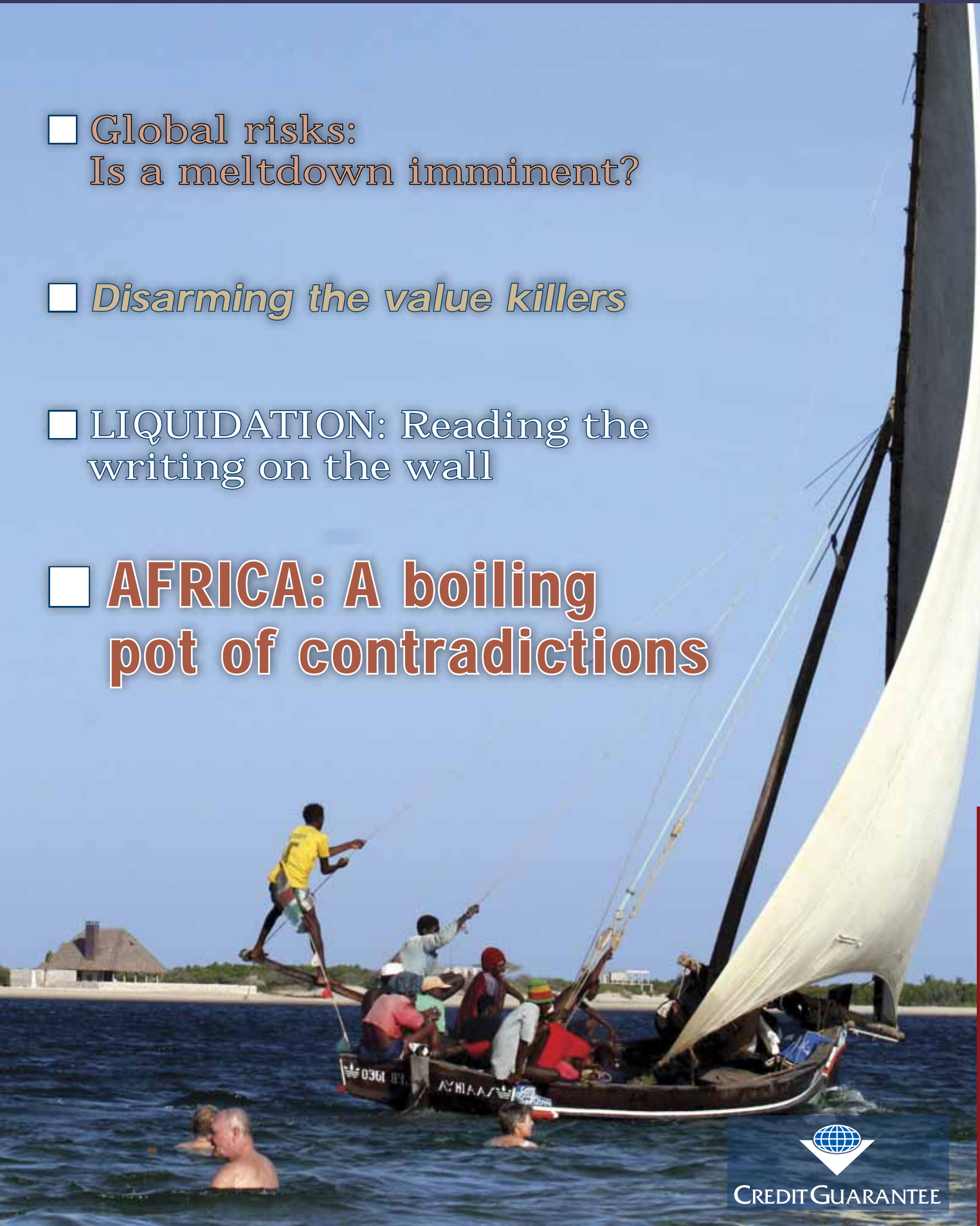


CREDIT NOTES

- **Global risks:**
Is a meltdown imminent?
- *Disarming the value killers*
- **LIQUIDATION:** Reading the writing on the wall
- **AFRICA: A boiling pot of contradictions**



COVER FEATURE



PICTURENET AFRICA

Heading in the right direction? – Kenyan fishermen in a traditional dhow sail past holidaymakers on a beach near Mombasa. See "Africa – boiling pot of contradictions" on page 4.

Global risks:

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SUPPLEMENT:

Risk management – a critical element of good governance



CREDIT GUARANTEE

Don't risk it without us.

Global risks: Is a melt

With global financial market volatility appearing to take on even greater significance of late, the question is whether this presages a global slump and indeed what the potential consequences for South Africa may be.

Foreign direct investment into the OECD countries – largely industrialised nations – grew an estimated 27% in 2005 to reach \$622bn. Outward investment by the same countries fell by 8,5% to \$716bn. The largest recipient of such flows remains China, at \$72,4bn from \$60,6bn in 2004, while Brazil continues to account for the bulk of inward investment in South America, attracting \$15,1bn (\$18,1bn in 2004) versus the \$7,2bn of Chile (same level as year before) and the \$4,7bn into Argentina (\$4,3bn in 2004). The OECD reports that Romania has had two healthy years of inflows of around \$6,5bn, similar to what South Africa and India received last year.

Losing favour

Emerging market jitters are said to be the reason behind some of the weakness in domestic financial markets in the past few months, but there are a myriad of factors to consider. If indeed risk aversion is causing foreigners to withdraw their funds, one has to put this in context of a local market that has done exceptionally well in the past 18 months and one which now, due to higher interest rates, may not do as well. Further, the commodity cycle has been a large driver of our market and if, as some believe, this cycle has run its course, then we by definition lose favour.

To date, the global economy has been awash with cheap money. However, over-exuberance and inflationary fears in many major economies are resulting in inter-

est rate hikes; the concomitant reduction in liquidity is an explicit goal of such actions and consequently there are fewer funds available for discretionary investment, such as into emerging markets. These are the real causes of some of the weakness in our market and they then have consequences, such as a weaker rand exchange rate.

Morgan Stanley says that the recent outpacing of the euro area economy by the Nordic economies in terms of GDP growth, is set to persist despite a general slowdown into 2007. They foresee rapid expansion in Sweden and Finland versus an already dawdling Denmark, with Norway somewhere inbetween. Overall, the Nordic region has far lower inflation at present, allowing for a mix of expansionary monetary and fiscal policy and this stimulation is expected to continue.

Goldman Sachs Asset Management anticipates euro zone growth of 2,1% this year, with positive business sentiment offsetting weak consumption demand. The main risk to this view extending into 2007 – but still note the relatively subdued nature – is that the ECB may have to hike interest rates repetitively to contain inflation in the face of ongoing strong global growth. GSAM sees that the net trade deficit the euro zone has with Asia could turn out to be even more of a drag if export demand from Asia were to dampen.

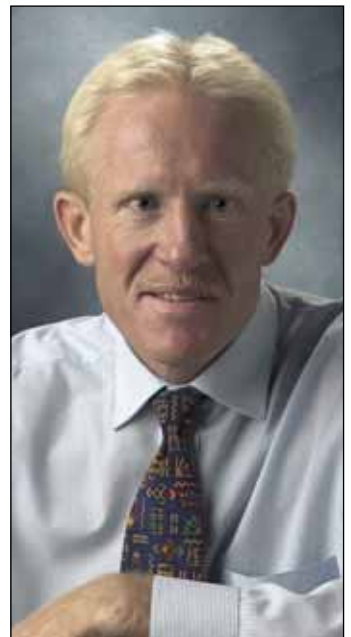
Too good to be true

Phew – Chinese second quarter growth of 11,3% y-o-y despite efforts to cool investment, is almost too high to comprehend, let alone believe. This follows the robust 10,3% performance in q1'06 and is heavily dependent on exports. Hence efforts to hike borrowing costs and calls for a stronger exchange rate.

Whether a truly floating yuan will ever eventuate is a moot point, but the US for one requires this in order that their trade deficit crimps. But as a major commodity exporter to China, South Africa must surely hope that inflationary pressures or higher interest rates do not squeeze their domestic demand.

If oil prices fall...

EDC (Canada) expects Middle Eastern and North African growth to cool off next year to 5-5,5% from 5,5-6% this year, largely on the expectation that oil prices will fall. This surpasses world growth and is built on



By LUKE DOIG

Credit Guarantee

Economic Services

July 2006

Engendering pride in the insurance industry

Three years ago, leaders in the South African insurance industry launched *Proudly Insurance*, an initiative "to achieve an image and reputation of excellence for the industry". Since then, much work has been done behind the scenes to achieve this objective – and Credit Guarantee and its parent company, Mutual & Federal, have been playing a leading role in these efforts.

Proudly Insurance is an insurance sector-driven, positive and results-focused initiative, managed by passionate and committed stakeholders. It is about understanding the role that insurance plays in the economy, job creation, creating opportunities for the community and providing peace of mind for the individual.

Its four core objectives are:

- To make stakeholders feel proud of their industry.
- To address the needs of its customers.
- To attract quality people to the industry.
- To raise awareness levels of the industry among existing and potential customers.

Credit Guarantee, as a core member, is a driving force in the *Proudly Insurance* initiative and is one of only two Gold Class members, the other being Swiss Re. Mutual & Federal (of which Credit Guarantee is a subsidiary) holds Platinum status along with SA Eagle and Santam.

The remaining 25 members of *Proudly Insurance* include insurance companies, industry associations and training and education institutions.

down imminent?

increased government revenues and hence spending, thereby boosting investment and private consumption. This type of scenario also benefits Angola, Mauritania, Nigeria and Sudan and record growth rates are expected here, with sub-Saharan growth slowing only marginally in 2007 to 4,5-5% from an expected 5,1% this year. At the same time, there are many oil-importing economies on the continent that will be ill affected if oil prices do not improve.

EDC also expects the largest EU accession country – Poland – to grow around 4,3% this year, with Hungary expanding some 4,7%. While EDC expects ongoing stability in Latin America, we have to highlight the rise in nationalism that appears to be taking hold in the region.

In July 2001, the US\$ was at \$0,84/€ and currently it is at \$1,25/€. That is a 49% fall but still the US trade deficit swells, although a major reason is the trade imbalance with China. So despite calls for a weaker dollar in order to make their goods more competitive, will it eventuate? Certainly interest rate differentials also matter, but how much more will Europe be raising rates than the US? And doesn't growth get rewarded? In other words, the dollar could well rally in time and Amex Bank foresees \$1,15/€ in a year's time.

Trying to extrapolate this into likely domestic exchange rate movements requires a wizard. The R/\$ has already undergone a massive 20% depreciation in a very short space of time. Weren't many bemoaning the "overvalued" level of R6/\$ just the other day? – the fact that it aided in the fight against inflation is quickly forgotten. Now the current weakness, together with high oil prices and consequently sharp petrol price hikes, induces morbidity. Inflationary pressures are picking up locally and notwithstanding a total global fallout, I would argue that a R7 – R8/\$ trading range until end 2007 is quite likely.

And then we have the ongoing saga

of the failed global trade talks. Of late the developed world has done little to advance trade and improve the trade prospects for developing nations, preferring rather to protect their local constituencies. Their intransigence is largely responsible for the failed state of the Doha trade negotiations to date.

More foreign goods?

