

ECONOMIC RESILIENCE

UGANDAN ECONOMY TO BE AMONG AFRICA'S STRONGEST IN 2009

Uganda's economy is expected to be among Africa's strongest in 2009 with a growth rate of around 6% thanks largely to strong regional trade and continued demand for its agricultural exports, according to the *African Economic Outlook 2009*, published in May by the African Development Bank (AfDB), the Organization for Economic Cooperation and Development (OECD) and the United Nations Economic Commission for Africa (UNECA).

While the global economic crisis is causing Uganda's economic growth to slow, the country still far outstrips the continent's 2009 projected average economic growth rate of 2.8%. East Africa is expected to be the strongest region overall with an average growth rate of 5.5%.

Mr. Louis Kasekende, Chief Economist for the AfDB, pointed to the diversity of Uganda's export sector as a key factor in its economic resilience. "Countries that have been heavily dependent on exports of minerals and oil are going through a very difficult period," he said.

Strong regional trade is also central to continued growth. The East African Community (EAC) reports that since commencement of the EAC customs union in January 2005, trade between members - Burundi, Kenya, Rwanda, Tanzania and Uganda - has increased by 20%.

The countries of the Common Market for Eastern and Southern Africa (COMESA) are also important trading partners for Uganda. Exports to COMESA countries almost doubled from \$284 million in 2006 to \$506 million in 2007.

Despite Africa's overall slower expected growth over the next year, the *African Economic Outlook* notes that the continent is better positioned to weather the crisis than it was 10 years ago. "The decade of reform has introduced efficiency in macroeconomic management and made the African economies more competitive," Mr. Kasekende said.

The report also points to an improved business environment in Africa due to innovations in information and communication technology (ICT) that are contributing to market development, overcoming traditional infrastructure constraints and reducing business costs.

Foreign Direct Investment

In addition to remaining one of Africa's strongest economies, Uganda was also named in May as one of the fastest growing destinations for foreign direct investment (FDI) by fDi Intelligence, the research and analytics division of the London-based *Financial Times*.

With a tighter credit market reducing global GDP, fDi Intelligence reported that investors were shifting their focus from developed economies to the developing world, in particular Africa. While South Africa, Morocco, Egypt, Algeria and Tunisia were the top countries for FDI projects in Africa in 2008, fDi Intelligence reported that Uganda, Mozambique and Ghana were the fastest growing.



A Ugandan coffee farmer harvests coffee beans. Coffee is Uganda's top export earning \$348 million in 2008.

"The global recession is hastening the shift of focus to developing countries as they remain the only source of growth in the world economy," the report stated.

The intelligence division anticipates a decline of 13% in the number of greenfield FDI projects globally, but does not foresee a drop in greenfield investments in developing economies. Greenfield investments are projects in manufacturing, office or other physical company-related structures in an area where no previous facilities exist.

In addition, investment in telecommunications is expected to increase as the arrival of fiber optic undersea cables in East Africa reduces the cost of information and communication technologies (ICTs) in the region.

UGANDA SECURES AfDB LOAN TO IMPROVE LOCAL MARKETS

Uganda has secured \$55.8 million in financing from the African Development Bank (AfDB) to build 21 new produce markets in 19 towns across the country and enhance trade capacity for farmers and vendors.

The project is designed to leverage the Government of Uganda's poverty eradication program and spur economic growth through enhanced commercialization of agricultural products and other merchandise.

It is also expected to have social welfare benefits by increasing employment and providing a clean working environment for vendors.

The project is in line with a Memorandum of Understanding between the AfDB and other development partners in Uganda to fund capital-intensive initiatives related to infrastructure. It also supports the bank's Africa Food Crisis Response initiative, which is geared towards increased food production, reduction of post-harvest losses and increased productivity.



Many farmers sell their produce directly at markets

E-FINANCE

MTN UGANDA LAUNCHES MOBILE MONEY TRANSFER SERVICE

Ugandans can now transfer money via cell phone thanks to a new service launched in March by MTN Uganda, one of the country's top mobile phone service providers. The new mobile money transfer service is expected to revolutionize personal and small business finance in Uganda as people in rural areas where there is little formal banking now have the ability to easily send and receive money.



