



Why you must have a risk management plan for your business

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About the Writer

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Foreword by D. E Wasake (FCCA), Principal of Inachee

Despite many reports indicating Uganda is one of the most entrepreneurial counties, the Uganda business environment is increasingly challenging judging by the World Bank's ranking of ease of doing business. We have over the last few years performed worse on this important index that surveys how easy it is to start and run a business.

In addition, other indices of an economy's performance like Foreign exchange movements, disease and crime indicate that it is becoming more challenging as the years pass.

Both new and established businesses need to start "tightening their pants" and start becoming familiar with the word "risk management".

Large and established multinationals have whole departments and teams dedicated to this – but smaller Ugandan businesses cannot ignore it. Isaac's article shares his views.

You can also see my analysis of the financial and other indicators I mention in *Appendix 1*.

Introduction

My primary role involves leading our "Managed Services" team which requires working very closely with clients on a day to day basis in areas like implementing new systems, reviewing their systems and providing training.

Because of this close involvement, I am keenly aware of the challenges business owners face whilst conducting businesses in Uganda and I felt concerned to share it with you as it impacts on how clients do business. This article shares my experiences and provides some solutions.

"The business environment in Uganda is increasingly challenging judging by the World Bank's ranking of the ease of doing business in Uganda."



The Ugandan market: Opportunities

This market is full of opportunities and one could get filthy rich only if they got their strategies right but as a result, perhaps of greed, many people just end up rushing into starting businesses without looking into the “side mirror” for the potential risks.

Blessed with a lot of opportunities, I have noted from experience that the same market has as many risks which potential investors ought to look out for. What makes these risks so dangerous is that they’re always masked by the attractive returns that appear on the face of these opportunities.

“Blessed with opportunities, I have noted that the same market has many risks – risks so dangerous, they are always masked by the attractive returns.”

An example from the poultry sector

The poultry industry has enormous returns on the face.

The daily income for a year from eggs, income from eventual sale of off layers, broilers sold after 4 weeks are some of the attractive returns that may pull one into joining the business.

However, getting to enjoy those returns practically seems to be as hard as walking to heaven!

So many factors affect poultry, even the obvious ones which one may think are controllable are becoming uncontrollable on the Ugandan market.

We would assume vaccination, proper feeding and good management are just enough to make poultry profitable but this is unlikely to happen on the Ugandan market because:

- Many of the vaccines on the market are not genuine;
- the market lacks good poultry breeds;
- the daily game for feed suppliers is to adulterate feeds; and
- Getting good Human resource (dedicated staff who work for an honest day’s wage) seems impossible.



Some of our clients in the poultry are affected by these factors and in particular, Very high mortality rates, Very expensive poor quality feeds (which affect productivity) and dishonest as well as incompetent staff.

Mortality is heavily linked to poor quality breeds and medicaments- a factor that is not easily controllable by a local farmer.

Another example: The maize industry

I recently visited a farmer with 2 acres of maize which was ready for harvest.

The man was so optimistic, and it seemed like he had already a chicken to slaughter and enjoy his harvest.

After we moved around his farm and the mathematics was computed, he froze.

He planted the 2 acres of maize 90 days ago with seeds from a certain supplier who promised him that he would reap 3 tons in total.

Actual signs on the plantation (one maize fruit per plant, some fruits really very small in size, large empty spaces) indicated that he would at most yield half (1.5 tons) of the expected harvest.

Poor man, so disappointed and devastated declined to take cash 900,000Ugx which was being offered to him by the immediate buyers then and requested for some time to digest the developments.

However, the buyers were optimistic that the young man had no option because:

- 1) the maize price was falling steadily
- 2) sudden rains in the area were affecting the quality of maize
- 3) the farmer would incur extra cost of harvesting and post harvesting.

Poor farmer at the time I last checked was negotiating to at least be paid 1.2 Million Ugx on assumption that the harvest will yield 2 tons at the current market price of maize of 600Ugx/Kg.

Imagine, he spent roughly 800,000Ugx to grow the plantation to harvest stage, and if he's lucky and the buyers accept his asking price, he would make a profit of only 400,000Ugx- not considering his transport, time and all the emotional stress. So the 400,000 Ugx net profits for 90 days is not even enough to maintain his monthly car expenses!