What will ultimately come out of the last-ditch negotiations may yet have major ramifications for South Africa. Will the vehicle industry's MIDP come under pressure? Will we see more foreign goods on our shelves as tariffs are cut? Consumers will rejoice while, as mentioned, this has also been a major factor in keeping a lid on domestic prices, but local manufacturers and workers will no doubt grumble if this were to re-emerge.

Even within Europe itself, GSAM sees a possibility of heightened hostility towards globalisation and free trade as a risk to the region's outlook. This is but one of the reasons to question the extent to which a new deal will favour developing nations.

The global growth cycle – including commodity prices – has had a superb run of late, and South Africa has benefited. But a degree of overheating has permeated many areas, none more so than at home.

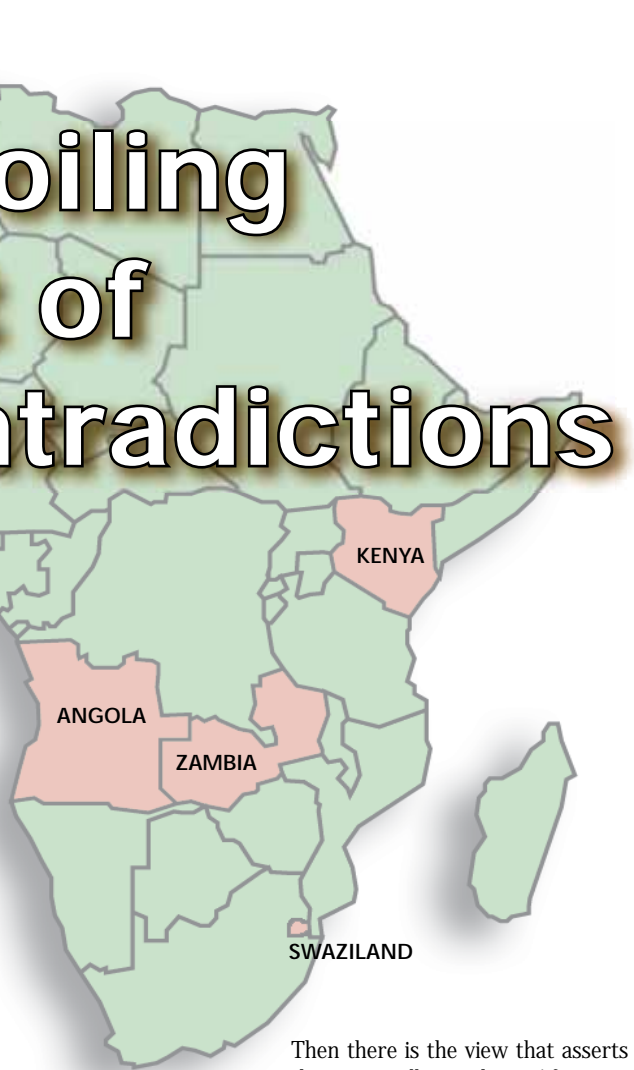
Growth prospects

The foregoing discussion attempted to highlight the disparity between and within regions, and at times apparently illogical reactions of markets. Furthermore, most (if not all) cycles eventually return to their average and thus we can expect the cooling off to continue. Whether a cocktail of other factors causes matters to feel more like a severe reversal remains to be seen, but we are still hopeful that moderate growth prospects will dominate the landscape over the next three years.



Africa – a boiling pot of contradictions

What has been the result of the African continent's attempts to pull itself out of dire poverty? This is a complex and multi-faceted issue, often over-shadowed by internecine wars, civil disobedience and bloodshed. A massive amount of aid, loans and grants appears to have yielded few results. Is this a true reflection, because one needs to identify shortcomings in order to correct them, or is the reality on the ground somewhat different?



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 Economic
 Services
 July 2006

The Africa Institute holds that only a handful of African states pass muster as 'consolidated democracies' – the rest are transitional democracies. Additionally, legitimacy issues plague the electoral process while new opposition parties are labouring to overcome unfair disadvantages.

World Bank chief Paul Wolfowitz has fingered the foe of development as being the corrupt practices of his business partners, in other words the corrupt actions of leaders and governments. Recently, Senegalese president Wade, one of the architects of the continent's New Partnership for African Development (Nepad) plan, claimed it had failed. "Nepad has failed. We did not choose the right people; they are not managers able to complete projects. Nepad has not built a single mile of road," he is reported to have stated.

On the other hand, corporate and financial analyst Bert Chanetsa claims

that "for all the political, ideological, practical and logistical tests faced by Nepad, to my mind, it is working". He asserts that efforts by the lead agency for infrastructure development for Nepad, the African Development Bank, are tangible and paying dividends despite certain projects stalling needlessly. This he feels is due to the challenge of co-coordinating projects involving more than one sovereign state, especially when convergence of political agendas is hard to pin down.

But is that not the key or real reason why so many claim that material successes will be hard to accomplish until a joint African authority has real power? Recalcitrant leaders need to be shunned, their undemocratic actions laid bare. The African Union has to date done very little to enhance its reputation that it wants to get the job done.

Then there is the view that asserts that, generally speaking, African politics has not changed for the last 20 years. As such, business has and is functioning. Taken a step further, steps towards democratisation across the continent together with globalisation, have seen business in fact grow rather substantially. But is this yielding lasting benefits for the individual countries and the continent at large, or are rapacious business activities of the past being replicated in more subtle but no less effective guises today?

The South African Institute of International Affairs recently completed a study on African private-sector development, given that traditional policies of aid and debt relief have yielded little success.

From a South African business perspective, considering nine specific economies, local companies were found not to be less risk averse than their European and American counterparts when investing on the



Rwandan President Paul Kagame (centre) addresses delegates during the opening ceremony of Nepad in February 2004 in the Rwandan capital, Kigali. "Since then," Senegalese president Wade stated recently, "Nepad has failed. We did not choose the right people... [Nepad] has not built a single mile of road".

(AP Photo/Riccardo Gangale)

Credit Guarantee's experience also shows that there are lucrative profits to be made. We take a closer look at four of our sub-Saharan neighbours:

REPUBLIC OF KENYA (rating 3C – positive outlook)

Credit Guarantee experience/opinion: Kenya is an important market for CG with almost claims-free history and good commercial morality. Exporters are however advised to be careful when doing open account business.

Political highlights: The people elected president Kibaki for a five-year term in 2002 and the government is formed by the National Rainbow Coalition (NARC). The next elections are earmarked for 2007 and the competing parties are already looking for vantage positions and allies.

Economic outlook: The Kenyan economy returned a robust performance last year, achieving 5,8% growth from 4,3% in 2004. This was mainly driven by tourism, transport and communications, building and construction while 458 900 jobs were created in 2005. After escalating to an 18-month high of 19,1% in March this year, caused by severe drought, inflation has since dropped to 13,1% in May driven by falling food prices as adequate rains fell in most parts of the country.

With a rejuvenated economy and a growing revenue base, Kenya is gearing to fast-track an economic plan (Kenya Vision 2030),

African continent. In fact 80% of our total foreign investment was still directed at Europe, Asia and the Americas.

In other words, our supposed inherent knowledge of the African market and proximity to such markets, is not borne out in actual investment flows. Also, multinationals from other emerging markets invest more in their immediate region than we do. However, the major differentiation is that we are active not just in the traditional sectors of oil and mining, but are also spread across telecommunications and retail.

The study also found that political and economic governance are vital for a mature, diversified and indeed growing economy while engagement between the private and public sector is a critical precursor to the former playing a more important and long-lasting role in the continent's development.

The SAIIA study certainly found both positives and negatives in the experiences of South African firms in the African countries surveyed, and noted the substantial impact of such activities due to the small size of the private sectors in the respective

countries. Further, key drivers of such activity are held to be the availability of incentives and good governance and consistency and transparency in economic policy-making.

In this regard, Credit Guarantee often has different views on the payment risks of various export destinations, than those of say the Department of Foreign Affairs or trade promotion agencies. This, quite simply, is the net result of many years of invaluable experience garnered from both favourable and/or failed transactions and good and bad information sources.

designed to boost economic growth and reduce poverty. Liberalised foreign exchange controls are aiding in its attraction as an investment haven. Economic conditions are improving and donors are expected to continue exerting pressure on the government to act against corruption. Transparency International's Corruption Perception Index ranked Kenya 144 out of 158 countries in 2005, scoring 2,1 where 0 is seen as highly corrupt and 10 as highly clean; South Africa was ranked 46th with a score of 4,5.

REPUBLIC OF ANGOLA (case by case approach – positive outlook)

Credit Guarantee experience/opinion: We have limited but favourable exposure in this market and exporters are advised to ensure that they are fully aware of the exact person/institution that they deal with. Business is slowly gaining momentum in Angola although there is need for cautious underwriting, as there are no records for most companies.

Political highlights: The next elections were initially scheduled for September 2006 but Angola's National Electoral Commission has announced that the six-month-long voter reg-

\$623m in early 2005 to \$2,3bn in late 2005 and \$4,3bn in April this year.

REPUBLIC OF ZAMBIA (rating 3C – positive outlook)

Credit Guarantee experience/opinion: Zambia is a huge and growing market with a favourable climate hinged on high copper prices. Exporters are however advised to be careful when doing open account business in this market.

Political highlights: The last elections in Zambia were in December 2001 and the next are expected to be held in December 2006 (the president is yet to declare the date). The next president will only be sworn in after being elected by more than 50% of the registered voters. Presidential candidate uncertainty surrounds both the ruling party and an alliance of three opposition political parties. This follows concerns about president Levi Mwanawasa's health and the death of the head of the alliance at the end of May this year.

Economic outlook: The recovery in the Zambian economy has been supported by rising copper prices and

announced that Zambia recorded a trade surplus in April. During April exports stood at K681,804bn against imports worth K639,391bn, translating into a surplus of K42,413bn. The country recorded deficits of K64,577bn, K10,831bn and K44,928bn in January through March respectively.

KINGDOM OF SWAZI- LAND (rating 3C – cau- tious outlook)

Credit Guarantee experience/opinion: We have reasonable exposure in this market and overall favourable experience but the political situation remains a concern.

Political highlights: Chief of state since April 1986 is King Mswati III and the prime minister, Themba Dlamini, was appointed by the monarch in November 2003. The first constitution was signed into law in July 2005 and came into force at the beginning of February 2006. It has caused uproar among the citizens of the Kingdom, as it remains vague on the key issue of legalising political parties. Members of the opposition were charged with high treason after a spate of petrol-bombings of government infrastructure in late 2005 and early this year.

Economic outlook: Economic growth for 2005/06 is estimated to have declined to 1,8% from 2,1% in 2004/05, as a result of the after-effects of the drought and partly because of problems facing the textile and sugar industries. The sugar industry, based solely on irrigated cane, is Swaziland's leading export earner and private sector employer.

Public discontent is likely to fuel political unrest as the country faces economic difficulties while the king continues to live a lavish lifestyle and no visible action is taken against corruption.

Swaziland is facing its fifth consecutive harvest failure this year with maize production dropping by almost 70% in the past five years in some areas. With closures in the textile and clothing sector and uncertainty in the sugar industry, more jobs are likely to be lost and this could result in public demonstrations that would have a negative impact on economic growth.



The Central Statistics Office also

Despite being rated as "very corrupt", Angola's GDP growth rate is forecast to reach 27,6% in 2006 – which would make it the fastest growing economy in the world.

istration process will only begin in June or July, which would certainly delay the holding of the polls (legislative and presidential) until 2007. No formal date has been announced.