Money transfer via cell phone will revolutionize finance for people in rural areas.

To send cash using MTN's money transfer service, a customer first buys E-money from a local agent. The cash is then loaded on to the customer's account and he or she can then send it to a recipient who receives a text message with a code indicating where the money can be collected. MTN is partnering with Stanbic Bank, which will hold the MTN Mobile Money account. Users will not be able to transfer or hold an account balance of more than UGSh 1 million (about \$500).

More than nine million Ugandans now own cell phones, compared to just 2.5 million with bank accounts. Many Ugandans, particularly those living in rural areas, have very little access to formal banking services, making it difficult for them to send and receive money. The Uganda Communication Commission (UCC) reported in April that mobile phone users in Uganda sent close to 700 million text messages in 2007 and 2008, resulting in an estimated \$39.4 million in revenue for service providers.

Before the launch of the MTN money service, the only way many people without bank accounts could transfer money was by using money orders or Simba Cash, a money transfer system similar to Western Union in the United States. Both of these methods resulted in transfer charges of between 10% and 25% of the amount being transferred. An MTN mobile transfer will cost the sender about \$1 and the money will be accessible within minutes of sending. The cost of sending a text message within Uganda is about six cents. It costs about nine cents to send a text internationally.

"I think the faster money can move and be exchanged for goods and services, the better the economy will run, and this is the logic of this particular service," Mr. Isaac Nsereko, Chief Marketing Officer at MTN Uganda told *East African Business Week*. M-Pesa, a similar service started in Kenya in 2007, has rapidly become the primary means of money transfer in that country with more than three million people currently signed on to the service. Before the MTN Mobile Money transfer service was launched, it had to be approved by the Bank of Uganda. This involved undergoing a five-month test period to ensure security and reliability.

"We know that the market has eagerly waited for this service, and we're proud to be the first to bring it to Uganda," said Mr. Noel Meier, CEO of MTN Uganda. "We believe this product will help out customers transact as they go about their daily life and the Bank of Uganda is satisfied that adequate measures have been put in place to protect people's money."

TECHNOLOGY EDUCATION

COMPUTER EDUCATION INITIATIVE WINS INTEL AWARD

The Maendeleo Foundation, a Ugandan NGO, has won a \$100,000 Intel Inspire Empower Challenge Award for its solar-powered, mobile computer classroom program that is bringing computer education to school children around Uganda.

Maendeleo has introduced about 1,500 children to basic computer skills since the initiative was launched a year ago, and over 100 teachers have been trained to teach computer classes, giving them skills they can use to reinforce and extend their students' computer knowledge throughout the rest of their education.

The initiative was started by US computer programmer Mr. Eric Morrow, who wanted to find a way to make computer skills available to students in resource-poor settings. Working with Mr. Asia Kamukama, a Ugandan development economist, and Mr. Richard Happy, a relief worker, he developed a self-powered, self-contained mobile classroom by mounting three 65-watt solar panels on top of a four-wheel-drive vehicle that charges a 200mAh (milli-amp per hour) battery. The vehicle is also used to transport a custom-made tent and other equipment.

Maendeleo uses energy-efficient Intel-powered Classmate PCs. All 10 of the PCs used in the classroom can be run concurrently for over six hours using solar power. The Intel prize will enable the foundation to create a second mobile computer classroom which it intends to use in neighboring Rwanda.

The Intel Inspire Empower Challenge Award is given each year by Intel Corporation to initiatives that propose innovative solutions using technology to help people in four global categories: education, healthcare, economic development and the environment.



The mobile computer classroom



AGRICULTURAL DEVELOPMENT

AGRA LAUNCHES FUND TO BENEFIT SEED INDUSTRY

The Alliance for a Green Revolution in Africa (AGRA) launched the African Seed Investment Fund (ASIF) in April in partnership with the Kampala-based African Agricultural Capital (AAC) group. The fund will invest in at least 20 small and medium-sized seed companies in Eastern and Southern Africa over the next five years, infusing equity and expertise into an industry that is key to securing African food security and developing the continent's agricultural sector.



