The RiskEcho

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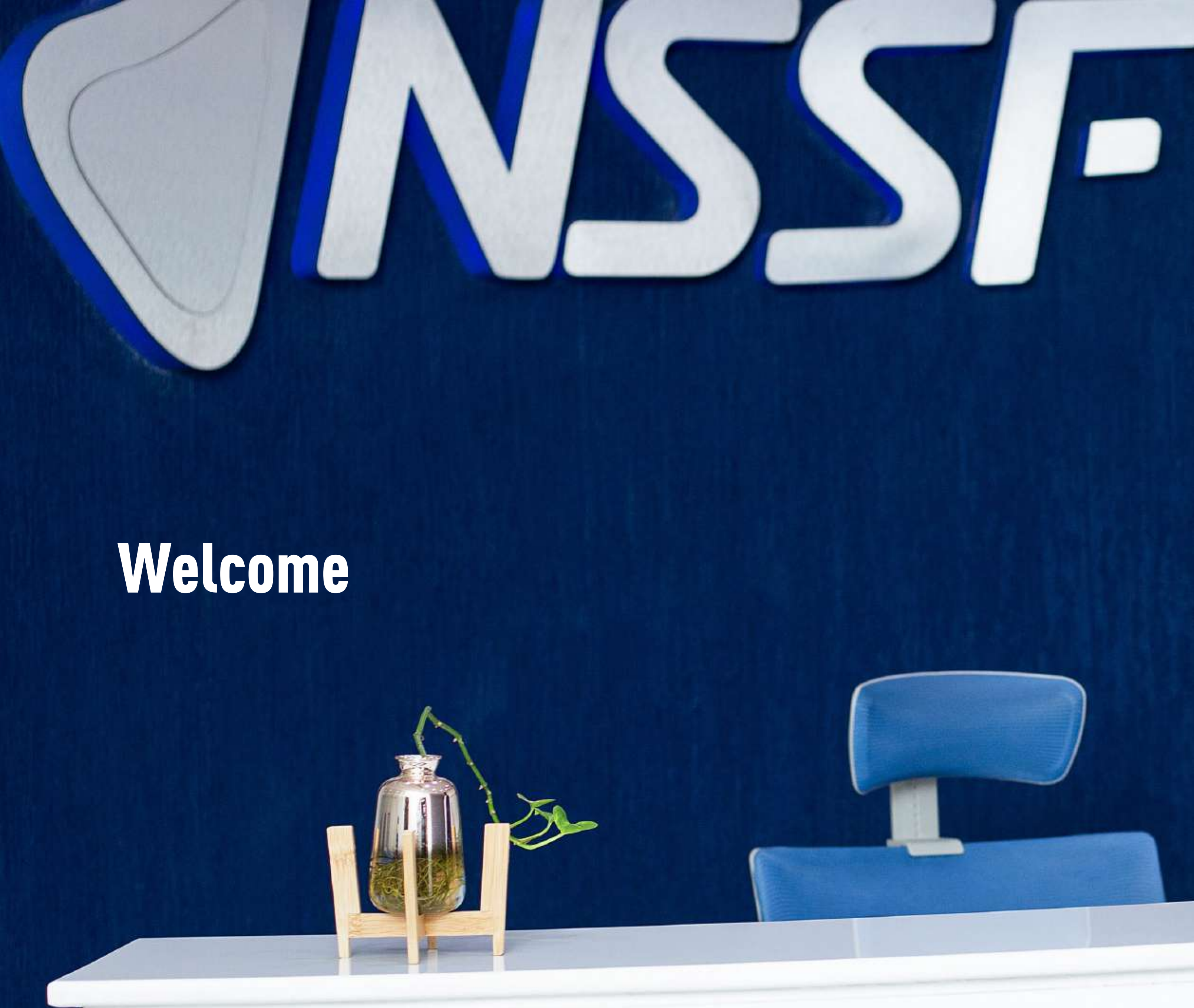
An Insightful Risk Management Publication by the NSSF

Interview: Gerald Mugabi talks COVID 19 Supply Chain Disruption

Our Interviewer discusses how COVID 19's disruption of global supply chains will affect the procurement proffession into the future.



Welcome

I bring you warm greetings from The Risk Echo fraternity. It gives me great pleasure to present to you yet another amazing issue of ***The Risk Echo.***

Happy new year.

I believe each one of us has some reasons to celebrate, having crossed over to 2022, most important of all, being that one is alive. The year 2021 has been a very challenging one in many respects, but the biggest challenge was the threat to human life posed by Covid–19, which is responsible for the death of hundreds people in the country, especially in the months of June–July, 2021.

The country also experienced a heightened risk of terrorism, following several bomb explosions within and outside Kampala city in November, 2021, orchestrated by criminal elements.

As guided by the security agencies, we need to increase our vigilance and always watch out for suspicious objects.

The year 2022 began with the prospects of full opening up of the economy, but the most remarkable news was the opening of schools on 10th January, 2022. This came as a big relief to parents, teachers and the students, because schools had been closed for nearly two years, due to Covid–19.

Alongside, the good news of opening the schools, was the increased cases of a new Covid–19 variant, known as Omicron. Although Omicron is believed to cause mild conditions compared to the ferocious delta variant, it is spreads faster than the later.

The only reliable solution to Covid–19 is vaccination; it is therefore, important that we all get vaccinated and we continue to observe the Standards Operating Procedures (SOPs).

Covid–19 has had numerous impact on individuals, organizations, countries and the world at large. One of the emerging effects of Covid–19 is the breakdown in many supply chains around the world. This problem first manifested itself in the UK in form of shortage of truck drivers, which significantly affected the distribution of fuel, thus affecting the transport sector, and having a trickledown effect on other sectors.

Later on, supply chains have been delayed by energy shortages and power cuts in many countries. Global supply chains are facing a crisis affecting many goods and services.

For instance, Australia's construction industry has been hit by shortage of timber, steel and other items.

The disruption in supply chain is likely to lead to inflation in many countries around the world.

One of the emerging effects of Covid–19 is the breakdown in many supply chains around the world.

Therefore, in this issue of The Risk Echo magazine, we bring you an exclusive interview with Gerald Mugabi, the Head of Procurement and Disposal Unit at the National Social Security Fund (NSSF), explaining how to improve supply chains and mitigate the risk of shortages, as well as other issues related to procurement and disposal of assets.

Gerald is member of the Chartered Institute of Purchasing of the United Kingdom. He holds a Master of Business Administration degree, and a Bachelor of Commerce degree from the University of South Africa.

He has streamlined and greatly improved the procurement and disposal processes, and eliminated corruption, which was synonymous with the procurement process in the Fund in the past. Consequently, the NSSF has been recognized as one of the most compliant government entities, according to the Public Procurement and Disposal of Public Assets Authority. Find his interview on ***page 6.***

Edward Senyonjo
MBA, FCCA, CPA, BCOM
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Interview with The Head Of Procurement & Disposal Unit at The NSSF.

In the past seven years or so, the National Social Security Fund (NSSF), also known as "the Fund", has been recognized as one of the most compliant government entities according to the Public Procurement and Disposal of Public Assets Authority (PPDA).

Q & A

For most entities, however, compliance with PPDA Act is a nightmare, because it leads to significant delays in procurements, and often times synonymous with corruption, resulting in loss of billions of shillings.

The Risk Echo had an exclusive interview with Mr. Mugabi Gerald, the Head of Procurement and Disposal Unit at the NSSF, to try to understand the reasons for the NSSF's success in public procurements and disposals in the context of the PPDA Act 2021, as amended.

Q: To begin with, who is Gerald Mugabi and what role do you play at the NSSF?

A: I am a member of the Chartered Institute of Purchasing of the United Kingdom. I hold a Master's degree in Business Administration, and a Bachelor of Commerce from the University of South Africa.

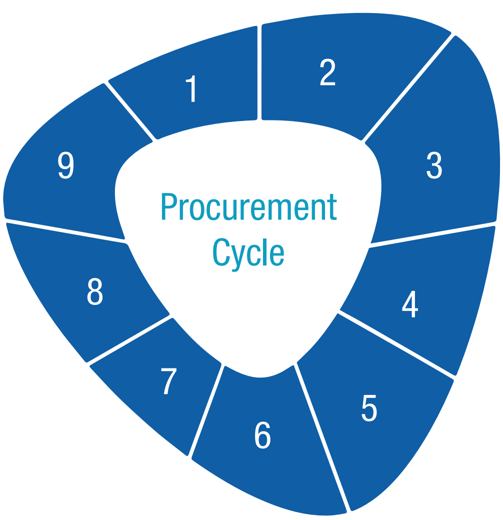
I have over 20 years of experience in public and private procurement. I have worked with the World Bank, Uganda National Roads Authority, the Ministry of Finance, Planning and Economic Development (MoFPED), and the Ministry of Local Government, and I supported other private firms like Uganda Clays Ltd.

Currently, I am the Head of Procurement and Disposal Unit (PDU) at the NSSF. My role as the Head of PDU is to offer strategic leadership in the process of planning and acquisition of goods, works and services. My focus is always on how to improve supply chain efficiency and reduce the cost of procurements.

I'm passionate about data analytics and process automation, which I believe are critical for process efficiency and visibility. I believe that without data, procurement adds minimal value to the business, since it can't help management to make informed decisions. Anyone in charge of procurement must understand the unique needs of the business in order to design strategies that address those needs.

Q: Briefly explain to us the process of public procurement and disposal of public assets in the context of the PPDA Act.

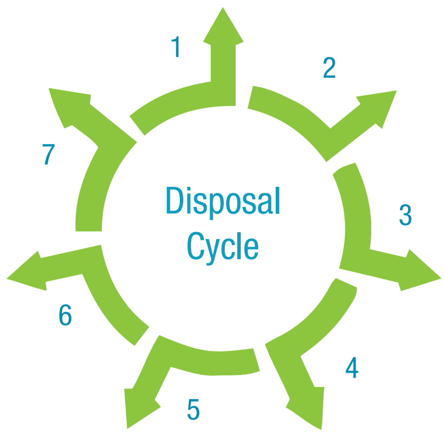
A: The procurement process can be summarized using the diagram below.



Key

1. *Identification of needs of user*
2. *Analysing requirements, markets and spend trends*
3. *Initiation of procurement requirements, choice of procurement method*
4. *Invitation to bid and award of contract by contracts committee*
5. *Display of best evaluated bidder, and contract sign off*
6. *Receiving and erification of goods, works and services*
7. *Payment of service provider*
8. *Supplier performance evaluation*
9. *Developing a procurement strategy*

The disposal process, like the procurement cycle, has some common processes but uniquely distinct. The process is summarized below.



Key

1. *Disposal planning and identification of disposal requirements*
2. *Selecction of board of survey & valuation of assets*
3. *Initiation of disposal requirements & choice of disposal method*
4. *Approval of disposal list and metod by contracts committee*
5. *Auctioning & selection of highest bidder & award of contract*
6. *Receipt of payment*
7. *Managing the handover & transfer of assets*

Whereas the procurement cycle aims at reducing the cost of acquisition and ensuring quality of goods and services, the disposal process focuses on maximizing proceeds from the sale of obsolete items.

Q: The procurement and disposal processes as you have described them above, involve many stakeholders, sometimes with conflicting interests. How do you ensure every stakeholder's interest is catered for effectively, so as to have a successful procurement or disposal process?

A: Stakeholder management is an important skill in the procurement and disposal processes. Both procurement and disposal activities involve an interaction of various internal and external stakeholders on a daily basis. Internal stakeholders include the board, management, contracts committee, evaluation committee and end–users. Each of these groups come into the procurement cycle at different stages, with differing interests, and sometimes conflicting with procurement objectives.

For example, the end–user may want the acquisition of services to take place immediately or as soon as the procurement is initiated.

On the other hand, the contracts committee, which is charged with a responsibility of ensuring compliance with the procurement regulations, will insist on compliance with the regulatory requirements. It is also human for some end–users to wish a specific supplier to be contracted.

To address these conflicts, we sensitize users on the regulatory requirements and hold close conversations during procurement planning.

We assign a relationship manager to each department to handle departmental issues at the earliest stage in the procurement/disposal process; in effect we journey with the client all through.

In circumstances where individual interests conflict with organizational goals, we insist on the regulated process to determine the vendor to award to. We've concluded major procurements like Pension Towers, Lubowa housing Project, Mbuya Housing Project, Off Taker, Jinjja mixed use project, Mbale mixed use project, Pension Administration System (PAS), etc, without any query being raised. The few that came up, we ably explained and provided evidence of the transactions.

It is the transparency and compliance with the law which have saved the Fund. In fact, in 2016, the Fund was the best entity in the country for excellent performance.

In 2020 the Fund was recognized as one of the most transparent and reporting entity in the country by the PPDA.

The Key external stakeholders include MoFPED, PPDA, Solicitor General, Chief Government Valuer and bidders. The interests of external stakeholders revolve around compliance, transparency and accountability. To ensure transparency, we engage suppliers in annual Suppliers' Forums in order to get feedback on the quality of service we provide, and also share business opportunities ahead. Through these interactions, service providers increase their trust and confidence in our operations. The supplier surveys conducted after the conference of April 2021 revealed 97% level of supplier satisfaction.

Partnership with vendors and transparent system have eliminated the potential complaints and external stakeholder's interventions.

Q: For most entities, compliance with PPDA Act is a serious challenge, because it leads to significant delays in procurements, and often times associated with corruption, resulting in loss of billions of shillings.

What are the key challenges in the PPDA process and how have you been able to deal with them effectively?

A: PPDA compliance is a requirement that we must adhere to because it provides a framework for transparency and fairness to all stakeholders involved.

This however, has its own set of challenges, like long process lead times, limited concentration on planning, too many players in the process, conflicting interests, cut–throat competition among bidders, manual processes, knowledge gaps and lack of holistic view of the procurement process.

To deal with these challenges, we automated the procurement process, which has significantly improved cycle time, process visibility, accountability and data management. For example, we realized a reduction in cycle time for approval of procurement from 27 days to an average of 3 days.

Training of Procurement champions, and continuous sensitization of end– users reduced the knowledge gap. We recruited a Data Analyst, who strengthened the team with data analytics skills. We are able to track procurement performance more visibly through analysis dash boards. We update heads of department on regular basis, which triggers improved plan performance and user confidence for our services.

Q: Historically, the procurement and disposal processes at the NSSF were bedeviled with corruption and theft of public funds; a case in point is Temangalo and Nsimbe projects.

What is it that you have done, in the last seven years or so, that has enabled the NSSF to be among the top well–performing entities as regards public procurement and disposal of public assets?

A: I attribute the good performance of the Fund to good leadership exhibited by the Managing Director– Richard Byarugaba. He gave us a chance to exercise our professional expertise with no interference.

He always defends decisions taken and provides overall sense of direction.

Secondly, we have worked closely with our Investment Team and the Contracts Committee, who are people of high integrity and determined to change the bad history of the Fund. We are focused on doing the right thing at all times, and ensuring value for money, which has assisted the Fund to excel.

Q: One of the major causes of delays in procurements and/or disposal are the administrative reviews. How have you been able to minimize or eliminate administrative reviews?

A: Administrative reviews are usually a consequence of ambiguity in the terms of reference, specifications and scope of works. The second element is unethical behavior at any stage in the procurement or disposal process.

We emphasize integrity and ethical behavior in all our dealings; all our processes are subject to rigorous routine checks from Internal Audit and Risk Management.

Global supply chains are facing a crisis affecting many goods and services. This disruption in supply chains is likely to lead to inflation in many countries around the world.

Strengthening internal controls and training of key users has eliminated the previous anomalies in the procurement process. We have ensured fairness in all tender decisions. For all high–level projects, I participate directly in their evaluations.

Q: The government of Uganda recently introduced an electronic Government Procurement (eGP) system, some of whose aims are to increase transparency and eliminate corruption.

How do you think this is going to be achieved and what other bottlenecks is the system likely to address?

A: We have supported the effort of the government of Uganda to automate the procurement process, and we have directly participated in developing system functional requirements.

The eGP system is web–based, meaning that it can be accessed from anywhere, where there is internet access. This enables stakeholders to transact and access all the necessary information without any physical interaction with the officer handling the procurement.

We believe it will improve efficiency and monitoring of entity performance. We also hope that it will help, for the first time in the history of the country, to generate credible data on procurement, that can be useful in making critical policy decisions.

For corruption, I always believe that it is in the minds of individuals. It's the values and culture that need to change. Automation may increase efficiency and process visibility but not necessarily eliminate corruption.