Economic outlook: Despite being rated as "very corrupt", Angola's economic outlook is relatively positive as shown by a 30-year high GDP growth rate of 20,6% in 2005 from 11,7% in 2004 and is forecast to reach 27,6% in 2006 – which would make it the fastest growing economy in the world.

High oil prices, a \$2bn credit line from China and other donations are helping to rebuild infrastructure following the end of the civil war in 2002. Inflation continues to decline and in 2005, a strengthening in the external accounts occurred with international liquid reserves rising from

improvements in the tourism and agricultural sector. Privatisation and investments in the copper industry coupled with high demand from China have resulted in a boost in production that is increasing revenue and forex earnings.

Real GDP growth for 2005 was 5,1%, mainly driven by growth in manufacturing output and strong performances in the agro-processing, tobacco industry as well as in sugar exports. According to Standard Bank, Zambia's low inflationary environment, cheaper credit and strong currency that is particularly favourable to investment-related imports for the mining and construction industries, puts the economy in good stead for achieving the 6% growth target for 2006.

Disarming the value killers

Many of the world's largest companies have suffered tremendous losses in market value over the last ten years because they failed to anticipate and manage diverse risks. In many cases, the consequences were so dire that the affected companies never recovered.

Not so long ago, risk management was considered the domain of academics and consultants and not a priority for mainstream businesses. But that bubble of complacency was burst through a succession of cataclysmic events: The dot.com bust, 9/11, the Asian financial crisis and a wave of business scandals.

Today, most companies are paying more attention to risk management principles but for many of them this increased awareness has yet to be translated into effective actions to address the threats. In fact, many companies are still asking how they can better protect themselves.

To address this question, Deloitte researched instances of major losses in shareholder value experienced by hundreds of companies over the last decade. According to the Deloitte report on this study, a pattern of "value killers" emerged. For business leaders, recognising these potential value killers will begin to help answer the question of what companies can do to protect themselves.

Some of the answers to managing risk have already been supplied by regulators and government legislation to reduce the occurrence of inaccurate or even fraudulent financial reporting. Beyond that, there are several initiatives which can be implemented to protect the organisation:

Connection between risks

Companies are confronted by a wide variety of potential value killers. Many value losses are caused by several types of risk interacting to produce an even greater loss in value. To preserve value, companies need to go beyond risk management in silos which often leave them blind to relationships between risks.

"They need to create an integrated, organisation-wide risk management

function to identify the key risks across the corporation, understand the connections between them and develop a risk management strategy that takes into consideration the organisation's appetite for risk," says Roy Shough, partner for enterprise risk services at Deloitte. "Companies need to employ stress tests and invest in new capabilities to increase the organisation's ability to withstand low-probability, high-impact risks."

Ethical corporate culture

While initiatives such as Sarbanes-Oxley are leading to improvements in control and information systems, firms must move beyond simple compliance to invest in creating a culture that leads employees to act as stewards of corpo-

Companies should employ "stress testing" to ensure that their internal controls and business continuity plans can withstand the shock of a high-impact event.

rate value.

"Unless a company has built an ethical corporate culture and effective controls, aggressive strategies to generate profits or slash costs can motivate employees to engage in fraudulent and inappropriate business activities," continues Shough. "These practices increase a firm's vulnerability to operational and financial risks which can severely damage its reputation and brand."

Timely information

Failures in risk management are often compounded by the lack of timely information for senior executives and boards of directors on the causes, financial impact and possible resolution of the problem. Business processes and information systems are needed that will apprise senior management and the board of directors in near real time of key risks, anticipated problems and the company's response.

While risk can never be eliminated, companies that move beyond traditional

risk management to implement a more comprehensive approach to their control environment will be better placed to prevent, minimise or recover from losses in shareholder value.

Proactively address low-frequency, high-impact risks

Companies need to proactively address low-frequency, high-impact risks. Some of the greatest value losses were caused by exceptional events such as the Asian financial crisis, the bursting of the technology bubble and the September 11 terrorist attacks. Yet many organisations apparently fail to plan for these rare but high-impact risks.

They should employ "stress testing" to ensure that their internal controls and business continuity plans can withstand the shock of a high-impact event. They should proactively plan and acquire the strategic flexibility to respond to specific scenarios.

Investors and executives share a common fear – a precipitous drop in share price resulting in restricted credit, impeded growth, decimated pension plans and reduced competitiveness. Steep market drops affect a significant percentage of companies, encumbering them with negative repercussions that can last for years.

In fact, over the decade to 2004, almost half of the 1 000 largest global companies suffered declines in share prices of more than 20% in a one-month period, relative to the Morgan Stanley Capital International World Index. To date, roughly a quarter of these companies have still not recovered their lost market value. Another quarter took more than a year for their share prices to recover.

"Risk management is now a critical issue for CEOs and boards as regulatory authorities and stock exchanges promulgate new disclosure and listing requirements calling for more explicit information on risks and the risk management practices of the company," concludes Shough.



The astute creditor should read the writing on the wall at least six months before the crunch comes. This he can only do if he properly monitors his debtors and checks on the results of his early warning system regularly. Aspects to monitor would include those which experience shows are often present before a financial failure, for example:

- Debtor gives different versions, and different financial statements, to different creditors.
- Regular defaults.
- Tax and statutory returns not up to date.
- Payments dishonoured.
- Credit and overdraft limits exceeded.
- Legal proceedings pending.
- Gambling (or alleged gambling to explain assets acquired or lost).
- Change bankers, attorneys, bookkeepers, auditors or advisers.
- Conclude lease agreements.

- Register trusts.
- Acquire or dispose of interests in companies or close corporations.
- Expect to harvest a crop or receive a large payment.
- Ask creditors for extension of time.
- Applications for credit refused.
- Give security to a creditor.
- Suffer setbacks.
- Dispose of assets to any associated person or entity.
- Sell or advertise for sale any fixed assets.
- Assets attached.
- Judgments given against the debtor.

Such matters should be monitored on a regular and ongoing basis and answers compared to previous answers, so as to raise alarm bells as soon as possible.

A future article will give more detail on how to do this, and what steps the creditor should take in response to warning flags.

The risks involved in liquidating a creditor are so great that it should be avoided in favour of other strategies. In this article – the last of two – Chris Edeling* explains the early warning signs and what to do about them.

LIQUIDATION (PART 2): Reading

Wrong-doing must be investigated and exposed as a matter of policy. Creditors should declare war on insolvency rogues who help themselves at the expense of the innocent.

The confidence gap

The "confidence gap" described below is a commercial reality which gives the creditor a real (but last) opportunity to limit the risk.

The scenario is that a debtor wants support from the creditor – either more time to pay, or more credit, or both. The creditor is losing confidence in the debtor's financial position, or would be losing confidence if credit risk indicators were being used.

The debtor is more optimistic and is psychologically reluctant to accept the extent of the financial problems. Eventually he will realise that there is no solution. This period between the creditor and the debtor losing confidence in the financial survival of the debtor is the "confidence gap".

You don't know how long it will be. You don't know how soon the debtor will give up hope. But it is the creditor's last chance to get his act in order. Use it.

The debtor very badly wants to persuade the creditor that he is financially sound and that the creditor should be patient. This is one time that the debtor will call to see the creditor. If the creditor insists, the debtor will disclose information (allow for optimism and lying) and will probably sign what the creditor needs. In the nature of things the debtor will disclose lots of assets, or overvalue them, to try to persuade the creditor to have confidence in the debtor's ability to pay.

The creditor should not rely on the debtor's

valuation but at least he now knows of the existence of the asset. Once the debtor loses hope he avoids the creditor, hides his assets, and will not sign any agreements or documents.

This highlights the importance of early identification and taking positive steps to reduce the risk of loss, which is only possible if a creditor implements and monitors an early warning system.

Finding out about new estates

Creditors cannot protect their interests if they don't know about a liquidation order. Sadly, there is no adequate way of reliably finding out about new estates in good time to prepare and lodge requisitions and hopefully have some say in how the estate is run.

Liquidators develop their own grapevines, but only share the news with those creditors who they think will support them. This results in a hit and miss situation. If the creditor is lucky, someone will tell them. Too often they just don't know.

This problem underlines the need for an early warning system to enable the creditor to bail out in time.

Independent liquidators

The appointment of suitable liquidators lies at the heart of the problem. Most of the manipulation efforts of interested parties are directed at influencing the appointment to suit their own best interests.

It is in pursuit of this objective that creditors take steps such as:

- Putting together a panel of trusted liquidators;
- trying to find out in good time about new estates;
- lodging requisitions with the Master;
- proving their claim at the first meeting (where voting takes place) rather than at the second meeting;
- making representations to the Master to reconsider his decision; and/or
- taking the Master to court when they do not like the result.

What is needed is a liquidator who is –

- independent of banks and major commercial creditors,
- highly skilled in noticing and investigating suspect transactions, and
- determined to combat asset stripping.

Unsecured creditors have a real interest in maximising the free residue fund. Proper investigation and clawback serves the inter-

The reality is that most big estates are planned long in advance. There are many attorneys, liquidators and others who actively "hunt" estates in the hope that they will pick up some spoils. Before the "kill" of the liquidation order, the hunter gets well organised by lining up support and generally planning a strategy to control the estate.

The proactive hunter has a great advantage. He has time to prepare and organise – no last-minute rush is necessary.

When arrangements are in place, the court order is taken, but most creditors are caught unawares. There is a mad scramble to find files, check if there is a claim, prepare requisitions and so on.

Creditors should look out for themselves and in suitable cases should take the initiative and liquidate defaulting debtors before asset stripping takes place on a major scale. Whilst liquidation is not the recommended strategy, there are some cases where there is no other suitable option. In such cases the

ing basis. Unless skilled human resources are used, the creditor cannot expect to make real progress.

It is not enough to hope that good liquidators will be appointed. Liquidators need to be monitored by people who understand the law and the process of liquidation. Liquidators must take their instructions from creditors, but too often the liquidators are given a free hand because of lack of knowledge on the part of the creditors.

The creditor with properly skilled people in his employment will have the advantage that if a debtor is liquidated, at least he will be able to be part of the liquidation process and not be sidelined and left in the dark due to his lack of expertise.

Bail out in time

From the above it is clear that unsecured creditors are at serious risk in insolvent estates, while few creditors have the resources or exposure to justify the expense

the writing on the wall

ests of all unsecured creditors. Creditors should participate in the liquidation process, which is only possible if they understand the law and the pitfalls, or employ people who do.

The creditor should actively promote the appointment of competent and independent liquidators. Liquidators who try to protect insiders or asset strippers should be exposed and suitably dealt with.

Thorough investigation

Clawback is a tough job and requires thorough investigation. It is a job for experts and it has to be done. The creditor's insolvency unit (see below) should be responsible to check up that liquidators are doing their job.

Wrong-doing must be investigated and exposed as a matter of policy. Creditors should declare war on insolvency rogues who help themselves at the expense of the innocent.

Investigation and clawback are major topics and cannot be covered in a brief paper; but it is so important that this should be a prime area of focus for every insolvency unit and for all liquidators who expect support from the creditor.

Plan it properly

When liquidation is necessary, creditors often lose out because they are reactive instead of proactive.

creditor must be able to compete equally with commercially aware ruthless creditors, and should consider taking positive steps to minimise the risk.

There should be a general awareness of strategies commonly used by commercial creditors every day. It is not very difficult for a liquidator who is tipped off in advance to arrange additional support. Every self-respecting hunter tries to organise a majority in number and value. Creditors who wish to control or materially influence estates can do so if they put their minds to it.