Besides the low returns, the farmer still narrates the stress of managing workers. Workers used not to weed the plantation despite him fully paying them. On one occasion a laborer ran away with fertilizers and farm equipments. Guess what the farmer whispered to me? I think he vowed never to do maize again on his 2 acres.

Price sensitivity

The Ugandan market is very price sensitive. Apart from being price sensitive, the market requires quality. So you can imagine what strategy to use to offer good quality at low price!

There are many suppliers in the market, with almost the same goods therefore competition is really high and suppliers do not have the liberty to dictate prices to vary their margins. The only way suppliers can compete in such a market is by cutting their costs as much as possible.

What can a startup/new entity learn from this?

There is need for serious research and analysis – backed up by a financial model to ensure that the estimate of profit considers the challenges narrated above.

There is need to really understand the market and the factors affecting the general market and the particular industries.

For example, during this season, the price for eggs is very low at 6,500 Ugx but poultry feeds are very expensive. The prices for feed components like sun flower, maize bran, and cotton are very high during this season. This simply means that most poultry farms are loss making during this period unless if they planned for feeds in advance.

And yet - maize bran the biggest feed component for poultry feeds cannot be stocked in bulk since it can only be stored for a limited period.

So before one starts up a poultry farm, they need to first establish a reliable source of feeds before anything else.

The same applies to any other industry, establishing a quality source of raw material is paramount, perhaps even before you go into calculating the profit you can expect.



And the costs of starting up a business?

Given the nature of the Ugandan market, costs of starting up a business need to be as low as possible. This should be the case so as to enable the new company compete favorably with other low cost local market producers (who form a significant majority).

My view is that a business needs to start small and then iterate. This is not obvious. Some entrepreneurs feel overly confident and start big right from the start, despite no experience.

It is key to use as little capital as possible to start the business and “test the market” on a small scale so that you can make all the mistakes and learn on that small capital base.

This minimizes the losses you would incur – which are inevitable when learning to run a business, particularly in a new area where you might have no prior experience.

Knowledge of business – to run it on a day to day

Most of the businesses that I have seen succeed are one where the directors themselves understand the business - They know all the dynamics, challenges and how to control them and they don't have to rely so much on 3rd parties to undertake the day to day business –or where they do, it's because they understood the intricacies first.

This means that even before developing your business plans you need to be honest about the level of interest and knowledge in your particular industry of focus and particular and how you hope to run the business.

Where you intend to rely on key staff, ensure they have an intricate understanding through rigorous interviews, combined with training. Alternatively you can consider getting assistance from a professional, especially as you develop your strengths and experiences – as we have done for some of our clients through our managed services department which provides this “hand holding” during the challenging process of running a company.



What risk management strategies do you need to consider?

Below are a few suggestions we recommend

1. Develop a comprehensive list of reputable suppliers. Do your “due diligence” even before you start on who are the suppliers? This will ensure you can assess the ease with which you will be able to acquire raw materials. Your research might reveal that indeed you need to import all the raw material you need – if you are to effectively compete.

2. Consider the key macro-economic indicators in your plans.

Some businesses in Uganda are more susceptible to forex movements for example. Have you considered these in your profit projections. How about if you are borrowing? Are you using a fixed interest or a flexible loan? Interest rates in Uganda fluctuate heavily.

3. Price monitoring mechanism

I mentioned that the Ugandan market has several price sensitivities – particularly for commodities. How have you insulated yourself from this? Alternatively do your forecasts include a large “buffer” to cover price fluctuations.

4. Staff training programme and proper controls especially for theft

Our clients often tell us that staff in Uganda are often incompetent and dishonest. You need to develop not only a training programme but ensure that it includes ethics training. That is not enough, you need to specifically have systems and controls to protect you from theft.

“Our clients often tell us that staff in Uganda are incompetent and dishonest.”

5. Have a professional on your board of advisors.

What is an extra say Shs. 500,000 a month to have a business advisor on your team when you could potentially lose Shs. 5,00,000,000 a month if you do not put in place proper risk management strategies – or just don’t have the expertise to manage these. Companies that have independent professionals often do better because of this risk focus, as well as insight from helping other clients. Speak to our team if you would like assistance in developing a risk management framework.

Also see Appendix 1 which provides an analysis of key trends in Uganda that you should be aware of.