The biggest challenge, however, is for local governments with poor internet connectivity, skill gaps and semi–illiterate vendors. With this, uptake of the eGP will take longer than anticipated. Uploading heavy bids for works may not be possible, and this may require manual intervention.

Allocating dedicated resources to oversee the proper implementation of the eGP system and managing change will help to alleviate some of these challenges. Support is especially required for Local government to get them on board with modern approach to procurement.

For NSSF, we have had adequate exposure to automated processes and we have already hit the road running with the eGP, by the end of November 2021, the system will be running end–to–end.

There is a perception by some user departments that procurement is an impediment to their activities, while some suppliers believe, to win a tender, you need to bribe a procurement officer.

Q: How have you dealt with these negative perceptions, and what has been your success rate?

A: The perception that the public procurement process is an impediment to User departmental activities is as a result of expectation gap due to lack of understanding of the procurement process. Some end–users tend to think that institutional procurement is as simple as personal purchase decisions.

On the contrary, public procurement is highly regulated because it accounts for about 20% of GDP or 65% of annual budgets of Uganda. In the Fund, it accounts for 85% of the annual budget. Therefore, there must be controls regarding spending such huge amount of money. We focus on reducing the cost of goods and works, quality, risk mitigation of outsourced services, sustainability, and compatibility of technology to the business.

Additionally, we have helped the end– users align their procurement requirements to the goals of the Fund. We have also sensitized them on early initiation of requirements, and on weekly basis, we update them on planned activities per month and the overall performance at the end of the financial year.

Consequently, we have seen great improvement in absorption of planned budgets, cost control, quality management, risk management, and most importantly, as PDU, we have established ourselves as a business enabler, rather than a bottleneck to service delivery.

Q: According to the PPDA Act, Procurement and Disposal entities are required to publish their annual procurement plans. Although this increases transparency, it eliminates the possibility of procuring at a price much lower than the budgeted price. What is your view on this matter?

A: In the digital economy, price is no longer a key determinant for purchase decision. Prices are known for most items. The differentiator is the profit margin and quality. Therefore, displaying procurement plan with estimated costs is one way of controlling exaggerated costs. In fact, we disclosed the budgets for Lubowa Housing project, Temangalo and Off–taker projects, in the solicitation documents, and we got very competitive price offers.

We conduct biannual market assessments, which inform us of the trends in the market, and use the data for budgeting and procurement planning. Service providers compete on quality standards and legal compliance. Surprisingly, they even offer goods and services at prices below the disclosed budget prices. In this way, we have controlled the cost of procurement and sometimes we've made savings to the tune of UGX 20 billion. Besides, publication of the procurement plans ensures transparency and accountability to all stakeholders and the public.

The procurement profession will need advanced skills to remain relevant and offer value adding services like advisory services, strategic sourcing and building sustainable procurement practices.

Automation and digitization are likely to reduce the demand for manual routine processes such as the procurement process. How have you prepared your team to take advantage of the changes in technology so as to remain relevant in the face of changing technological environment?

Automation and digitalization will eliminate routine processes with hard rules; for instance, matching LPOs with invoices, re–ordering of stock etc, will not need human intervention in the near future.

However, the procurement profession will need advanced skills to remain relevant and offer value adding services like advisory services, strategic sourcing and building sustainable procurement practices, which may not be easily automated.

Additionally, there will still be a need for partnerships with vendors along the supply chain, which cannot be automated.

We have trained PDU staff to keep abreast with evolving trends in order to remain relevant to the market.

Q: Briefly talk about the concept of "Buy Uganda and Build Uganda" (BUBU) in the context of PPDA, including any challenges you have encountered in implementing it and the solutions.

A: The BUBU policy is an initiative by the government of Uganda to support the locally manufactured products, knowledge transfers and human capital development. The BUBU policy makes reservation of certain services to local and national firms. The purpose is to protect them from stiff competition from international firms. The thresholds for reservation to national firms include:

Supplies below UGX1bn,

Consultancy services of UGX 1bn and below

Non–Consultancy UGX 200M.

Road works UGX 45bn and below

General civil works UGX 10bn and below.

Other forms of reservations include;

Reservation of general civil works exceeding the above thresholds are required to be subcontracted up to 30% to local firms.

Preference schemes. Preference scheme is an arrangement where advantage is given to local suppliers when procuring goods, works and services in an open international bidding process.

In consultancy services, 7% is added on the prices of foreign firms; in works, 15% is added to the foreign firm to make the local firm more competitive or look cheaper than the foreign firm. However, the added amount is used for evaluation purposes only.

The Fund awarded the construction of Mbale City House to a Ugandan Firm– Azu Properties Ltd, using the same reservation scheme provisions.

Q: Any last comment you would like to make to the readers of The Risk Echo magazine?

A: Procurement will continue to play a vital role in organizations since it has one of the highest budget in most entities. It plays a pivot role of ensuring uninterrupted flow of services. The disruption of global supply chain in the current Covid–19 period has augmented the need to manage the internal and external supply chains more effectively. There is need to incorporate the business continuity plan and agile responses to the needs of the business.

Finally, I would like to appreciate the top leadership of the NSSF, Heads of department, Contracts Committee, PDU smart team and Champions, for their valuable support and cooperation. You have made me shine and I can't take it for granted.

How To Develop A Robust Risk Culture In An Organization

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Most organizations today have devoted significant resources for ensuring that they continue to remain competitive and meet the constantly evolving needs of their customers. This has led to an increase in the usage of data and automation to drive strategic initiatives. Risk professionals have also been forced to adapt and enhance their risk management capabilities to ensure risks are managed within acceptable tolerance limits.

Most of the risks introduced by the changes happening today are not new, they have only been heightened. This requires a new risk management mind–set that uses data and automation to enhance the quality and effectiveness of risk analysis. However, even with improvements in risk management, there is one area that could severely damage an organization's ability to continue as a going concern, and that is its risk culture or risk "DNA". According to Andrew Bailey, Governor of Bank of England, the major prudential or conduct failing of our time has been attributed to a poor culture as manifested in governance, remuneration, risk management or tone from the top.

So why is risk culture important and why should organizations care?

Getting risk culture right will determine an organization's success in identifying and mitigating risks, and could be a competitive advantage. Organizations spend a lot of resources marketing their services or product offerings to their customers. This eventually leads to brand equity that is directly correlated to how the market perceives the organization. Poor ethical behavior could quickly lead to an erosion of trust that took years to build, adversely impacting the survival prospects of the organization.

Embedding a strong risk culture requires a deliberate and sustained effort. What are some of the key areas that an organization can focus on to drive the right risk culture?

Corporate purpose and values

The first step to creating a strong risk culture is to ensure that the organization's purpose and values have been clearly articulated and are well understood. Lack of clarity can cause confusion and lead to undesired outcomes. Corporate purpose and values should be embedded in the code of conduct, so as to guide employees to always do the right thing. Even more importantly, employees who have understood and embraced the organization's purpose and values, are more inclined do to the right thing regardless of whether policies, procedures, or standards exist. It is built in their sub–conscious and it drives their behaviors.

Corporate purpose and values also set the foundation for how an organization's employees engage with each other and their stakeholders.

Lastly, to be successful, organizations should have robust mechanisms in place to re–enforce their values on a regular basis so as to influence a behavioral change in the manner in which employees conduct themselves.

Tone at the Top

The board and senior management have a great influence on the risk culture of any organization. A positive tone from the board and senior management for enterprise risk management goes a long way in building a strong and positive risk culture.

The tone should not only be in words but in actions, such as approving risk management policies and procedures, and supporting risk recommendations, as well as ensuring that there is an appropriate risk management structure in the organization.

The consistency with which the board and senior management demonstrate the desired behaviors is an important signal to all employees, and reinforces the behavioral expectations. The board and senior management should effectively oversee the organization's risk culture, and matters related to risk culture should be given prominence in board and senior management governance forums, and accountability established for any outcomes that are misaligned to the organization's values.

Active leadership engagement will provide the board with more reliable information of the general environment and how employees are practicing the organization's values.

Establish clear lines of accountability

Everyone in the organization needs to have an appreciation of the consequences of their actions. Prudent actions can only take place in an environment where this has been clearly identified and ownership of risk has been established. One way to establish accountability is through the employee contracting process and the usage of balanced scorecards or performance dashboards to provide data insights related to whether employees are doing the right thing or not.

Employees of the organization should understand that they have a shared responsibility to escalate any issues that are misaligned to the organization's goals. When mistakes are not reported or are covered up or when the process of holding people accountable is deemed to be ineffective, the wrong values will permeate across the organization and lead to undesired outcomes.

Performance and remuneration

Performance and remuneration programs should be risk–adjusted to reflect an employee's demonstration of the desired values and culture. A practical way of achieving this is through the use of a balanced scorecard that considers data points related to strategic success and risk management.

Communication and awareness

Lessons learned should be used as a tool to reinforce organizational values and strengthen risk management capabilities. Communication and awareness should not be looked at as a one–time event but an iterative process that is designed to effect behavioral change.

Conduct monitoring

Organizations should build tools that provide them with the capabilities to identify, measure and assess their risk culture posture in real time. This should be aligned to their risk appetite, such that response measures are proportionate to the type of breach identified.

Conclusion

While the elements of a robust risk culture may be hard to define or even difficult to measure, the behavioral outcomes can be measured and tracked. Organizations that have been able to cultivate and establish a robust risk culture have enjoyed financial success and have gone on to build sustainable businesses that are capable of withstanding major disruptions in their operating environment.

Are You Prepared For The Next Disruption?

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The evolving uncertainty surrounding the vast implications of Covid–19 has triggered a complex array of risks affecting virtually all aspects of an organization, from its people, processes, systems, its customers and cash flows.

From time immemorial, different disasters have happened across the globe, but Covid–19 will go down in history as one of those that have engulfed the entire world and brought economies to their knees, including the most advanced and sophisticated ones, and has stood out as the biggest threat to humanity. However, it is important to note that Covid–19 disruption will not be the last one, a number of other threats could emerge and disrupt the normal operations of organizations.

Disruptions can be sudden or gradual according to their nature. Sudden disruptions are those you may not have anticipated, while gradual ones are those you may have seen traces of but in most cases ignored. Sudden disruptions are caused by sudden incidents, such as bomb explosion, fire outbreak, earthquake, among others. An example of a gradual disruption is the impact of the loss of skilled staff arising out of weak succession planning.

Even floods for that matter can be gradual due to the human activities that facilitate the flooding in a particular area.

However, what is crucial in both cases is that, with an effective Business Continuity Management System (BCMS), recovery takes a very short time – within the Recovery Time Objective (RTO), which is the minimum down time before the recovery of an application/system and/or process, following a disruptive event.

In the absence of an effective BCMS, the actual recovery time is much longer than the RTO.

In the latter situation, the organization is likely to incur significant costs in restoration of operations, and reputation damage.

It is therefore, important to consistently plan for times like this, so as to achieve an effective response and a quicker recovery from a disruption; because it is not a matter of whether, but when certain incidents will happen.

> Organizations that were prepared and had a capability to continue operations at an acceptable level, had minimal impact arising out of the Covid–19 disruption.

Many organizations have realized the implications of being un–prepared to manage a root cause event and threat of the magnitude of Covid–19, way into the disruption.

It is clear that organizations that were prepared and had a capability to continue operations at an acceptable level, had minimal impact arising out of the Covid–19 disruption. Examples of services and companies that thrived are Amazon's e–commerce, eBay, Alibaba, remote work enabling facilities like Zoom, Skype and Teams.

Business continuity management positions leadership teams in a more proactive risk management position, relative to those that have none in place.

Every business has operations and services in pursuit of its objectives, goals and mission, and needs mechanisms to ensure continuity of its operations to achieve these objectives, even in the face of a disruption.

The benefits of implementing a BCMS ranges from helping the organization to reduce costs of restoring systems and loss of business, but most importantly to provide assurance to stakeholders, such as clients, suppliers, regulators, etc, that the organization has robust systems and processes in place to ensure continuity of operations, no matter the disruption. Implementing a BCMS enables an organization to identify what can be done to protect its critical resources, supply chain, stakeholders and reputation, at minimal cost, during and after a disruption. Although no form of preparedness can stop all incidents from happening, it reduces the level of impact to your business.

Having explained the importance of Business Continuity, I wish to point out that there are certain key factors that help the organization to continue its operations in the event of a disruption, and these include: (a) Appropriate technology, (b) Effective communication and (c) Good leadership.

a) Technology

In many organizations, activities cannot be performed without ICT systems. Therefore, ICT systems need to be reinstated before activities can resume. The organization should establish, in advance, mechanisms to recover its data to help it resume business with minimum impact.

b) Communication

Effective communication is critical before, during and after a disaster. Communication should enable the organization to respond to the needs and expectations of the stakeholders.

For communication to be effective, the organization should determine what needs be communicated, when to communicate, with whom to communicate, the means of communication and the persons to execute the communication. We saw this play out very well by the Ministry of Health at the beginning of Covid–19 outbreak in Uganda.

c) Leadership

Last but not least, leadership in an organization establishes unity of purpose, gives direction and creates conditions in which people are engaged in achieving the organizational objectives.

Leaders set the business continuity agenda in an organization, demonstrate commitment to provision of resources for business continuity, define and explain the business continuity policy and establish roles, responsibilities and authorities in the BCMS. Additionally, leaders provide the necessary resources to enable the successful implementation of business continuity in an organization, and in case of a disruption, they make the necessary decisions to restore the organization to its original status.

When the leaders are not in the lead, it will be very difficult to implement business continuity management in an organization, however good a system is.

Therefore, the leaders should be accountable for business continuity of the organization.

So, how then can we establish capabilities to prevent large–scale impacts arising from disruptions?

Guidelines for implementation of Business Continuity can be got from ISO 22301:2019–Security and resilience — Business continuity management systems — Requirements, which is applicable to all organizations, regardless of size, industry or nature of business. This standard is designed to be integrated into an organization's existing management systems and processes.

For business continuity to create value, it requires an organization to look at its specific and unique circumstances (context) and come up with strategies and solutions to ensure that it protects its people and assets and stay in business, whatever happens.

Steps in establishing an effective BCMS.

i) Establish the context

Development of an effective BCMS starts with understating the context of the organization–that is, the organizational structure, products, processes, systems, staff and other stakeholders, laws and regulations, etc; and how these could be affected by the potential disasters.

ii) Management buy–in and BCMS governance structure

To start with, there should be top management buy–in, because they are accountable for the BCMs. The BCMS can only be effective if those in decision–making positions provide genuine support and treat it as a high priority.

The person in charge of BCMS should be of appropriate seniority to be able to influence management to take appropriate decisions regarding business continuity management and disaster recovery. For large organizations, it is appropriate to have a substantive committee to oversee business continuity management activities.

When the leaders are not in the lead, it will be very difficult to implement business continuity management in an organization, however good a system is.

iii) BCMS gap analysis

The third step is for the organization to conduct a gap analysis on business recovery capabilities to assess what the organization would currently do should there be a disruption to any area of its business.

iv) Business Impact Analysis (BIA)

The organization should then conduct a Business impact analysis (BIA) and risk assessment, which asses the impacts the disruption of activities would have on delivery of its products and services. This enables the organization to prioritize the resumption of activities.

The outcome of business impact analysis and risk assessment enables the organization to determine appropriate parameters for its business continuity strategies and solutions.

It will also determine the resources needed, such as people, facilities and infrastructure, IT and communication systems, documentation and finance, for the organization to continue its operations.

By focusing on the impact of disruption rather than the cause, business continuity enables an organization to identify activities that are essential to its capability in meeting its obligations.

v) Recovery procedures

After identifying the urgent processes and systems, you need to establish the procedures for recovery of those systems and processes, as well as the RTOs.

Vi) Embedding the BCMS

There is need for continuous training and sensitization to ensure that everybody in the organization is well acquainted with the procedures within the BCMS.

Besides training/sensitization, the BCMS should be exercised regularly to determine its effectiveness in response and recovery of the critical systems and processes in case of a disruption.

Conclusion

Although no organization is immune to disruptions emanating from a wide range of sources, organizations that have put in place robust response and recovery mechanisms are in a better position to significantly minimize the impacts of a potential disruption.

On the contrary, those that don't have effective BCMS are likely to be significantly negatively impacted, and in the worst case scenario, put out of business, when a major disruption occurs. To build a comprehensive and effective BCMS, the starting point would be to have a look at the ISO 22301:2019.

Life After Formal Employment: Are You Prepared?

Like is usually the case for most graduates, when a Bachelor's degree in Arts with Education was conferred upon me on 17th February 2010, I was anxious to get a job. Indeed, I was lucky to get employed almost immediately after graduation, with a well–established educational institution in the country, with a well–paying job.