Even then they should rather try an alternative solution, knowing that even the best planned estate is riddled with risk.

Insolvency risk unit

Any large creditor with a substantial insolvency exposure would benefit by creating an insolvency risk unit. Because of the specialised nature of the work, there should be skills development and training by experts. The main task of this unit will be to manage recovery from insolvent estates.

The unit should initially concentrate on the larger estates which represent the greatest risk. As expertise and manpower increases, the unit will give attention to more and more matters.

There should be a team of specially educated people whose skills and knowledge of insolvency matters will be developed on an ongoing

of a specialised insolvency unit.

The most effective protection is to avoid as much insolvency exposure as possible by bailing out in good time and being proactive in regard to the estate where the exposure cannot be avoided.

The best and cheapest strategy is to strictly apply credit limits, enforce due dates and use an effective early warning system. The real-world obstacle to strict enforcement is the fear of losing important business. There is a natural tendency to give more time and overlook delayed payment, for fear that taking a hard line on a customer may turn his business to a competitor.

Any business which the creditor loses by taking a hard line may turn out to be business that the creditor should not want in any event.



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Credit Guarantee's guide to THE MIDDLE EAST

July 2006

Notes: Cover = Credit Guarantee cover. Y = Cover available. CBC = Case by case. N = No cover available under normal circumstances or if there is no request for cover. SC = Special condition. ILC = Irrevocable letter of credit. CILC = Confirmed irrevocable letter of credit. All medium-term transfers will be individually underwritten based on the specific nature and structure of the transaction.

COUNTRY Govt type/Population/ Pop. growth rate	COMMENT	SHORT-TERM COVER
<p>Afghani- stan</p> <p>Islamic Republic Population: 31m. Pop. growth: 2,7%</p>	<p>Afghanistan was a buffer between the British and Russian empires until it won independence from the British in 1919. Attempts at democracy ended in a 1973 coup and a 1978 communist counter-coup. The Soviet Union invaded the country in 1979 to support the dwindling Afghan communist regime but withdrew ten years later under pressure from internationally supported anti-communist mujahedin rebels. The Taliban, a Pakistani-sponsored movement that emerged in 1994 to end the country's civil war and anarchy, seized Kabul in 1996 and most of the country outside of opposition Northern Alliance strongholds by 1998. The Taliban was toppled in 2001. The process for a new constitution was set in motion in 2001, a presidential election in 2004 and national assembly elections in 2005. The national assembly was inaugurated on 19 December 2005. The president and two vice-presidents are elected by direct vote for a five-year term. The country's economic outlook has improved since the fall of the Taliban regime due to an injection of almost \$8bn in international assistance as well as an overall economic recovery supported by the agricultural sector. Despite this, Afghanistan remains a very poor country that is highly dependent on foreign aid, farming and trade with neighbouring countries. It is estimated that the remainder of the decade is needed to lift the standard of living from one of the lowest in the world. General shortages include that of housing, clean water, electricity, medical care and jobs. The growing poppy cultivation and a growing opium trade may account for a third of GDP and is one of Kabul's most serious policy challenges. Agriculture and services account for 38% each of GDP and industry accounts for 24%. The economy grew at 8% in 2005. Major industries included small-scale production of textiles, soap, furniture, shoes, fertilizer, cement, handwoven carpets, natural gas, coal and copper.</p>	<p>N</p>
<p>Bahrain</p> <p>Constitutional hereditary monarchy. Population: 700 000. Pop. growth: 1, 4%</p>	<p>Bahrain is a small centrally located Persian Gulf country. Its falling oil reserves have forced it to transform its kingdom into an international banking centre. Sheik Hamad bin Isa Al Khalifa has encouraged political and economic reform since 1999. In February 2002 Bahrain became a constitutional monarchy and the Sheik's title was changed from amir to king. The monarch is hereditary and the prime minister is appointed by the monarch. The production of petroleum and its refining make up 60% of Bahrain's exports earnings. Bahrain has highly developed communication and transport facilities and it houses many multinational firms that conduct business in the Gulf. Its long-term economic problems revolve around growing unemployment, depletion of oil and underground water resources. GDP amounted to \$11bn and the economy grew by 6% in 2005. GDP is comprised of agriculture (0,6%), industry (42%) and services (57%). Its main industries include petroleum processing and refining, aluminium smelting, iron pelletization, fertilizers, offshore banking, ship repairing and tourism.</p>	<p>Y</p>
<p>Iran</p> <p>Theocratic republic. Population: 69m. Pop. growth: 1, 1%</p>	<p>Iran became an Islamic republic in 1979. After the elections of a reformist president in the late 1990s, political reform efforts failed due to opposition from conservative politicians. Repressive measures were consequently intensified. Parliamentary elections in 2004 and the August 2005 inauguration of a conservative stalwart president completed the reconsolidation of conservative power</p>	<p>ILC</p>

	<p>in Iran's government. The leader of the Islamic Revolution is appointed for life by the Assembly of Experts and the president is elected by popular vote for a four-year term. Iran has a bloated inefficient state sector which is too reliant on oil. Private sector activity is relatively small-scale, concentrated primarily on workshops, farming and services. Recent high oil prices have helped to accumulate foreign exchange reserves, but have not eased economic difficulties such as unemployment and inflation. GDP amounted to \$181bn and was comprised of agriculture (30%), industry (25%) and services (45%) in 2005. Economic growth was 6,1% in 2005. Iran's major industries include petroleum, petrochemicals, textiles, cement and other construction materials, food processing, metal fabrication and armaments.</p>	
<p>Iraq Transitional democracy. Population: 27m. Pop. growth: 2,7%</p>	<p>Iraq was occupied by Britain during World War I. It attained independence as a kingdom in 1932. Despite a 'republic' being proclaimed in 1958, a series of military men ruled the country, the last being Saddam Hussein. Non-compliance with the United Nations Security Council (UNSC) resolutions for over 12 years led to the US-led invasion of Iraq in March 2003 and the ousting of the Saddam Hussein regime. Elections for a 275-member transitional national assembly (TNA) were held in January 2005 and subsequently the Iraqi transitional government (ITG) assumed office. The TNA drafted Iraq's permanent constitution and it was approved in October 2005. An election was held in December 2005. The council of representatives' approval in the selection of the cabinet ministers in March 2006 marked the transition from the ITG to Iraq's full-term government. Iraq's economy is dominated by its oil sector. The UN's oil for food programme started at the end of 1996 helped improve conditions for the average citizen. Three years later, the UNSC authorised the country to export as much oil as was required to meet its humanitarian needs. The military victory of the March 2003 invasion resulted in the shutdown of much of the central economic administrative structure. Attacks on key economic facilities have prevented Iraq from reaching projected export volumes of oil, but government revenues have been higher from the escalating oil price. Despite its political uncertainty, the country has established the institutions needed to implement economic policy and has concluded a three-stage debt reduction agreement with the Paris Club. A standby agreement with the IMF is in the pipeline. GDP amounted to \$47bn in 2005 and it was comprised of agriculture (7%), industry (67%) and services (26%). The economy shrank by 3% in 2005. Iraq's major industries include petroleum, chemicals, textiles, leather, construction materials, food processing, fertilizer and metal fabrication.</p>	<p>N</p>
<p>Israel Parliamentary democracy. Population: 6m. Pop. growth: 1,2%</p>	<p>Following World War II, the Israelis defeated the Arabs in a series of wars without ending the deep tensions between the two sides. Israel and Palestine officials signed a declaration of principles in 1993 to guide an interim period of Palestine self-rule. But progress toward a permanent status agreement was undermined by Palestine-Israeli violence between September 2000 and February 2005. Internal Israeli political events between October and December 2005 have destabilised the political situation and forced early elections in March 2006. The president is largely a ceremonial role and is elected by the Knesset for a seven-year term. Israel has an advanced market economy in which government participation is very strong. The country has limited natural resources but owns intensively developed agricultural and industrial sectors. Leading exports include cut diamonds, high-technology equipment and agricultural products. Israel usually has a sizeable current account deficit which is covered by large transfer payments from abroad and by foreign loans. Half of government's external debt is sourced from the US. The economy rebounded from 2003 owing to tight fiscal policy and structural reforms. Rising consumer confidence, tourism and foreign direct investments further boosted growth in 2005. GDP amounted to \$114bn last year and was comprised of agriculture (3%), industry (38%) and services (59%). Major industries include high-technology projects, wood and paper products, potash and phosphates, food, beverages, tobacco, caustic soda, cement, construction, metals products, chemicals, plastics, diamond cutting, textiles and footwear. Economic growth is very robust, improving from 4,7% in 2005 to 6,6% in the first quarter of 2006 – which is the growth levels of the pre-Palestine-Israel conflict.</p>	<p>Y</p>

<p>Jordan</p> <p>Constitutional monarchy. Population: 5,9m. Pop. growth: 2,5%</p>	<p>Since its independence in 1946, Jordan was ruled by King Hussein until his death in 1999. He reinstated parliamentary elections and gradual political liberalisation in 1989 and signed a peace agreement with Israel in 1994. His son King Abdullah II assumed the throne in February 1999 and has since consolidated his power and undertaken an aggressive economic reform programme. Government's focus was on improving conditions for the poor and fighting corruption. The monarch is hereditary and the prime minister is appointed by the monarch. This small Arab country has inadequate supplies of oil and water. Jordan has worked closely with the IMF and has made significant progress with privatisation. Its trade regimes were liberalised enough to secure WTO membership in 2000. This membership, coupled with subsequent free trade agreements, have boosted productivity and made Jordan eligible for foreign investment. Its main export market is Iraq. Jordan needs to reduce its dependence on foreign grants, deflate its budget deficit and create stronger investment incentives to promote job creation. GDP amounted to \$11,5bn in 2005 and was made up of agriculture (5%), industry (12%) and services (83%). The economy grew by 6,1% in 2005. Its major industries include textiles, phosphate mining, fertilizers, pharmaceuticals, petroleum refining, cement, potash, inorganic chemicals, light manufacturing and tourism.</p>	<p>ILC</p>
<p>Kuwait</p> <p>Constitutional hereditary emirate. Population: 2,4m. Pop. growth: 3,5%</p>	<p>Kuwait gained its independence from Britain in 1961. A US-led coalition freed Kuwait from an Iraqi attack in 1991. Kuwait incurred costs of more than \$5bn to repair oil infrastructure that was damaged in 1991. There are no elections, the amir is hereditary and the prime minister and deputy prime ministers are appointed by the amir. This relatively open economy has oil reserves of approximately 96bn barrels which is 10% of world reserves. Kuwait's climate is not conducive to agricultural farming so it predominantly imports food. GDP amounted to \$53bn in 2005 and was made up of agriculture (0,5%), industry (52%) and services (47%). The economy grew by 4,8% in 2005. Major industries include petroleum, petrochemicals, cement, shipbuilding and repair, desalination, food processing and construction materials.</p>	<p>Y</p>
<p>Lebanon</p> <p>Republic. Population: 3,9m. Pop. growth: 1,2%</p>	<p>Lebanon has made notable progress towards rebuilding its political institutions after its devastating 15-year civil war. It has been able to conduct many successful elections since. The assassination of former prime minister Rafiq Hariri and 20 other people in February 2005 led to massive demonstrations in Beirut against Syrian presence in the country. Syria withdrew the last of its military forces from Lebanon in April 2005. In May-June last year, Lebanon held its first legislative elections since the end of the civil war which was free of foreign involvement. A two-thirds majority was handed to the bloc led by the slain minister's son. The president is elected by the national assembly for a six-year term. The civil war had a serious impact on the economy. It destroyed infrastructure, cut national output by half and almost ended Lebanon's position as a Middle East banking hub. Lebanon managed to rebuild much of its war-torn physical and financial infrastructure, albeit at the cost of huge loans mainly from domestic banks. Despite the assistance from donor nations, debt stood at 170% of GDP in 2005. The Core Group of Nations has announced plans to hold a donor's conference in Lebanon this year to help government restructure its debt and increase foreign investment. GDP amounted to \$21bn in 2005 and is comprised of agriculture (12%), industry (21%) and services (67%). The economy grew by 0,5% in 2005. Major industries include banking, tourism, food processing, jewelry, cement, textiles, mineral and chemical products, wood and furniture products, oil refining and metal fabricating.</p>	<p>ILC</p>
<p>Oman</p> <p>Monarchy. Population: 3m. Pop. growth: 3,3%</p>	<p>Qaboos bin Said al-Said has been the ruler of this sultanate ever since he ousted his father in 1970. There are no elections as the monarch is hereditary. He implemented modernisation programmes which opened the country to the rest of the world. Oman has preserved a longstanding political and military relationship with the UK. This middle-income country has notable oil and gas resources and a large trade surplus and low inflation. It joined the WTO in 2000. Oman is encouraging training in information technology, business management and English to its citizens in a bid to limit its dependence on foreign labour and reduce unemployment. Oman signed agreements with many foreign investors in 2005 to boost oil reserves, build and operate a power plant and develop a second mobile network in the country. GDP amounted to \$25bn in 2005 and was comprised of agriculture (2,8%), industry (40%) and services (57%). The economy grew by 4,3% in 2005. Oman's major industries include crude oil production and refining, natural and liquefied natural gas (LNG) production, construction, cement, copper, steel, chemicals and optic fibre.</p>	<p>Y</p>

