly amid US-China rivalry and war in Ukraine. This trend has accelerated since COVID-19, with WTO members introducing 193 new trade-restrictive measures between Oct 2022 and Oct 2023 alone (WTO, 2024).

These pressures, coupled with populist politics and inflation, are driving efforts to protect domestic industry rather than consumers,

WTO members introduced 193 new trade-restrictive measures between Oct 2022 and Oct 2023 alone.

and look set to continue. East Africa has lost duty free access to the US market and is facing more tariff and non-tariff barriers in other traditional large export markets too.

Globally, however, the application of tariffs is uneven across countries and for now East Africa is seeing more favourable treatment than for others, but this can change quickly. For East Africa to adopt an export-led pathway to sustained growth is not impossible, but it will need to be more competitive earlier in its economic transformation journey to do so.

Increasing compliance and sustainability standards are further barriers to global value chain integration.

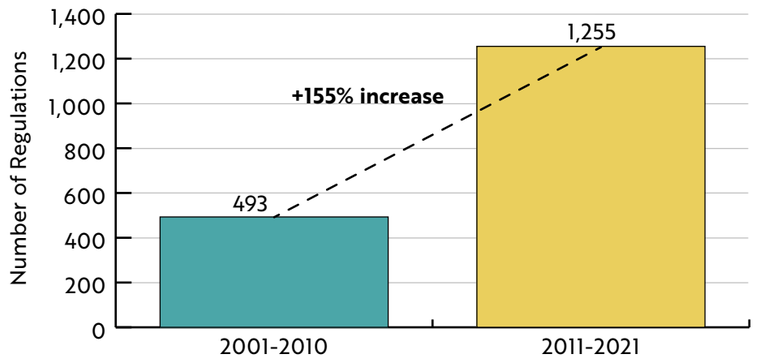
Global Environmental, Social, and Governance (ESG) regulations have surged by 155% over the past decade, as sustainability-based policy interventions increasingly shape global markets (ESG Book, 2023). Global buyers are demanding traceability, deforestation-free sourcing, and ethical labour practices. However, many exporters in East Africa still lack the systems and certifications to comply, leaving them vulnerable to losing market share. If it became applicable to all imports, the EU's Carbon Border Adjustment Mechanism (CBAM) alone would reduce African exports to the EU

Global Environmental, Social, and Governance regulations have surged by 155% over the past decade.

by 5.7%, cutting the continent's GDP by 1.12%, equivalent to USD 31 billion at 2021 levels (African Climate Foundation & LSE, 2023).

Yet these same standards offer a strategic opportunity. With low carbon intensity, strong renewable potential, and organic production traditions, the region could position itself as a sustainable supplier for climate-conscious markets (OECD, 2024). But doing so depends on investment in traceability, certification and low-carbon logistics – without which, compliance pressures will constrain access rather than unlock competitiveness.

Global ESG Regulations Introduced by Decade



Source: ESG Book via BIIA, 2023.

A low level of exports coupled with commodity dependence continues to limit East Africa's competitiveness.

Exporting is a key way for lower income countries to build their domestic capabilities. It has been shown to increase adoption of technologies, raise quality of production and increase efficiency. Essentially raising competitiveness.

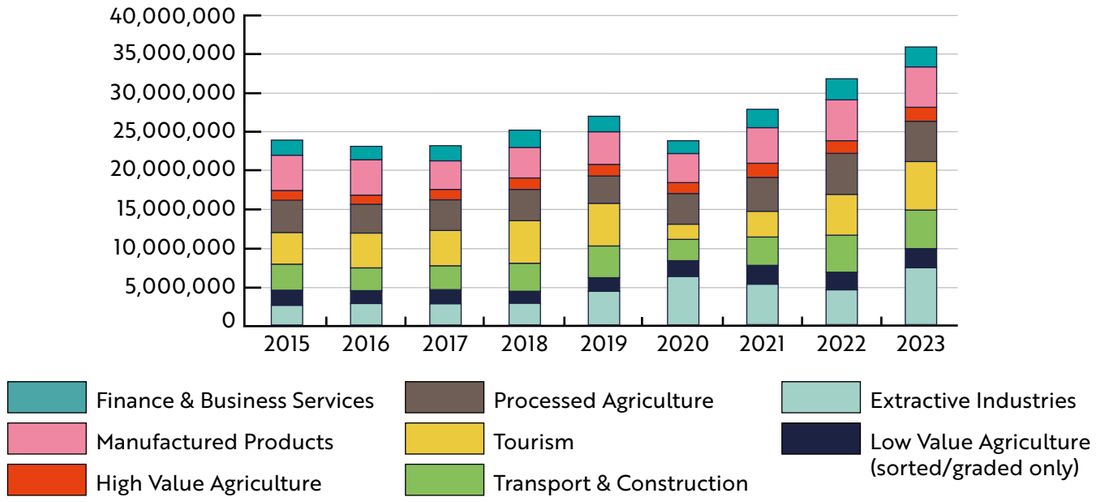
However, East African economies with the exception of Rwanda have an export to GDP ratio of less than 20%, compared to global average of 30% – roughly where Rwanda is now. Economies such as Vietnam and others that have undergone structural transformation generally have seen exports to GDP ratio well over 40%.

Also problematic is that East Africa's export base remains concentrated in a small number of primary commodities – such as tea, horticulture, gold, and emerging critical minerals – leaving its economies exposed to price swings and terms-of-trade shocks (ITC, 2024).

As shown below, a large share of the region's exports are from extractive industries or agriculture with limited processing. Manufacturing and higher value agriculture or services sector exports remain low.

This imbalance matters. Economies that export a greater share of processed goods capture more domestic value, strengthening productivity and resilience to external shocks (OECD, 2023).

East Africa Exports (USD '000s)



Source: Gatsby Africa's calculations based on Comtrade data.

Industrial policy shifts are narrowing pathways to late industrialisation.

Industrial policy is expanding rapidly, led mainly by high-income countries that are concentrating support in sectors where they already hold strong advantages (Juhász et al., 2024). These measures are increasingly outward-facing, combining subsidies with trade incentives to influence supply-chain location, and are contributing to a widening industrial-policy divide between richer and poorer economies. If advanced economies continue scaling up support, late-industrialising regions will face steeper challenges in seeking to develop competitive capacity in higher-value sectors. It is recognised that China's economic rise has been built on its even more intensive focus on developing competitive industries with 768,387 industrial policy examples deployed in China from 2000-2022 (VoxDev, 2025).

For East Africa, this raises the stakes and heightens the challenge for moving beyond unprocessed commodities to build capabilities in intermediate and finished goods that can compete regionally and globally.

Efforts to diversify supply chains in the face of the pandemic and the latest tariff volatility are providing some opportunities for integration into GVCs.

There are many global buyers seeking to move some of their supply chains out of East Asia to reduce their production network concentration risks (OECD 2023). Some are looking at East Africa as a potential supply base, e.g. in textiles and apparel, but also with a long-term perspective that this region will be part of the fastest growing global market over the coming 25 years.

The pace of GVC expansion has slowed since 2011 (OECD, 2023), with the share of global trade of GVCs maintaining around 50% (World Bank Development Report, 2020). One reason why entry into Global Value Chains (GVCs) has become more difficult in recent years is the intensifying competition to attract investors with the requisite know-how and access to the latest technologies. Such firms are seeking more than just tariff incentives, for example comparing energy reliability and cost, logistics efficiency and cost, labour skills and wages, as well as the availability of serviced land and factory sheds at low costs. East Africa needs to compete to attract such investors.

Higher cost of transport to key markets is reducing competitiveness.

Security disruptions in the Red Sea have significantly increased the cost and journey time for East African exports to Europe and the US. Since late 2023, rerouting vessels around the Cape of Good Hope has added 10–14 days, raising shipping costs significantly (UNCTAD, 2024; Atlas Institute, 2025).

At the same time, it is clear that intra-African trade is also held back by a lack of connectivity and the high cost of transport of goods. The East African Business Council reports that transport and logistics costs in the EAC region average USD 1.8 per km per container, which is considered high compared to global best practices of USD 1/km per container (EABC, 2022). These higher costs erode regional competitiveness and impede movement into high-value global markets.

Overall, the African Development Bank (ADB) estimates that "poor infrastructure shaves up to 2% off Africa's average per capita growth rates" (ADB, 2018).

Nevertheless, regional integration is advancing, bringing access to a less valuable, but easier to reach and fast-growing market.

Within the AfCFTA, the East African Community (EAC) remains one of Africa's most developed regional blocs, with a customs union and common market that enable freer movement of goods, services, labour, and capital. Intra-EAC trade rose by 13% in 2023 to USD 12.1 billion, up from USD 10.6 billion in 2022, reflecting good progress toward regional consolidation (EAC Secretariat, 2023; Cogent Economics & Finance, 2025).

However, intra-EAC trade still represents only about 15% of the region's total, far below the 60-70% internal trade ratios seen in the European Union or the 23% of ASEAN (Cogent Economics & Finance, 2025). So, while there are positive signs of increasing trade, divergent regulation, frequent changes to policy and non-tariff barriers, limited infrastructure, and uneven productive capabilities continue to hinder cohesion and curtail regional competitiveness.

Given the challenges for export-led growth elsewhere, removing these impediments presents a substantive opportunity for East African countries in the coming years.

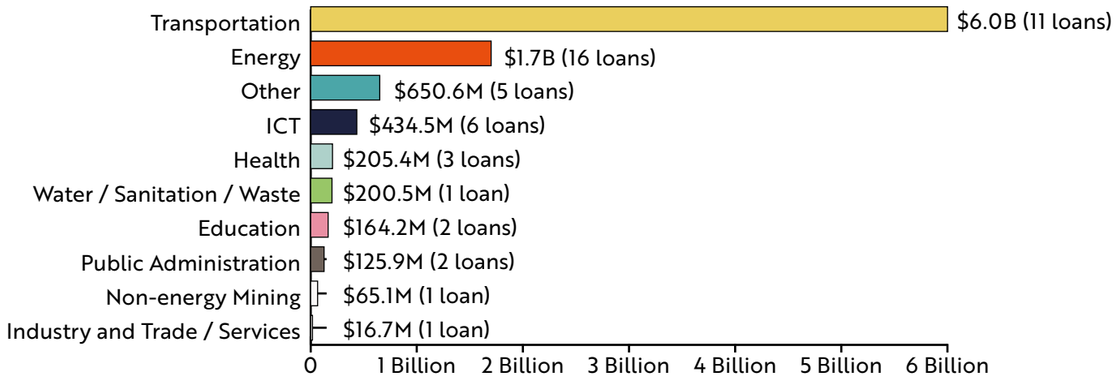
Alternative investors are also showing real potential to drive manufacturing and trade.

The Boston University's Chinese Loans to Africa (CLA) Database reports that Chinese lenders provided 1,306 loans amounting to roughly USD 182.28 billion to 49 African countries between 2000 and 2023 – including USD 9.6 billion to Kenya and USD 2.3 billion to Tanzania (BU CLA Database, 2024).