Alex Gamusha
B. A. Educ.

Proprietor,
GAMEX Communications Ltd.

As if luck was by my side, on my graduation day when we left Makerere University grounds for a simple lunch, I received a call from a proprietor of a certain school that resulted into a job offer. The offer was for immediate deployment, to be precise, the following week. I was very excited, having secured myself employment right after graduation. Subsequently, I remembered a colleague I had talked to months before our graduation, who had told me about an opportunity in another institution. So I decided to go there for the sake of it. I prepared my papers to give it a shot the following morning. When I arrived at the school, I was told to return in the afternoon on the same day. When I went back in the afternoon, I was informed that I had been shortlisted for an interview due on the following day. I was successful at the interview, and I was given the job. Imagine, this was the second offer in a space of just two days!

With two offers at my disposal, choice was not easy for me to make. Not being any different from majority of fresh graduates, priority was on the amount of pay and not any other non–financial considerations like career growth opportunities. Obviously, I had to forego the first offer because the salary was lower compared to the second one. I remember vividly it was 19th February 2010, when I became formally employed. Interestingly, I didn't enjoy my first salary because before the month ended, I had shared a business idea with a friend with whom I was at university. The idea was to establish a canteen, and since my friend had not got a job, we agreed that I would provide all the necessary capital with my first salary. When I received my salary at the end of the month, and after securing a canteen premise, I gave him the money to start the business, as I continued teaching. After the end of the term, I went to check on how the business was progressing.

I was hit by a shocking revelation that my partner was not running the business on the pretext that it was degrading for him to operate such a small shop.

He told me he had instead employed his relative from the village to run the business on his behalf. Of course, coming from the village, the relative was naïve about running a business in a metropolitan environment. Besides his naivety, he had a language barrier, numerical inefficiencies, poor customer care, and all manner of weaknesses, typical of most untrained fellows, which inevitably led to the eventual collapse of the business.

Although I was disappointed with my friend because of the unfulfilled expectations, I was not so much affected since I still had a job.

However, serious lessons were learned; one of which was never to deploy capital without keenly watching over it. Meanwhile, I did not lose passion for business but rather gave it a break.

When the year came to an end, I had made friends at the workplace. Some of whom I witnessed suddenly getting sacked; the situation was scary but greatly opened my mind further to know that all was not well while still in formal employment, especially in the private sector. I became unsettled until I secured myself a fallback position to be sure of survival if things did not workout at the job. This was augmented by the insights I had read in one book titled: Poor Dad Rich Dad. No one should depend entirely on salary. This formed the principle

I relied on throughout my teaching career: “Work with the last day in mind”.

The following year work continued normally, though with anxiety due to unexpected and frequent sackings of my colleagues. Nonetheless, this further strengthened my passion for establishing a fallback position. Towards the end of 2011, a student borrowed my mobile phone and asked her parents to send mobile money through my line.

Seeing that I was honest with money, more students gained confidence in me and started asking their parents to send them money using my number.

I developed a closer relationship with the owner of the Mobile kiosk, where I used to withdraw the money from. He gave me some good insights into the mobile money business, and I developed interest in starting my own.

I started by buying a line from a Kenyan friend, with whom I was working at the institution, and I began making mobile money transactions in the school. It should be noted that the mobile money line I got was registered in another person’s business name. Before I registered my own mobile money company in 2012, I faced several challenges, among which were late payment of the commissions I had made and having a small customer base, consisting of teachers and students within the school.

However, with the establishment of my own company, I was able to overcome those challenges, and since then, I have never looked back. Of course, the big question that lingered in my mind was, what if I lost this job, how would I survive? Would I go back to the village? Going back to the village was not among the options I would consider.

It is common knowledge that teachers are not some of the well–paid workers in this country, that is why the mobile money business came in as a very important source of supplementary income for me. As a matter of fact, I never touched my salary for twelve months up to 2014, because income from the mobile money business would help me to meet my daily expenses.

After 2014, I was transferred to another workstation where I worked till my last day in the teaching profession, after about five years or so. On 17th July, 2019, as I was waiting for tea in the staff room, I received a call from the Administrative Assistant, asking me to go to the reception. On reaching the Reception, I was given a termination letter. Although I was surprised, I wasn’t worried about it because I was already prepared for life without formal employment.

Unfortunately, barely seven months after losing my formal employment, Covid–19 pandemic set in. Nonetheless, I have persevered, and my business has remained resilient amidst the effects of Covid–19.

Conclusion

I wish to remind everybody who is employed that it is possible to wake up one day and you are handed a termination letter. Be sure, if you don’t have an alternative source of income, this would be a disaster for you and your family, and all those who depend on you for financial support – Never put your eggs in one basket.

With the establishment of my own company, I was able to overcome those challenges, and since then, I have never looked back.

Liquidity Risk In The Context Of The Ugandan Retirement Benefits Scheme

Portfolio risk has its roots from modern portfolio theory, which is credited to Harry Markowitz, a Nobel Prize–winning economist who introduced the idea of the efficient frontier; which basically means that one needs to be compensated with higher returns for taking higher risk.

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The original risk measure, developed from the Capital Asset Pricing Model (CAPM) was beta () Ra=Rf+ (RmRf), where

Ra = Return of asset a;

Rf = Risk–free rate of return;

= Beta of the security;

Rm = Expected market return

Since then, a myriad of risk measures including volatility, downside risk, tracking error, modified duration, Sharpe ratio, Treynor ratio, opportunity cost, liquidity cost and many others have become popular and are conventionally used and understood in portfolio risk discussions.

In this article we pay special attention to liquidity risk in relation with the Ugandan Uganda Retirement Benefits Regulatory Authority Act of 2011 in mind. The Act categorically stipulates that the funds of a retirement benefits scheme shall not be invested outside East Africa; or be invested contrary to any guidelines prescribed for that purpose. The guidelines include the asset allocation restrictions and type of securities that are allowed.

Our analysis showed that the Act gives rise to liquidity risk by its geographical restriction, as well as exclusion of other types of securities. The liquidity risk in investment is problematic in that it violates one of the critical assumptions of CAPM and efficient frontier analysis.

We hence recommend measures that can facilitate to improve the investment liquidity risk.

Skoglund, and Chen (2015) stated that the ultimate value creation from risk analytics is realized when it is deployed in day–to–day business strategy. As a result of regulation, but also driven by market competitiveness, financial institutions and fund management companies are investing more in systems and processes to accurately price products and create strong incentives for value creation in their business lines. Risk management processes have hence become integral in investment decision–making.

Apostolik and Donohou (2015) pointed out that the role of risk management is becoming more important as banks, insurance firms, and supervisors around the world recognize that good risk management practices are vital, not only for the success of individual firms, but also for the safety and soundness of the financial system as a whole. As a result, the world's leading supervisors have developed regulations based on a number of "good practice" methodologies used in risk management. Kainja (2018) illustrated that Funds (and perhaps even securities,) can be classified using various risk measures, showing other non–conventional application of risk measures in investments.

Kainja (2001) examined fund mandates, investment process and how to measure your portfolio performance in a South African context. He followed up that work with "Defining and understanding portfolio risk", Kainja (2003), where he defined and analysed basic measures of portfolio risks including volatility, downside risk, maximum drawdown, modified duration, tracking error, information ratio, Sharpe ratio and Treynor ratio. These risk measures are now mostly fully understood, easy to calculate and often easy to interpret. However, these are not the only risks in investments, and in this article I will put a special emphasis on the Liquidity risk and its implication to the Ugandan Retirement Benefits Schemes.

Liquidity risk

In Uganda, as in most other African countries both the bond and equity markets are not fully developed, and liquidity is an issue. As a matter of fact, when a fund such as the National Social Security Fund (NSSF) Uganda buys an equity instrument, it usually just holds it to maturity.

Furthermore, the bonds (largely government issued) are also bought on issue and held till maturity to an extent that there is hardly any trade in between times.

Illiquid assets may be hard to sell quickly because of lack of ready and willing investors or speculators to purchase the asset, whereas actively traded securities will tend to be more liquid. Illiquid assets tend to have wider bid–ask spreads, greater volatility and, as a result, higher risk for investors. Tountopoulos (2017) stated that there is a general consensus in the legal literature that illiquid markets are prone to manipulation. However, the question is not as simple as it appears to be, a plethora of research reveals scepticism regarding the reliability of the price–formation mechanism in illiquid markets. Illiquidity constitutes a structural problem of the market, and illiquid markets are generally considered inefficient markets. This implies that there are structural issues in the Uganda investment arena, which need to be addressed, especially now that Uganda is part of the global space.

That situation defeats the entire concept of CAPM, where an instrument has different value at different times. It is not particularly beneficial to large or even small investors at the Ugandan Securities Exchange. One of the fundamental assumptions of the Efficient Market Hypothesis is fluidity of the underlying instruments in that they can be traded efficiently at no cost. This assumption is hugely violated in the Ugandan context.

How to improve liquidity risk in the Ugandan market

Pillonca, Jones and Cortes (2015) identified three basic and general policies that can easily enhance market liquidity.

Firstly, there is need for policies to strengthen market structures, even in government bond markets. Regulators should enact policies to encourage market participants to provide liquidity in normal trading conditions. This could include rewarding primary dealers with incentives or obligating them to trade passively (by providing quotes) or actively (by actual transactions).

These measures need not require market makers to maintain a constant presence during unusual bouts of extreme volatility. Instead, regulators can design circuit–breakers that are triggered during these rare events, halting disorderly trading conditions and allowing time for liquidity to replenish. In fact, by buttressing participation in secondary markets in normal conditions, authorities may forestall the very deterioration of trading liquidity that could require the use of these circuit–breakers.

Secondly, the regulators and central banks should take urgent steps to ensure continued market liquidity, not just in good times but also under conditions of stress. At the national level, this includes enhanced micro– and macroprudential frameworks to enhance oversight of liquidity within mutual funds and also at the level of financial markets. This requires effective tools such as ensuring that redemption terms in the asset management sector are better aligned with underlying market liquidity conditions.

National supervisors should coordinate and provide consistent guidance to trading firms across major jurisdictions regarding the appropriate risk limits on individual retail investors, exchanges and clearing firms.

Thirdly, the Central bank and other regulators ought to examine and exploit cross–border synergies in policies, including the pre–emptive creation of central bank swap lines that were so vital during the global financial crisis of 2008. Regulators and monetary authorities should also take into account the dynamics posed by increased global asset correlations and periods of volatility when evaluating systemic risks in financial markets.

Fourthly, Uganda being an Agriculture–dependent economy, it would make sense if the agricultural commodities were actually traded on the Ugandan Securities Exchange, both in the form of futures and ETF's. The introduction of forex futures is just a natural extension since commodities on the global market place are (often) quoted in US$.

Fifthly, increase geographical investment universe by allowing retirement fund schemes to invest outside East Africa, in sub–Saharan Africa, in a country like South Africa, which has a more developed but emerging African financial market.

Benefits of improved market liquidity

Many emerging markets, including Uganda, suffer from significantly low levels of trading liquidity, effectively placing a constraint on economic and market development. In a joint paper with the World Federation of Exchanges, Wyman (2016) discussed the importance of market liquidity and stated that its relationship to financial market development can be understood by examining the impact on various of the following market actors:

i. For investors, more liquid markets are associated with lower costs of trading, an ability to move more easily in and out of assets, lower price volatility, and improved price formation.

ii. Issuers are attracted to more liquid markets, as they reduce the cost of raising capital and produce more accurate share price valuations.

iii. Stock exchanges value the increased attractiveness to issuers and investors, as this translates into greater use of the market, greater confidence, greater ability to attract new stakeholders, and greater ability to do business, which drives revenues both directly (through trading fees) and indirectly (through extending their product offering, for example).

iv. Economies as a whole benefit, with companies able to access capital at a reasonable cost, subsequently increasing investment in their business and driving increased employment and their overall contribution to the economy.

Conclusion

The analysis shows that by limiting to East Africa as the geographical investment region, the Ugandan Uganda Retirement Benefits Regulatory Authority Act of 2011 denies members a chance to seek more diversified and perhaps even more lucrative investment opportunities.

Furthermore, in Uganda, both the bond and equity markets are not fully developed and liquidity is an issue. One of the fundamental assumptions of the Efficient Market Hypothesis is fluidity of the underlying instruments, in that they can be traded efficiently at no cost. This assumption is hugely violated in the Ugandan context. We hence make the following recommendations to reduce and mitigate liquidity risk:

i. The introduction of

   a. Commodity futures

   b. Foreign exchange (FOREX) futures

   c. Commodity Exchange Traded Funds (ETF's)

   d. Equity index futures

ii. Increase investment universe geographically to allow Funds to invest outside East Africa, including South Africa, the most developed and liquid financial market in Africa.

Your Personal Balance Sheet Can Be A Powerful Tool For Risk Management

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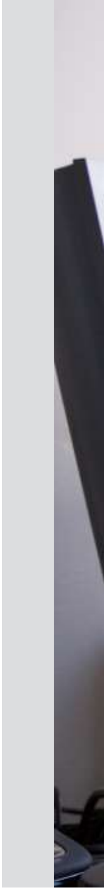

It is a statutory requirement for many organizations, especially companies, to prepare financial statements, one of which is a balance sheet (BS). Anyone who has worked in a formal organization is familiar with the words "balance sheet". A BS is a popularized accounting tool used by organizations to describe their financial position.

It is a financial statement that reports the relationship among a company's assets, liabilities and shareholder equity. The balance sheet is one of the three core financial statements that are used to evaluate a business. It provides a snapshot of a company's finances (what it owns and owes) as at a particular data.

The origin of the concept of a BS can be traced as far back as the 15th century, by Franciscan monk Luca Pacioli in 1494, who listed an entity's resources separate from any claim upon those resources. This was in essence a BS with debits and credited separated.

The modern day BS is obviously more complex than just a mere listing of resources separately from liabilities. Even the nomenclature has somewhat changed; under IAS1 it is called a statement of financial position of the organization.

A BS lays out an organization's resources (assets) against its sources of funding for the resources (shareholders' equity and liabilities). Figure 1 illustrates how a balance sheet looks like.

Mathematically, the relationship between assets, labilities and equity is expressed in a simple equation indicated below:

Assets =Equity + Liabilities

The unresolved debate, however, is whether to present human capital on the BS of an entity.

Figure 1: ABC Ltd Balance Sheet as at 31 December 2020

	Ushs'000	Ushs'000
ASSETS		
Current Assets	10,609	
Long term Investments	2,460	
Property, Plant and Equipment	7,560	
Intangible Assets	1,356	
Other Assets	511	
Total Assets		**22,496**
LIABILITIES		
Current Liabilities	3,509	
Long–term Liabilities	5,825	
Total Liabilities		**9,334**
OWNER'S EQUITY		
Contributed Capital	7,968	
Retained Earnings	5,194	
Total Owner's Equity	**7,883,642,480**	**13,162**
Total Liabilities and Equity	**7,883,642,480**	**22,496**

Undoubtedly, employees are the most important assets of any organization.

Thus, including them among the company's assets on the BS would make logical sense. However, the challenges revolve around measurement and control of these assets (employees), which give rise to a number of questions:

i. *What monetary value do you attach to a particular employee (Measurement)?*

ii. *If you attach more value to a particular employee than another, doesn't it create disharmony? (Ethical challenge)*

iii. *What about control—do you have full control of the employee so as to be recognized as an asset? (Definition of an asset)*

The idea of a BS is to provide clear visibility of the company's assets and how they have been funded. There is no doubt that this kind of thinking helps companies to optimize the relationship between their assets and funding sources. This represents a form of risk management, since the board and management can continuously analyze the relationship among the several parts of the BS in order to identify risks and opportunities for investment.

The BS is also a measure of performance, as increase/decrease in the assets is generally an indicator that the company has performed well/poorly. As matter of fact, the size of the BS of any company is an indicator of its net worth.

Specifically, return on asset (Net earnings/ Total Assets), for example, indicates how efficiently the assets have been used to generate income– the higher the ROA, the better the performance.

Figure 2:Malagala's Balance Sheet as at 31 December 2020

	Ushs'000	Ushs'000
ASSETS		
Current Assets	1,356	
Long term Investments	2,460	
Property, Plant and Equipment	7,560	
(Intangible Assets)	10,608	
Other Assets (Human Capital)	511	
Total Assets		**22,496**
LIABILITIES		
Current Liabilities	3,509	
Long–term Liabilities	5,825	
Total Liabilities		**9,334**
OWNER'S EQUITY		
Contributed Capital	7,968	
Retained Earnings	5,194	
Total Owner's Equity	**7,883,642,480**	**13,162**
Total Liabilities and Equity	**7,883,642,480**	**22,496**

Lending institutions are particularly interested in the BS of a prospective borrower, because it provides key information about the borrower's creditworthiness, such as his/her current financing structure (Debt/Equity), liquidity/working capital, interest cover, etc.