Appendix 1: Analysis of key trends on the state of the Uganda Economy

Dickson Wasake provides his insight into some key trends that indicate that businesses in Uganda need to start putting more emphasis on risk management. In his analysis he considers the following key indicators of the “worsening” Uganda economy:

- Ease of doing business ranking
- Worsening Foreign Exchange movements
- Worsening disease incidence
- Crime statistics

1. Uganda worsens on global ranking of “Ease of Doing Business”

About the ranking

Every year the World Bank publishes its Global ranking of the ease of doing business, which is an index that assesses the complexity and cost of the regulatory processes around starting and running a business. For the 2015 edition, this was ranked for 189 economies.

How is information collected?

To collect data for these indicators the Doing Business project works with legal practitioners or professionals who regularly undertake the transactions involved. In their own words:

“A corporate lawyer registering 100–150 businesses a year will be more familiar with the process than an entrepreneur, who will register a business only once or maybe twice. Utilizing the knowledge of professionals in 189 economies Doing Business puts together a unique dataset of business regulations.”

In Uganda, the World Bank spoke to about 50 professionals including several prominent law firms (such as MMAKS advocates, Sebalu & Lule, Shonubi, Musoke & Co), Accountancy practices (such as PWC, Ernst & Young) as well as government bodies (such as KCCA, UEDCL).

How does Uganda rank globally and against its East Africa peers?

Uganda is not doing well. Over the last 5 years, it has continually worsened in the doing business ranking. In 2011 it was 119 and by 2015 it was at 150!

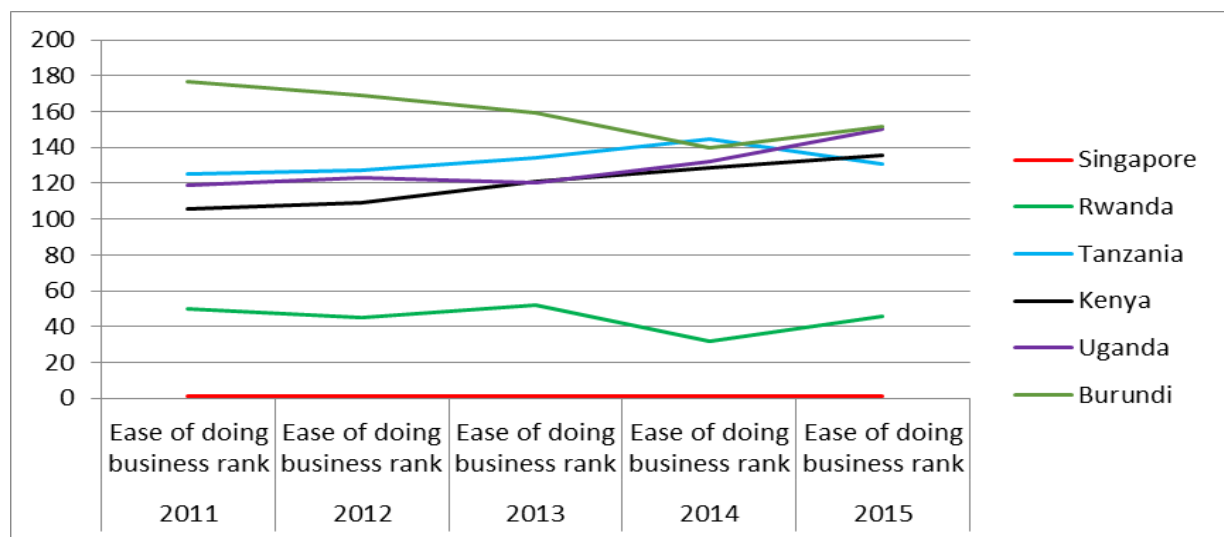


By comparison, Rwanda was at 50 in 2011 and has improved to 46 in 2015. In 2014 Rwanda was at 32.

Global leader Singapore has been no. 1 for 7 consecutive years. Is it any surprise then that [Forbes magazine reports that it has the record for producing the quickest millionaires](#)

See the graph below for the 5 year trend analysis.

5 year trend of Uganda and its East African counterparts on the Ease of Doing Business ranking.