<p>Palestine</p> <p>Republic / independent constitutional democracy. Population: 4,2m. Pop. growth: 3,6%</p>	<p>Palestine is one of the smallest countries in the Middle East with a short and fairly unstable history. It has a new and fresh democracy that is working on the surface (i.t.o free elections) but is dominated by heavy corruption and a ruthless police and intelligence. It has defined itself as an independent country since 1988. Its territory includes the West Bank, East Jerusalem and the Gaza strip. Following the January 2006 legislative elections won by the Hamas, the Quartet (a part of Russia) cut all funding to the Palestine Authority (PA). From March 2006, the PA have to face a cash deficit of at least \$1bn a year, which it needs to pay salaries to its 140 000 employees – mostly breadwinners to a third of the population. The US and the EU have also stopped direct aid to the PA. The lack of funds and the economic squeeze is increasing tension between the Hamas and the Fatah. Unemployment was estimated at 23% in 2005 and is expected to soar to 39% in 2006 while poverty, which was estimated at 44% in 2005, is expected at 67% in 2006 if Israel's decision to cut \$55m in tax receipts transfers and the US and EU's decision to stop direct aid to the PA are maintained. The country's infrastructure is poor compared to Israel. The six years of autonomy has seen marginal growth in industry, but this has been held back by a lack of funds. The output of the economy is predominantly agriculture and small-scale industry that included food, tobacco products, beverages and wood conversions. The living standards and economic growth are much higher in the West bank and Gaza strip. Jordan and Israel absorb 98% of Palestine's exports. The health service in Palestine is built on the Israeli health system and is of good quality but it is too small to serve the population adequately. Main exports include flowers and fruits.</p>	<p>N</p>
<p>Saudi Arabia</p> <p>Monarchy. Population: 27m. Pop. growth: 2,2%</p>	<p>Foreign troops on Saudi soil after Operation Desert Storm caused growing tensions between the royal family and the public until the US military's withdrawal into neighbouring Qatar in 2003. Government's efforts to counter domestic terrorism and extremism in late 2003 coincided with the beginning of media freedom and its plans to phase in partial political representation. Government allowed elections that ran from February 2005 to April 2005 for half the members of the 179 municipal councils. The monarch is chief of state and head of government. Only sons and grandsons from the kingdom's founder are allowed to become king. The council of ministers is appointed by the monarch and includes many royal family members. Saudi Arabia is an oil-dominated economy with noticeable Government presence over important economic activities. Approximately 25% of the world's proven petroleum reserves are found in Saudi Arabia, making it the largest exporter of petroleum and an important member of the Organisation of the Petroleum Exporting Countries (OPEC). The private sector contributes 40% to GDP and about 5,5m foreign workers are involved in the country's oil and service sectors. Government is encouraging private sector contribution, as this reduces its dependence on oil and creates employment opportunities for the growing population. Private sector participation and foreign investment has been welcomed in the power generation and telecom sectors. Saudi Arabia gained WTO status in 2005. High oil revenues have enabled the kingdom to increase spending on job training and education, infrastructure development and government salaries. GDP amounted to \$264bn in 2005 and was comprised of agriculture (3%), industry (75%) and services (22%). Major industries include crude oil production, petroleum refining, basic petrochemicals, ammonia, industrial gases, caustic soda, cement, fertilizer, plastics, metals, commercial ship repair, commercial aircraft repair and construction.</p>	<p>Y</p>
<p>Syria</p> <p>Republic – military dominated since 1963. Population: 19m. Pop. growth: 2,3%</p>	<p>Syria gained its independence from France in 1946. Due to its lack of political stability, Syria endured a series of military coups during its first decades. Hafiz al-Asad, a member of the Socialist Ba'ath Party and the minority Alawite sect, seized power in a bloodless coup and brought political stability to the country. Following the death of Hafiz al-Asad in July 2000, his son was elected president by popular referendum for a seven-year term. Petroleum and agriculture account for half of GDP. Syria's falling oil production and oil exports were aided by the rising oil prices, which helped to narrow its budget deficit and boost its current account surplus last year. Government began implementing modest economic reforms over the past few years. These reforms entailed reducing interest rates, opening private banks, consolidating some of the multiple exchange rates and raising prices on certain subsidised food items. Despite these efforts, the economy remains strongly under government control. Government needs to expand its economic base in order to counter its dwindling oil resources as well as address the declining water supplies due to the rapidly growing population. GDP amounted to \$26bn in 2005 and comprised of agriculture (23%), industry (24%) and services (53%). The economy grew</p>	<p>N</p>

	<p>by 4,5% in 2005. Major industries include petroleum, textiles, food processing, beverages, tobacco and phosphate rock mining.</p>	
<p>Turkey Republican parliamentary democracy. Population: 70m. Pop. growth: 1,1%</p>	<p>Turkey joined the UN in 1945 and became a member of Nato in 1952. It became an associate member of the European Community in 1964. Turkey has implemented reforms to strengthen its democracy and economy so that it could prepare for membership talks with the EU. The president is elected by the national assembly for a seven-year term. Turkey's economy has a mix of modern industry and commerce and a traditional agricultural sector which employs 35% of the labour market. Government plays a major role in the industry, banking, transport and communication sectors, although the private sector is growing fast. The largest industrial sector is textiles and clothing, but the automotive and electronics industry is also growing in importance. Economic reforms have enabled a turnaround in the economy, but given that this was predominantly due to investor interest in emerging markets and IMF backing, the burdens of a high current account deficit and high debt remain. Foreign direct investment (FDI) totalled less than \$1bn before 2005, but further economic and judicial reforms and prospective EU membership are expected to boost FDI. Privatisation sales are nearing \$21bn. GDP amounted to \$333bn in 2005 and comprised agriculture (12%), industry (30%) and services (58%). The economy grew by 5,6% in 2005. Major industries include textiles, food processing, autos, electronics, mining (coal, chromite, copper and boron), steel, petroleum, construction, lumber and paper.</p>	Y
<p>United Arab Emirates Federation with some powers delegated to member emirates. Population: 3m. Pop. growth: 1,5%</p>	<p>In 1971, six of the Trucial States of the Persian Gulf coast that gave control of their defence and foreign affairs to the UK, merged to form the United Arab Emirates (UAE). These included Abu Dhabi, Dubai, Sharjah, Fujayrah, Ajman and Umm al Qaywayn. In 1972 a seventh emirate, Ra's al Khaymah, joined the UAE. The UAE's generosity with oil revenues and its moderate foreign policy stance have allowed it to play a vital role in the region. The ruler of Abu Dhabi becomes the president of the UAE. Abu Dhabi is also the capital of the UAE. The council of ministers is appointed by the president. There is also a federal supreme council (FSC) made up of the seven emirate rulers which establishes general policies and sanctions federal legislation. The president and vice-president are elected by the FSC for a five-year term. This open economy is based largely on oil and gas output. The UAE has transformed itself into a modern state with a high standard of living. Government has prioritised spending towards job creation and infrastructure expansion and is opening its utilities to greater private sector involvement. In April 2004, the UAE signed a trade and investment framework agreement with Washington and in November 2004, it signed a free-trade agreement with the US. GDP amounted to \$98bn in 2005 and comprised agriculture (4%), industry (60%) and services (37%). The economy grew by 6,7% in 2005. Major industries include petroleum and petrochemicals, fishing, aluminium, cement, fertilizers, commercial ship repair, construction materials, some boat building, handicrafts and textiles.</p>	Y
<p>Yemen Republic. Population: 22m. Pop. growth: 3,5%</p>	<p>North Yemen gained its independence from the Ottoman Empire in 1918 and South Yemen gained its independence from the British in 1967. Three years later, the southern government adopted a Marxist orientation. The massive exodus from the north to the south exacerbated the two decades of hostility between the states. The two countries were formally unified as the Republic of Yemen in 1990. The president is elected by direct popular vote for a seven-year term. Yemen is one of the poorest countries in the Arab world. The economy depends mostly on oil. The country was on an IMF-supported structural adjustment programme designed to modernise and streamline the economy. This resulted in substantial foreign debt relief and restructuring. Commitment to the programme was short lived, as Government gave in to political pressure. Yemen is unable to control its excessive spending and rampant corruption. The July 2005 reduction of fuel subsidies resulted in widespread rioting. GDP amounted to \$14bn in 2005 and comprised agriculture (13%), industry (48%) and services (39%). The economy grew by 2.4% in 2005. Major industries include crude oil production and petroleum refining, small-scale production of cotton textiles and leather goods, food processing, handicrafts, small aluminium products, cement and commercial ship repair.</p>	N
<p>Researched and compiled by Lily Moodley, senior economic researcher: Credit Guarantee July 2006</p>		

Working together is basic to all collaborative actions, including business. Co-operation is dependent on TRUST and because TRUST is such an important ingredient in both collaborative work and ethical behaviour, it forms the subject of this further abstract from Chris Leisewitz's research report for a master's degree in applied ethics.

TRUST

has to be

EARNED

CORRUPTIO OPTIMI PESSIMA
 - *“Corruption of the best is the worst.”*
 (Latin citation, origin unknown)

Public trust in business has reached a very low level as a result of the many frauds, thefts and misrepresentations which have led to the demise of some of the largest corporations worldwide and resulted in enormous losses for investors, employees and other stakeholders. Trust means being accurate, complete and relevant in one's dealings with others.