The concept of a BS can be extended to an individual level. Indeed, even at personal level, a BS can be generated, showing assets on one side and liabilities on the other.

The key asset on an individual's BS is the human capital, which represents the value of all one's future earnings today. Economists and financial experts refer to the expected amount of future earnings in current terms as the present value.

Human capital, which includes human intellect and effort, is very crucial in mobilizing the other resources in order to enhance value. The productivity of the other assets largely depends on this one asset– the human capital.

Much as measurement of human capital is very difficult, the figure below gives a theoretical display of how a personal BS would look like.

Theoretical Personal Balance Sheet As At 30/09/2021

It is an attempt to recognize and measure the human capital asset, which is "valued" at UGX 9.2bn in the theoretical balance sheet above.

The biggest challenge is the actual conversation of human capital into financial capital or resources. This is the actual earning of a wage and investment management of the subsequent resources that are accumulated from the converted human capital.

The size and quality of human capital also directly affects the development of a key asset—which is the size of the individual pension. There is a direct relationship between the quality of one's human capital and the changes in their pension wallet. Consequently, a good risk management strategy involves regular efforts to enhance the quality of one's human capital and its subsequent conversion into money.

Generally, the amount of one's human capital depends on someone's age and the size and stability of their wages. For most individuals in the early to mid–career stages, human capital is the single largest asset on their balance sheet. This is because young individuals are likely to earn wages over a long period of time.

It is imperative to note that human capital is a long term asset that is subject to "depreciation" (wear and tear), as time goes by. It is therefore, important that this most crucial asset is well maintained at all times because it diminishes as we age towards retirement. However, it is important to note that the value of one's human capital can be improved over time, through nourishment, exercise, knowledge accumulation, etc.

As mentioned earlier, a company's BS is a statement that equates the assets on one side to the liabilities and equity on the other side.

Similarly, a personal/individual BS also carries liabilities and equity. Liabilities are of two major categories: – short term and long–term liabilities. The short–term ones are the running expenses starting with the known basic needs of life. These are usually met through the monthly wages. Long term liabilities are those whose repayment period is longer than one accounting year, sometimes 5, 10, 20 years or longer. These liabilities have long term financial implications, and if they are not managed well, can lead to financial bankruptcy. A risk management measure would be to ensure that the long term cash out flows in respect of the long term liabilities are properly matched with the long term cash inflows.

The commonest long–term personal liability is a mortgage. Due to the serious implications associated with long–term liabilities, taking a mortgage is one of the significant financial decisions in one's lifetime.

The timing, amount and the underlying property, alongside the source of the cash–flows that are to be used to pay the mortgage, must be properly examined. When you think of taking a mortgage, and your source of funds for repayment of the mortgage is salary, which is the commonest source for most employed individuals, remember that, whereas the mortgage payments are a fixed cost over the period of repayment, your salary is not.

Due to the serious implications associated with long–term liabilities, taking a mortgage is one of the significant financial decisions in one's lifetime.

It is thus very important that mortgages should be taken when one's BS carries some valuable financial assets. Mortgages tend to be costly when taken over relatively long periods of time without prepayment plans. A well–structured individual BS should carry some financial assets that could enable mortgage prepayments.

A regular reconciliation of the several parts of the BS represents prudent risk management. Additionally, analysis of the BS using various ratios such as the ones below can help to identify potential financial risks and address them proactively.

	Ratio	Implication
Cash ratio	$\dfrac{\textit{(Cash + Cash equivalent)}}{\textit{Total liabilities}}$	The lower the ratio the higher the risk of falling to meet financial obligations
Leverage	$\dfrac{\textit{Debt}}{\textit{Equity}}$	The higher the ratio, the higher the risk that you will fail to pay the interest
Return on assets	$\dfrac{\textit{Net income}}{\textit{Total assets}}$	The lower the ratio, the less productive are the assets
Return on equity	$\dfrac{\textit{Net income}}{\textit{Shareholder's equity}}$	The lower the ratio the less return on every shilling invested

Prudent management of your personal BS shapes your success in the same way it does for companies. Given that individuals differ markedly by their personalities, resources, individual balance sheets also differ. Like the case is for companies, prudent risk management requires continuous analysis of your personal balance sheet and regular efforts to maintain or improve its quality.

One of the most recommended approaches in the overall risk management of an individual balance sheet is the goal–based approach of investing one's finances. By goal–based approach, we simply mean that one saves and invests their earnings in line with broad life goals such as funding children's education, prepayment of mortgage, vacations, retirements etc. This sort of resource allocation is easy to understand, relate with and invokes focus on those goals that an individual considers to be very important.

This differs from the theoretically popular portfolio perspective, which focusses on optimizing risk and return of the individual's overall portfolio without specific consideration of specific goals. This kind of thinking tends to be more appropriate for institutional investors than individuals who tend to be more affected by behavioral biases.

In conclusion, I need to emphasize that a BS gives you a clear visibility of your assets, liabilities and equity. With this tool, it is possible to monitor your overall financial position, and whether its improving or deteriorating, so as to take appropriate measures to turn around the situation. Analyzing the BS can help to identify area of risk and opportunities for investment. Conversations with financial experts should be more regular like we do with medical practitioners. Preparing and analyzing BS is not only a good accounting practice, it is also a good risk management practice.

Understanding The Value Of Governance, Risk And Compliance

Governance, risk management and compliance (GRC) are related concepts that aim at providing assurance to corporate entities on how they can reliably achieve their respective goals, manage uncertainty and conduct business with acceptable levels of integrity.

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Governance relates to a combination of processes established and executed by those charged with governance (board of directors or trustees), and these processes are reflected in the organization's structure and how it is managed with an aim of achieving its goals. Risk management is meant to identify, analyze, evaluate and mitigate risks that could hinder the organization from achieving its objectives under conditions of uncertainty. Compliance is concerned with adherence to clearly defined boundaries of operation, which include internal policies, procedures, guidelines, laws, statutes and regulations, and other agreed standards of operation, such as accounting standards, etc. The aim of compliance is to ensure that business is conducted in a systematic and orderly manner, and avoid sanctions or litigations that could arise from non–compliance with laws and/or regulations, so as to achieve organizational goals and objectives.

As the business environment keeps changing faster than is expected, increased regulatory oversight, business complexity and increased focus on accountability and transparency, have led businesses to pursue a broad range of governance, risk and compliance initiatives across their business operations. The biggest challenge however, is that these management practices are often uncoordinated in an era when risk management has never been important as it is now, where the business environment is more volatile and unpredictable.

It is therefore, important that risk management becomes a shared responsibility rather than managing it in silos, as the case has been in many organizations.

Managing risks in silos can potentially increase the overall risk profile of the organization, as nearly all risks are interlinked.

For instance, high system downtime leads to high turnaround time on service delivery, which results in customer dissatisfaction and loss of customer trust, thus affecting the organization's image/reputation. For GRC processes to be effective, organizations ought to create mechanisms of enforcement and monitoring, and have the ability to coordinate and integrate all the three concepts.

Integration of GRC for better results

In order to obtain optimal value from GRC, there is need to integrate them, especially in strategy formulation, implementation, monitoring and review.

The diagram below is a demonstration of how governance, risk and compliance could be integrated with strategy to generate better value for the organization.

Source: https://globalriskacademy.com/p/grcframework

The three key components of the governance framework should be integrated at the strategy setting stage and then incorporated into business processes, policies and procedures. At the tail end of the process is performance management, where performance is measured in consonance with the basic principles of GRC.

Breaking down the silos

As organizations grow bigger and bigger, they often get structured into divisions, directorates, departments, functions and branches. This can make them potentially siloed, with a tendency for each of them to look at itself as a "separate" or "independent entity", which seeks to manage its own risks. What can however, bring them together organizationally, is when the senior leadership team emphasizes a common vision, mission, and set values and goals that every member of the organization should espouse.

The general consensus across different organizations is that breaking down barriers and getting people to collaborate is still a major problem for many organizations. Yet, the importance of breaking silos in the implementation of the GRC principles can't be overemphasized, because it can cause a significant increase in productivity and overall institutional performance, and is a necessary prerequisite for GRC maturity.

When compliance and other GRC functions engage with all business functions on addressing emerging risks, share experiences and work together on all other related issues, the company can make great strides forward. With the ever increasing and changing expectations of customers, shareholders and regulators, corporate leaders must clearly set the tone for openness, risk awareness, ownership and accountability.

Potential benefits of GRC

i. Operational efficiency can be greatly improved, if the company practices good and effective corporate governance

ii. The company's control systems are improved due to the proper functioning of its audit, risk and other compliance and assurance functions, in addition to the Audit committee

iii. Good corporate governance practices require that all material aspects of the business are communicated to all stakeholders, and this goes a long way in creating mutual benefits to all. In addition, effective disclosure and transparency help mitigate potential conflicts between the parties, hence, reducing potential costs associated with litigation.

iv. Effective corporate governance can have a positive effect on stakeholder confidence, by reassuring them that the company is making prudent business decisions. This can in turn lead to increased market confidence in the company, which can serve to increase its overall stock value. When the stock value of a company rises, so does its overall value.

v. Enterprise risk management allows organizations to improve their ability to identify risks and establish appropriate mitigation responses, hence reducing surprises and related consequences, including financial losses.

Effective disclosure and transparency help mitigate potential conflicts amongst stakeholders, hence, reducing potential costs associated with litigation.

vi. Risk management is an important component in the objective setting process because, if a company sets objectives without taking into account the inherent risks, chances are that they will lose direction once any of these risks begin to materialize

vii. An effective compliance program can help the business mitigate risks by ensuring that employees adhere to approved control measures.

Consequences of governance and compliance failures

i. The consequences of non–compliance are not limited to statutory or legal penalties– the indirect costs to a company are often more significant. These include the inconvenience and cost of correcting mistakes, damage to the company's reputation, loss of share value and even possible loss of market share.

ii. Managers could make poor decisions deliberately or falsify information for their selfish interest, which could be detrimental to the company's other stakeholders, and this can potentially negatively affect investor confidence.

iii. Absence of or an ineffective GRC can also increase the company's exposure to legal, regulatory, and reputational risks. For example, a company may be subjected to sanctions/penalties by a regulatory authority due to non–compliance with laws and regulations. These actions may not only increase operational costs, they could potentially damage the reputation of the company and lead to its eventual collapse.

Conclusion

I cannot overemphasize the importance of an effective GRC framework for any organization, but in conclusion, it suffices to mention that an effective GRC provides assurance to stakeholders that their interests in the organization are taken care of. Effective GRC implementation helps the organization to improve its control environment, and when integrated, a GRC model increases chances of attaining organizational goals and objectives.

Office Politics - A Necessary Evil?

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It is a well–known fact that all corporate entities have well established structures and processes for decision–making, such as executive management meetings, board meetings, etc, in which key decisions are supposed to be made. However, behind these structures and processes, there is always an invisible hand, which quite often influences decision–making in an organization; this phenomenon is often referred to as "office politics."

According to Wikipedia, office politics refers to actions and behaviors involving competition for status or power in a workplace. It encompasses activities, attitudes, or behaviors that are used to get or keep power or an advantage within an organization. Examples of office politics include backstabbing a colleague, blackmailing a colleague, forming malicious alliances against other colleagues, gossiping, or spreading rumors about others, intentionally withholding important information to discredit others. These are majorly orchestrated by people who bring their personal emotions, needs, ambitions, and insecurities into their professional lives. Unfortunately, these vices many a time influence decision–making. Every now and then, there is an opportunity at the workplace, expressions like 'who do you know there? 'Are you connected to him or her? etc, always pop up.

Interestingly, although the expression "office politics" relates to the office, the phenomenon of office politics is an extension of what I would call "family politics". In many families, there is always one child who is a darling, and who, in many cases, influences the decisions of the parents more than any of his/her siblings. He/she will always get his/her way; when he/she likes a particular food, that may become the regular meal for the family.

From risk perspective, office politics can result in inappropriate decisions, escalation of conflicts, lack of cohesion among employees, and ultimately resulting in low productivity. It is, therefore, important to understand the impact of office politics, so as to manage the negative vices associated with it.

However, office politics can yield positive results, especially where it involves getting buy–in for a major project, stakeholder management, etc.

The fact remains – office politics is here to stay because it is inevitable! This is true because there are hierarchies at workplaces just like it is in families and so, some positions have more powers than others.

Getting your request or concern addressed might prove hard if you choose to avoid office politics– it is a necessary evil. As a manager, one needs to be aware of the negative effects of office politics and be alert to any manifestation of the same and operate on the principle of fairness and transparency.

Office politics exists because of several reasons, including but not limited to:

a) Competition for resources

Whenever two or more individuals are presented to the same decision maker, office politics is likely to ensue in a bid to win favor. This can entail all sorts of endeavors like blackmail, backstabbing, defamation, among others.

b) Being over–ambitious in career

Some individuals want to get promoted at all costs, and they must find ways, including showering praises to their bosses from time to time, positioning themselves as the "I–know–it–all" to their bosses, in order to attract their attention, etc.

c) Organizational change

Whenever significant changes are expected in an organization, anxiety builds up; to the opportunity grabbers, it is a ripe time to position themselves through providing updates. They can also start moving from office to office to create an impression that regardless of the outcome, their names are on the list.

d) Competitive work environment

A competitive working environment encourage people to focus on "winning at all costs". This often times instils in everyone a strong desire to succeed.

Getting your request or concern addressed might prove hard if you choose to avoid office politics– it is a necessary evil.

As long as workers are under pressure to succeed, office politics will normally be widespread.

Is office politics evil? May be not. Can office politics be avoided? May be not. These and other similar questions may not be answered with a complete yes or no. This subject is fragile but it's worth bringing to the fore, owing to the risks associated with it.

The negative side of office politics is disturbing to learn about; surprisingly, we experience it daily without noticing it or even if we did, we might lack the muscle to tackle it! Let's delve into the negative aspects of office politics:

Negative aspects of office politics

Niven Postma – a renown public speaker on this topic, says 99% of the people he asked to describe office politics in three words were negative; Toxic, frustrating, dangerous, demotivating, draining, unfair, unnecessary, heart–breaking, cliques, and gossip.

i) Personal Vs organizational interests

Office politics is a major concern in organizational set–up for the reason that some individuals manipulate their working relationships to meet personal interest at the expense of organizational interests. For example, if appointments/ promotions are based on office politics rather than on merit, this will affect performance.

ii) Organizational conflict

Office politics can lead to conflicts among employees or employees with other stakeholders. As mentioned above, office politics involves blackmail, backstabbing, and other similar vices. This may create a conflict between the victim and the person playing the politics, and consequently result in poor organizational culture.

iii) Impact on key processes

Further, the practice of office politics can have adverse effects on major business processes such as strategy formation, budget setting, performance management, and leadership. This occurs because when individuals play office politics, it interferes with the information flow in an organisation. Information can be distorted, misdirected, or suppressed, in order to influence a situation for short–term gains for a handful of individuals.

iv) Increases workplace stress

As human beings, especially in office environment where we spend over eight hours close to each other, one needs to talk to a colleague. But due to office politics, some individuals find it difficult to confide secrets in others for fear of information leakage, and in any case, if they did and such secrets get revealed, stress levels shoot, which is detrimental to individual's wellbeing.

v) Damages team trust

When someone becomes known for using office politics and builds a reputation as a manipulator or gossiper, then without doubt, the rest of the team will stop to trust them. This is not only harmful to the individual and the team, but the organisation.

vi) Demotivates employees

A non–performer can be favored very highly by a supervisor due to their ability to utilize office politics. This individual may be unreasonably receiving attention, praise or even sympathy. This will demotivate the other members of the team who are performers and feel their efforts are not recognized.

Like the sayings goes, "To every dark cloud, there is a silver lining", it is important to note that office politics also plays a positive role in organizations, where individuals develop positive relationships which can be harnessed in order to propagate good or positive ideas.

The positive side of office politics

a) Fosters good relationships

Office politics is how business gets done in organizations. For you to succeed you need to forge good relationships with both juniors and seniors in the organisational hierarchy. The effects are juicy; promotion is almost guaranteed! Therefore, through office politics one can move ladders in his/her career.

b) Networking for benefit realization

Through office politics, you can juggle alliances across the organisation. If you are a good player of office politics, you can easily get your ideas accepted across the board, and hence become an excellent performer.

c) Interpersonal skill enhancement

Office politics in a away helps to improve individual interpersonal skills. For one to play office politics well, one needs to have good communication skills.