The UAE has also become a major investor in the region, see table below. These emerging capital flows reflect a deepening South-South economic alignment that could help East Africa diversify trade partners and reduce reliance on traditional Western markets.

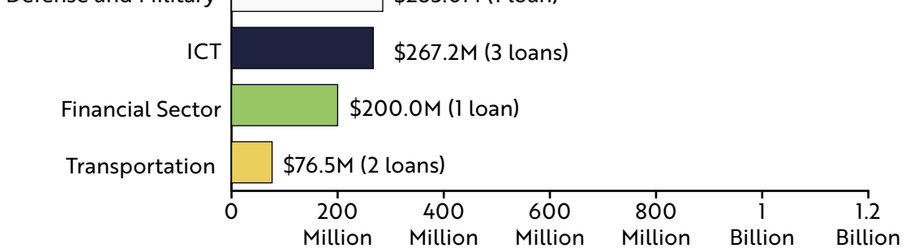
More recent data is likely to show a rapid increase in manufacturing investments from Asia into East Africa, seeking to diversify their supply base and targeted domestic, regional and global north market access.

Kenya: Amount: $9.6B No. of Loans: 48



Source: BU CLA Database, 2024.

Tanzania: Amount: $2.3B No. of Loans: 12



Source: BU CLA Database, 2024.

East African Country	Investing Gulf State / Entity	Sector / Project	Value (US$)	Year(s)
Kenya	**United Arab Emirates (Govt, UAE Banks & Ministry of Economy)**	Expanding bilateral economic partnership including a **USD 1.5 billion** commercial loan under negotiation and **USD 3.1 billion** in non-oil trade under the 2024 Comprehensive Economic Partnership Agreement (CEPA), UAE also considering **railway financing** after China's withdrawal.	= **4.6 billion** (combined)	2023-2025
Tanzania	**United Arab Emirates (DP World)**	30-year concession for Dar es Salaam Port upgrade and logistics expansion.	**250 million (initial)** up to **1 billion (total)**	2023

Source: Reuters, 2024a; Reuters, 2024b; Bloomberg, 2023; Africa Report, 2023.

Alongside this, The UAE has committed USD 4.6 billion to Kenya through trade and financing agreements, while DP World's 30-year concession in Tanzania could mobilise up to USD 1 billion in port and logistics upgrades (Reuters, 2024a; 2024b; Bloomberg, 2023; Africa Report, 2023).

This surge in investment is likely to rapidly reshape the manufacturing base of East Africa, with potentially very positive spillovers into local suppliers and local service providers – raising business capabilities in a range of areas.

To ensure countries benefit, they will need to upgrade their trade and logistics systems but also seek to work with these new investors to promote broader benefits from these investments, ensuring they don't reinforce low-value commodity type roles and instead enable diversification and industrial transformation.

The shifts reshaping global trade present a critical moment for East Africa. As protectionism rises and sustainability standards tighten, traditional export pathways are becoming more difficult to access. The region risks being locked out of the most valuable parts of global value chains and focusing internally on smaller, less competitive markets with protectionism – raising prices for consumers and reducing the impetus for dynamic growth among its businesses.

Yet this changing landscape also presents new openings. Growing markets within Africa, rising demand for responsibly produced goods, and emerging capital flows from Asia and the Gulf are creating alternative routes to industrialisation, diversification, and strategic partnerships that did not exist a decade ago.

Seizing these opportunities will require deliberate effort. Competing in targeted, higher-value GVCs and rapidly growing regional markets will depend on improving the systems that enable trade – especially reducing the cost of logistics, improving standards and creating targeted export and trade infrastructure. The widening industrial policy divide, where richer countries scale up subsidies and trade incentives, raises the stakes: East African countries need to take deliberate steps to enhance business capabilities to produce competitively for these markets. Without domestic capability upgrades, East African countries may be crowded out of the very sectors they need to move into to accelerate, sustain and broaden the impacts from growth.

Finance

To unlock a similar scale of structural transformation to that achieved in Asia's high-growth economies, East Africa will need a step-change in targeted investment.

Investment rates have not been high enough to drive transformational growth.

East Africa has grown at around 6% annually, compared with Asia's 8-10% (Ruing, 2021) during its take-off decades, in part due to lower capital investment.

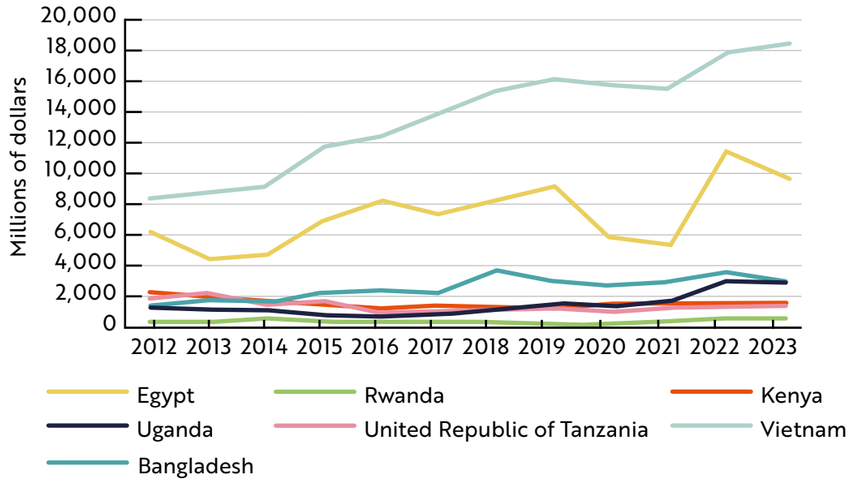
Over the past 15 years, gross fixed capital formation has averaged 20-26% of GDP in Kenya, Uganda and Rwanda, and 35% in Tanzania, compared with 42% in China and about 30% in Vietnam and South Korea during their industrialisation periods (World Bank Indicators, 2024).

Africa, as a whole, captures around 4% of global FDI flows and over half of this is heading to North Africa.

Foreign Direct Investment has traditionally been a key source of access to new technologies and of increasing productivity, but Africa, as a whole, captures around 4% of global FDI flows and over half of this is heading to North Africa (UNCTAD 2024).

By contrast in 2016, Asia received one third of total global FDI through deep integration into global value chains (UNCTAD 2016).

Comparison of FDI flows in East Africa



Source: UNCTAD WIR, 2024.

Global investment trends are becoming less favourable for East Africa.

FDI flows are increasingly clustering within political and security alliances, especially in strategic sectors such as semiconductors and critical minerals. After two consecutive years of decline, UNCTAD Global Investment Trends 2025 reports a further 3% drop in global FDI during the first half of 2025, with Least Developed Countries (LDCs) facing a 5% fall – their lowest level since 2015. Greenfield investment in countries politically distant from major powers is now at a 20-year low.

Rising debt service costs over the past 15 years are increasingly limiting East Africa's ability to finance development.

Higher repayments are reducing investment in essential sectors such as health and education and crowding out private sector access to credit. Between 2009 and 2023, the share of multilateral debt fell from over 50% of total external public and publicly guaranteed debt to 42.1%, while bilateral debt declined from about 40% to 24.2% (ONE Data, 2025).

In contrast, private borrowing expanded sharply: bonds rose to 16.8% of total debt and commercial bank loans to 14.1%, reflecting growing reliance on costlier, shorter-term instruments such as Eurobonds (UNCTAD, 2024). This shift has replaced concessional finance with more expensive borrowing, increasing interest costs and refinancing pressures.

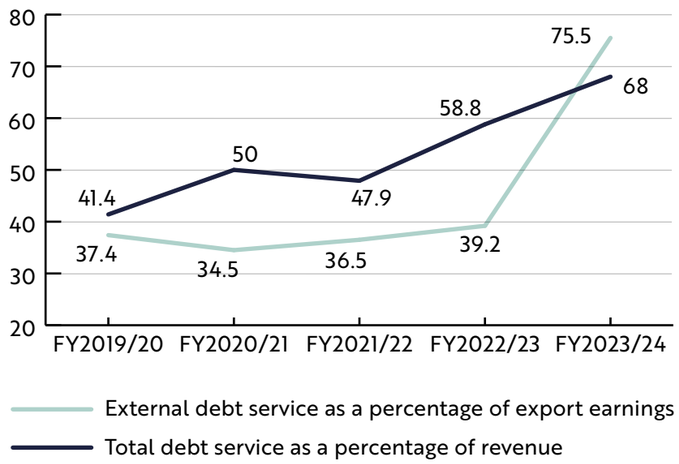
The consequences are now visible in fiscal spending. Debt servicing now exceeds spending on social sectors such as health and education, diverting resources from human capital and long-term growth investment (World Bank Indicators).

Debt servicing now exceeds spending on social sectors such as health and education, diverting resources from human capital and long-term growth investment.

In Kenya, 68% of total revenue is used for debt service, and commercial banks are increasingly purchasing government securities rather than lending to firms – holding 43.7% of domestic debt instruments by November 2023 (National Treasury Data). This reduces credit available to the private sector. Low domestic revenue mobilisation deepens these pressures. Tax-to-GDP ratios across Kenya, Uganda, Tanzania and Rwanda range from 12-16%, compared with a global average of 34% (OECD, 2024).

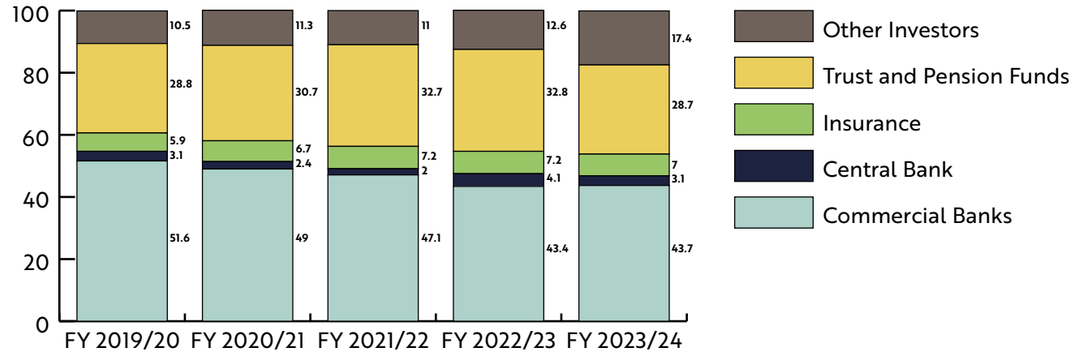
Without stronger revenue generation and more effective debt management, the region risks a cycle of rising debt costs, shrinking fiscal space and slower growth.