Economy/Year	2011	2012	2013	2014	2015
	Ease of doing business rank	Ease of doing business rank	Ease of doing business rank	Ease of doing business rank	Ease of doing business rank
Singapore	1	1	1	1	1
Rwanda	50	45	52	32	46
Tanzania	125	127	134	145	131
Kenya	106	109	121	129	136
Uganda	119	123	120	132	150
Burundi	177	169	159	140	152



2. Forex exchange rates in Uganda continue to decline.

The Uganda shilling for the last 5 years doesn't appear to be winning against the dollar. This trend is going to continue. In 2010 the USD/UGX exchange rate was about \$1 = 2,200. 5 years later it's climbing beyond Shs. 3,500! By comparison a currency like the pound sterling has remained within the same range. See both charts below.

Exchange rate movements: UGX vs. USD (2010 – 2015)



Historical Exchange Rates

Average weekly BID rates @ +/- 0%

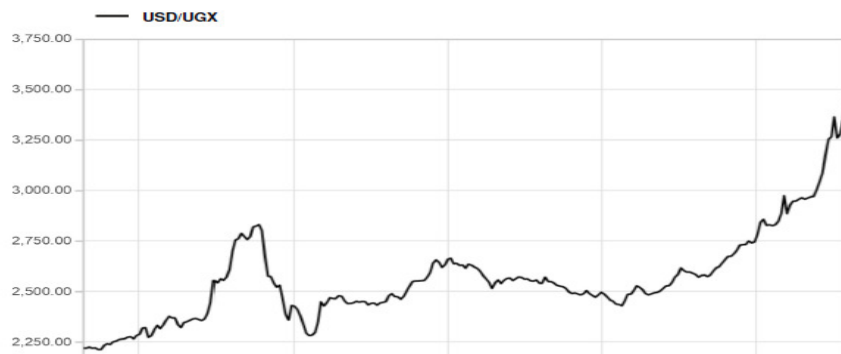
DATE: Aug 20, 2010 > Aug 20, 2015

INTERBANK: +/- 0%

PRICE: Bid

VALUES: Rate

FREQUENCY: Weekly



Exchange rate movements: GBP vs. USD (2010 – 2015)



Historical Exchange Rates

Average weekly BID rates @ +/- 0%

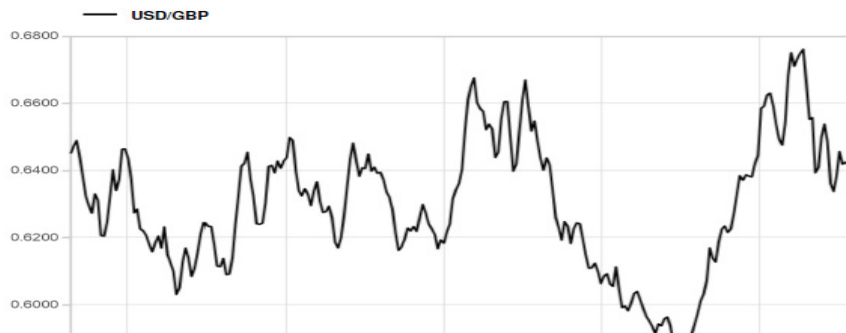
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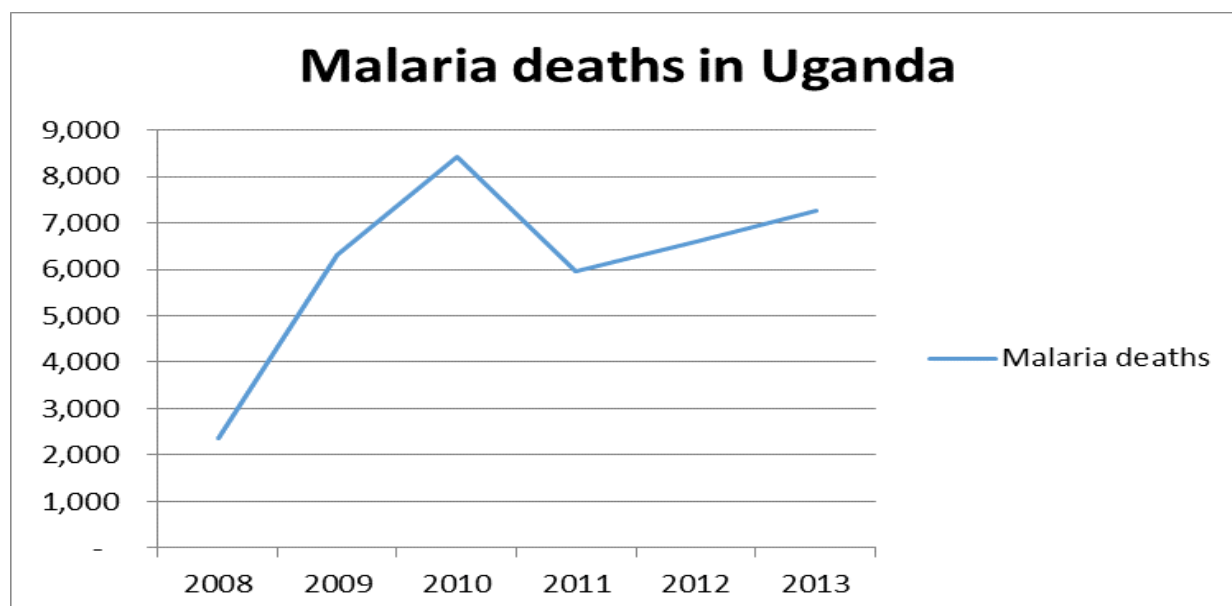




