

# **“THE CHALLENGES FACED BY BURUNDIAN ENTREPRENEURS IN THE UPCOMING EAST AFRICAN COMMON MARKET”**

**Yvan Nezerwe, MBA  
Alliant International University, San Diego, CA**

## **ABSTRACT**

*Burundi formally joined The East African Community (EAC) in 2007. The EAC members (Kenya, Tanzania, Uganda, Rwanda and Burundi) seek to create a common market by July 2010. In this paper, we analyzed the challenges faced by Burundian entrepreneurs in the upcoming common market. We concluded that the Burundian entrepreneurs will face economic, political and socio-cultural challenges in the EAC common market.*

**Keywords: Burundi, Entrepreneurship, East African Community, Business Culture**

## **1. Introduction**

Burundi formally joined the East African Community (EAC) in 2007. The EAC is an intergovernmental organization that also includes Rwanda, Kenya, Tanzania and Uganda. In July 2010, the EAC will officially be a common market, goods and services will be moving freely in the five member countries.

The motivation of this paper was to analyze the challenges faced by Burundian entrepreneurs in the upcoming East African common market. Burundian entrepreneurs will face economic, political and socio-cultural challenges in the upcoming EAC common market.

The rest of this paper is divided as follows: Section 2 covers the background of Burundi, Section 3 describes the East African Community and Section 4 describes the challenges faced by Burundian entrepreneurs. Section 5 concludes the paper.

## **2. Burundi: Country Background**

Burundi is a small and landlocked country in East Africa. Burundi is one of the poorest countries in the world because of the political unrest since 1993. In 1993, the first democratically elected President Ndadaye (a Hutu) was assassinated by the minority-led (Tutsi) military. Numerous Hutu rebel groups were formed after the military coup. The rebel groups constantly attacked the country until peace talks started in 1998. A peace agreement was signed in 2000 and a former rebel leader, Pierre Nkurunziza, is now President since 2005. The last Hutu rebel group FNL (National Liberation Front) joined the government institutions in 2008.

The population is very poor, it is estimated that more than 70% of the population live below the poverty line<sup>1</sup>. HIV/AIDS is a big social problem in Burundi; it is the second cause of mortality in Burundi. The social infrastructures are underdeveloped and the workforce is largely unskilled outside the capital city Bujumbura.

The economy is based on agriculture (90% of the GDP) and coffee is the main country's export. Burundi's inflation rate was approximately 24% in 2008.<sup>2</sup>

## **3. The East African Community**

The East African Community was originally founded as an intergovernmental organization in 1967 by Kenya, Tanzania and Uganda. These countries had a long history of cooperation and trade agreements. It collapsed in 1977 because of disagreements and political instability in Uganda. The organization was revived in 2000 and two more countries, Burundi and Rwanda, formally joined it in 2007. The EAC is expected to be a common market for member countries in July 2010. Member countries agreed to form a

---

<sup>1</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>2</sup> [www.worldbank.org](http://www.worldbank.org)

single market, allow a zero-rated entry for raw materials from EAC countries, levy a 10% duty on semi-processed goods and levy a 25% duty on finished goods.

After the implementation of the EAC common market, Burundian entrepreneurs will face a fierce competition from Rwandese, Kenyan, Tanzanian and Ugandan entrepreneurs.

Burundian entrepreneurs will also have a chance to seek business opportunities in Rwanda, Kenya, Uganda and Tanzania. Every business opportunity will be up for grab and businesses will have to adjust to the new competition.

The EAC common market will provide various benefits to approximately 120 million consumers in the member countries. The expected benefits include jobs creation, increased productions, competitively priced goods and others.

#### **4. The Challenges**

Burundian entrepreneurs will face challenges both at home and in other East African countries. We can classify the challenges into 3 classes: Economic Challenges, Political Challenges and Socio-Cultural Challenges.

##### *Economic Challenges*

The Burundian economy was seriously affected by the political crisis; the economic growth averaged 2.5% during the last 10 years. Burundi is one of the poorest countries in the world. Burundi`s GDP has been ranked in the last five GDPs (in the world) during the last 8 years. The following are the EAC members` GDP for the year 2008<sup>3</sup>:

- Kenya: \$34.5 Billion
- Tanzania: \$20.5 Billion
- Uganda: \$14.5 Billion

---

<sup>3</sup> [www.worldbank.org](http://www.worldbank.org)

- Rwanda: \$4.46 Billion
- Burundi: \$1.16 Billion

The GDP and other economic indicators (income distribution, exports, imports, BOP, etc) show that the Burundian economy is the weakest in the EAC. Kenya is the most competitive economy in the EAC. Uganda and Tanzania have also enjoyed positive economic growth during the last decade (average of 6.1% for Tanzania and an average of 7.2% for Uganda).