The graph shows the share of government revenue going to debt servicing in Kenya



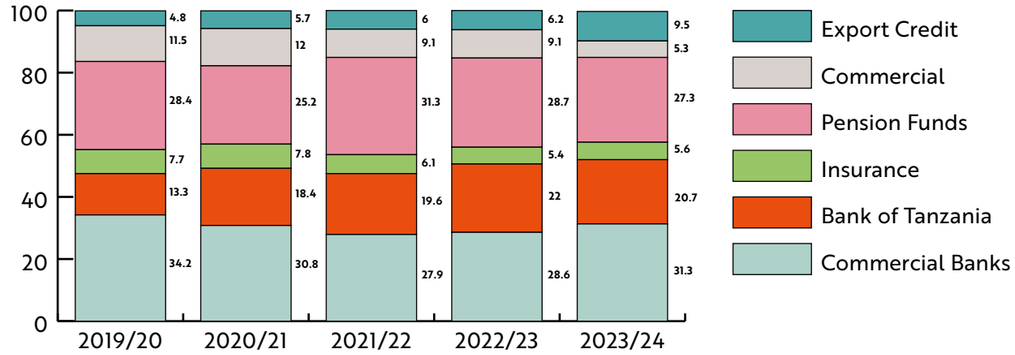
Source: National Treasury, 2024.

Outstanding domestic debt stock by holders as a percentage of total domestic debt in Kenya



Source: Ministry of Finance.

Domestic debt stock by holders as a percentage of total domestic debt in Tanzania



Source: National Treasury.

Rising indebtedness is especially challenging where borrowing has financed low-return or poorly managed investments.

Public debt can support faster growth when it funds infrastructure and productive sectors that expand competitiveness, rather than recurrent costs or projects with limited economic impact. This depends on strong debt management, clear oversight, as well as effective planning and delivery of targeted infrastructure projects.

Large infrastructure projects – such as railways or strategic road networks – should reduce logistics costs, support trade and ease maintenance burdens. When these returns do not materialise, high public borrowing raises financing costs for the private sector without offsetting gains in productivity, efficiency or growth.

Poorly designed or weakly governed investments therefore risk becoming a brake on growth and macroeconomic stability, rather than drivers of transformation.

Declining aid flows are reducing East Africa's access to concessional finance.

With debt servicing already high, governments have limited room to fill this gap, creating a widening shortfall in development finance that slows infrastructure investment, squeezes health and education budgets and pushes countries toward more expensive borrowing.

Official development assistance to the region is projected to fall by 9-17% (OECD, 2025), cutting off a major source of financing at a time of tightening fiscal space.

The impact will be most severe in social sectors, where services remain heavily aid-dependent.

In Kenya alone, more than 6.4 million people risk losing access to essential HIV treatment and immunisation services if aid cuts proceed (MRPC, 2025). The Global Fund has already projected a USD 4-6 billion shortfall in HIV treatment costs by 2026, with East Africa among the most affected.

This threatens to reverse gains in health, education and human capital development, precisely when long-term growth depends on them.

New financial instruments are emerging across East Africa, signalling diversification, but current volumes remain too small and concentrated to close the region's financing gap.

Blended finance has shown the most growth: European development finance institutions committed EUR 9.5 billion globally in 2023, about 40% (EUR 3.8 billion) of which went to Africa, largely through guarantees, local-currency facilities and climate-linked instruments rather than direct loans (EDFI, 2024).

This reflects growing efforts to attract private capital and align investment with climate goals, but the scale remains far below what is required for structural transformation.

Green bonds are symbolically important but still minimal, with Kenya's USD 41 million issuance in 2019 (Acorn Holdings Africa, 2021) and Tanzania's USD 20 million corporate bond in 2022 marking early progress (IFC, 2023).

Pension funds are beginning to diversify toward private assets, yet portfolios remain highly conservative, with 92% of assets in Kenya (Retirement Benefits Authority, 2025) and 80% in Uganda (Uganda Retirement Benefits Regulatory Authority, 2025) held in traditional instruments, limiting the use of domestic savings for productive investment.

Remittances now provide a more stable source of foreign exchange than FDI, with Kenya receiving USD 4.9 billion in 2024 (CBK, 2025) – more than double its FDI inflows – though much of this supports consumption rather than investment.

Venture capital remains modest and concentrated, with East African start-ups raising USD 880 million in 2024 (91% in Kenya) before falling 25% in 2024, underscoring both its potential and volatility (FurtherAfrica, 2024).

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East Africa faces a widening development finance gap. **Investment remains below what is needed for structural transformation, while rising debt service, declining concessional finance and weak domestic revenue mobilisation are narrowing fiscal space and reducing resources for long-term public investment. Heavy government borrowing from domestic markets is crowding out private sector credit, and weaker credit ratings are raising the cost of external borrowing.**

Governments are responding through new instruments such as diaspora bonds, green bonds and pension fund investments. For these innovations to make a meaningful contribution, they will need to channel capital toward productive sectors that unlock private investment and expand the supply of long-term finance, rather than simply substituting for shrinking public funds.

Employment and Skills

East Africa's growing youth population presents a major economic opportunity, but current growth is not translating into productive employment at the pace required. Too few young people are moving into high-value work, and firms struggle to find the skills they need, limiting the region's potential demographic dividend.

The dependency ratio remains high across East Africa, but is slowly declining.

In 2024, dependency ratios were 66% in Kenya (down from 84% in 2010), 70% in Rwanda (82% in 2010), and 84% in both Tanzania (93% in 2010) and Uganda (106% in 2010) (World Bank, 2024). Much of this burden stems from child dependency, which accounted for 69% of Africa's total dependency ratio in 2023.

Projections show that the continent's dependency ratio will fall gradually from 75% in 2023 to 58% by 2050 (UNCTAD, 2023). Because such change is slow and large shares of the population remain outside the labour force, this high dependency burden is likely to persist for decades, limiting household accumulation of wealth and delaying the full realisation of a demographic dividend.

Projections show that the continent's dependency ratio will fall gradually from 75% in 2023 to 58% by 2050.

A demographic dividend becomes more likely when the working-age population reaches at least 1.7 workers per dependant.

Projections from the ISS African Futures model (2025) suggest that this transition will be gradual across East Africa. Kenya, with a ratio of 1.4:1 in 2019, is expected to reach the 1.7:1 threshold by 2030. Rwanda, at 1.3:1 in 2019, is projected to reach 1.7:1 by 2035, rising to 1.9:1 by 2043.

In contrast, Tanzania is expected to reach this stage in the 2040s, and Uganda in the 2050s. Unless fertility declines faster and formal job creation accelerates, much of the region will remain outside this demographic window for several decades.

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Youth unemployment remains high and is rising rapidly in parts of the region...

...signalling limited capacity to absorb new labour market entrants. In Kenya and Rwanda, youth unemployment reached around 17% in 2024, up from below 8% in 2014. Uganda and Tanzania report lower rates, around 5%, though with a steady upward trend since 2014 (ILO data 2025).

The share of young people not in education, employment or training (NEET) is considerably higher across East Africa, with Kenya and Rwanda above 25% (ILOSTAT 2025). NEET rates capture both unemployed youth and those economically inactive, who are neither learning nor seeking work.

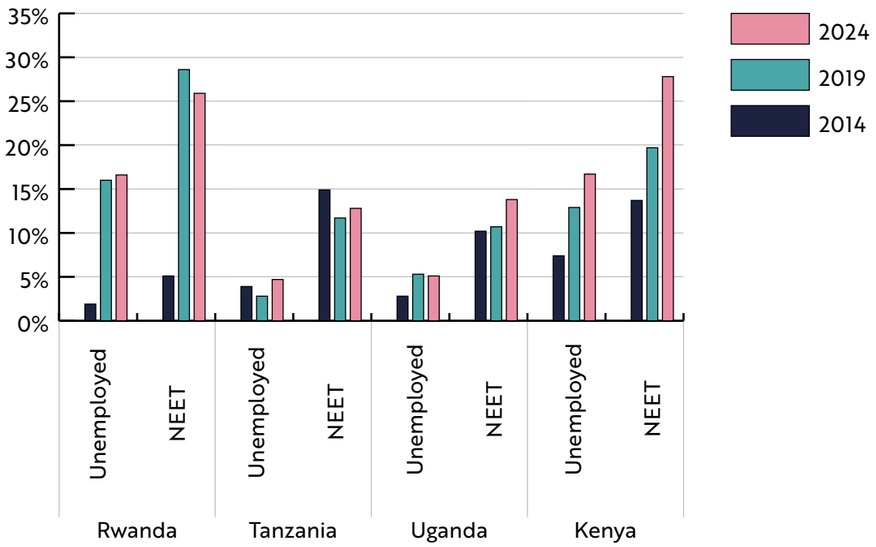
The growing share of inactive youth in countries such as Kenya and Uganda is particularly concerning, as it increases dependency burdens and slows productivity growth.

In Kenya and Rwanda, youth unemployment reached around 17% in 2024, up from below 8% in 2014.

If current patterns persist, the number of NEET youth could rise sharply by 2050, reaching 9.1 million in Kenya, 9.2 million in Tanzania, 4 million in Uganda, and 532,000 in Rwanda (EARF, 2018).

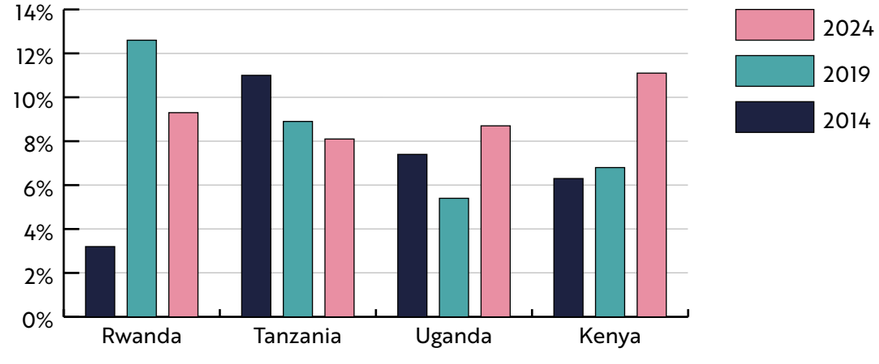
Without faster fertility decline, stronger job creation, and skills aligned to labour market needs, the region risks missing its demographic dividend, leaving the youth bulge as an economic and social strain rather than an opportunity.

Youth Unemployed and NEET (% age)



Source: ILOSTAT data, accessed 25/11/2025.

Percentage Youth Economically Inactive



Source: ILOSTAT data, accessed 25/11/2025. Gatsby calculations (%age NEET – %age unemployed).

A persistent skills mismatch is further limiting the region's ability to create a productive workforce.

A joint report by the Inter-University Council for East Africa (IUCEA) and the East African Business Council (EABC) found that more than half of university graduates in East Africa lacked the skills employers required, with inadequate preparation highest in Uganda (63%), Tanzania (61%), Rwanda (52%), and Kenya (51%) (IUCEA & EABC, 2014).

A 2021 study on graduates' employability skills in East Africa further confirmed this mismatch, highlighting that employers, universities, and civil servants perceive graduates as "insufficiently developing" the skills demanded by the labour market.

As a result, many graduates lack the practical, cognitive, and soft skills needed for workplace readiness across Kenya, Uganda, Tanzania, and Rwanda (Guàrdia et al., 2021). This points to a wider education-to-employment gap that is becoming more severe as technology transforms labour markets.