Leveraging on office politics

How to leverage on office politics and remain in good books:

1. Analyze the organizational structure:

Office politics habitually evades the formal organizational structure. Accordingly, take time to observe and then figure out the corridors of power and influence, rather than people's rank or job title in the organisation. This will enable you identify the real influencers in the organisation. As a result, should there be a need or an agenda for you to pursue, you will certainly know where to begin.

2. Comprehend the informal networks in the organization.

After identifying where power and influence reside, analyze people's interactions and relationships to further get a glimpse of the established social networks. Such connections are in most cases based on friendship, respect, or something else. Should such networks be based on interpersonal conflicts, be sure to mind your business and not to be embroiled into the conflicts.

3. Build connections

Having known how existing relationships function, you can start to build your own social network. This can be done by looking beyond your immediate team and crossing formal hierarchy in all directions in form of co–workers, managers, and executives. Be friendly with everyone but mindful to avoid aligning too closely with one group or another. Remember to build the relationships based on consent not coercion is vital, to rule out any suspicion of illegal or inappropriate influence.

4. Be assertive but not aggressive

Your emotional intelligence should be enabled to be able to deal with different stakeholders positively. As a matter of fact, keeping your friends close and your enemies closer will help you a great deal in navigating office politics, by getting to know the gossipers and the manipulators better.

It is important to note that some people will just behave badly because they feel insecure!

5. Neutralize the bad politics

You can become the game changer, since office politics is two dimensional–that is negative and positive; discontinue the negative side by not passing on rumors without due consideration of the source, credibility, and impact. Champion professionalism at work all the time and never take sides in arguments you are not sure of their origin. This way, positive office politics will flourish.

Conclusion

Much can be said about office politics, but the fact remains, it is inevitable in a work environment. Office politics can indeed work to aid or disadvantage you, depending on how you manage it. Office politics result as a by–product of working with multiple personalities, with differing opinions, and varying degrees of work ethics.

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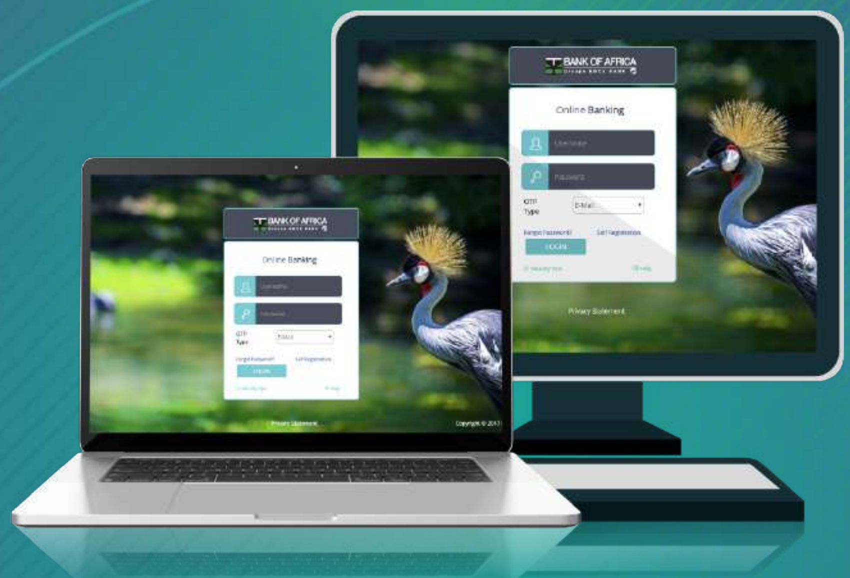

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Information Security Manager &
Data Protection Officer,
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The Human Factor- The Lowest Hanging Fruit For Cyber-Attackers

Information technology has risen to prominence as a critical success factor for competitiveness among organizations. As firms continue to enjoy the benefits that come with embracing IT, attackers are also active participants in this innovative space, by orchestrating highly sophisticated attacks that match the advancement in technology.

As organizations grapple with the waves of change in technology and cyber–attacks, one challenge remains constant, that is, the users of the technology solutions.

Highlighted as the weakest component of any information security setup, employees have become the most important point of interest to attackers. Staff often make mistakes that give attackers opportunity to strike and cause harm to organizations. Instead of trying to penetrate sophisticated firewalls, attackers are targeting soft spots, which are the employees. Unfortunately, organizations often overlook this threat paused by insiders, by counting blindly on trust that all employees know what to do to protect the valuable information assets. This leaves many staff drowning in a pool of ignorance on the latest cyber–attacks, their impact, how they are orchestrated and how to stop them.

As a result, cyber criminals are exploiting this forgotten layer (human) to successfully attack systems. According to Verizon's 2021 Data Breach Investigation Report (DBIR), 85% of all breaches involved the human element; with phishing, a form of social engineering, representing 36% of breaches, followed by Business Email Compromises (BECs). Also, the 2020 Trustwave Global Security report highlighted that half (50%) of the incidents investigated were as a result of phishing and other social engineering techniques.

Phishing involves setting a bait, with the hope of persuading a few users into sharing their personal information (usernames and passwords) or downloading a malicious file that provides criminals with access to your organization's systems and data, as legitimate users.

Staff often make mistakes that give attackers opportunity to strike and cause harm to organizations.

Traditionally, phishing used to be done through generic deceptive emails, today it has expanded to SMS (Smishing) and Voice (Vishing). These attacks can be orchestrated from individuals or companies that are well known to the user. The attacks are becoming more customized and target–based.

Currently, phishing is done in many forms, such as Spear Phishing, Whaling and Pharming. Spear Phishing is a personalized attack, targeting specific individuals in an organization. Whaling is a phishing attack that targets very high ranking individuals in an organization such as senior managers. CEO–fraud; this is where the attacker impersonates a company's CEO or other top management official to authorize payment or extract insider information from employees. Pharming involves redirecting a user away from a legitimate website to a spoofed/cloned version.

On July 15, 2020, Twitter reported that 130 accounts of high profile people, including that of Mike Bloomberg, Jeff Bezos, Barack Obama, Joe Biden, Kim Kardashian, Elon Musk and Bill Gates, among others; were targeted in an attack.

The accounts began tweeting a Bitcoin scam, promising to "give back" to the community by doubling any Bitcoin sent to their address.

Attackers used phishing techniques to call up the company's consumer service and tech support personnel, instructing them to reset their passwords. Some employees fell for the bait and entered their usernames, passwords and multifactor authentication codes to a dummy site set up by the hackers. The attackers then used these credentials to gain access to Twitter's internal administration tools. It's reported that by the time the attack was stopped, the hackers had received hundreds of transfers, worth more than $100,000.

Unfortunately, it's not easy to stop such kind of attacks; security tools such as Next generation firewalls, endpoint detection and response, antivirus, etc, have not been designed to stop such attacks that appear to be from a legitimate source. Criminals love this kind of attacks because they don't make a lot of noise on the network to be detected easily. Secondly, the use of legitimate credentials that the user gives away makes them hard to stop by any security tool.

So, as an organization, you should look at turning your staff into the strongest point of defense against social engineering, by empowering them to identify, report and stop such attacks. The best way of stopping an attack is getting to know about it and how it's orchestrated. Without adequate information, security awareness and training, staff are less likely to recognize or react appropriately to information security threats, and are more likely to place information in the hands of attackers, through ignorance and carelessness.

A formal security awareness and training program, with a goal of sensitizing and training users of the potential threats to their organization's information and how to avoid situations that might put their data at risk, is a great approach to building a strong human firewall around your information assets.

The program will help to lower the organization's attack surface through empowering users to take personal responsibility for identifying information security threats, protecting the organization's information, and to enforce the policies and procedures your organization has in place to protect its data.

Remember that most of the users in organizations are not security conscious and are not thinking about security all of the time. So they must be continuously sensitized and trained to make them security–conscious. Different methods of sensitization could be employed such as InfoSec bulletins, banners, presentations among others.

Staff play a very important role in running a successful information security program. An untrained and negligent workforce can expose their organizations to data breaches. Therefore, organizations must adopt and implement a sustainable security awareness and training program that includes essential guidelines needed to stop imminent cyber–incidents.

Credit Risk Management Amidst The COVID 19 Pandemic: A Glance At The Financial Sector In Uganda.

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The Covid–19 pandemic has caused a great challenge to the global economy. In Uganda the effects have been horrendous across the entire economy, but in this article, I will restrict myself to the financial sector, specifically looking at how Covid–19 has affected credit and escalated credit risk.

Not until March 2020, when the first case of Covid–19 was reported in Uganda, Ugandans were only reading and watching stories about Covid–19 in other countries. Thereafter, Covid–19 cases became prevalent in the country, which compelled the government to institute stricter containment measures such as curfew from 19:00 hours to 06:30 hours and a ban on both private and public transport, except for essential services such as medical, telecommunication, food distribution, banking, etc.

As a result of the lockdown measures, many organizations retrenched some of their staff and also closed operational branches in order to reduce costs; while a number of other business, especially small enterprises, collapsed. Bank customers in the retail/personal banking sector were significantly impacted, since their sources of cash flows were no more. But the most affected sectors of the economy have been tourism, hospitality, transport and education; schools have been closed for nearly two years.

The 17th Uganda Economic Update (UEU), in a theme "From crisis to Green Resilient Growth: Investing in Sustainable Land Management and Climate– Smart Agriculture", says that the Covid–19 shock caused a sharp contraction of the economy to its slowest pace in three decades. Household incomes fell when firms were closed and jobs were lost.

Many banks have had to explore more creative ways of managing the risks that arose from the effects of the Covid–19, which distorted the usual operations of businesses. Among the many risks that impacts the financial sector is credit risk, which is the focus of this article.

Credit risk

Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Put differently, credit risk refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection.

For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including the trading book, and both on and off balance sheet items.

Credit risk is the largest risk for any financial institution, and if it is not managed well, it can lead to the collapse of the financial institution. As a matter of fact, banks such as Afribank, Mainstreet Bank, Bank PHB and Spring Bank, all from Nigeria, failed due to ineffective credit risk management prior the Covid–19 pandemic. All the failed banks had exceeded their credit ceilings through unauthorized lending and other micro–financial credit risk abuse, according to Ugoan (2012), Poor Credit Risk Management and Bank Failures in Nigeria.

According to the Basel Committee on Banking Supervision, Working Paper No.13– Bank failures in mature economies, Nippon Credit Bank (NCB), a Japanese bank, failed in December 1998. NCB was an internationally active bank, with assets of Y15 trillion (as of September 1996).

It was heavily exposed to real estate related industries and was suffering from large amounts of NPLs by the time it collapsed.

The number of banks that have collapsed due to ineffective risk management cannot be enumerated exhaustively here, however, it is important to add that the global financial crisis of 2008 was triggered by defaulters on mortgage backed securities (MBS). With the concept of securitization of loans ("Generate and distribute"), banks transferred the risk of default to the investors (buyers of MBSs), and as a result, the banks relaxed their credit policies, which resulted in lending to subprime borrowers.

When interest rates increased in the USA, the subprime borrowers started defaulting, creating cash flow problems to the investors, and thus making them (investors) default on their credit obligations with their bankers, and consequently creating a liquidity crisis in the banking sector. This led to the collapse of Lehman Brothers, the largest bank then in the USA (and the world), which exacerbated the crisis.

Banks also face credit risk (or counterparty risk) in various financial instruments including acceptances, interbank transactions, trade financing, foreign exchange transactions, forwards, futures, swaps, bonds, options, and in the extension of commitments and guarantees, and the settlement of other transactions.

Covid–19 has increased the likelihood that borrowers may default, and in some cases many have actually defaulted.

Although existing models are able to measure credit risk to a reasonable degree, less frequent but impactful events like Covid–19, are difficult to model.

According to Herrings (1999), Credit risk and financial stability, although recent advances in modelling credit risk perform well with high frequency hazards, they are ill equipped to deal with the low–frequency, high–severity events that are likely to be the most serious threat to financial stability.

According to the Central Bank of Uganda, loans are mainly classified into categories below;

1 day – 29 Days (Normal Loans)

30 Days – 89 Days (Watch Loans)

90 Days – 180 Days (Substandard Loans)

180 Days – 365 Days (Doubtful Loans)

After 365 Days – Loans are classified under loss.

According to the BOU Annual Supervision report 2020 and the quarterly report for the quarter ended 30/09/2021, the industry Non–performing assets/loans (NPA/NPL) in the banking sector increased from 4.9% in commercial banks in the pre–Covid–19 period to 5.3% in 2020/21.

The ratio in credit institutions increased from 3.6% to 8.1%, and in the MDIs (Microfinance Deposit–Taking Institutions) the NPL ratio increased from 3.6% in 2019 to 6.3% in 2021. The increase was mainly attributed to the effects of Covid–19 that compromised many borrowers' ability to repay the loans.

The main sectors contributing to the majority of the NPLs were Trade and Commerce, Manufacturing and Building, Construction and Real Estate.

The total bad debts written off in the entire banking sector increased from UGX 165.2bn (Pre–Covid–19) to UGX 242.6bn during Covid–19.

During the Covid–19 era, the banking sector has experienced a decline in credit, mainly attributed to the banks' conscious lending, coupled with low propensity to borrow by the businesses and individuals, due to the uncertainty caused by Covid–19 pandemic.

How banks responded to escalating credit risk

In addition to cautious lending, as a way of responding to credit risk in the Covid–19 era, financial institutions applied the IFRS9 standard in the measurement and recognition of financial assets (bank loans) and financial liabilities (accounts).

Unfortunately, the NPL position was worsened by the application of the forward looking

Increased uncertainty and high possibility of default as a result of Covid–19, financial institutions instituted stricter credit monitoring measures to minimize losses arising from customer default.

IFRS9 (International Financial Reporting Stnadrd9), that requires an entity to assess the probability of default onset (at generation of the loan). Traditionally, under IAS 39, provisions were made after granting of the loan– during the tenure of the loan, based on past events. The application of the IFRS 9 in the context of Covid19 meant that, nearly for each loan, a relatively large provision had to be made.

IFRS9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non–financial items. IFRS 9 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument.

Provisions were set aside to prepare against possible losses, especially on the portfolios which were most impacted. Portfolios under the education sector, hotel and industry, transport, real estate, Micro and Small Enterprises (Informal Sector), were most affected. Funds were therefore, taken off the banks' profit and loss accounts, and credited onto the provisions accounts, to prepare for future losses. Under the retail sector, where customers lost jobs without any tangible repayment plans, 100% provisions were passed to prepare for the possible losses.

Due to increased uncertainty and high possibility of default as a result of Covid–19, financial institutions instituted stricter credit monitoring measures to minimize losses arising from customer default.

The measures included carrying out cash flow trend analysis for the accounts in order to come up with viable solutions. More proactive rather than reactive credit risk management measures were applied. Customers under the Small and Medium Enterprise (SME) as well as Co–operates were visited to ascertain cash flows in the midst of the pandemic, to guide decision making.

On their part, some customers opted to sell their properties under private arrangements in order to meet their loan obligations, so as not to accrue a lot of interest on loan facilities.

For employees in the retail segment that had been laid off as a result of the pandemic, the Credit Life Insurance policy came in handy, since these facilities were covered. Borrowers under personal markets pay a credit protection fee of 2% of the borrowed amount to cater for eventualities of loss.

Austerity measures

In bid to support the financial institutions manage the escalating bad debts, the Central Bank allowed the financial institutions to restructure any loan affected by the Covid–19 pandemic, as long as this was done within one–year period, effective 01 April 2020. Within this period, borrowers were eligible to have their loans restructured up to two (2) times, and further restructuring could be applied for and approved by the Bank of Uganda. Any credit relief was to be given at the discretion of the financial institutions. Financial institutions restructured almost half (50%) of their respective portfolios in order for the loans not to go bad, as guided by the Central Bank.

Conclusion

Credit risk is likely to remain a big challenge to financial and credit institutions because of the long–term effect of Covid–19 on individuals and businesses as well. NPLs are likely to remain high for a long period of time, as the volatile business environment persists. Financial and credit institutions are likely to be more cautious and extremely selective in their lending.

UGX
242.6Bn

total bad debts written off in the entire banking sector across the year. This increased from **UGX 165.2bn** (Pre–Covid–19)

~50%

of bank loans were restructured by financial institutions as advised by the Central Bank

Digital Distraction: Dangers And Solutions

A few hours before I embarked on writing this article, I went for lunch on the 1st floor at Workers House. As I took my lunch, I noticed one of my colleagues continuously checking her phone and smiling while eating. Before the advent of smartphones and social media, people used to hold a fork and knife or spoon in their hands while eating, but now you will find a person holding a smartphone in one hand and cutlery in the other.