The weaknesses of the Burundian economy will create to economic challenges such as poor infrastructures, lack of business financing and technology.

### ***Poor infrastructures***

The importance of infrastructures is high for Burundi because it is a landlocked country.

The infrastructures are extremely underdeveloped and this is a big challenge for Burundian entrepreneurs. There is only one international airport and no rail infrastructures in Burundi. The Burundian government now imports power from the Democratic Republic of Congo because the sole power company REGIDESO is unable to fulfill the country`s power needs.

On the other hand, infrastructures are better developed in other East African countries (Kenya, Uganda and Tanzania). These countries have railway systems, better roads and multiple airports available for business use.

The poor state of the infrastructures in Burundi leads to a waste of time and higher transportation costs for Burundian entrepreneurs. Burundi will definitely need better infrastructures to stay competitive in the EAC common market.

### ***Business financing***

Business financing is a big challenge for Burundian entrepreneurs. The World Bank recently named Burundi as one of the 10 worst countries in the world for startup businesses and entrepreneurs<sup>4</sup>. Commercial and retail banks rarely approve business loans because of the solid collateral requirements. If approved, these loans carry high interest rates (as high as 25% per year). In 2008, The Central Bank of Burundi (BRB) estimated that banks nonperforming loans are approximately 20% of the total lending.<sup>5</sup> Many entrepreneurs rely on microfinance institutions or informal lending. Financial constraints have limited the Burundian government in fueling loans to small businesses. On the other hand, there are more financing options available in other East African countries for local businesses. As a matter of fact, Kenyan and Tanzanian businessmen can raise capital through the Nairobi Stock Exchange (NSE) and Dar Es Salaam Stock Exchange (DSE). As an illustration, Kenyan businesses have raised more than \$1 billion in IPOs through the NSE since 1990.<sup>6</sup>

Burundian entrepreneurs will need adequate financing options in competing with East African businesses in the Burundian consumer market and expanding their activities to the Rwandese, Kenyan, Ugandan and Tanzanian markets.

---

<sup>4</sup> “Doing Business in 2009”, publication of the World Bank and the International Finance Corporation

<sup>5</sup> BRB annual report 2008

<sup>6</sup> NSE report 2006

### ***Technological challenges***

Businesses get a competitive advantage with the use of technology. In Burundi, the use of technology systems is largely limited to university-educated people in the capital city Bujumbura. Even though technology is important in today's business environment, the majority of Burundians are still computer illiterate.

On the other hand, the rate of computer literacy is higher in other East African countries (Kenya, Rwanda and Tanzania). For example, the Rwandese Government started an ambitious program and is projecting all school teachers to be computer literate by late 2010.<sup>7</sup> The Burundian entrepreneurs will need to embrace technology in trying to compete with other East African businesses.

### ***Political Challenges***

As previously discussed, Burundi went through political instability during many years. The second post-independence democratic elections are scheduled in June 2010 and the political tensions are high. The law enforcement agencies are still under the tight control of the control of the executive branch. Burundian entrepreneurs will face political challenges such as the business tax regulations and the lack of government support.

### ***Business and tax regulations***

The business and tax regulations are very important in stimulating the growth of the private sector and job creation.

In Burundi, the average corporate tax rate is 35% and this high tax rate hampers the development of small businesses. The EAC member countries agreed to establish the EAC harmonized tax system but the process is still in progress.

---

<sup>7</sup> [www.allafrica.com](http://www.allafrica.com)

Therefore, during the first few years of the EAC common markets, Burundian entrepreneurs will have to deal with different tax systems in other EAC countries. In February 2010, a group of Ugandan and Burundian entrepreneurs raised the issue of the EAC tax harmonization system in a meeting with the Burundian Vice President in charge of economic affairs.

In Kenya, the corporate tax rate is 30.5% for local entrepreneurs and 37.5% for Non-Resident entrepreneurs. Burundian entrepreneurs will have to pay a higher corporate tax rate in Kenya, thus decreasing their net business incomes.

The use of different tax system is a challenge for all East African entrepreneurs and policymakers should quickly reach an agreement on this issue.

### ***Government support***

The political crisis has limited the Burundian government's efforts in helping the private sector. The Burundian government does not have an established institution that can help local entrepreneurs in their EAC business efforts. At this time, the Government is in the process of creating the Agency for Business Promotion. The agency should be operational at the end of 2010, but Burundian entrepreneurs are skeptical because of the lack of government financial resources.