Demand for digital capabilities is accelerating across the region. Sub-Saharan Africa will require over 230 million digital jobs by 2030, yet only 17-21% of Technical and Vocational Education and Training (TVET) graduates in Kenya possess workplace-relevant digital skills (World Bank, 2024; IFC, 2019).

More than half of university graduates in East Africa lacked the skills employers required, with inadequate preparation highest in Uganda (63%), Tanzania (61%), Rwanda (52%), and Kenya (51%).

Across Africa, 85% of firms report significant shortages in AI, data science, cybersecurity and cloud computing talent, even as these capabilities underpin emerging growth sectors (SAP, 2025).

These gaps begin early in the education system. By 2030, around 66 million children and young people in Eastern and Southern Africa could be out of school, and nearly 89% of 10-year-olds risk remaining "learning poor", progressing through school without basic literacy (World Bank, 2024).

Without substantial improvements in education quality, foundational learning and technical training, most young people will remain excluded from higher-value work, and firms will continue to face capability shortages that constrain technological upgrading and productivity growth.

East Africa is expected to face less job disruption from new technologies in the near term compared to advanced and emerging markets.

The IMF's Gen-AI and the Future of Work (2024) report shows that richer and more industrialised economies have the highest share of jobs exposed to AI disruption, while low-income countries face the smallest share. Globally, structural shifts between 2025 and 2030 are expected to affect around 22% of current jobs, through both new job creation and job displacement.

This change includes new roles equal to 14% of today's employment (around 170 million jobs) and the loss of around 8% (92 million jobs), resulting in net global job growth of roughly 7% (78 million jobs) (WEF, 2025).

The fastest-growing roles are expected to include data and AI specialists, cybersecurity and fintech engineers, and jobs linked to the green transition, while clerical, secretarial and routine administrative work is projected to decline most sharply (WEF, 2025).

The IMF's Gen-AI and the Future of Work (2024) report shows that richer and more industrialised economies have the highest share of jobs exposed to AI disruption, while low-income countries face the smallest share.

Although disruption may be slower in East Africa than in other regions, the impact of technology will still be significant and requires attention.

ODI estimates that around 16.7 million workers in Kenya – almost 85% of the workforce – are in low-exposure roles, largely informal and manual, where GenAI is unlikely to replace workers in the near term.

These roles include smallholder farming, boda boda transport, construction labour and domestic work. While AI may improve how some of this work is carried out, through tools such as route planning or crop forecasting, it is unlikely to automate these jobs soon (ODI, 2025).

However, about 2.5 million Kenyans currently work in roles with high or significant exposure to GenAI automation. ODI's breakdown shows that this group includes around 400,000 clerical and knowledge-based workers, close to 2.1 million secretarial, customer-facing and professional service workers, about 150,000 technical professionals, and around 210,000 entry-level service workers (ODI, 2025).

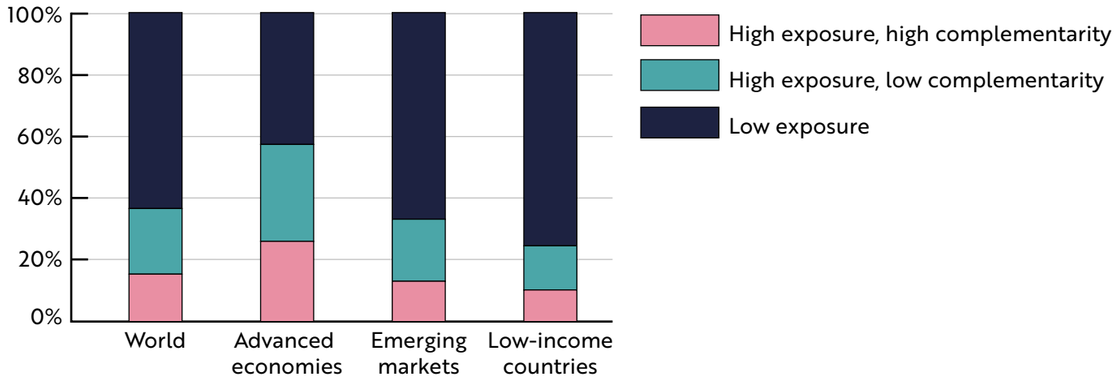
However, about 2.5 million Kenyans currently work in roles with high or significant exposure to GenAI automation.

These occupations have traditionally served as important stepping stones into formal employment, offering better prospects for productivity gains, wage progression and upward mobility, particularly for women. If these pathways contract, the risk is not widespread job loss but diminished opportunity for workers to advance into more secure and higher-value roles.

Responding to this shift will require support for workers most exposed to automation, including reskilling that helps them use AI productively rather than be displaced by it. Stronger policy and regulation will also be needed to guide the use of AI in ways that complement labour.

At the same time, countries will need to cultivate new sectors and raise business capabilities, enabling firms to compete, innovate and create more stable, higher-value employment over the long term (ODI, 2025).

Exposure and complementarity of AI
Employment share, working-age population



Source: IMF's 2024 Gen-AI: Artificial Intelligence and the Future of Work report.

East Africa's youthful population is expanding faster than the region is creating productive, formal jobs. **This is producing a growing pool of underutilised young people – many disconnected from both work and training – while skill gaps continue to constrain firm productivity and industrial growth. At the same time, AI and automation will likely lead to reductions in employment, particularly in clerical jobs, with the opportunity of higher productivity through complementary use of AI requiring higher skills.**

Realising the demographic dividend will depend on whether economies can scale sectors that absorb labour productively and generate higher-value employment. This requires linking industrial strategies to future employment priorities: building firm capabilities in sectors such as manufacturing, tradable services and high-value agriculture, and aligning education and training systems with the skills these sectors demand.

Without progress on both fronts, job creation will remain limited and the social and economic pressures of a large underemployed youth population will intensify.

Technology and Governance

Digital transformation is expanding opportunities but also deepening divides and raising significant governance risks.

AI and digital technologies are rapidly reshaping how people live and work across East Africa, with visible gains in farming, healthcare, and public services.

Farmers are using mobile and AI-based platforms for real-time pest and disease advice and climate information (ISDA, 2024; Mongabay, 2024; Arin, 2024). In healthcare, AI-enabled diagnostics are widening access to basic screening and treatment (African Business, 2025).

While digital public platforms such as Kenya's eCitizen are changing how citizens interact with the state and access services (Government of Kenya, 2024). This momentum reflects a surge of digital innovation, driven by a dynamic private sector and rising investor confidence.

Over the past decade, East Africa has attracted roughly 1,000 venture deals worth more than USD 5.5 billion, with Nairobi, Kigali, and Kampala emerging as regional technology hubs (EAVCA, 2023).

Incubators, research hubs, and international partnerships are fuelling a vibrant tech ecosystem. With the right policy and investment choices, digital adoption could put the region at the forefront of the continent's tech landscape by the mid-2030s.

At the same time, digital exclusion is deepening social and economic divides across East Africa.

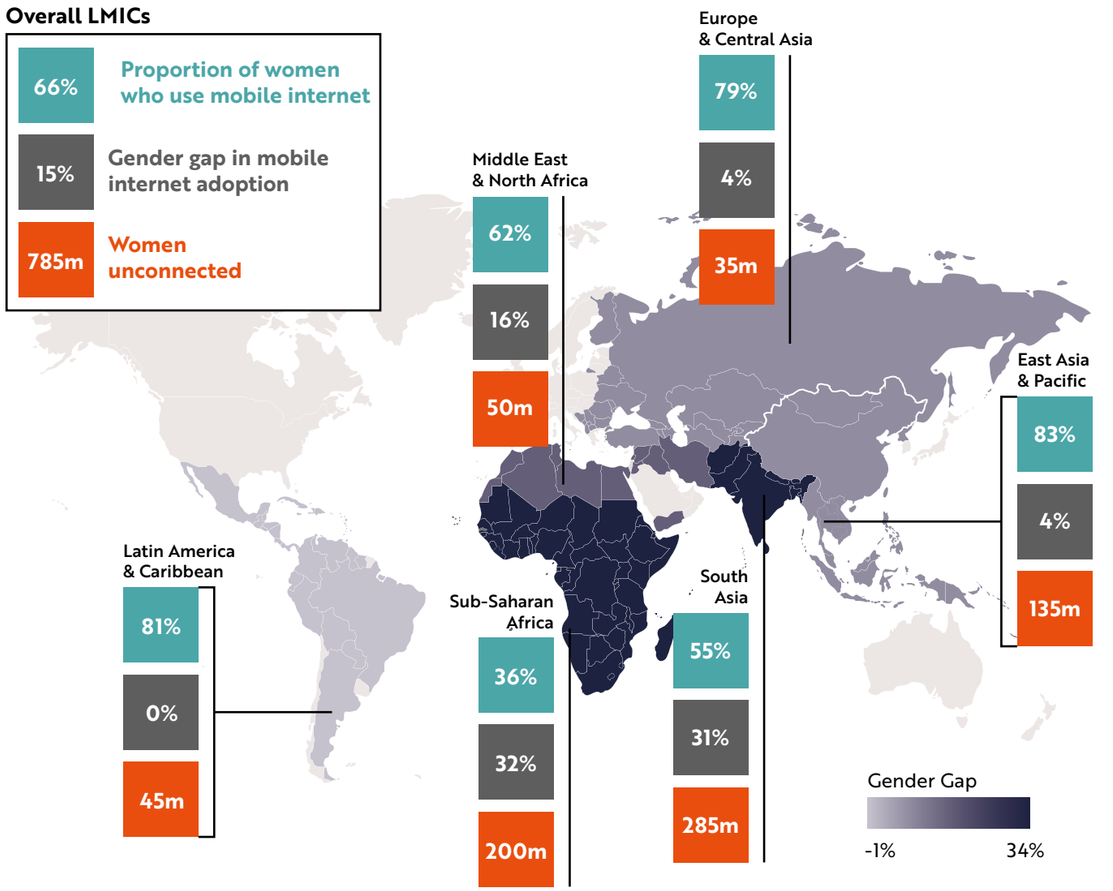
Despite impressive progress in network coverage, millions of people across East Africa remain disconnected from the digital economy. High data and device costs, limited digital skills, and safety concerns still exclude large sections of society – particularly rural communities and women.

The urban-rural divide in Sub-Saharan Africa is stark: in 2022, only one in five rural residents used the internet, compared with about 3.75 in five urban residents (World Bank, 2023).

In 2022, only 20% of rural residents used the internet, compared with 75% of urban residents.

At the same time, the GSMA Mobile Gender Gap Report (2024) identifies a 32% gender gap in mobile internet adoption in Sub-Saharan Africa – the widest in the world.

Gender gap in mobile internet adoption in LMICs, by region
Total adult population



Source: GSMA, 2024.

Kenya's experience shows how this divide deepens with each stage of digital engagement – suggesting that women's use of mobile technology lags significantly behind.

While men and women own mobile phones at similar rates in Kenya, women are 36% less likely to use mobile internet daily and 43% less likely to use it for productivity-enhancing purposes such as learning, commerce, or accessing public services (GSMA, 2024).

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Digital inclusion, therefore, is not only about access but meaningful use and participation. Left unaddressed, these divides risk entrenching social inequality while constraining the economic potential of East Africa's digital transformation.