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In less than two decades, computer technology has advanced in such a way that we have moved away from the room (the desktop) to being anywhere we like (the laptop and smartphones). Computers have shrunk to fit in a pocket and in our hands (the smartphone), and on our wrist (smartwatches). The advancement in technology has ushered in a culture of continuously working that is compulsive and, quite simply, distractive.

Just imagine, while seated at your office desk, you cannot stop checking emails, texts, surfing the internet, checking Facebook and WhatsApp, or attending to constant incoming notifications on smartphones. All these actions are increasingly distracting us from achieving the objective or goal that we have set in our minds– Welcome to Digital distraction!

Digital distraction is increasingly becoming a serious problem, especially in the current work environment, in the Covid–19 lockdown. Employees are required to work from home to minimize Covid–19 infections that could arise from their close interaction at work. Inevitably that means reliance on technology to be able to continue normal operations of the business. That means my workmates will get me by using Microsoft teams and yammer, WhatsApp, the mobile phone (which I use for tethering), and emails. Much as these applications are increasingly making work easy, they are a source of distraction at work. It would be difficult not to answer a team call when it clearly shows that you are available.

Secondly, the urge to stay in constant communication with friends and family during the pandemic increased the addiction to using available apps and other forms of communication.

Scientists conducted research and found that every time a person is distracted by a notification from the applications, or the gargets at their display, it takes roughly 20 – 25 Mins to regain the concentration levels. That means a task that would ordinarily take an hour may take two or more hours to accomplish, depending on the nature and frequency of the distractions.

Physiologists conducted an experiment where a group of individuals was placed in 3 different cohorts, depending on their age. They discovered that the younger generation and some older individuals developed anxiety after 15 to 20 minutes of removing and denying them access to social media and the internet. An increase in anxiety is attributable to the "Fear of Missing out" (FOMO) phenomenon. The younger generation and those addicted to the internet want to be informed at all times about their surroundings.

Dangers of digital distraction

Applications and tools used to make life easy at work are increasingly becoming a problem, so what are some of the dangers associated with digital distractions?

i) Accidents and injuries at workplaces

According to Rachel Ranosa (article in Human Resource Director magazine), as workers returned to workplaces, the unnecessary use of smartphones on sites and factory floors increased accidents by 14%, resulting in death and lifetime injuries. The habit of using the phone while walking or driving can be hazardous.

ii) Low employee productivity

Timi Olubiyi, Ph.D, in his article, handling digital distraction, states that a survey conducted in Lagos state showed that employees picked up their devices every 12 mins or less while at work. This translated into 40 times in one day of an 8–hour work period. This means that employees will take longer hours to accomplish tasks, yet the survival of the company depends on the performance of the workers.

Secondly, employees will work until late trying to perform tasks they would have completed in the normal working hours, resulting in health issues and tired workers in the long run, affecting productivity.

iii) More stress at work and anxiety

The increased use of gadgets and constant changes in technology increase stress levels

at the workplace, and the notifications cause anxiety since the individual fears being left out (FOMO). That means one is constantly checking their phones even when there are no messages.

iv) Less concentration

With the increased use of gadgets at workplaces and home, people find it hard to concentrate. The constant buzzing and notifications often times cause distractions.

v) Multi–tasking myth

Most people think they can multi–task between texting and completing a task. Research has shown that such multi–tasking reduces one's efficiency by 50%, thus affecting performance.

vi) Difficulty disconnecting from work.

The gadgets used for work have made it increasingly difficult to disconnect from work, leading to employees working for longer hours and even during leave days.

Digital distraction is a problem, and it will continue or increase in the future. If not addressed, it may undermine company performance, as well as the health of the workers.

Solutions to digital distraction

The following are some of the suggested solutions for tackling the growing challenge of digital distraction.

a) Take a break

Staying away from the gadgets sometimes helps. Give yourself intervals of 30–45 minutes, where all notifications are turned off, both on smartphones and computer. When the time has elapsed, the notifications can be switched on, this helps minimize distractions.

b) Don't take away the gadgets

Talking away the gargets from the individual doesn't help solve the distraction problem. It is better to leave the individuals to have their apps and devices, but encouraging controlled use of the gadgets is advised. Removing the apps or gargets only increases anxiety.

c) Self–audit

Psychologists suggest that one should conduct a self–audit on the tasks accomplished within 3 – 4 hours. One needs to check the task accomplished within that time thus periodically assessing one's performance during working hours. Self–audits help individuals get back to focus and have tasks accomplished.

d) Lifestyle and culture

Setting yourself limits on the usage of the gadgets should become part of your culture and lifestyle. For example, while having meals at home, the phones are kept away, making it a culture not to carry phones while having meetings, etc.

e) Prioritize

You need to get into a habit of prioritizing tasks and activities. For example, set a time when you need to answer emails and chats on WhatsApp and other communication apps.

Conclusion

We live in an information age, where innovation is driving the development of more and more sophisticated applications and gadgets, meaning that digital distraction is likely to increase. Although digital distraction is inevitable, it can be minimized as explained above.

Risk Management – The line between success and failure

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Like the saying goes, to every dark cloud there is a silver lining. The Covid–19 pandemic has ignited the need to focus on risk management. The emergence and spread of Covid–19 hit us by surprise, no one anticipated an outbreak of a disease that would devastate the entire world, economically, socially and politically. Many businesses, especially small and medium enterprises have had to close shop; unemployment is soaring, and many economies are struggling to finance their recurrent and development expenditures.

In Uganda, a structured process of risk management has been mainly synonymous with financial institutions; as a matter of fact, the Financial Institutions Act (FIA) 2016, as amended, requires each financial institution to establish a sound risk management framework. Unlike the FIA, there is no statutory requirement for non–financial institutions to have a risk management framework; for the few non–financial institutions that have a risk management framework, it is just a good practice, and not a legal requirement.

Ironically, Covid–19 has shown us that it is extremely important to identify, analyze and evaluate what could possibly go wrong with our business operations.

Such analysis helps to assess the impact on the business of unlikely but plausible events.

Although no form of risk management can predict and prevent incidents from happening, stress testing and other forms of risk modeling can help to make the organization more prepared for a worst case scenario. For instance, organizations that had figured out that their primary sites could be severely affected and not accessible due to a disastrous event, had built capabilities way back prior the onslaught of Covid–19, to be able to work remotely.

Such organizations' operations were not severely affected by lockdowns of the economy, as they were able to continue operations remotely.

Below are some of the risk management practices that entities can adopt to embed in their business operations for a more robust enterprise risk management.

a) Supply chain risk management

One of the effects of Covid–19 is the disruption of the supply chains around the world. This problem was first experienced in UK in form of shortage of truck drivers, which significantly affected the distribution of fuel, thus affecting the transport sector, and consequently other sectors.

One of the ways to minimize the impact of supply chain challenges is to have multiple supplier strategies as opposed to a single supplier strategy. This reduces dependency on a single supplier and mitigates capacity risks. Uganda's main trade partner outside the East African region is China. Most of Uganda's traders depend on China for their imports, that is, nearly 20% of goods traded in this sector are from China.

So when Covid–19 broke out and restrictions on international travel were imposed globally, there were great supply chain disruptions, with delays and shortages in trade stock and increased costs of transportation.

The trade sector, which constitutes 13% of Uganda's economy needs to review their critical supply chains and consider other countries like Vietnam, Turkey and Indonesia, to reduce dependency on a single country/supplier.

> The advent of Covid–19 has brought to the fore the importance of business continuity planning and disaster recovery.

b) Business continuity planning

Business continuity planning enables the business to prepare for a worst case scenario. Again the advent of Covid–19 has brought to the fore the importance of business continuity planning and disaster recovery. Businesses that had effective business continuity plans were able to continue operations despite the lockdown of the economy. Many executed their operations online.

c) Liquidity risk management

According to the Financial Institutions Act 2016, as amended, commercial banks are required to have a minimum capital requirement of UGX 25bn, which the Bank of Uganda (BOU) has proposed to increase to UGX 150bn due to changing market conditions. They are further required to reserve 25% of their deposits with the regulator (BOU) as a measure to cover their liabilities in case of sudden withdrawals. The regulator does this as a protection method for the customers. Other businesses can adopt this as a liquidity management measure.

Businesses should work towards having an amount in reserve that covers a certain period of operations; they could have it in fixed savings or as short term investments in financial market instruments. This would cushion them against sudden market disruptions and ensure sustainability of the businesses.

d) Concentration risk

Concentration risk arise from "putting one's eggs in one basket". In financial risk management it means allocating your resources to one or a few asset classes, which are highly correlated or with similar risk characteristics; such that if one (asset class) is affected by changes in market variables, the other will also be affected at the same time. This means that in case of a downward movement of the market, the entire portfolio will make losses.

This risk is mitigated by ensuring that the portfolio is well diversified. In case of banks, key risk indicators such as single obligor limit, sectoral limit, etc, are used to limit concentration risk.

Other businesses can adopt this by monitoring their dependence of income on a particular market. Case in reference is the tourism sector and how badly it was hit with a huge dependence on the foreign market. The players in the tourism industry need to make an effort in attracting domestic tourists. This can include adopting a pricing strategy that is commensurate with the local purchasing power.

Conclusion

It is important to note that risk is embedded in all activities we execute and all decisions we make. Risk management should therefore, be an integral part of business activities. Effective risk management helps to reduce or minimize the negative effects of uncertainty and increase the possibility of attaining organizational objectives.

Hedge Accounting Dilemma In The COVID-19 Era.

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As the impact of the Covid–19 pandemic across the different business sectors and financial markets continues to unfold, companies are beginning to wonder how hedge accounting and risk management practices can help steer the organizations through the current unprecedented times.

To hedge means shielding the organization against an event of loss. For example, when we consider a transport company, there is a high likelihood of accidents or damage to a third party's property, which can be prevented by purchasing car insurance policies. Furthermore, hedge accounting helps organizations avoid volatilities in their expected earnings, which could result from changes in the value of the assets or commodities being traded. It also prevents cash flows exposures on the expected inflows on floating debt and the purchase or sale of foreign currency.

The practice of hedge accounting is, however, still obscure to many. Hedge accounting is different from economic hedges. Economic hedges are used to lower the risk of loss in a particular security by assuming an offsetting position while hedge accounting seeks to reduce the portfolio volatility by making adjustments on the value of the financial instruments.

Hedge accounting is a regular practice used by many executives and finance professionals to reduce risk exposure for organizations. For example, according to Freddie's December 2018 annual report, the USA Government Sponsored Enterprise (GSE) was able to cut its losses from 2.7 billion dollars to 200 million dollars using hedge accounting.

It ensures that the organization's books of account disclose the nature of the company's risk. For example, some of the hedge accounting categories cover the following exposures:

i. Foreign currency risk exposures, which include projected revenues, purchases, and expenses (in foreign currency)

ii. Interest rate risk exposure, such as floating rate borrowings.

iii. Commodity risk exposures, such as inventory, sales, and purchases.

The previous requirements for hedge accounting in IAS 39 were not connected to the risk management practices. However, the new standard IFRS 9, requires that before effecting hedge accounting, one should have a good understanding of the organization's risk management activities. The risk management strategy should always be matched with the time horizon of the hedge used.

Hedge accounting is applied to all hedge relationships apart from those related to fair value, interest rate exposure for financial assets, and financial liabilities portfolio, which will be addressed when the micro hedge is introduced with IFRS 17 in 2023, according to the International Accounting Standards Board (IASB).

Significant changes in the economic environment are having a big impact on the effectiveness of hedge accounting.

According to the IFRS 9 requirements, any gains or losses that arise from hedge accounting are recognized in the other comprehensive income. Where the hedged item is less than the hedging instrument under the cash flow hedge, such changes affect the profit and loss of the organization.

Hedge accounting practice aims to ensure that financial statements display the effect of risk management activities that have been applied by hedge accounting to manage the exposure on the financial instrument or commodity being traded. Therefore, the organization needs to use the same hedge ratio when executing its risk management activities and hedge accounting. However, the hedge ratio should be monitored regularly to ensure it is effective in meeting the set criteria in the organization's risk management strategy.

What are the application dilemmas presented by COVID 19?

Following the effects of Covid– 19 pandemic, it is expected that likelihood of hedged cash flow forecast transactions may not occur or delay to occur, and hence the set hedge accounting criteria may not be met.

Cash flow hedges on interest rates will also be affected. For example, where debt issuances and cash forecasts are made before and during the pandemic, failure or delay in payments are likely to be experienced during the pandemic.

The current circumstances, therefore, give rise to the hedge accounting questions below:

i. Will the IFRS 9 requirements of "highly probable" be met?

ii. Should organizations consider terminating the hedge relationship if the highly probable requirement is not met?

The IFRS 9 requirement of "highly probable"

IFRS 9 requires that the "highly probable" condition be met when executing a cash flow hedge. Highly probable means there is a high likelihood of an event occurring.

However, the uncertainties brought about by Covid–19 pandemic have caused new challenges to the said requirement, which is needed to determine if the hedging relationship qualifies for hedge accounting. For example, where organizations execute transactions to hedge their cash flow forecasts, such as commodity sales and purchases, such transactions can only be hedged if it is highly probable that cash flow will be realized.

The usual business activities of companies and their customers are changing and may not be easily predictable in the current circumstances.

Therefore, expected hedge relationships may not be possible. If the said requirement is not met, hedge accounting should be discontinued, and the applicable gains or losses for the hedging instrument posted to profit and loss, according to IFRS 9.

When should you terminate the hedge?

The significant changes in the economic environment are having a big impact on the effectiveness of hedge accounting. Previously, IAS 39 permitted organizations to terminate the hedge voluntarily and hence, discontinue hedge accounting.

However, the practice is not allowed under IFRS 9 if the hedge relationship still meets the criteria set in the risk management strategy. It should only be discontinued if there is a change in the risk management objectives for the hedge relationship or if the hedging instrument has been sold.

The solutions to the above hedge accounting challenge starts with the organizations assessing and measuring the effectiveness of the set hedge. The results will aid in redefining the organization's risk strategy to achieve the set risk objectives, otherwise, any action taken in this period without changes in the risk strategy are likely to affect hedge accounting for the entity.

Executives can also consider using derivatives to hedge specific risk components instead of hedging the total changes in cash flows or fair values because hedging all risks is often not economical and is less desirable.

Conclusion

Hedge accounting can be a game changer for organizations that have prudent risk management strategies, considering the prevailing economic conditions caused by the Covid–19 pandemic. Entities that are undertaking cash flow hedges to manage their operational cash flows and their future values of assets, need to think hard if what is happening is going to impact their projections or not.

COVID-19 Crisis: What Provident Funds Need To Do To Weather The Storm

As the world begins to adapt to the Covid–19 situation, the uncertainty in the economic world still looms large over the horizon because the stability of the future is hard to predict, given the unstructured approach to the vaccination campaign and the negative drive by the anti– vaccination crusaders around the world.

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Besides, some pandemics in the history of mankind have taken more than 3 years, and it seems the Covid–19 pandemic may not be an exception. Such pandemics according to Wikipedia include Russian influenza (1889–1895), Spanish flue (Feb 1918– Apr 1920) and Ebola virus disease (2013–2016).

The impact of uncertainty caused by the Covid–19 pandemic has inevitably affected the decision making processes of Pension Management Funds. The Funds have to make prudent asset management decisions to ensure that their members receive a reasonable return. However, asset management decisions are challenging to make in uncertain times because of the unstable risk and return profiles of different asset classes, making the selection of the efficient portfolio problematic. Sometimes, the safe approach is to draw assets into the safe haven asset classes, affecting returns and growth prospects.

According Akhilesh Ganti (2021), asset management is a process of increasing total wealth over time, by acquiring, maintaining, and trading investments that have the potential to grow in value. The goal of asset management is to maximize the value of an investment portfolio over time, while maintaining an acceptable level of risk.

The common asset classes include:

Fixed Income, which mainly involves investment in the fixed deposits and treasury instruments.

Real Estate, which involves the trading in land and constructions.

Equities, which include both listed stocks and unlisted, and alternatives assets which cover new products or hybrids of the traditional assets like private equity and hedge funds.

How provident funds navigate through these times will mainly depend on their strategies to manage credit risk, redemption risk, liquidity and interest risks.

Credit risk

This is the risk that results mainly from default by counterparties on a settlement agreement. The exposure of provident funds to credit risk is two–fold: (i) directly, where the counter party fails to settle a fixed income position as per agreed terms or (ii) indirectly, where the value in equities held in a financial instrument is eroded due to defaults from creditors.