"The sole purpose of ASIF is to provide high quality seeds to smallholder African farmers, thereby improving income and quality of life," said Dr. Namanga Ngongi, President of AGRA. "Direct investment in local seed companies will allow

African enterprises, working with local public crop breeders and farmers, to seed prosperity. We can foresee the day when dozens, if not hundreds, of small and medium-sized African seed companies are working across the region to get low-cost, high-quality seed to farmers from Ethiopia to Mozambique."

ASIF, which will fill a critical funding gap in African agricultural development, is the first fund of its kind: African-owned and targeted specifically at promoting the growth of small and medium-sized African seed companies through long-term loans provided at below-market rates. It will operate in eight countries - Ethiopia, Kenya, Malawi, Mozambique, Rwanda, Tanzania, Uganda and Zambia. In addition to larger loans to established seed companies, ASIF will also give loans ranging from about \$50,000 to \$1.5 million to about 10 start-up businesses.

Sales revenues of African seed companies were about \$2.5 million in 2006 - a fraction of the \$30 billion global market. Only about one-third of Eastern and Southern African maize, the region's largest staple food crop, was produced from improved varieties. African companies, which produce high-quality, locally adapted seed for a range of crops including maize, rice, sorghum, cowpeas and millet, cannot meet the demand. The AGRA-AAC partnership aims to jumpstart a well-capitalized, competitive and efficient regional seed industry, with the commercial incentive to produce, distribute and market improved seed varieties that meet farmers' demands.

"The African seed industry has been starved of investment capital," said Mr. Tom Adlam, Managing Director of AAC. "The Africa Seed Investment Fund offers the opportunity to commercialize new improved seed varieties - the fruits of research and development work carried out by both national and international plant breeding programs."

AGRA is a Nairobi-based African organization funded largely by the Gates Foundation that finds practical solutions across the agricultural value chain to sustainably boost

smallholder farm productivity. It describes its investment in ASIF as part of a comprehensive approach to helping millions of small-scale farmers and their families end poverty and hunger. AAC is a diversified agri-business fund, founded in Uganda in 2004, that provides venture capital for small and medium-sized African agri-business.

The fund will also provide business development services, including advice on issues such as seed production, storage, distribution and seed company management. Distributors will also be trained on the appropriate use of seeds and other inputs such as fertilizer to ensure their most efficient, safe and environmentally sound use.

To qualify for funding, companies will need to meet investment criteria in enterprise, performance and development, including measures such as overall job creation, skills development and environmental impact.

MICROFINANCE

GROFIN TO INVEST \$20M TO SUPPORT SMALL BUSINESSES

GroFin, a multi-national company specializing in offering microfinance and business development assistance to small and medium-sized enterprises (SMEs), announced in May that it planned to invest a further \$20 million to support SMEs in Uganda. The company has already invested about \$8.2 million in small Ugandan businesses.

The Mauritius-based company, which has so far invested about \$225 million in SMEs in Ghana, Kenya, Nigeria, Oman, Rwanda, Tanzania, South Africa and Uganda, plans to offer loans to Ugandan entrepreneurs ranging from about \$50,000 to \$1 million.

In addition to providing business loans, GroFin gives individualized training in management, marketing and financial skills to its client entrepreneurs. The approach enhances the probability of success, stimulates business growth and contributes to job growth and social development in the SME sector in developing countries.

One entrepreneur to benefit from loans and training from GroFin is Mr. Tom Kaaya, who built the Nana Hostel to house Makerere University students in Kampala.

"My dream was to build this hostel and to make sure students have a good place to stay and study because it is very hard for students to find good housing," Mr. Kaaya said. When a traditional bank was unable to provide him with financing because he lacked collateral, a bank official directed him to GroFin.

"I took my business plan to GroFin and they asked a lot of questions and went over every bit of it in great detail," he said. "I thought I knew everything there was to know about my business, but really, they re-educated me and helped me get the accounting and the business plan just right. I did some more research and came back with a much better proposal. GroFin taught me so much, I know I couldn't fail."

Nana Hostel now offers 462 self-contained rooms to more than 1,000 students. GroFin provided about \$1.6 million in loans for the project.