Exclusion fuels a dual-speed economy that leaves large parts of the population outside the formal innovation system, curbing productivity, skills development, and entrepreneurship.

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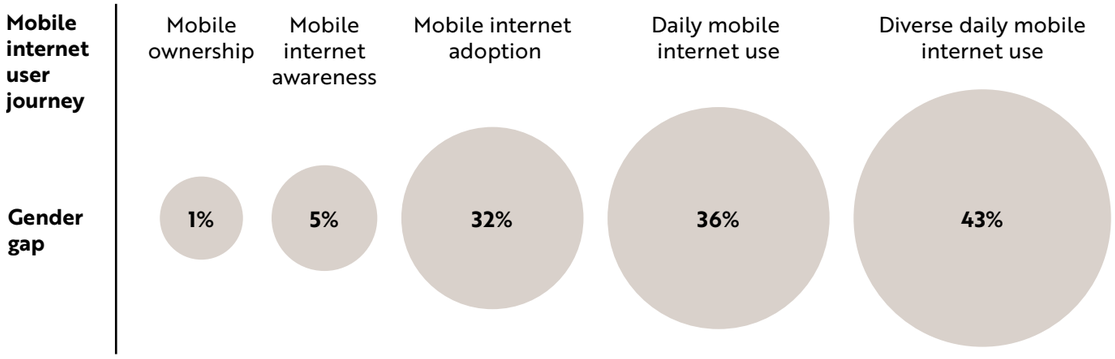
Gender gaps throughout the mobile internet user journey in Kenya
Among the total adult population



Base: Total adult population aged 18+
The gender gap refers to how much less likely a woman is to own a mobile, be aware of mobile internet or use mobile internet than a man.
Diverse daily mobile use is defined as performing at least three mobile internet use cases daily.
n = 544 for women and n = 505 for men

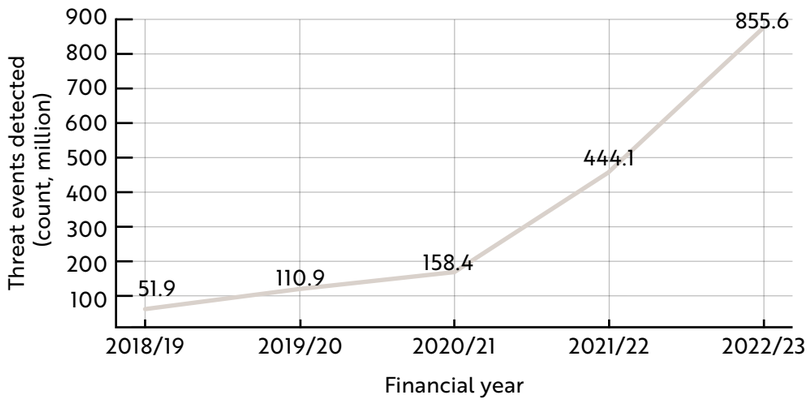
Source: GSMA, 2024.

Rising cyber risks and misinformation are eroding trust in technology across East Africa.

As digital adoption accelerates, East Africa faces rising exposure to cybercrime and disinformation – risks that could undermine confidence in digital systems and slow the region's transformation.

In Kenya, detected cyber threats rose from just 51.9 million in 2018-19 to more than 855 million in 2022-23 (Communications Authority of Kenya, 2023) – more than doubling each year.

Kenya (KE-CIRT/CC): Cyber threat events detected FY2018/19-FY2022/23



Source: Communications Authority of Kenya, 2023.

Across Western and Eastern Africa, cyber offences now account for over 30% of reported crime, with cumulative losses exceeding USD 3 billion since 2019 (Interpol, 2025). These vulnerabilities are increasingly intertwined with disinformation campaigns that undermine trust in digital finance, governance, and information systems.

The implications extend well beyond security. Erosion of digital trust threatens to slow adoption, deter investment, and undermine public confidence in online transactions – turning technology from an engine of transformation into a potential drag on growth.

Across Western and Eastern Africa, cyber offences now account for over 30% of reported crime, with cumulative losses exceeding USD 3 billion since 2019.

Low trust in government institutions is shaping how digital systems are used.

Digital public services such as e-procurement, land registries and digital IDs rely on confidence that data will be protected and that reporting misconduct will trigger action.

Yet Afrobarometer data (2021-2023) shows only one in three Kenyans and one in four Ugandans believe that reporting corrupt behaviour, such as misuse of funds or bribery, leads to meaningful consequences, indicating a lack of trust in government systems.

This compares poorly with Tanzania where 50% of the population believe that reporting corrupt behaviour would trigger action, although this is still not high.

Where accountability is weak, digital platforms risk being viewed not as tools for transparency, but as extensions of institutions that do not protect citizens – limiting uptake and undermining the potential of technology to improve governance.

Governments' increasing use of internet and social media shutdowns is also eroding trust in digital systems.

Between 2016 and 2024, Africa recorded 193 shutdowns, with annual incidents doubling from around 14 to nearly 30 per year.

Shutdowns are being used more frequently during elections, protests and periods of political tension to restrict mobilisation and control information. Uganda, Tanzania and Kenya have each experienced multiple shutdowns in the last five years, often coinciding with civic demonstrations or election-related activity.

While intended to curb unrest, shutdowns block access to e-government services, digital banking, online trade platforms and mobile communications, undermining economic activity and contradicting governments' own ambitions for digital transformation.

They reveal growing social pressure for accountability and better service delivery, yet they weaken confidence in the very digital systems now being promoted as tools for transparency, inclusion and growth.

At a time when trust is essential for adopting digital public services, shutdowns risk signalling that digital platforms remain vulnerable to political interference rather than instruments of reliable governance.

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Recent elections across Africa have further underscored rising scrutiny of governance and the impact of digital communications tools.

Long-serving parties and incumbents are increasingly being challenged by a more politically aware and connected electorate, particularly youth.

In Kenya, a youth-led movement has redefined political participation, leveraging digital platforms to mobilise around governance, economic opportunity, and integrity in leadership. Even in countries where incumbents have retained power, such as Tanzania, heightened protest and public debate over fairness and transparency signal a shifting political landscape.

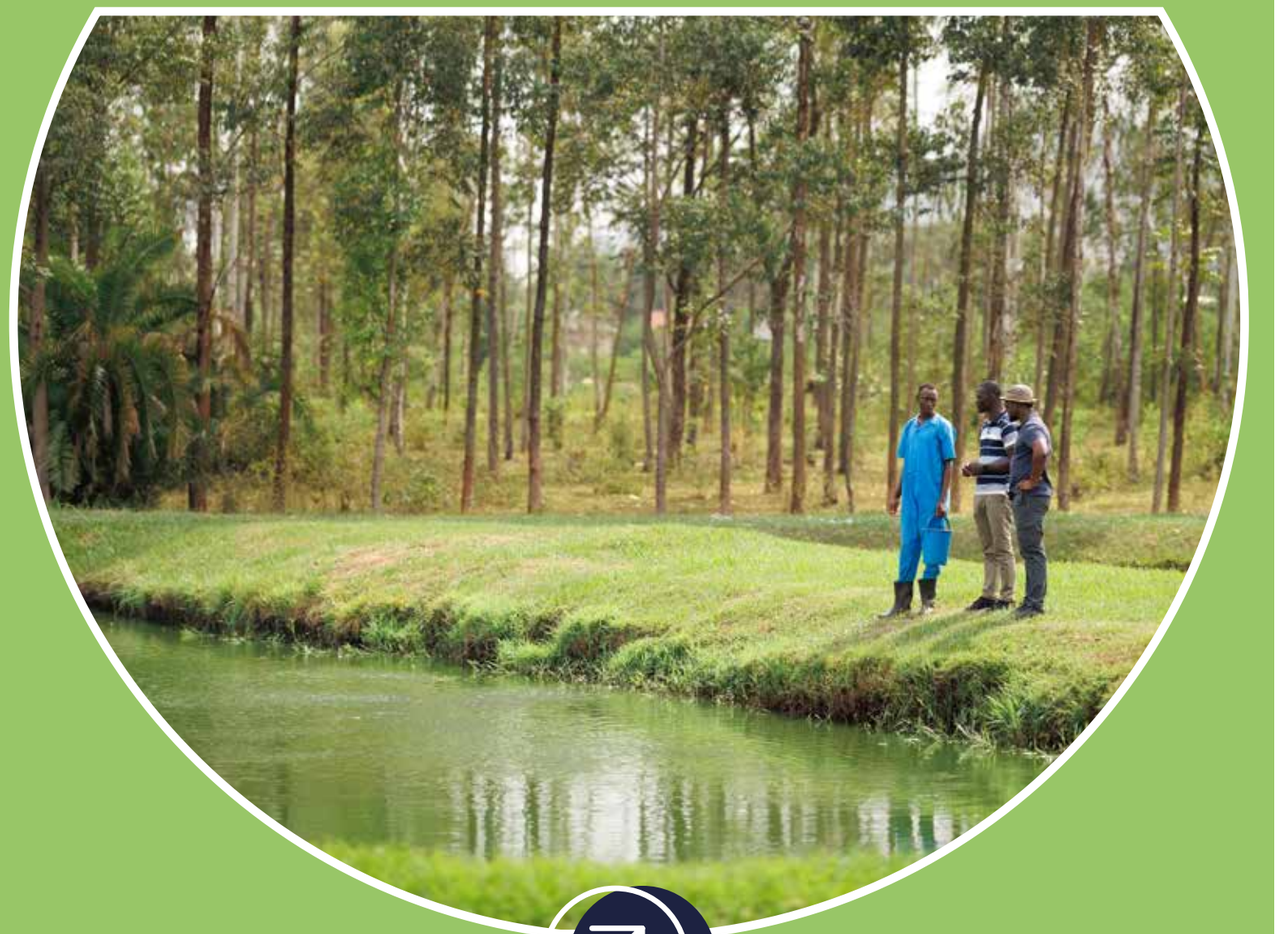
Overall, these developments reflect a continent-wide trend where governance is increasingly being shaped by more politically engaged and more digitally connected youth (TRENDS Research & Advisory, 2025; ISS Africa, 2025).

East Africa's digital transition has the potential to unlock significant gains in productivity, service delivery and public-sector transparency. **Advances in AI, digital public services and mobile platforms are reshaping how people work, farm, learn and access healthcare.**

Rapid progress in e-government systems, digital IDs and data-driven public services could improve transparency, expand access to basic services and create more accountable institutions. Combined with emerging AI tools, these systems can accelerate decision-making, strengthen knowledge transfer and make essential services more accessible to citizens and businesses.

Whether these gains are realised will depend on broadening digital participation and building trust in digital systems. Unequal access, low skills and persistent gender gaps risk excluding large segments of the population from opportunities created by digital transformation. At the same time, growing exposure to cybercrime, misinformation and the use of internet shutdowns undermines confidence in digital finance, e-commerce and government platforms.

Governments that expand secure access, keep communications open and strengthen protections for users can boost confidence among citizens and businesses, supporting wider economic growth. The safe, inclusive and transparent deployment of digital technologies and AI will be central to ensuring that innovation supports productivity and public trust rather than deepening divides.