On the other hand, other East African entrepreneurs can benefit from the support of the Kenya Private Sector Alliance, the Rwanda Investment and Export Promotion Agency for example. The private sector agencies help local entrepreneurs in marketing efforts, technology training and business development.

The Burundian entrepreneurs should be ready to face competitive East African businesses that have the help of their respective government business agencies.

### *Socio-Cultural Challenges*

In terms of social and cultural aspects, Burundian entrepreneurs will face language barriers, corruption challenges, business culture challenges and lack of qualified workforce.

#### ***Language:***

Before its independence in 1962, Burundi was a Belgian colony. The official language is French. The other languages spoken in Burundi are “Kirundi” and a little bit of “Swahili”. The few Burundian entrepreneurs, that are fluent in English, are mostly university-educated and based in the capital city Bujumbura.

On the other hand, Kenya, Tanzania and Uganda are former British colonies and use English as their official language. Rwanda just recently switched to English as the official language after being accepted as a Commonwealth member country.

Language is very important in business operations, dealings and negotiations. Burundian entrepreneurs will be free to conduct business in Kenya, Tanzania, Uganda and Rwanda after the implementation of the EAC common market.

The challenge for Burundian entrepreneurs will be to comfortably interact with customs officers, law enforcement agents, government officials, businessmen, and local populations in other East African countries.

#### ***Corruption:***

Corruption is a very big social problem in East Africa. Angualia (2008) recently found that 70% of the corruption cases (in East Africa) are found in the public sector.



The study maintained that, in East Africa, public servants are underpaid and have to supplement their income by engaging in corruption practices. Police officers, government officers, customs officers and other public servants often ask for bribes before delivering services.

Transparency International has recently ranked Uganda (130<sup>th</sup>) and Kenya (146<sup>th</sup>) out of 180 countries in terms of corruption index. Corruption is also rampant in Burundi, so it is not going to be a new challenge but Burundian entrepreneurs. But they should expect it in doing business in Kenya, Uganda and Tanzania. Rwanda is making tremendous progress in the fight against corruption after President Kagame launched a major anticorruption campaign.

### ***Business Culture:***

In Burundi, the business culture is pretty much different from other East African countries. A typical workday for a Burundian business owner or employee starts at 7h30am and ends at 5pm. The lunch break is typically between 12pm and 2h30pm, there is time to take a nap after lunch. In other East African countries (Kenya, Uganda, Tanzania), the workday is more fast-paced. The lunch break is not long and working hours can go beyond 5pm.

In the EAC common market, Burundian entrepreneurs will have to adjust their working hours and marketing efforts. Other East African businesses will aggressively enter and market themselves in Burundi`s small market. For Burundian businesses, staying open during lunch hours and after work hours will help them stay competitive.

### ***Qualified workforce:***

The political instability has seriously affected the education system in Burundi. The UNESCO (United Nations Education Science and Culture Organization) estimated that approximately 30% of the primary schools were destroyed by the war.<sup>8</sup> In 2008, only 15% of the population (as a percentage of the population of secondary school-age) had a secondary education diploma. There is only one public university in Burundi.

There is clearly a lack of qualified workforce for Burundian businesses.

On the other hand, the education system is better developed in other East African countries. These countries have more universities (6 public universities in Kenya for example) and their student enrollment rates are higher.

Keeping up with the East African business competition will require a creative and qualified workforce for Burundian businesses.

### **5. Conclusions**

The EAC is set to become a common market in July 2010. Goods, services and people will move freely after the implementation of the common market protocols. Kenyan, Ugandan, Rwandese and Tanzanian will be free to do business in the Burundian market. Also, Burundian entrepreneurs will be free to expand their businesses to other East African countries.

---

<sup>8</sup> [www.unesco.org](http://www.unesco.org)

In this paper, we analyzed the potential challenges faced by Burundian entrepreneurs in the upcoming EAC common market. Burundian entrepreneurs will face:

- Economic challenges such as poor infrastructures, lack of business financing and lack of technology use;
- Political challenges such as tax regulations and lack of government support'
- Socio-cultural challenges such as language barriers, corruption, business culture and lack of qualified workforce.

## **6. References**

- Angualia D (2008), "Civil Society and Corruption in East Africa", Makerere University Papers
- Annual Report 2008, Banque de la Republique du Burundi (BRB)
- Annual Report 2006, Nairobi Stock Exchange (NSE)
- Internet research: [www.allafrica.com](http://www.allafrica.com), [www.transparency.org](http://www.transparency.org), [www.unesco.gov](http://www.unesco.gov), [www.worldbank.gov](http://www.worldbank.gov),
- World Bank publication "Doing Business 2009"