A survey done by the World Economic Forum in 15 countries showed that the percentage of people saying they had “a lot” or “some trust” in the executives of multinational companies averaged only 33%. The leaders themselves enjoyed less trust than the corporation they led. In a follow-up survey by a US research institution, 74% of people said the reputation of corporate US is either “not good” or “terrible”.

This lack of trust is the result of consid-



Chris Leisewitz is a former managing director and CEO of Credit Guarantee.

erable differences in values between society and business, and this leads to pressure by society for more regulations and legislation to control business. Due to such pressure, the Sarbanes-Oxley law was promulgated in the US. In

South Africa we have among others, “the Prevention and Combating of Corrupt Activities Act” (PACCA) of 2004. This act states in its preamble:

“Corruption and related corrupt activities undermine the rights contained in the Bill of Rights, endanger the stability and security of society, undermine the institutions and values of democracy and ethical values and morality, jeopardize sustainable development, the rule of law and credibility of governments, and provide a breeding ground for organised crime.”

Francis Fukuyama shows how a low-trust-society has high transaction costs. The implementation of the Sarbanes-Oxley law has increased auditing expenses in the US by between 200% and 300%.

Clearly business does not enjoy being smothered with regulations and having to incur the extra cost, but more amenable self-regulation by business is insufficient. The complex and challenging business environment does not allow reliance on the market to police itself. Where large sums of money are involved, ethical issues are often not taken too seriously, meaning that institutions and laws are needed to help keep actors on the straight and narrow.

Society has been outraged by the frauds and corporate governance lapses including exorbitant executive pay awards (e.g., the debacle around the Mannesmann/Vodafone bonuses and the increases granted by many boards to the CEOs of the companies they lead and which did not perform well).

All this has eroded trust by society in business and yet “without trust we cannot stand”, as Onora O’Neill stated. We need to be able to trust one another at least to some extent for society to function. As the sociologist Niklas Luhmann said: “A complete absence of trust would prevent one even getting up in the morning.”

What, then, needs to be done to rebuild this all-important commodity of trust?

Obviously telling the truth, being open and transparent, disclosing all relevant information needed by the parties concerned to make a rational decision. In short, doing what for Kant is the most

important ethical requirement: Respecting the dignity, the autonomy of others – is the minimum.

However, Oliver Williams believes that this is not enough for building or restoring trust in business. Stakeholders, be they supporters or critics, must be given the opportunity to ask a specific person in a particular business for specific information. By offering stakeholders this chance and by ensuring that such enquiries are truthfully and completely answered, trust can slowly be rebuilt. Business must realise that it plays an important role in society and that it carries important responsibilities vis-à-vis

corporations are trusted by South African society to a much larger extent (63%) than for instance US organisations by Americans. This can be ascribed to the positive efforts by some South African companies to help their employees in the fight against HIV/Aids, to support affirmative action and to accept the need for black economic empowerment (although a great deal more needs to be done with regard to these issues, particularly by medium and small businesses).

Actions such as Pick 'n Pay's open and forthcoming handling of the recent blackmail efforts against it has helped build considerable consumer trust. Con-

mental to the business' long-term health.

A recent article in the **Business Times** highlights the importance of trust and reputation in building a brand. As Warren Buffet said: "It takes a lifetime to build a good reputation, and only a few minutes to destroy it." Reputation and trust are closely allied. A business that cannot be trusted will have a poor reputation and no one will have faith in its brand.

However, trust in the end relies on the integrity, goodwill and character of the leaders and the managers of businesses. As Oliver Williams stated: "Business leaders are first of all human beings and only secondarily managers of wealth creation. To check your human values at the office door is to invite chaos."

Finally, real trust is not built purely on rational choice; it is normative (what ought to be). Normative trust is the result of integrity, good character and principles. It is, I believe, the only trust of moral value because it is not based on egoism and prudence but on goodwill, interdependence and reciprocity.

Trust has to be earned. As Onora O'Neill says: "Well-placed trust grows out of active inquiry rather than blind acceptance", and this is of course in line with the comments by Oliver Williams, as quoted above.



In the end, trust relies on the integrity, goodwill and character of the leaders and the managers of businesses.

the populace and that it will be severely sanctioned if it does not fulfill its relevant obligations and thus loses the trust of the community.

If there is mistrust within a company, the business cannot have trusting relationships with its outside stakeholders. That will result in poor customer loyalty, acrimonious and damaging supplier relationships and reluctant providers of capital. Mistrust among managers and staff translates into poor motivation, non-cooperation and bad productivity.

Open, truthful and ready communication and consultation is the basis of trust. The CEO and management must make this their responsibility and, although good communication and honest consultation are difficult and time-consuming, it is an investment no business can afford not to make.

But without independent external monitoring, verification and public disclosure – without the laws, institutions and regulations, businesses' initiatives in this respect would only add to public cynicism. Management may talk of mutual trust when unveiling a compliance policy, but employees often see such a policy as nothing more than liability insurance for senior management – although such an attitude by employees may be entirely unreasonable.

South African multinationals and large

trast this with the disaster at Mitsubishi, which resulted from their withholding information from the public concerning hidden defects in certain of their cars.

The above clearly shows how important it is for the development and profitable growth of a business that it builds and maintains trusting relationships. The business' marketing, the quality of its product, the honesty of its service and the integrity and truthfulness of its communication to all stakeholders are funda-

Develop your capacity to reason

The Applied Ethics for Professionals (AEP) Programme offered by the Wits Philosophy Department is currently accepting applications from experienced and well-qualified professionals, executives and leaders in all fields. Meeting on occasional Saturday mornings, the AEP Programme is designed to accommodate the schedules of working professionals in the Gauteng area. The Programme is intellectually challenging and develops participants' capacity to reason critically, constructively and responsibly about a variety of significant ethical issues. It leads to a Postgraduate Diploma (by course work) in 1½ years or a Master of Arts degree (by course work and research report) in 2–2½ years. For more information about topics, methods and courses of study, email the AEP Programme Director, Dr Brian Penrose, at penroseb@social.wits.ac.za or call the Philosophy Department at 011 717 4345.

World markets update

The following credit classifications were recently updated.
For information regarding other countries, please contact Credit Guarantee.

AFRICA

BOTSWANA

Rating: 1B

Chief of state and head of government since October 2004 is President Festus Mogae. The national assembly elects the president for a five-year term and he appoints the vice-president. With a population of about 1,6 million, the government faces challenges of HIV/Aids (prevalence rate estimated at 37%) and unemployment which is unofficially estimated at 40%. Botswana is the world's largest producer by value of diamonds and diamond mining has fuelled much of the expansion of the economy, accounting for more than one-third of GDP and almost 80% of exports. Tourism, financial services, subsistence farming and cattle raising are other key sectors. It is rated the least corrupt country in Africa, according to a 2005 survey by Transparency International and has the highest credit rating in Africa as well.

MOZAMBIQUE

Rating: 3C

Head of state since February 2005 is President Armando Guebuza and Prime Minister Luisa Diogo is head of government. The president is elected by popular vote for a maximum of two five-year terms and he appoints the prime minister. Since the end of the civil war in 1992, Mozambique has made impressive progress on growth (about 8% a year from 1994 to 2004) and poverty reduction by implementing prudent macro-economic policies and structural reforms. Despite the dramatic improvement in the country's growth rate, Mozambique remains one of the poorest countries in the world and heavily dependent upon foreign assistance. About 70% of the estimated 20 million population live below the poverty line with agriculture occupying about 81% of the labour force. A currency reform is now underway and aims to make the metical manageable by knocking off the last three digits. The new bank notes and coins entered circulation on 1 July 2006.

NIGERIA

Rating: 3C

President Olusegun Obasanjo was elected head of state in May 1999. The president is elected for no more than two four-year terms in office. Obasanjo's second term will expire in 2007, paving the way for a new leader in April 2007. Calls for the president to run the coun-

How we rate them

Country classifications are based on a numeric and alphabetic basis associated with each country, with the numeric indicator showing the political rating of the country and the alphabet indicating the commercial risk. These range from 1 to 3 on the political rating with 1 being your lowest risk and 3 the highest. Likewise the A, B and C are relevant to the commercial rating – A being the lowest risk and C the highest risk.

Usually the two ratings are closely linked because the political rating of a country will impact directly on its commercial rating.

Factors taken into account when assigning ratings include the following:

Political rating

Assessing political and economic conditions and stability:

- Environment
- Economic policies
- Forex reserves – ability to generate
- Rule of law
- Access to legal system
- Banking and commercial infrastructure
- Past history as trading partner
- Utilising various sources of information such as D & B, Moody's, S+P, various publications, Internet, Berne Union, ICIA, PASA, IMF, World Bank, etc
- Negotiating country limits with reinsurers
- Country reports prepared by Credit Guarantee's economic researchers
- Credit Guarantee's country underwriting committee.

Commercial rating

Commercial ratings are based on the financial strength of buyers in a particular country as well as their ability to repay amounts within terms afforded:

- Underwriting experience of other credit insurers on buyers in a particular market.
- Number of insolvencies/ liquidations in a country.
- Access to funds for buyers in the market.
- Reliable credit information from the respective market.
- Trade references within markets.
- Global and domestic industry trends and their impact on a market.

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Economic researcher, Credit Guarantee
August 2006

try for a third term have been put to rest after Nigerian senators rejected a bill to amend the constitution. Next year's elections will mark the first time in Nigerian history that a civilian president hands over to another through elections. With a population of over 130 million people, Nigeria is Africa's most populous country. The oil-rich west coast country has been riven by political instability, corruption and inadequate infrastructure but a stable country may be in sight as the new administration is very reform-biased. The economy grew by 6,3% in 2005, boosted by a strong growth in the agriculture sector. The World Bank has claimed that Nigeria has the ability to match or surpass China's current growth rate of 10% per annum in the next five years if the current economic reforms and the war against corruption are sustained and seriously pursued. Nigeria won a Paris Club approval for debt relief last November that eliminated \$30bn of Nigeria's \$37bn debt by March 2006.

TANZANIA

Rating: 3C

Chief of state and head of government since December 2005 is President Jakaya Kikwete. The president is elected by popular vote for a five-year term. Uganda's President Yoweri Museveni and President Kikwete have stated in a meeting in March 2006 that East Africans will elect the first president of the East African Federation in 2013. With a population of about 37 million, Tanzania is one of the poorest countries in the world, relying on agriculture which accounts for 50% of GDP and employs 80% of the workforce. President Kikwete believes that the economy of Tanzania has the capacity to grow to the levels of the emerging Asian economies and could be industrialised by 2010. As East Africa's largest foreign direct investment (FDI) destination, Tanzania was urged by the United Nations to upgrade its tax administration, speed up settling of commercial court cases and to minimise red tape on business regulations. A report for Tanzania to rejoin the Common Market for East and Southern African (Comesa) is awaiting cabinet discussion after the country withdrew its membership five years ago.

NORTH AMERICA

CANADA

Rating: 1A

The chief of state is Queen Elizabeth II of Britain who is represented by Governor General Adrienne Clarkson. The head of government is Prime Minister Paul Martin of the Liberal Party of Canada. There are no presidential elections as the monarch is hereditary. The monarch, on the advice of the prime minister, appoints the governor general for a five-year term. Canada closely resembles the US in its market-oriented economic system, pattern of production and affluent living

standards. It enjoys a substantial trade surplus with its principal trading partner, the US, which absorbs more than 85% of Canadian exports. Increasing energy costs and worry about the impact of hurricanes in America have pushed consumer confidence to its lowest level in four years.