Environment

Intensifying climate shocks are forcing East Africa to confront hard trade-offs between adaptation, resilience, and development.

Compound climate shocks are becoming the new normal across East Africa.

Climate shocks are no longer isolated events but recurrent pressures reshaping economies, livelihoods, and public systems. Longer-term analyses indicate that the frequency of droughts has nearly tripled and floods increased roughly tenfold across Sub-Saharan Africa since the 1970s (Brookings, 2021; Africa Pulse, 2021; Weathering Risk, 2023).

More recent and probably more reliable disaster-event data since 2000 also show a sustained upward trend: across East Africa, the frequency of climate related disasters is trending upwards – increasing by approximately 50% since 2000 – with the number of people affected also trending upwards – rising by around 16% to approximately 2.5 million people per year (CRED, 2025).

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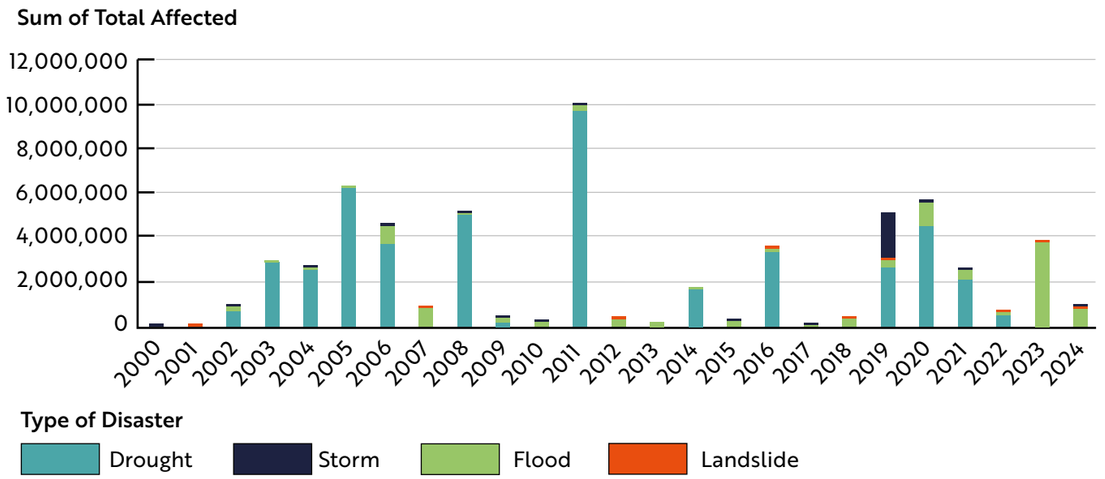
Populations affected by types of weather-related disasters annually



Source: EM-DAT: The International Disasters Database, accessed 28/11/2025.

The consequences of this trend are as much social and economic as they are environmental.

Between 2020 and 2023, the Horn of Africa experienced its most severe drought in 40 years, with five consecutive failed rainy seasons devastating crops and pasture. The crisis left more than 32 million people in Ethiopia, Kenya, and Somalia acutely food insecure by mid-2023 and triggered widespread displacement and humanitarian emergencies across the region (UNDP, 2024; IOM, 2023).

This was soon followed by severe flooding in late 2023, which affected more than 5.2 million people across Eastern Africa, with Somalia, Ethiopia, and Kenya among the hardest hit (UNICEF, 2024).

Repeated and increasingly varied shocks are straining disaster response systems. The toll of climate impacts on the continent is already high. African nations lose an estimated 2-5 percent of GDP each year to climate-related extremes, and some divert as much as 9 percent of national budgets to disaster response (WMO, 2024).

The overlapping nature of these crises makes it harder to plan, invest, and adapt effectively. Long-term and large-scale investments in resilient infrastructure, e.g. for agriculture and for cities will be essential to avoid increasingly frequent disaster management.

East Africa will require substantial investment to reduce the vulnerability of its urban infrastructure to climate shocks...

...with an average annual loss of buildings and infrastructure of USD 5.1 billion across Eastern Africa (CDIR, 2025).

Rapid and unplanned urban expansion has outpaced governments' ability to plan and invest in resilient, liveable cities. Floods cause over two-thirds of the damage, with climate change set to increase this by 27% (CDRI, 2025). Vulnerability is intensifying by the concentration of informal settlements in hazard-prone areas.

Economic costs are much higher than just the assets of buildings and infrastructure. The disruption to economic activity as well as education and health systems likely leads to indirect losses that are orders of magnitude larger (CDRI, 2025).

The human toll is also rising: in 2024, floods in Kenya killed 267 people and displaced 282,000, while in Tanzania 155 people died and severe damage was concentrated in informal settlements (OCHA, 2024).

Strengthening resilience will require building durable infrastructure early, matching expansion with risk-informed planning, and improving construction standards.

The challenge, however, extends beyond technical design to the governance and financing systems needed to deliver resilient urban infrastructure at speed and scale.

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East Africa's food systems are straining under the combined pressures of low productivity and intensifying climate impacts, particularly shifting rainfall patterns.

While droughts and floods are the more publicised issues, shifting rainfall patterns are exposing deep structural weaknesses in agricultural production systems and food access.

The uncertainty of rainfall patterns presents huge challenges for farmers in knowing when to plant and what to plant. Projections suggest that most of the region will experience higher frequency and intensity of heavy rainfall events, with the number of days of precipitation >2cm increasing in both rainy seasons. This increases risk of soil erosion, landslides and localised flooding, all of which will reduce agricultural productivity.

However, semi-arid areas are likely to experience a decrease in rainfall, further lowering their productive potential. These problems are particularly severe, due to East Africa's heavy dependence on rain-fed agriculture – with less than 1% of agricultural land irrigated across the region (FAO, 2023 – Agricultural irrigated land (% of total agricultural land) | Data).

Whilst the region will experience more heavy rainfall events, semi-arid areas are likely to experience a decrease in rainfall, These problems are likely to lower productivity, something particularly severe due to East Africa's heavy dependence on rain-fed agriculture.

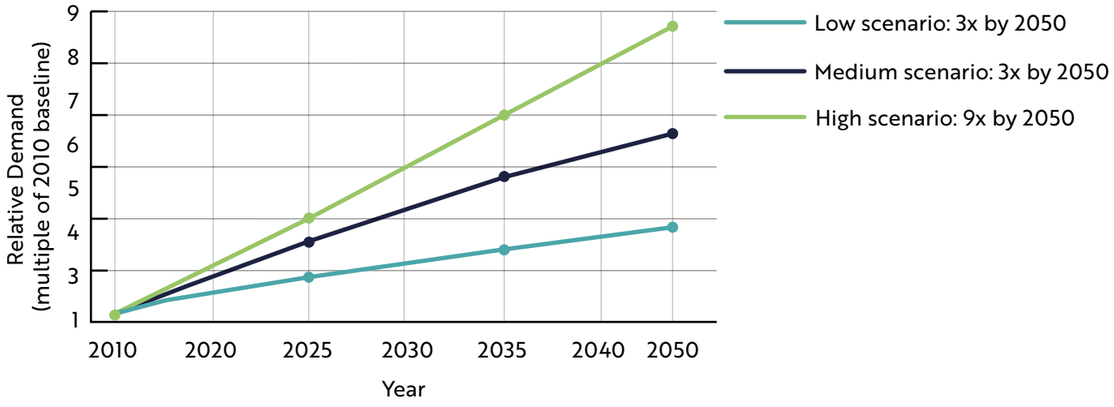
Major investments in irrigation and flood-proof water storage will be critical in the coming years to raise agricultural productivity and protect against increasing rainfall uncertainty.

At the same time, demand-side pressures are rising. Food demand in Eastern and Southern Africa is projected to rise three- to ninefold by 2050 compared to 2010, driven by population growth, urbanisation, and rising incomes (CGIAR, 2025).

Yet agricultural productivity remains largely stagnant: a World Bank (2023) study of 30,000 smallholder farms across six African countries found "no significant improvement" in crop yields between 2008 and 2019. Meeting this rising demand will require not just more food, but more diverse, processed, and perishable products – stretching already limited storage and transport infrastructure.

Without major gains in efficiency and adaptation, output will continue to lag behind demand, deepening reliance on food imports.

Projected Multiples of Food Demand in Eastern & Southern Africa (2010-2050)



Source: CGIAR, 2025.

Water scarcity is becoming a critical threat to livelihoods and growth.

East Africa's renewable water resources per person are projected to fall from 5,832 m^3 in 2000 to just 1,766 m^3 by 2080 – approaching the international water stress threshold of 1,700 m^3 (Weathering Risk, 2023). This is driven primarily by rapid population growth, urban expansion, and rising demand from agriculture and energy (TRENDS Research & Advisory, 2025), yet further exacerbated by increasingly variable rainfall patterns caused by climate change.

Water scarcity now cuts across every part of the economy. Food production is heavily exposed, with 95% of cropland in Sub-Saharan Africa still rainfed (SIWI, 2018). Hydropower systems face growing variability, while rural water scarcity is driving migration into cities and stretching already limited urban infrastructure.

Renewable water resources per person are projected to fall from 5,832 m^3 in 2000 to just 1,766 m^3 by 2080 – approaching the international water stress threshold of 1,700 m^3.

In politically fragile settings, competition over shared water sources is emerging as a risk multiplier, complicating regional cooperation and investment (Weathering Risk, 2023).

Kenya in particular is likely to face major water stress challenges, given it is already technically a water scarce country with the amount of water available annually per person at roughly 452 cubic meters (Denmark/Kenya Strategic Cooperation on Water, 2023-2033).

Reliable access to water now underpins development as fundamentally as energy or transport – shaping where investment flows, which sectors can expand, and how governments sustain food and energy security under mounting climate stress.

Nevertheless, some opportunities are emerging from projected climate changes.

In commercial forestry, higher temperatures and increased rainfall in parts of the region are expected to improve growing conditions, particularly in Tanzania's highlands and western areas. With appropriate species selection, this could enable a rapid expansion in wood supply, supporting the greening of downstream sectors, for example through sustainable construction and green buildings.

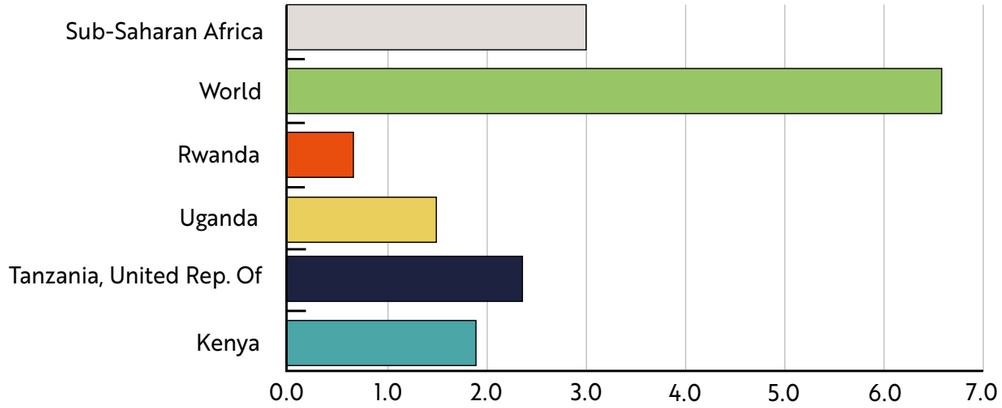
Forestry also plays a crucial role in reducing greenhouse gas emissions and can strengthen resilience to floods and landslides during periods of intense rainfall.