Provident funds in the East African region hold significant equity positions in listed financial institutions such as Equity Bank, Kenya Commercial Bank, CRDB Tanzania, Stanbic Bank, Bank of Kigali etc.

Banks have so far weathered these hard times but the question is for how long? In order to help borrowers to manage their loan obligations with banks in the Covid–19 crisis, Central banks across the region instructed the banks to allow borrowers to restructure their loans.

However, loans cannot be restructured forever, as one of the Finance Ministers in the region advised investors to rebalance their asset allocations by selling off some assets to pay for the loans.

Once impairment starts, a significant part of the core capital of banks might be wiped out and the valuation for banks might drop, leading to low valuation returns to provident funds.

Redemption risk

Redemption risk arises from liquidation of the a fixed–income security before the asset's maturity date. To the investor, it means foregoing expected returns, while for the provident fund it means loss of liquidity and capacity to undertake investment.

For the case of the National Social Security Fund, the process of amending its Act is in full gear, so that it can provide mid–term benefits to its members. This same pressure is experienced by other provident funds, as members request for a review of their schemes' Investment Policy Statements to allow for partial access to their savings.

The current trend exposes provident funds to the risk and potential losses arising from early termination of long–term investments.

Sometimes, the safe approach is to draw assets into the safe haven asset classes, affecting returns and growth prospects.

Liquidity risk

The first aspect of liquidity risk arises from the high demand for cash by members due to the financial strain caused by the effects of Covid–19.

Provident funds have experienced an increase in the benefit payments, as a number of members have lost jobs or required medical relief during this period.

Another aspect of liquidity risk arises from a decline in market activity that results in an increase in illiquidity of some asset classes like real estate. As the economic conditions deteriorate, the ease with which some assets can be sold at reasonable prices diminishes. Hence, provident funds might not be in position to raise the required cash to meet the current requirements of the schemes.

Interest rate risk

The reduction in business activity has created a low demand for money, as a number of businesses have paused expansion plans and others have closed shop. This and other factors have led to a reduction in interest rates.

Provident funds have a large exposure to fixed income products, a reduction in the interest rates implies a reduction in the overall return to members.

What provident funds need to do?

Provident funds can mitigate the above risks using a number of approaches, some of which include:

i. Conducting risk rating of banks before placement of funds to minimize the effects of default, or have liens on the bank's government papers for less resilient banks. In addition, provident funds can bias their fixed income positions to government paper, which have relatively low risk of default.

ii. Exploiting other return avenues in the case of the reduction in interest rates. Provident funds can invest in securities with tax advantages and exploit other assets classes like equities, which are undervalued because of the current slowdown in the economic activities.

iii. Conduct liquidity stress and scenario analysis so as to identify cash future cash flow deficits and devise ways and means to mitigate them. It is often better to proactively rebalance the portfolio than wait for the market conditions to force you to do so.

iv. Although the redemption risk is hard to mitigate now, provident funds can run financial literacy classes to reduce on the impact of this crisis. The truth is that some people need cash from their provident funds to recover from this crisis but others are following the bandwagon due to fear or lack of knowledge. Provident funds should introduce financial literacy to prepare the current and future members for a crisis of a similar magnitude.

Conclusion

Provident funds can still survive the storm through prudent management of the resources under their supervision and focused financial literacy campaigns. Members need to understand how to manage their personal wealth and the long term impact on drawdown on their savings.

Foreign Exchange Rate Fluctuations - A Risk Or An Opportunity?

Anybody who is involved in international business or who makes payments or receives foreign currency or trades in foreign currency, is exposed to foreign exchange (FX) fluctuations.

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Foreign exchange fluctuations can result in huge FX losses or gains, depending on the side of the transaction and amount involved.

Foreign exchange risk arises from fluctuations of the exchange rates from time to time, between the domestic currency and the foreign currency. These fluctuations (up/down movements), lead to either foreign exchange gains/losses. The gains arise from a favourable movement; e.g if a Ugandan exporter sold goods worth USD100,000 on credit at a time when the exchange was USD/UGX 3,500. If by the time of receipt of the money the exchange rate is 3,600, he will make a foreign exchange gain of UGX 100 (3,600–3,500), which translates into UGX 10,000,000 (100X100,000). The same amount would be a loss if the trader above was an importer, because he will have to pay an additional UGX 100 for every dollar paid.

Accounting for foreign exchange differences (Gains/losses)

According to IAS 21– ***The Effects of Changes in Foreign Exchange Rates,*** exchange rate differences (gains/losses) arising from when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in the previous financial statement, are reported in the profit or loss in the period, with one exception that, exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognized, in the consolidated financial statements that include the foreign operation, in other comprehensive income; they are recognized in profits or loss on disposal of the net investment .

It is important to note that FX risk manifests in a number of ways as described below:

Types of foreign exchange risk

i) Transaction FX risk

Foreign exchange transaction risk arises when one sells or buys good or services to or from a buyer or seller in another country (Outside a monetary union). The example given above reflects a foreign exchange transaction risk.

ii) Translation FX risk

A translation risk is the likelihood that a subsidiary will convert its revenues and profits to the parent company's currency at a lower rate.

iii) Economic FX risk

Economic risk refers to the likely impact on a company's market value due to currency fluctuations and shifts in other economic variables

Impact of exchange rate fluctuations on receipts and payments

Generally, payments and receipts are directly correlated with the exchange rate. Meaning that when the exchange rate increases, the expected payment obligation (liability) or receipts increases, and vice–versa.

For largely import–dependent countries, especially developing countries, a weak domestic currency fuels inflation, other factors constant; as it makes the prices of imports rise, since most goods are imported, thus causing an increase in the general price level.

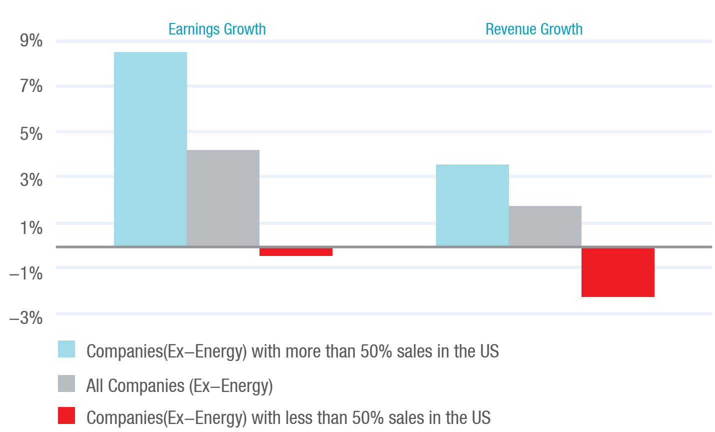
On the other hand, while a strong domestic currency is good for national pride, it can significantly affect the economy, especially if the economy is export–dependent. A strong domestic currency makes exports more expensive and therefore, less competitive, other factors constant. For example, in the period July, 2014 through September, 2015, the USD strengthened against all major foreign currencies– see the graph below.

US Dollar Up 20 percent since July 2014 (as of September 9, 2015)

Source: Bloomberg.US.Global Investors

That led to significant fall in revenue and earnings of the S&P 500 companies, which makes less than 50% of their sales in the US, i.e, they export more than 50% of their products– see the chart below

The Strong US Dollar Negatively Affected S&P 500 Companies' Earnings and Revenue Growth (Second quarter 2015)



Specifically, among others, Macy's, the New York–based department store chain's Chief Finance Officer, Karen Hoguest, reported the company's worst performamnce geographically in its major tourist markets. The company announced it would be closing 35 to 40 of its stores in early 2016 to save some $300M. https://www.usfunds.com/investor–library/

Macy's was not alone; Ford, the Michigan–based automaker, reported that first quarter revenue declined by about $2 billion from the same time in the previous year.

Seventy percent of that drop, according to the company, was due to the effects of exchange rates. https://www.usfunds.com/investor–library/

At macro level, a country will benefit from a weakening/depreciating domestic currency, if it has a positive export–import position, that is, if it exports more than it imports. At micro level, the risk/opportunity will depend on whether it is a payment or a receipt of the foreign currency. As mentioned above, an increase in the exchange rate will impact receipts positively, and payments negatively.

How to mitigate FX risk

Although FX fluctuations result in FX gains and losses, the main concern is FX loss. Any business that recieves or makes payments in foreign currency is exposed to FX risk, and therefore, should have mechanisms in place to mitigate the risk. There are various hedging mechanisms against FX risk, including but not limited to use of derivatives such as forwards, futures options, among other derivatives.

i) Forward contracts

A foreign exchange forward contract is an agreement to buy or sell foreign currency in the future at a predetermined rate.

The agreement does not involve an upfront payment, and transactions are not regulated, they are based on mutual understanding of the parties involved (It is subject to risk of default).

Example. ABC Ltd, a Ugandan firm contracted an international company at USD 50,000 to provide consutancy servies for a period of three months. The parties agreed on a forward rate of USD/UGX 3,530. At the time of payment, the exchange rate in the market was USD/UGX 3,600.

ABC Ltd successfully hedged the exposure; instead of paying at the prevailing market rate (USD/UGX 3,600), the company pays at a rate of USD/UGX 3,530, saving UGX 70 on each dollar paid; which translates into an overall saving of UGX 3,500,00 [(3,600–3,530) X 50,000].

ii) Futures contracts

Futures contracts, also known as futures, are similar to forwards only that the former are standardized and regulated, while the later are customized. Aditionally, futures are traded on an exchange and have clearing houses that guarantee the transactions. Furthermore, futures are marked–to–market daily, which means that daily changes are settled day by day until the end of the contract.

iii) Options

Options give the buyer (or seller) the right, but not an obligation, to buy (or sell) the underlying asset in the future at an agreed price in advance. Like the futures, options are also standardized, regulated and traded on an exchnage.

However, unlike the forwards and futures, options require an upfront payment – payment to acquire the right to buy or sell the underlying item (in this case foreign currency), at some time in the future, at a predetermined rate.

Options are exercised when the market conditions are favourable; e.g if company A acquired an option at UGX 20 to buy dollars at USD/UGX 3,550 on 31/08/2021, and the prevailing market rate on 31/08/2021 is UGX3,600, the company can exercise the option to buy the currency at USD/UGX 3,550. In so doing, the company will have made a saving/gain, calculated as fllows:

Market rate	3,600
Less: Option rate	3,550
Gross gain	50
Less: Cost of option	20
Net gain (per dollar)	30

The hedging mechanism here is that, the company was able to buy the foreing currency at lower rate by exercising the option.

On the other hand, if the exchange rate was USD/UGX 3,540 [below the option rate (USD/UGX 3,550)], the company would ignore the option and take advantage of the low market rate.

The worst you can lose with an option is the cost of the option. When the marked price is more favourable than the option price, you ignore the option and buy or sell at the prevailing price, but you lose the cost of the option.

Note that futures and options are currently not available in Uganda.

Conclusion

Foreign exchange flutuations create a risk to transactions or assets involving foreign currencies. Depending on the direction of the movement of the exchange rate, FX fluctauations can create a risk or an opportunity, but the main concern is always the risk. The good news is that there are various mechanisms for mitigating (hedging) the risk, as those explained above.

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LET'S TALK

Cyber Security Watch The Dark Cloud

Massive adoption of technology is bringing services closer to the people, substituting the brick and motor, and scaling delivery of services and products.

Massive adoption of technology is bringing services closer to the people, substituting the brick and motor, and scaling delivery of services and products.

With automation, many organizations are now able to meet the demands of accessing services, products and working anytime, anywhere. We are now witnessing:

1. More Code in More Places

Applications are springing up everywhere, each with unique security requirements and vulnerabilities.

2. A Myriad of Devices for accessing services

Employees and customers are relying on so many mobile devices to access services, work, collect and exchange data.

3. Everyone working from everywhere

Organizations are becoming remote, employees are using new tools for communication and collaboration, often via unsecured public networks.

4. Shadow IT

This has become a norm as the internet has made it easy for non–IT staff to download and use apps in any network environment, thus improving productivity.

However, with all the millions of benefits, to mention but a few above, digitalization, does not only bring us the benefits but also comes with expanding, evolving, and changing attack surfaces, as well as an increasing number of sophisticated cyber threats.

The threats come from within or outside the organization.

The external threat is usually posed by sophisticated attackers, who use advanced tools in a zero–click attack or through social engineering. Within the organization, it is imperative to note that employees pose a great cyber threat to the organization.

Insider threat

Since theft of funds is majorly the primary motive at play, the insider threat is highest in financial institutions, where employees process thousands of monetary transactions on a daily basis.

For any financial institution looking to defend itself against insider threat, it's worth noting that there are three distinct types of insider threats, each requiring different detection and response strategies. First, intentional insider threat, which is mainly disgruntled employees seeking to revenge against their employers or those seeking financial gain. Secondly, accidental insider threat, which arise out of employees or others mistakenly put the business at risk. Thirdly, credential theft, which occurs when an actor steals an insider's credentials to use them for personal gains.

Other threats include:

1. Shadow IT

Adoption of shadow IT comes with a risk of staff downloading and introducing any application in your environment with minimal governance. This exposes the company to malicious software.

2. Supply chain

Supply chain is increasingly becoming a target as an entry point for cyber threats to be introduced and extended to secure domains of an organization's ecosystem.

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If attackers can't come to you directly, they will try to go through one of your weak trusted suppliers.

A case in point is the SOLARIGATE attack, in which one of SolarWinds products, called Orion, was compromised and then used to deliver Solarigate malware to 18,000 SolarWinds customers around the world. The attack demonstrated the danger of supply chain attacks and the risk of overtrusting third–party software even when it comes from a highly reputable company.

3. Social engineering

According to the CISCO 2021 Cyber security threat trends report, in 2020, successful phishing attacks accounted for 90% of breaches in enterprise networks. Phishing was reported to have soared by 102% between July and September 2021. Social engineering attacks include, but are not limited to, phishing emails, scareware, etc—designed to manipulate human psychology.

Inadequate testing of the technology and underlying processes means several exposures go unnoticed or are under–reported.

Fileless threat

Traditional security threats used to be initiated via email, file, or website infrastructure as vectors to enable attackers install malware on a target machine. Fileless threats differ from conventional malware in that they do not rely on malicious software to infect a system.

Rather, fileless threats take advantage of a machine's built–in tools and applications for successful compromise. Fileless threats leave no identifiable signature that triggers traditional security detection.

This allows them to bypass standard security mechanisms and potentially undermine the purpose of affected legitimate programs. These attacks occur in a machine's random–access memory (RAM) and usually depend on built–in administrative tools for windows and equivalent operating systems to execute malicious commands.

The above described factors and more, make it urgent for actors of all sizes in the digital landscape to find an easy way to understand the size and composition of their cyber threat, let alone identify and remediate the threat.

Most certainly, management in different organizations are making strides and interventions to counter cyber threats at people, technology, and process layers. However, several blind spots undercut the ostensibly tremendous efforts being made to secure the digital economy and underlying transactions– albeit with high impact costs in the immediate horizon. These 'blind spots' include;

Misclassification of cyber threats

Traditionally, technology threats have been treated as a sub–component of operational risk. While this placement should not be a problem in theory, in practice, it has impacted:

i. Treatment of cyber risk as a strategic risk

ii. Risk examination methods and tools

iii. Placement and allocation of resources

iv. Skillsets and personnel relied upon

The result is that a lot of cyber security risk initiatives are largely being founded on general thematic reviews, heavily driven by methods lacking in technical substance such as interviews, observations and incident reports.

In the end, the inadequate testing of the technology and underlying processes means several exposures go unnoticed or are under–reported.

Threat sourcing methods versus the dynamic nature of cyber threats. Many business risks are fairly static and predictable.

By contrast, cyber risks are fast evolving –superseding control regimes as new threats and vulnerabilities emerge every second. However, stakeholders largely source cyber threat information from periodic assurance models such as audits and penetration tests that are often carried out once or so in a year.

While these assurance models may meet regulatory and compliance goals, they are ineffective in isolation as the pace at which threats emerge supersedes them.

It only means that digitized institutions suffer prolonged exposure to risk and lack timely interventions to cyber threats as exploitable vulnerabilities are discovered rather late.

Lack of forensic readiness

Generally, Uganda loses up to $300M to cybercrime. However, in spite of the mounting trend of cybercrime and its impact on Uganda's digital economy, stakeholders continue to consume forensic services reactively. It is typical for systems to be implemented with scarce consideration of forensic outcomes. In the end, when an incident such as a fraud occurs, digitized businesses are unable to conclusively harvest information of evidentiary value. In forensics, we do not create but discover evidence.

Therefore, the list below provides some insight on how institutions should refocus their efforts in managing cyber security to ensure that the risks are identified and mitigated in a timely manner.