COSTA RICA

Rating: 2C

The election held in February 2006 voted in Nobel Peace Prize winner and previous president Oscar Arias for a four-year term. Costa Rica has a population of over 4 million people at an annual growth of 1,5%. This is a stable economy that is dependent on the tourism, electronics exports and agricultural sectors, drawing in foreign investors with its political stability and high education levels. Internal debt is still sizeable and inflation is still high due to rising import costs. The lack of competitiveness is considered a growing problem in Costa Rica. President-elect Oscar Arias's government will be raising taxes in order to boost education and reduce poverty. The country's poverty rate is at 21%. Its public infrastructure – especially roads and airports – is deteriorating rapidly.

S. & LATIN AMERICA

ARGENTINA

Rating: 2C

President Nestor Kirchner has been in power since May 2003. He was elected by popular vote for a four-year term. The next election is scheduled for 2007. President Kirchner has continued to emphasise his government's departure from the free-market orthodox policies of the 1990s. He reiterated his move away from the IMF and towards Chavez's Venezuela when he fired Roberto Lavagna, the successful economy minister, as part of his cabinet reshuffle. Argentina has a population of over 40 million people with an annual population growth rate of 1%. Supported by increased demand for goods and record exports, Argentina's economic growth of 9,2% in 2005 was the fastest pace in 13 years. South America's second-biggest economy, which grew faster than 8% for the third year in 2005, is expected to slow to 6,5% in 2006 after the government reduces spending and freezes wage increases to slow inflation.

BRAZIL

Rating: 2B

Chief of state since January 2003 is President Luiz Inácio Lula da Silva of the ruling Workers Party (PT). The president and vice president are elected on the same ticket by popular vote for four-year terms. The next presidential election is scheduled for 1 October 2006, with a runoff on 29 October if necessary. The governing

party faces allegations of corruption and bribery and in an election year this could prove politically fatal. Brazil is the largest and most populous country in South America with a population estimated at 186 million. The Brazilian economy is characterised by large and well-developed agricultural, mining, manufacturing and services sectors. Exploiting vast natural resources and a large labour pool, it is today South America's leading economic power and regional leader. Brazil is preparing for an economic boom and is part of the new emerging market funds called BRICs (Brazil, Russia, India and China) which are expected to be the four main economic superpowers of the future. Brazil's agricultural sector accounts for 40% of the country's GDP and government grabs an estimated 38% of GDP in the form of taxes and contributions. In December 2005, Brazil repaid its outstanding obligation of \$156bn to the IMF – two years ahead of schedule. This was made possible by a major improvement in the country's external position, marked by doubling of exports since 2002, renewed confidence in the economy and rising capital inflows.

CHILE

Rating: 2A

The last election was held in December 2005 when Michelle Bachelet of the centre-left Concertación de Partidos por la Democracia coalition won the presidency for a four-year term. She vowed to keep her nation's copper-rich economy vibrant and take steps to improve healthcare and education after becoming the country's first woman leader. Chile has a population of 16 million which is growing at a rate of 0,97% per annum. Its slow economic recovery began in 2003 when it posted GDP growth of 3,2%, which accelerated to 6,1% in 2004-05, while inflation remained low. GDP growth was chiefly supported by the solid export earnings and high copper prices. The strong sale of copper helped Chile's budget surplus double to 4,8% of GDP in 2005. Government debt fell to 7,6% of GDP at the end of 2005 from 10,9% of GDP in the previous year. Chile's A-credit rating from S&P is the highest in Latin America. At the end of last year the peso strengthened to a five and a half year high and was the world's second-best performing currency in 2005.

COLOMBIA

Rating: 3C

After skating to a second-term victory in the 29 May election, Colombia's Alvaro Uribe has promised to extend his war against guerilla fighters and press ahead with efforts to reduce taxes and lure investment. Uribe won 62% of the vote and the electoral authority said it was the most peaceful election in 10 years. Colombia is South America's second most populous country after Brazil, with a population estimated at 43m with a growth rate of 1,5% in 2005. The government is spending heavily to promote the country abroad to clean up its drug-and-violence image. Last year it launched a long-term multi-million dollar 'Colombia is Passion' campaign to attract foreign tourists. Nearly a million foreigners visited in 2005, a 21% increase from 2004 figures and the largest influx since 1982. According to the IMF, economic performance in 2005 surpassed expectations as real GDP rose by an estimated 5% contributing to declines in unemployment

and poverty. The outlook for 2006 remains favourable with real GDP expected to rise by 4,5% while inflation is likely to fall to the lower end of the target range of 4 to 5%. The high level of public debt is Colombia's main economic vulnerability. Colombia replaced its two-year US\$3bn stand-by arrangement with the IMF with a more limited one in May 2005 and aims to graduate from the fund when the agreement expires in November 2006.

URUGUAY

Rating: 3C

President Tabare Vazquez has been in power since March 2005. He was elected by popular vote for a five-year term, making him the first left-wing president in history. He has stated that his economic policy will be similar to that of the previous administration. Local authorities are predicting that this export-oriented agricultural economy will grow by 5,7% in 2006 from the 6,6% in 2005 and a record 11,8% in 2004. In March 2006, the president ratified the need to create state structures, which he termed 'a strategy for the next 20 years', for Uruguay to become a productive country. The country's medium and long term will be prioritised with reducing its external debt which currently stands between 80% and 90% of GDP. At the end of March 2006, Uruguay confirmed that it would repay \$630m to the IMF ahead of schedule, which would clear all its obligations to the Fund for 2006 and reduce the outstanding amount owing to the Fund to \$1,6bn.

VENEZUELA

Rating: ZZ

Head of state and of government since February 1999 is President Hugo Chavez Frias. The president is elected by popular vote for a six-year term. Despite attempts by opposition to remove him from office, the EIU predicts that Mr Chavez will win the presidential election at the end of 2006 owing to his popularity. Venezuela is highly dependent on the petroleum sector, accounting for about one-third of GDP, 80% of export earnings and about 53% of government's operating revenue. It's also the world's fifth largest oil exporter. Government revenue has also been bolstered by increased tax collection, which surpassed its 2005 collection goal by almost 50%. Due to the oil windfall and a large increase in public spending the economy recovered strongly, growing 18% in 2004 and 9,4% in 2005 but is expected to decline to 5,7% in 2006 because of political uncertainty which is likely to dampen investment. Venezuela seized oil fields from private companies after allegations that they failed to comply with a government demand that operations be turned over to state oil company Petroleos de Venezuela SA (PDVSA). Private oil companies had run 32 oil fields in Venezuela under contract with the government but last year the government demanded that the contracts be changed into 'mixed company' joint ventures that give PDVSA a minimum 60% stake.

ASIA

GUAM

Rating: 2B

Head of state since January 2002 is President George W Bush of the US. Head of government since January 2003 is Governor Felix P Camacho and Lieutenant Governor is Kaleo Moylan. Governor and lieutenant governor are elected on the same ticket by popular vote for a four-year term. The population is estimated at 171 019 with an annual growth rate of 1.43%. The economy depends largely on tourism, US military spending and other federal spending. Guam receives large transfer payments from the US Federal Treasury into which Guamanians pay no income or excise taxes. The planned transfer of 8 000 US Marines from the southern Japanese island of Okinawa to Guam will also fuel economic resurgence in the coming years. The move, which is expected to be complete by 2014, will cost Japan and the US more than \$10bn in infrastructure costs and an additional \$5bn in military spending.

INDIA

Rating: 2C

Members of the central and state assemblies indirectly elected President Abdul Kalam in July 2002 for a five-year term. The Prime Minister, Manmohan Singh, presides over a council of ministers chosen from elected members of parliament. In March this year, India offered Pakistan a treaty of peace and security to speed up the resolution of differences on key issues, seeking to end almost six decades of tension between the nuclear-armed neighbours. India's population is the second highest in the world at about 1.08bn with a growth rate estimated at 1.4% in 2005. Its diverse economy encompasses national village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services. Services are the major source of economic growth, accounting for over half of India's output and employing a quarter of the labour force. India is capitalising on its large numbers of well-educated and skilled people to become a major exporter of software services and software workers. Average annual economic growth over the last decade (approximately 6.8%) has been second only to that of China and has reduced poverty by almost 10%. Lack of infrastructure and complex labour laws are stalling the development of large-scale manufacturing. The country's stock of forex reserves is the fifth largest among emerging markets and the sixth largest in the world. India is the largest weapons buyer in the developing world and has been upgrading its military with the aim of securing a permanent seat on the UN Security Council.

INDONESIA

Rating: 3C

Chief of state since October 2004 is President Susilo Bambang Yud-

hoyono. The president and vice-president are elected for five-year terms by direct vote of the citizenry. The popularity of the president has fallen due to his decision to cut the retail fuel price subsidy. The cost of subsidising domestic fuel placed increased strain on the budget last year and combined with an indecisive monetary policy, contributed to a run on the currency last August, prompting government to enact a 126% average fuel price hike in October. Indonesia is the fourth most populous country in the world with a population of 245 million. GDP growth in 2005 was 5.6% – its highest rate in nine years. The Economist expects GDP growth to slow in 2006 due to softer growth in private consumption, but is expected to rebound in 2007 from higher domestic demand. Government intends repaying its multi-billion dollar debt to the IMF in two stages within two years – ahead of its 2010 schedule. The repayment is essential in reducing the country's heavy debt burden. According to The Economist, investors are concerned that widespread regional outbreaks of bird flu will make so many people unable to work that global supply chains will be interrupted and output will fall, tipping the world into recession.

MALAYSIA

Rating: 2B

The head of state since December 2001 is Paramount Ruler Tuanku Syed Sirajuddin Jamalullail and prime minister is Abdullah Badawi. The paramount ruler is elected among the sultans for a five-year term, making Malaysia the only elective monarchy in the world. As a constitutional monarchy, executive power is vested in the prime minister, with the king serving as more of a figurehead. Malaysia transformed itself from a producer of raw materials, heavily dependent on agricultural and mining activities into an emerging multi-sector economy by shifting its focus to manufacturing and tourism as its major sources of income. Despite the shift, Malaysia remains the world's primary exporter of rubber and palm oil. It is well endowed with natural resources in areas such as agriculture, forestry and minerals. Tin and petroleum are the two main mineral resources that are of major significance in the Malaysian economy. As an oil and gas exporter, it has profited from higher world energy prices. The government predicts that at current production rates Malaysia will be able to produce oil for 18 years and gas for 35 years. Malaysia is on track to reach its government's economic growth target of 6% this year, despite fears that exports are slowing. The fixed exchange rate which pegged the Malaysian ringgit to the US dollar at MR3.80:US\$1, was replaced by a managed floating system in July 2005. Standard Chartered Malaysia is expecting the ringgit to strengthen to RM3.52 to a dollar by year-end.

PAKISTAN

Rating: 3C

Chief of state since June 2001 is President General Pervez Musharraf, elected by parliament for a five-year term. In a referendum held on 30 April 2002, Musharraf's tenure was extended by five additional years. It is scheduled to hold elections by October 2007. Pakistan has 166 million people and has been marred by decades of internal political strife and regional conflicts that limited investment

and economic development. Growth is increasingly being supported by industrial production while the economy is becoming less dependent on the agricultural sector. GDP growth rose above 7% in 2004 and 2005, but inflation remains a significant worry, averaging above 9% in 2005. Pakistan is set to become a major manufacturing country of the world with high economic growth ranging from 6% to 8% and hopes to reduce poverty by half in the next 15 years.