Rising awareness of, and funding for, Nature-Based Solutions offer further opportunities to support water resource management and unlock access to finance – for instance through investments in the preservation and restoration of mangroves for coastal protection and carbon sequestration.

Where complementarities between environmental and economic benefits can be effectively harnessed, these approaches can open new financing pathways, as demonstrated by successful projects in Kenya, with similar potential in Tanzania.

While marine and coastal fisheries face mounting pressures, freshwater aquaculture may hold a comparative advantage. Lake Victoria, in particular, offers scope for region-wide development of aquaculture, as species such as tilapia are well suited to warmer temperatures and varying salinity levels, reducing disease risk.

GHG Emissions per Capita (metric tonnes per million people)



Source: calculated from IMF country dashboard for emissions, WDI for population and GDP, 2024.

Climate commitments and green-energy pressures are increasingly at odds with development priorities.

Africa contributes just 4% of global carbon emissions despite accounting for nearly one-fifth of the world's population (Al Jazeera, 2023). Yet as global decarbonisation pressures intensify, the continent faces rising expectations to align with net-zero targets – sometimes in tension with urgent development and industrialisation goals.

Policymakers across the region have warned that without a credible just transition framework, climate action risks constraining energy access, job creation, and long-term growth (ISS Africa, 2025).

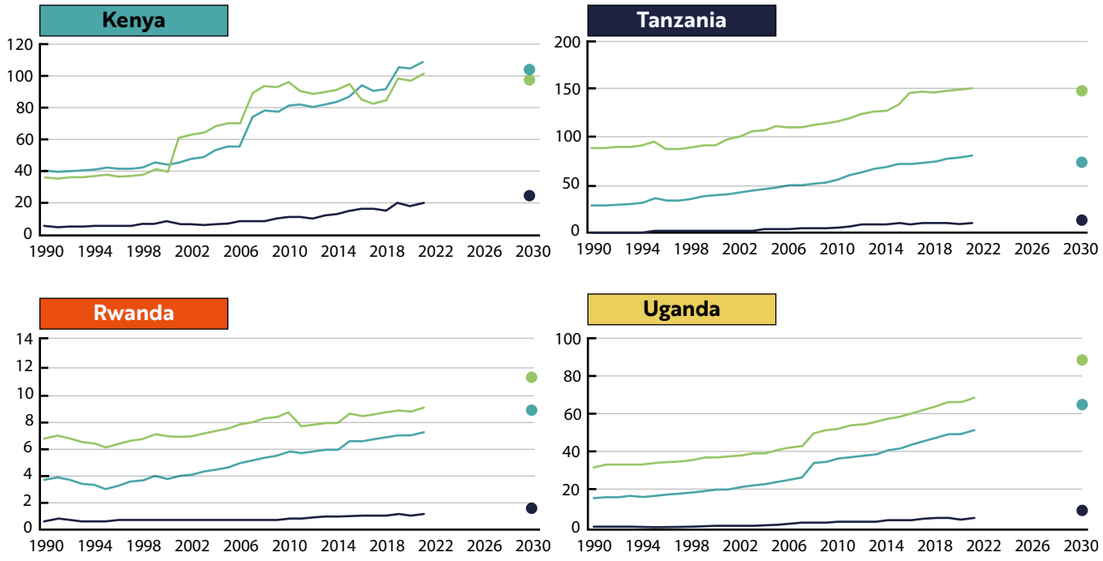
The African Union's Common African Position on Climate Change asserts the continent's right to development and energy access while calling for fairer climate finance and trade mechanisms that reflect Africa's low historical emissions and high vulnerability (UNECA, 2024). Without such safeguards, East African economies could be disadvantaged in emerging green trade regimes and carbon-adjusted markets, despite their minimal carbon footprint.

According to the Climate Policy Initiative (2024), Africa's climate finance flows must quadruple annually until 2030 to meet the investment required for implementing current NDCs; at present, only 23 percent of estimated needs are being met.

Most of Africa's updated Nationally Determined Contributions (NDCs) lack adequate or reliable financing. According to the Climate Policy Initiative (2024), Africa's climate finance flows must quadruple annually until 2030 to meet the investment required for implementing current NDCs; at present, only 23 percent of estimated needs are being met.

In sub-Saharan Africa alone, adaptation needs are projected at USD 30-50 billion annually over the next decade (WMO, 2024).

Reported GHG Emissions – Trends versus Targets



LULUCF = Land-Use, Land-Use Change & Forestry

Source: UNFCCC: EDGAR: FAO: IMF staff calculations.

Carbon credit markets are expanding rapidly and present a growing opportunity for several sectors across East Africa.

The voluntary carbon market, now valued at around USD 4 billion in 2024, is expected to reach USD 24 billion by 2030, (Grand View Research, 2025 – Voluntary Carbon Credit Market Size | Industry Report, 2030). This is a huge pool of potential capital to support verified emissions reductions, which can be allied to developmental projects such as renewable energy.

Demand is increasingly focused on high-integrity, low-carbon projects that demonstrate credible additionality, deliver robust co-benefits such as biodiversity protection and climate resilience, ensure equitable community benefit-sharing, and operate under clear government support frameworks.

Readiness across the region varies. Kenya gazetted Climate Change (Carbon Markets) Regulations in 2024, while Rwanda established a national carbon market platform in 2023.

Both countries are regional early adopters, demonstrating credible validation mechanisms, and are readying to receive hundreds of millions of dollars of climate finance, having signed bilateral cooperation agreements with partners such as Singapore, Sweden and Switzerland (FSD Kenya, 2025; World Bank, State and Trends of Carbon Pricing 2025).

Africa's share of global emissions will rise as its population expands, making it important to reduce the emissions intensity of future growth.

With the continent's population projected to reach nearly 2.5 billion by 2050 – more than a quarter of the world's total – its share of global emissions could increase substantially if development follows a high-carbon pathway (IMF F&D, 2023). Under a high-growth, fossil-intensive scenario, Africa's emissions could more than double, reaching around 10.5% of the global total by 2050 (ISS, 2025).

Nevertheless, given these projections, even with high-carbon scenarios for growth, per-capita emissions would remain well below the global average – with Africa accounting for roughly 25% of the world's population but only about 10% of global emissions by 2050.

It is important to note that current projections suggest such a high-carbon growth trajectory is unlikely.

Nonetheless, while African countries should not be expected to prioritise green development at the expense of faster and more inclusive economic growth, they also face a risk of becoming locked into polluting industries or long-lived, carbon-intensive energy systems.

Given the likely growing market pressures on lower carbon intensity production, less 'air-miles' etc. this would undermine both their competitiveness and sustainability over time.

Kenya's high share of renewable energy (over 90%) has not translated into low prices or reliable supply.

While the country has one of the highest renewable energy shares globally, it also faces some of the highest power costs in the region due to underinvestment in transmission, storage, and grid flexibility, as well as the burden of expensive power purchase agreements (Energy Strategy Reviews, 2024).

The variable nature of renewable generation requires dispatchable backup power and highly effective transmission networks to maintain stable supply to all consumers, particularly industrial users. As a result, renewable energy investments can be challenging to integrate into national grids and are not inherently low-cost.

Kenya's manufacturing share of GDP has declined over the past two decades – from a high of 13% in 2007 to 8% in 2024 – in part reflecting the high cost and unreliability of electricity (Gatsby analysis, CBK data, 2025).

East Africa's central question is therefore not whether to decarbonise, but how to do so without constraining growth.

The shift toward electricity as the primary energy source for transport and cooking is likely to be a major driver of lower emissions intensity over time. At the same time, access to green energy is becoming increasingly important for meeting the requirements of high-value global markets.

Countries across the region must therefore expand power generation substantially, while keeping electricity prices competitive and securing renewable supply wherever possible.

Striking this balance is deeply challenging, given the high upfront cost of upgrading national grid transmission and distribution networks to enable the smart management of more variable renewable production, and the need to agree power purchase agreements with an attractive enough price/commitment to buy for renewable investments at scale.

Climate change is intensifying the challenges East Africa faces in growing its economy, providing jobs for its workers and feeding its population.

Many of these pressures are evident across this report – including limited irrigation and water storage for agriculture, weak urban governance allowing the expansion of informal settlements, and infrastructure that is vulnerable to climate risks. As a result, climate-driven incidents are becoming a structural problem rather than an occasional shock.

Yet the same pressures disrupting growth are also creating opportunities to reshape it. Rising demand for food, energy and water security, combined with the region's strong renewable potential, offers scope to link climate priorities more directly to competitiveness, industrial development and regional integration. The missing piece is reliable, long-term financing for adaptation at scale.

Closing this gap is essential to enable countries to move beyond emergency response and small, fragmented interventions toward forward-looking investments in resilient urban infrastructure, large-scale water storage and irrigation, and affordable, clean and reliable power. These are the foundations needed both to reduce the emissions intensity of growth and to support sustained economic transformation.

Urbanisation

East Africa is urbanising at an unprecedented pace, creating a major opportunity to accelerate economic growth and expand access to services. Realising this potential will depend on how cities grow – whether they can connect workers to firms, build resilient infrastructure and support productive industry, rather than sprawling informally and inefficiently.

East Africa's urban population will more than double by 2050, with Kenya, Uganda, Tanzania and Rwanda expected to add over 100 million urban residents (OECD, 2025).

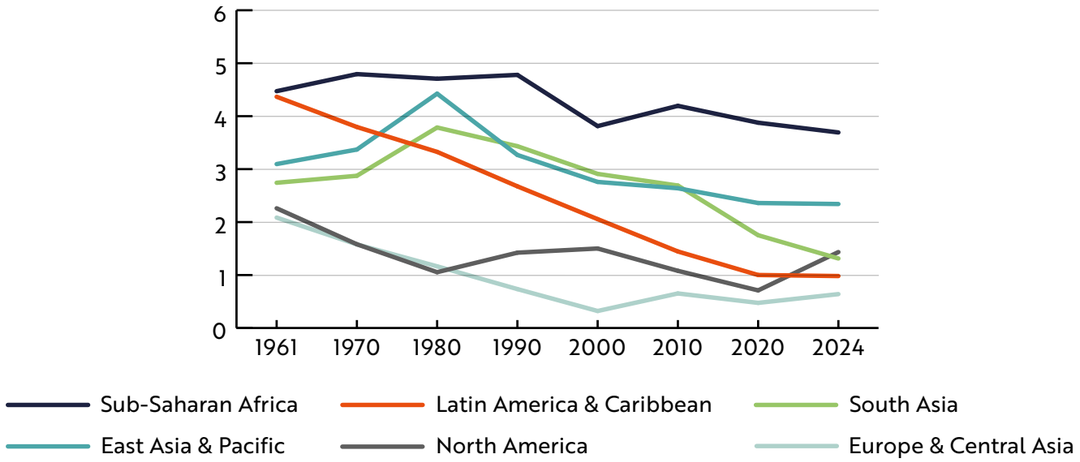
Yet unlike regions where urbanisation followed industrialisation and expanding formal employment, East Africa's urban growth is driven largely by high population growth and limited rural opportunities rather than by productive jobs. The pace is also unusually rapid – compressing into a few decades a transition that unfolded more gradually in many parts of the world and was anchored in manufacturing and formal work.