3. Disease indicators continue to worsen

Malaria is the no. 1 killer in Uganda and the incidences of death from it give a very good indicator of the state of the economy. The logic being that the more people who are dying from it, means that they can afford less proper medication and/or the government has less funding for malaria controls. The malaria statistics below show that the malaria deaths are improving.

Even as a proportion of the population – the prevalence continues to increase or remain constant.



	2008	2009	2010	2011	2012	2013
Malaria deaths	2,372	6,296	8,431	5,958	6,585	7,277
Population	31,367,970	32,369,560	33,398,680	34,612,250	33,640,830	34,758,810
Malaria death as a % of the population	0.0076%	0.0195%	0.0252%	0.0172%	0.0196%	0.0209%



4. Crime doesn't decline despite significant increase in police budget

Crime gives an indicator of how an economy is performing. Typically the worse the economy, the higher the crimes, especially “opportunistic crime” like theft – the bulk of Uganda’s crime.

In 2008 the Uganda police’s budget was about Shs. 80bn (which is an allocation as Uganda’s budget runs from July- June but the police reports crime on a calendar year). By 2013, it had increased to Shs. 252 billion. An increase of about 500% over the period.

Over that same period, crime dropped from 119k cases to 100k cases. On a standalone basis this appears to be good news, but considering the population increase over the same period as well as the significant budget increase, the average crime per population seems constant.

The tables below show these trends.

	2008	2009	2010	2011	2012 (est)	2013
Complaints and reports	287,900	282,401	262,936	268,811	263,979	251,409
Crimes reported	119,072	103,592	99,917	99,321	100,465	99,959
% change in crime	N/A	-13%	-4%	-1%	1%	-1%
cases taken to court	46,943	37,783	29,282	43,813	51,011	48,582
Theft	32,958	27,589	23,429	21,672	49,986	47,606
Uganda population	31,367,970	32,369,560	33,398,680	34,612,250	33,640,830	34,758,810
Crime per population	0.38%	0.32%	0.30%	0.29%	0.30%	0.29%
Police budget adjusted for a calendar year (billions)	80	109	149	200	232	252
% change in budget	N/A	36%	37%	34%	16%	9%

Source of information:

<http://www.upf.go.ug/publications/>

<http://budget.go.ug/budget/national-budgets-documents>

Conclusions

The Uganda economy is “worsening”. A business, including a startup needs to be aware of these trends and put in place risk management strategies, like this article recommends.



As we indicate, one of the ways to ensure you get insights into these trends is to work with our team on a regular basis of part of our “[managed services](#)” focus. This includes the following ways we “hold the hand” of entrepreneurs:

- Business diagnostic – an assessment of how your business is performing.
- Regular management accounts – to provide up to date information
- Regular internal control checks – to ensure risks are being managed properly
- Benchmarking – monitoring market conditions to ensure you know trends.
- Marketing strategy – to help you grow your business in challenging conditions

We really hope you will start implementing a proper risk management strategy.

About Inachee

With a combined experience of over 30 years, the Inachee team is passionate about helping Ugandan businesses to succeed. Find out more below about our ethical thought leadership work by visiting the website.

www.inachee.com