PHILIPPINES

Rating: 3C

Chief of state and head of government since January 2001 is President Gloria Macapagal-Arroyo. The president and vice president are elected on separate tickets by popular vote for six-year terms. The last election was held in May 2004 and the next is to be held in May 2010. After an attempt to oust Arroyo from power in July 2005, the EIU expects political instability to continue distracting the government's attention from their economic reform agenda. The Philippine archipelago is made up of 7 107 islands with a population of over 89 million. The economy grew 5,1% in 2005 from 6% the previous year. Buoyed by a strong flow of remittances from overseas workers, personal consumption expenditure remained the largest contributor to GDP growth in 2005. Weak exports and a decline in investment served as a drag on activity. The government has set a full-year growth target of 5,5-6,2%. Electronics account for almost 66% of total exports while agriculture accounts for 20% of GDP and employs two out of every five Filipinos. Agricultural outlook for the year depends on the La Niña weather phenomenon, which brings torrential rains. Philippine copper, gold, and chromite deposits are among the largest in the world. Other minerals include nickel, silver, coal, gypsum and sulphur. The discovery of natural gas reserves off Palawan Island has been brought online to generate electricity.

THAILAND

Rating: 2B

King Phumiphon Adunyadet has been head of state since June 1946. There are no elections, the monarchy is hereditary and the prime minister is designated from the members of the house of representatives. The constitutional court declared the April elections invalid and Thailand's cabinet has approved 15 October as the date for new elections, raising hopes of ending months of political crisis in the kingdom. GDP growth averaged over 6,5% between 2003 and 2004 and fell to 4,6% in 2005 after a year of high oil prices, weaker demand from Western counterparts, droughts in rural areas, tsunami-related declines in tourism earnings and lower consumer confidence. A regional survey has named Thailand as the only country in Asia where corruption has worsened over the past year. Thailand is becoming a software and particularly animation centre, where Western companies outsource work for high-quality software and animation at economical prices.

VIETNAM

Rating: 3C

Vietnam is a communist state with one political party. Chief of state since September 1997 is President Tran Duc Luong. The national assembly elects the president for a five-year term. The next elections are scheduled for 2007. The economy made significant progress between 1986 and 1997 to improve development and reduce poverty, but the Asian crisis of 1997 magnified the problems in the country's economy which slowed reform temporarily. GDP growth improved from the 6,8% average between 1997 to 2004 to 8% in 2005. Now the country's commitment to economic liberalisation and global integration remains firm. The IMF forecasts GDP growth of 7,4% in 2006 and 2007 and inflation to fall from 7% in 2006 to 6% in 2007. Vietnam is pursuing industrialised status by 2020. Its aim is to pull itself out of the under-developed category by boosting exports and intensifying its efforts to integrate itself into the region and world. Revenues from crude oil exports are expected to net \$5bn in 2006 and remittance estimates are also expected to earn \$5bn.

W. EUROPE

BELGIUM

Rating: 1A

Head of state since 1993 is King Albert II and prime minister since 1999 is Guy Verhofstadt, whose heir apparent is Prince Philippe, son of the monarch. The monarch is hereditary and following legislative elections, the leader of the majority party /coalition is usually appointed prime minister by the monarch and approved by parliament. The next election for the federal parliament is due in May 2007. With a population estimated at 10,3m, Belgium has one of the highest population densities in Europe estimated at 342/km². Belgium has a particularly open economy and a highly developed transportation network to integrate its industry with that of its neighbours, Netherlands, Germany, Luxembourg and France. With few natural resources, Belgium imports substantial quantities of raw materials and exports a large volume of manufactures thus making it dependent on the state of world markets. Services account for 74% of GDP, industry 24,7% and agriculture the remaining 1,3%.

CANARY ISL.

Rating: 1B

The Canary Islands are an ancillary of the Kingdom of Spain consisting of seven islands of volcanic origin in the Atlantic Ocean. They form part of the 19 autonomous communities run by King Juan Carlos, the King of Spain. An assembly rules each of the seven major islands. The economy size is estimated at E25bn, making the Canaries one of the most powerful economies in the Central Atlantic Region. The economy is based primarily on tourism which accounts for up to 80% of the gross income of the archipelago. Besides tourism, locals

live from the banana industry, other agricultural exports and tourism-related service industries. The Canaries experienced continued growth during a consecutive 20-year period, up until 2001, at a rate of approximately 5% annually. The growth rate for 2005 is estimated at 3,5% with inflation averaging 4,3%. The islands are outside the European Union customs territory, though politically within the EU and use the euro.

CYPRUS

Rating: 3C

President Tassos Papadopoulos is both the chief of state and head of government since March 2003. The president is elected by popular vote for a five-year term and the next presidential election is scheduled for February 2008. Cyprus was split into the Greek Cypriot-controlled south and the Turkish Cypriot-occupied north since Turkey's invasion in 1974. The Republic of Cyprus has a capitalist economy dominated by the services sector, which accounts for 76% of GDP (mainly tourism and financial services). Erratic growth rates over the past decade reflect the country's reliance on tourism which often fluctuates with political instability in the region and economic conditions in Western Europe, where the majority of tourists originate. The Cyprus pound joined the European Exchange Rate Mechanism (ERM2) in May 2005 at a central rate of C£0,585:€1 and Cyprus could adopt the euro within the next two years. In April 2005, Mehmet Ali Talat was directly elected as the president of Northern Cyprus for a five-year term and is only recognised as president by Turkey. The Turkish Cypriot economic growth tends to be volatile, given its relative isolation, bloated public sector, reliance on the Turkish lira and small market size. The Turkish Cypriots are heavily dependent on transfers from the Turkish government and were allocated about \$550m under the 2003/06 economic protocol.

DENMARK

Rating: 1A

Head of state since 1972 is Queen Margrethe II and the monarch is hereditary. Head of government since November 2001 is prime minister Anders Fogh Rasmussen. Following the legislative elections, the leader of the majority coalition is usually appointed prime minister by the monarch. The last election was held in February 2005 and the next election is due in 2009. Denmark is a country with a modern market economy. It is a net exporter of food and energy and enjoys a comfortable balance of payments surplus. It has been successful in meeting and exceeding the economic convergence criteria for participating in the third phase of the EMU, but it maintains the use of its currency, the krone. Denmark can boast being debt-free in four years if the current trends prevail. The revised overview of national debt would reduce the country's debt from €73bn to €21,3bn, enabling the country to be virtually debt-free in 2009.

IRELAND

Rating: 1A

Chief of state, President Mary McAleese, was appointed for a second seven-year term in October 2004 when no other candidate qualified

for presidency. Head of government is prime minister Bertie Ahern since June 1997. The elections for the house of representatives are scheduled for May 2007. Ireland's economy is maintaining a Europe-leading pace of growth and the country is rated as the second wealthiest in the EU25 behind only Luxembourg. The economy continued to perform strongly in 2005 with growth increasing by 4,5% and forecast to increase by 4,8% in 2006. Industry accounts for 46% of GDP, about 80% of exports and 29% of the labour force. Although exports remain the primary engine for Ireland's growth, the economy has also benefited from a rise in consumer spending, construction and heavy investment by high-tech multinationals, particularly in the computer and pharmaceutical industries.

LUXEMBOURG

Rating: 1A

Head of state since October 2000 is Grand Duke Henri and his heir apparent is Prince Guillaume, his son. The monarch is hereditary and following popular elections to the chamber of deputies the leader of the majority party/coalition is usually appointed prime minister by the monarch. The country's 468,571 citizens enjoy extraordinarily high standards of living; GDP per capita ranks first in the world, estimated at \$62 500 in 2005. The industrial sector initially dominated by steel, has become increasingly diversified to include chemicals, rubber and other products. Luxembourg is home to Arcelor, the world's largest steel producer. The economy is highly dependent on the financial sector accounting for 22% of GDP. As a founding member, Luxembourg remains a strong supporter of the EU.

NETHERLANDS

Rating: 1A

Chief of state is Queen Beatrix and the heir apparent is Willem-Alexander, son of the monarch. Head of government since July 2002 is prime minister Jan Peter Balkenende. Political parties have started profiling themselves in preparation for the general election due in 2007. The Netherlands has a prosperous and open economy. It continues to play a pivotal role as an import and re-export market and because of its strategic location acts as the distribution hub to Europe. A highly mechanised agricultural sector employs less than 4% of the labour force and accounts for only 2% of GDP, but provides large surpluses for the food-processing industry and for exports. Industry contributes about 24% of GDP and services account for 74% of GDP. Although Dutch crude oil is relatively small, the Netherlands ranks among the largest producers and distributors of natural gas. In a bid to restore rapidly declining competitiveness previously eroded by rapid wage growth, the government, unions and employers agreed to a wage freeze in 2004-05. The Netherlands is currently the seventh-largest trading nation in the world with a turnover (export + import) of over \$600bn.

PORTUGAL

Rating: 1B

In the last election (January 2006) president Anibal Cavaco Silva was elected the first centre-right president since the coup of 1974. The

president is elected by popular vote for a period of five years. Portugal has become a diversified and increasingly service-based economy since joining the European Community in 1986. With tight fiscal conditions and sluggish export growth, economic growth dwindled to a mere 0,2% in 2005. Portugal's stability and growth programme 2005-2009 forecasts that the economy should record gradual growth acceleration of 1,1% in 2006, 1,8% in 2007, 2,4% in 2008 and 3% in 2009, which should place the country back on track with EU mean income levels. From 2007 onwards, a significant upturn in growth continues to be forecast, based on investment and exports.

SPAIN

Rating: 1A

Chief of state since 1975 is King Juan Carlos I and the heir apparent is Prince Felipe. Head of government since April 2004 is president Jose Luis Rodriguez Zapatero and the next election is due in 2008. Spain has a population of over 40 million people with a growth rate of 0,15% in 2005. It has a mixed capitalist economy that is continuing the liberalisation and privatisation efforts implemented by the Aznar administration. The OECD warned of the possibility of 'the beginning of a decline' of the Spanish economic situation, given the fragile confidence climate. Hundreds of farm workers occupied a farm in southern Spain on 1 May 2006 to protest against the allocation of EU farm subsidies. They claimed that 80% of the farm subsidies from Brussels for the southern Andalusia region fall into the hands of the area's 30 biggest landowners. The E15 million that the landowners receive do not allow for the development of infrastructure, jobs and wealth in the farmers' villages.

SWITZERLAND

Rating: 1A

Chief of state since January 2006 has been President Moritz Leuenberger. Elections are held annually every December as the president and vice-president are elected for one-year terms. Switzerland is a scenic landlocked country that has a stable modern market economy with its banking sector being the key driver of its economy. The weak economic growth of the continent has depressed growth in Switzerland over the past few years. GDP growth contracted to 0,3% in 2003 before recovering to 1,8% in 2004 and 1,9% in 2005. Unemployment of about 3,8% in 2005 has managed to remain below half of the EU average. Productivity has been sluggish due to a lack of competition in sheltered products markets together with a poorly performing public sector. The OECD recommends reforms to reduce trade protection and to liberalise the postal services and electricity and gas industries. It also calls for competition in the health system to promote greater efficiency. Switzerland's largest export branch – engineering – has reported that after a successful 2005, it anticipates further growth in 2006.



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