Weak planning and governance systems amplify these pressures. Poorly enforced masterplans, fragmented settlement patterns and low-density sprawl raise the cost of service delivery, strain infrastructure and reduce the productivity advantages that cities typically offer.

East Africa's urban growth is driven largely by high population growth and limited rural opportunities rather than by productive jobs.

As a result, most urban employment remains informal: in Kenya, 83% of urban jobs are informal; in Tanzania, nearly 90% of new urban jobs are in informal services; and in Uganda, over 70% of new jobs are informal (World Bank, 2017).

Urban population growth (annual %)



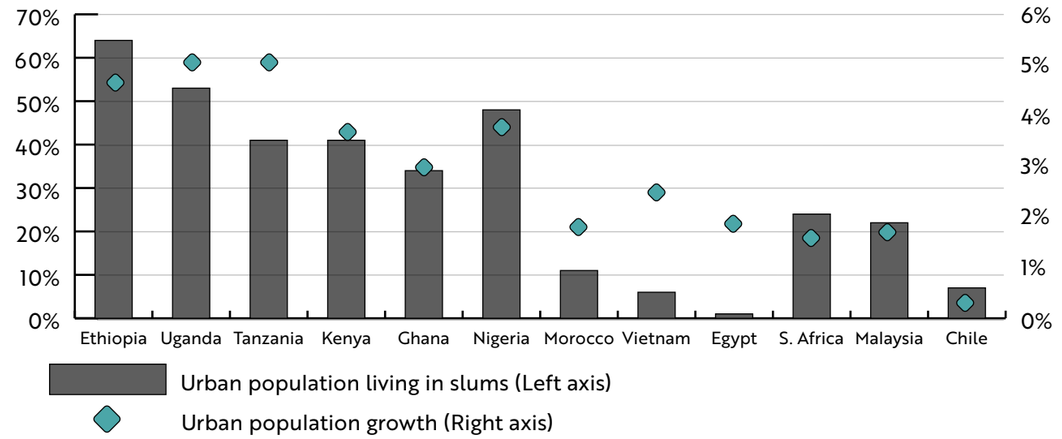
Source: World Bank Indicators.

Without proactive and sustainable urban planning and enforcement, East Africa's cities will struggle to deliver essential services at the scale and quality required by their rapidly growing populations.

Urban service delivery is already under severe strain because population growth outpaces planned service provision. The challenge is amplified by the high share of urban residents living in informal settlements, which are harder to service.

These settlement patterns deepen infrastructure gaps. In Kampala, the loss of 45% of wetlands since 1989 has worsened flooding (Kabwama & Mugambe 2023). It is projected that water scarcity alone could reduce East Africa's GDP by 6% by 2050, as demand for urban infrastructure triples and low-density growth pushes the cost of basic services – energy, water, sanitation, roads, and ICT – to about USD 1,031 per capita (OECD, 2025).

Benchmark of urban population



Source: UNPD 2018 Revision of World Urbanization Prospects.

Chart showing levels of access of basic services in East Africa

Country	Year	Access to piped water into homes (%)	Access to basic sanitation services (%)	Access to electricity (%)
Kenya	**2022**	46.28	40.99	90.41
Uganda	**2018**	35.12	32.29	70.81
Tanzania	**2022**	71.40	44.76	75.03
Rwanda	**2020**	50.06	44.12	86.38

Source: UN-Habitat, 2024.

Continued urban sprawl is driving up the cost of services and transport across East Africa.

Low-density expansion prevents cities from achieving the efficiencies of scale that come with compact, well-planned development, making roads, water systems, energy networks and public transport more expensive to build and maintain.

Urban land is expanding far faster than population growth. By 2050, East Africa is expected to have the world's fastest rate of urban land expansion – about 3.2% annually – driven by very low densities and informal growth on city fringes (OECD, 2025).

This pattern is reinforced by speculative land markets, weak planning frameworks and limited enforcement, resulting in costly infrastructure, loss of farmland and missed agglomeration benefits such as efficient service delivery, shorter commutes and access to dense labour and consumer markets.

By 2050, East Africa is expected to have the world's fastest rate of urban land expansion – about 3.2% annually – driven by very low densities and informal growth on city fringes.

The impacts are already visible. Nairobi's built-up area grew by more than 150% between 2000 and 2020, while its population grew by only 80%. Kampala's built-up land expanded from 7.1% in 1989 to 55.1% in 2015, largely at the expense of wetlands and farmland.

In Dar es Salaam, the urban footprint increased more than five-fold between 1975 and 2015, while population grew by around 260% (OECD, 2025).

These settlement patterns raise service delivery costs, constrain productivity and push employers to raise wages to compensate for inefficient transport and higher living costs.

Weak enforcement capacity is preventing East African cities from managing land use and settlement patterns effectively, resulting in unregulated sprawl, widening inequality and reduced long-term resilience.

Decentralisation has placed local governments at the frontline of urban management, yet most lack the institutional capacity and fiscal autonomy needed to guide growth.

The gap between demand for serviced urban land and the supply of affordable, well-planned plots is widening, pushing low-income households into informal settlements on city fringes or high-risk areas such as floodplains and unstable slopes.

This is not simply a planning problem but a financing one. Local governments collect limited own-source revenue and depend heavily on central transfers: Kenyan counties receive only 15-20% of national revenue (World Bank, 2020), Ugandan municipalities rely on transfers for over 85% of their budgets (World Bank, 2017).

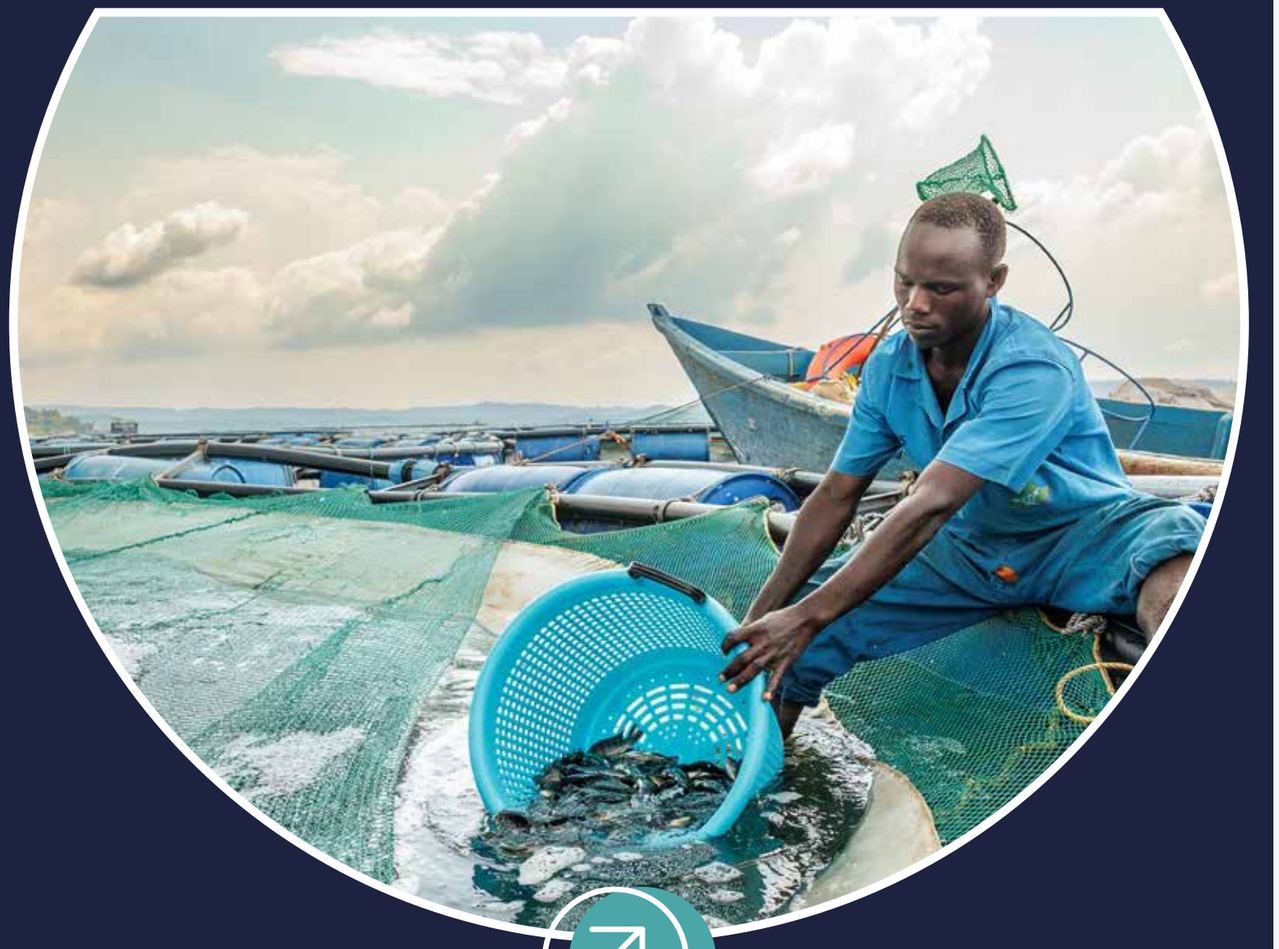
With insufficient resources and authority to guide land markets or enforce planning rules, most cities remain reactive to crises rather than shaping urban expansion proactively – undermining opportunities for more efficient, inclusive and resilient urban development.

East Africa's urbanisation challenge is uniquely difficult. Urban populations are growing at around 5% a year which means they are doubling every 14-15 years. **Much of this growth is driven by rapid population increase and low agricultural productivity, pushing people into cities without the productive, formal jobs that typically anchor urban development.**

As a result, most new workers are absorbed into informal and unstable service-sector roles. Although many cities have urban plans, they often fail to anticipate the speed of expansion or are not enforced, leaving services and infrastructure unable to keep pace. Unplanned growth is already costly and will become even more so as climate shocks intensify.

Unlike historical examples where urbanisation powered structural transformation, East Africa's rapid urban growth is unlikely to deliver broad-based change without a shift in how cities are planned, governed and financed. Urban centres need long-term plans that align economic opportunities with serviced land, infrastructure investment, environmental risk and the integration of informal settlements – and, critically, the capacity to enforce and finance these plans.

Without these shifts in the coming decade, cities risk becoming a brake on development rather than engines of productivity and growth.



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