1. Visibility of IT inventory

As one cannot protect what they do not know, beyond spreadsheets, ad hoc scripting and vendor–locked tools, businesses ought to implement a mechanism that ensures they have complete visibility of their active and running state IT inventory. That way, they can effectively map and monitor their attack surface.

2. Methods of assurance

Minimize the complexity and operational overheads of fighting cyber threats, by employing a hybrid approach to threat sourcing that incudes capable third parties that can bring adversarial approach to threat sourcing.

This means retaining a partner with a bad actor's resources to do detection engineering, purple teaming, red teaming, attack emulation, threat intelligence, threat hunting, penetration testing, etc.

3. Deploy zero–trust models

Simply because a password and a user name have been supplied does not mean the source can be trusted– it could be malware, a robot, or an impersonator. Emphasizing zero–trust models in today's cyber threat landscape means the party seeking access will be verified before they can be trusted with access. The verification can include using bodily factors such as a fingerprint, answering additional questions, providing a one–time pin code, etc

4. Forensics and security

Implement systems with due considerations to forensic goals. This will include ensuring the right data retention policies, configurations mechanisms, storage provisioning and robust incident arrangements.

5. Insider threats

Each type of insider threat requires a different response.

i. In the case of malicious insiders, the business should take disciplinary action such as terminating the employee or other insiders.

ii. In the case of an accidental insider, policy reminders and security training are primarily appropriate.

iii. In the case of credential theft, there is an outside actor at the root but there is an internal factor (the exposed credentials) that must be controlled.

But above all, organizations should focus on implementing the principle of least privilege– monitoring and logging user actions as well reviewing audit logs to identify any abnormal events or actions.

6. Micro segmentation

Attackers today concentrate on an entry point to break into the internal networks of organizations and then spread laterally to gain access to valuable systems.

With this in mind, network defenders should aim to reduce avenues for lateral movement within their internal networks by implementing effective network micro segmentation, among other mechanisms.

Conclusion

As we embrace technology, it is important to appreciate the fact that, much as technology makes our lives better, it can completely ruin our lives if technology threats are not well managed. It can turn from a competitive advantage to a complete disaster for an organization. Therefore, all institutions need to put in place appropriate measures for continuously identifying, managing and responding to cyber threats to reduce their attack surface area and impact.

10 Tips To Improve Your Heart Health

The heart is a special organ because, unlike most other organs, it is responsible for supplying nutrients and oxygen to all the body cells. Its function is therefore, critical for all forms of life. It is also one organ that uses significant amounts of energy to perform its activities and therefore, it needs to be well nourished and taken care of.

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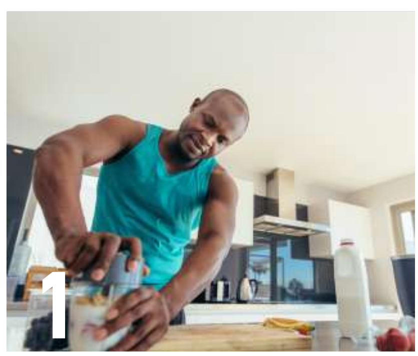
It is probably because of its heavy duty that heart problems are the leading cause of death globally across all income levels. According to a report by the World Health Organisation (WHO,2020), 32% of disease–related deaths registered globally in 2020, were as a result of cardiovascular diseases. The heart works hand in hand with the blood vessels that take blood to and from the tissues and organs. This network is what we call the cardiovascular system. Any problem in the cardiovascular system is considered a heart health problem.

One of the most common conditions linked to heart disease is high blood pressure. Let's take a brief look at this condition that is the leading form of heart diseases, affecting 1 in 4 people.

High blood pressure is actually, in my opinion, more of a sign of cardiovascular dysfunction rather than a disease. High blood pressure is actually in most times a compensatory response to increased resistance to blood flow. If the flow of blood is restricted by anything, the result is that the pressure will go up. So, the best way to manage high blood pressure and most cardiovascular or heart disease is to try and identify what is causing the resistance or what is causing the problem, and try and remove that, rather than simply treating the problem.

This is good news because this means that high blood pressure and many other forms of heart disease can be prevented and even reversed.

I would therefore, like to share with you ten healthy practices that can go a long way in preventing heart diseases and keep your heart healthy.



1. Mind your diet

Eat a healthy diet. Increase healthy, whole foods rich in nutrients and phytonutrients (plant molecules). Aim for at least 8 to 10 servings of colourful fruits and vegetables every day. Eat different colours for different benefits. Drink a lot of vegetable juices and smoothies to increase your intake of fruit and vegetables.

2. Control your blood sugar levels

Steady your blood sugar. Studies show that blood sugar imbalances contribute to heart disease. Eat whole and unrefined carbohydrates. Eat carbohydrate–rich foods in their natural state, and never eat carbohydrate–rich foods alone, and avoid processed sugars with carbohydrates such as table sugar, soda and processed juices.

3. Increase fiber intake

Fiber is very instrumental in digestion and regulation of blood sugar. However, most foods we eat are low in fibre. High–fiber foods include vegetables, nuts, seeds and lower–sugar fruits like green apples and watermelon.

4. Avoid processed/"junk" foods

Processed/"junk" foods, including sodas, juices, crisps, chips and diet drinks, adversely impact sugar and fat metabolism. Research shows that liquid–sugar calories have become the most significant contributor to obesity, diabetes and heart disease. Don't be fooled that 100 percent fruit juice is healthy. Juices are mostly pure liquid sugar. The processing that fruit goes through strips away most of the fruit's fibre.

5. Increase omega–3 acids

Foods like chia seeds, flax seeds, avocado and fish are rich in healthy omega–3 fats and also anti–inflammatory. The healthy fat found in these foods actually benefits your heart by improving your overall cholesterol profile. Most people think that all fat is bad, but there is healthy fat that should be eaten often. Plant foods that are rich in healthy fats do not contain cholesterol and so should not be avoided because of fear of cholesterol.

6. Eliminate all trans or hydrogenated fat

Hydrogenated fat is found mainly in margarine, processed oils and many baked and processed foods like cookies and biscuits. Even when the label states "no trans fats," the word "hydrogenated" indicates that the product contains trans–fat in one or more of the ingredients. It is better to use healthy oil such as extra–virgin cold–pressed olive oil, virgin coconut oil, avocado oil, organic sesame oil, and other nut oils. However, remember that even oils that are considered to be healthier should be consumed in moderation.

7. Avoid or reduce alcohol consumption

Alcohol can raise triglycerides (a type of blood fat, which contribute to fatty liver and create sugar imbalances). Reducing or eliminating alcohol intake, lowers inflammation. Inflammation is what causes heart disease and nearly every other chronic disease. Don't be fooled by adverts that alcohol is good for your health –It is not!

8. Take quality supplements

These should be combined with a healthy diet and exercise program. Supplements can dramatically improve cardiovascular health.

Many cardiovascular diseases are worsened by nutrient deficiencies and are enhanced by specific nutrients that we may not get adequate amounts of in our diet. The following supplements are known to be excellent for cardiovascular health.

i. A fish oil or omega–3 oil supplement that contains EPA/DHA.

ii. Magnesium

iii. Co–enzyme Q 10

iv. Matcha Green tea.

v. Vitamin D

9. Get out and move!

Research shows that 30 to 45 minutes of cardiovascular exercise at least five times a week can benefit your heart. After all, your heart is a muscle, and muscles need exercise. If you feel stronger and more capable, high–intensity interval training (also called burst training) and strength training help build muscles, reduce body fat composition and maintain strong bones. You cannot have a healthy body without sufficient exercise.

10. Manage stress levels

Stress alone can cause a heart attack. Sadly, chronic stress often triggers a cascade of events that cause that final fatal heart attack. Among its problems, stress increases inflammation, raises your cholesterol and blood sugar, increases blood pressure and even makes your blood more likely to clot. Find your pause button to manage stress and relax. Deep breathing, making time for fun activities, and learning to balance work and life can be of great benefit.

As always, these are merely reminders of what most people already know. However, I hope that the more you hear these, the more likely you are to make the necessary changes to your life and health.

I wish you great health and happiness.

COVID-19 Pandemic And The Challenge Of Adaptation

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Since the advent of Covid–19 pandemic, a lot of things have changed, socially, economically, politically, and religiously. Everybody has reacted in many ways than one to adapt to new ways of doing things to ensure their own survival during and after the pandemic. Many businesses, educational institutions, religious establishments and all other sectors, have continued to struggle to adapt to the new ways of doing business.

This is so, because even after several months of the pandemic, there's still one inevitable question everyone's asking: what does the 'new normal' look like? The new normal is still not a 'one size fits all' phenomenon. Some businesses and individuals who were resilient and agile quickly discovered new ways of doing things by adopting new methods, including remote working, while others have either closed shop or still struggling to adapt the new realities of the day.

However, the adaptation to the new normal does not come cheap, as it involves a lot of resources, including investment in technology, change of operational systems, implementation of the recommended standard operating procedures and change of employee/societal behaviors, among others.

I'm compelled to tell this real–life experience with one of my service providers, a logistics company, whose name I will not disclose. The first time I dealt with this company, whose presence cuts across East and central Africa, was back in 2019 just before the arrival of Covid–19. My first encounter with them was a fabulous experience in terms of efficiency and professionalism. They would regularly provide me with feedback on the progress of my consignment and whatever was necessary at every stage of the value chain. At some point, they even offered to undertake some procedures of dealing with the various regulatory authorities on my behalf, which was typically not within their primary responsibility in relation to the transaction.

The whole service experience and character of their staff left me with no option but to keep telling other prospective customers about their quality of service and indeed, I practically helped connect them to two other customers.

Based on the company's previous track record and experience of excellent service, in the middle of the second covid–19 lockdown in Uganda, I again engaged them to handle for me yet another transaction. This time round, I was met with a shock of my life; the hitherto efficient company had deteriorated to the extent that even getting information or responsible officers was rather difficult, that a customer had to put in a lot of effort to get served. The company's quality of service has declined to the extent that goods arrived at the destination port and a customer is not even notified until after several days contrary to the norm. On several occasions, I made calls which went unanswered; and if you called an individual officer, he or she would be still in bed at about 10 o'clock in the morning!

The above narrative is a bitter reality of how much damage the covid–19 pandemic has caused to many companies, and this is probably not because of the economic hardships occasioned by the pandemic but could be attributed to the inability for many organizations and individuals to adapt to the new realities of the time. We are in a new era but many people and/or companies are still living in the old normal.

It is therefore, worrisome that, unless companies and employees devise and/ or adapt to new ways of doing things in accordance with the current realities, it might not be long before many become defunct, not because of the resultant economic downturn, but because of their inability to adjust to the changing times. It is however, worth noting that some companies, especially in the financial services industry, have coped pretty well by investing heavily in technology and supporting their employees to adapt to the new working environment.

The Covid–19 dilemma is far from over and as such key questions around behavioral change still remain unanswered;

i. As restrictions begin to ease, one inevitable question everybody should be asking: How does the 'future normal' look like?

ii. Will companies and their employees revert to the old normal and how about consumer behavior and expectations?

iii. Have organizations/individuals already began to think about and prepare for the post pandemic era and how will it look like? And many more!

There is need to align the business offerings with customers' changing needs and expectations, and develop strategic approaches to ensure that you can adapt quickly and effectively.

But most importantly, the big question should be: 'What do I need to do to remain relevant in the new normal'

Key lessons and takeaways from the Covid–19 quagmire:

Preparedness

The covid–19 crisis should be an eye–opener, and we need to begin to be creative and prepare to effectively respond to the known or unknown future crises. Never again should organizations and individuals be taken unaware like was the case with covid–19.

Adaptability

Adaptability to the changes in the environment is another way of ensuring survival or business continuity. You will notice that all those businesses that could not be flexible to adapt to new ways of doings things have either closed shop or struggling to make ends meet.

Need for agility

As a result of the disruptions caused by the Covid–19 pandemic, it has become even more important for businesses to be more agile by creating capabilities to rapidly respond to changes, by adapting to new ways of dealing with unexpected challenges or maintaining stability and ensuring business continuity or survival.

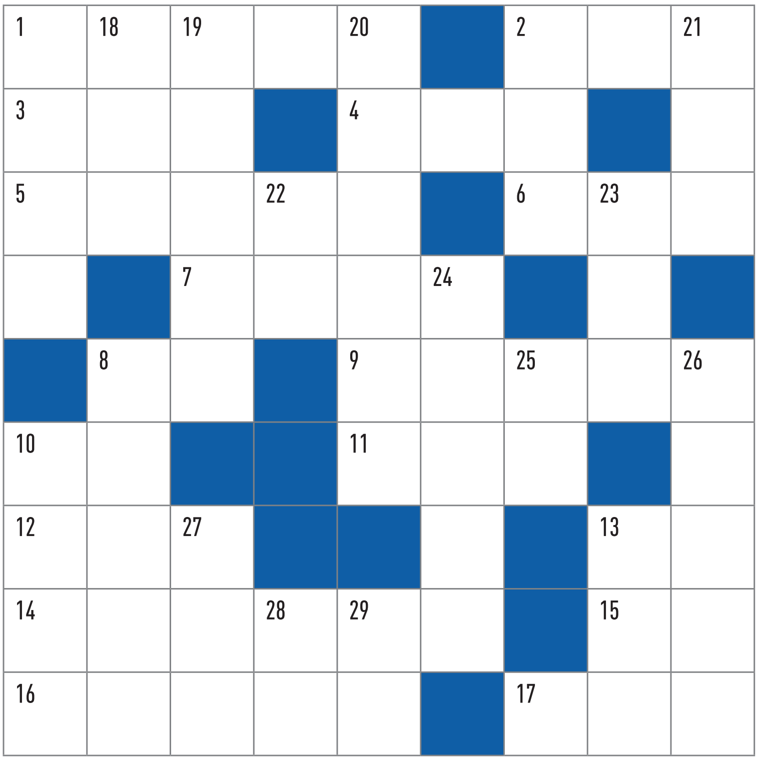
Collaboration

Internal and external collaboration is a critical ingredient of managing business disruptions. Businesses need to embrace team work that will help improve working together to solve problems, boost creativity and productivity, while allowing them to be more meticulous and navigate through difficult times.

Conclusion

I cannot over emphasize the fact that, the COVID–19 pandemic has had a wide–ranging impact on the lives of individuals and the businesses; there's no doubt that there is need to rapidly and strategically embrace and adapt to the new reality. There is need to align the business offerings with customers' changing needs and expectations, and develop strategic approaches to ensure that you can adapt quickly and effectively. The key to success will be a function of strategic planning, adaptability, innovation and agility.

Test Your Risk Knowledge



Across

1. Choose to take up, follow, or use, (5)

2. Not moist (3)

3. Wipe clean (3)

4. Express an opinion or grievance publicly (3)

5. Begin to be involved in (5)

6. The study of people, technology, organizations, and the relationships among them, abbr (3)

7. Departure (4)

8. A non–volatile memory card, abbr (2)

9. Thwarts; prevents from succeeding (5)

10. Guarantees the buyer's ability to pay, abbr.(2)

11. Of a suitable quality, standard, or type to meet the required purpose (3)

12. Final stage of software development, abbr (3)

13. A large pile or quantity of something, abbr.(2)

14. A time of intense difficulty or danger (6)

15. An economic and political block, abbr (2)

16. Retains possession of (5)

17. Valid for a single session, abbr (3)

Down

1. So be it (4)

2. Technological protection measures, abbr. (3)

8. Cause great fear; nervousness; frighten, (5)

10. Success or failure apparently brought by chance rather than through one's own actions (4)

13. Assembled for a purpose (3)

18. A member of tertiary college (3)

19. Made a choice from a range of possibilities (5)

20. A tax or duty to be paid (6)

21. Affirmative response (3)

22. Prefix; Not including (2)

23. Poor in quality or health (3)

24. Works extremely hard (5)

25. Refers to previously mentioned subject, (2)

26. A scheme or trick intended to incriminate or deceive someone, (5)

27. Restrict or limit to a particular situation or place, (3)

28. A senior cop, abbr. (2)

29. The state of the situation (2)

Solution to Issue 3

R	E	P	O	S	T		R	O	W
A	N	T	I	E			E	V	E
I	A		L	L	C		V	E	T
D	C	S		L	O	W	E	R	
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R	E	A	P			G	L		C
I	D	L	E	R			S	A	T
T		E	X	I	T	S		S	I
E	N	D		S	E	E	P		N
S	O		S	K	A	T	I	N	G

Happy New Year!

From Everyone at ***The Risk Echo***

A Full View Of This Issue's Authors