UGANDA TO MAKE BID AS BUSINESS OUTSOURCING HUB

With the strong support of the Government of Uganda and the imminent arrival of global connectivity via the SEACOM fiber optic undersea cable, Uganda is poised to make a serious bid to become the business process outsourcing (BPO) hub of East Africa. The country, blessed with political stability, a population proficient in English, a large and inexpensive labor pool with information technology (IT) skills and an attractive business environment, is well-positioned to provide a host of services to a global clientele.

One BPO company already in place is Zundati, Inc., first established in Uganda as Data Solutions International, Ltd. Zundati is the first viable offshore BPO services company in the country. "When we opened our doors for business in 2006, our objective was to bridge the divide between opportunity and the abundance of talent throughout Uganda; we are well on our way," said Robert Kayihura, Zundati's Founding Partner.

Zundati built its foundation providing offshore data processing and indexing services to some of the world's leading family history and other historical records companies based in the United States. At its peak, Zundati employed a fulltime staff of over 120 data entry clerks, and other technical support staff. "We have helped our clients digitize, index and publish millions of census, genealogical and other historical records, all the while developing a core set of competencies that have application in many different sectors and industries," Kayihura said.

Today, Zundati is also providing services to the Government of Uganda and preparing to pursue large scale projects in healthcare and other business sectors. The company seeks to help organizations improve their services by providing a cost effective transition to automated and more integrated information systems. Other services include application testing, software development, and online research, in addition to other general back-office business services.



APPFRICA LABS - TEACHING SOFTWARE DEVELOPMENT SKILLS

Appfrica Labs, a new Kampala-based software development firm, has begun to train local computer professionals in state-of-the-art programming with a view to expanding the East African software development industry. The company's founder, Mr. Jon Gosier, describes it as an incubator firm with a mission to offer opportunities and work experience for local software entrepreneurs who want to use their talents to bolster growing markets by creating their own products and companies.

"We pick up where local colleges like Makerere University leave off by offering hands-on experience in Java, C++, Ruby on Rails, Django and Python, PHP, Perl, Kannel and various other programming languages that often can't be taught in-depth in classes due to budget restraints," he wrote in a recent blog. "These skills are highly valued around the world and skilled professionals in this region will make East Africa a more attractive place to develop software, not only locally, but also for international companies."

Earlier this year, Appfrica attracted funding from Kuv Capital, a venture capital firm that has invested in similar hi-tech incubator companies in Beirut and Dubai, and which plans to open an office in Africa to take advantage of the continent's rapidly growing information and communication technology sector.

While the country's outsourcing industry is still quite small, comprising around 30 firms, the Government of Uganda has made it a priority to expand the sector. "The genius of e-services is that, if one works, then 100 can work too, and as you keep adding firms, then costs fall and skills are generated," said Mr. Paul Collier, author and development economist. "We need to ignite those processes that can scale up without limit, that are explosive."

In March, Uganda's Ministry of Information and Communications Technology (MoICT) recommended that Parliament fast-track passage of cyberlaws to bring electronic data protection in Uganda up to international standards and that the government establish a center for IT skills training and a unit for call center services.

For the past several years the government has been building a national fiber optic data transmission backbone, and telecommunications companies MTN Uganda and Uganda Telecom have invested heavily in fiber optic rollout throughout the country. The network is scheduled to be connected within the next few months to the SEACOM submarine cable via a terrestrial line to Mombasa, Kenya, where the cable comes ashore. The 15,000-km cable, which is 77% African-owned, connects Eastern and Southern Africa to global networks via Europe and India and enables broadband internet access and a range of other services critical to competitiveness in the global economy.

The \$600 million SEACOM cable comes ashore in Kenya, Madagascar, South Africa and Tanzania. It will provide African retail carriers with equal and open access to inexpensive bandwidth and will revolutionize telecommunications in East Africa, which until now has relied solely on satellite connections. The Ugandan government plans to subsidize bandwidth costs for BPO companies and help them market their services at home and abroad. In addition, it is funding entrepreneurial and outsourcing training already underway for students at Makerere University and other institutions.

The SEACOM cable is the first of three submarine cables that will connect East Africa to the rest of the world. The others are the East Africa Submarine System (EASSy), running from South Africa to Sudan and scheduled to be completed in June 2010, and The East African Marine System (TEAMS) connecting Mombasa, Kenya, to Fujairah in the United Arab Emirates and scheduled to be completed later this year.