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Managing risk, enabling trade

June 2021

United Arab Emirates: DSO upward trend businesses' top concern

Atradius Payment Practices Barometer

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commented on the report

The results of this year’s Payment Practices Barometer survey reveal a drop in the use of open credit, an increase in the cost of managing accounts receivable and a spike in late payments.

Understandably most of the businesses polled told us that their primary concern was maintaining liquidity levels.

2020 saw a deep economic contraction in the United Arab Emirates with GDP shrinking by as much as 7%. This downturn is clearly reflected in the results of this year’s Payment Practices Barometer survey which reveals a drop in the use of open credit, an increase in the cost of managing accounts receivable and a spike in late payments. Understandably most of the businesses polled told us that their primary concern was maintaining liquidity levels.

However, this fairly bleak picture does not tell the whole story. Indeed, as much as half of the businesses polled in the United Arab Emirates (on par with the regional average) are optimistic about an improvement in their business performance (sales and profits) over the next 12 months. This view is anchored in the fact that most businesses believe export sales will pick up pace during the second half of 2021 and strong Sovereign Wealth Funds have ample capacity to buffer the local economy.

Strong business confidence can also be seen in the widespread belief that B2B credit sales will become an increasingly widespread business practice over the next 12 months, in order to stimulate demand and to provide informal B2B financing.

As both the global and local economies start to pick up following the pandemic, businesses should be alert to heightened risks of insolvency, especially where a growing order book may require more liquidity than a business has available. Extending credit, along with the cost of managing their accounts receivable, could place additional financial strain on businesses. Trade credit insurance can help businesses reduce the risks associated with late and non-payments, while also helping businesses enhance their own due diligence and credit quality assessment processes.

Key takeaways

Increasing credit administration costs can pose a threat to businesses

More than half of businesses in the United Arab Emirates reported an increase in the cost of managing their accounts receivable over the past year. This can be a tricky balance for businesses. Open credit can be a powerful sales tool. However, profits can be undermined if businesses need to spend margins on resolving late payments or absorbing bad debts. Strong and proactive credit management processes can help support on-time payments and prevent late payments from escalating.

Payment terms present powerful business tool

Despite last year's slowdown in the economy and lower levels of credit sales, most businesses in the United Arab Emirates continued to offer similar payment terms to those offered prior to the global economic crisis. Payment terms are a powerful business tool, with the potential to offer an edge over competitors or provide short term financing to promote the flow of trade. Local businesses told us they set payment terms according to their company standards or operational liquidity, suggesting they are keen to exploit the potential of liberal payment terms, while maintaining limits to minimise risk.

Businesses in United Arab Emirates report an increase in late payments

Late payments are a growing issue for businesses in the United Arab Emirates. Survey respondents told us that this year it has taken their customers slightly longer to settle overdue invoices than last year (an average of 40 days longer, compared to last year's 37-day average). The longer an invoice remains unpaid, the greater the risk that the customer will default entirely. This is where credit insurance can make a significant difference. In addition to providing peace of mind that the invoice will be covered in the event of customer default, many businesses report that customers often prioritise paying businesses with credit insurance first, in order to maintain a good rating with the credit insurer.

Credit sales dip amid slowdown of economy

Pandemic-induced contractions in key markets, particularly steel and agri-food, have led to a significant drop in credit sales. The United Arab Emirates now has the lowest percentage of credit sales across the countries surveyed in Asia, with 50% of all B2B sales compared to 54% for Asia as a whole.

Survey results for UAE

Pandemic economy sees significant drop in credit sales

The United Arab Emirates has the lowest percentage of B2B credit sales across the countries surveyed in Asia. 50% of all B2B sales in the industries we surveyed (agri-food, chemicals and steel/metals) are made on credit, compared to 54% for Asia as a whole. The use of credit by businesses in the United Arab Emirates has also dropped dramatically year-on-year from 64% to the current 50%. However, although the number of credit sales dropped, a significant proportion of businesses told us they did not alter the frequency with which they offered credit. This was on average 44% of respondents, almost in line with the response rate in Asia. In contrast, 37% of the businesses reported increasing the frequency of credit sales over the same time frame. The frequency with which businesses trade on credit indicates that open credit still plays a significant role in United Arab Emirates trade relations, albeit less than seen across Asia.

A comparison of the use of open credit between domestic and export markets shows that businesses are more likely to offer credit to domestic customers. 54% of credit sales were to domestic customers (average for Asia: 56%). Whereas export credit sales were reported by 46% of respondents, a little higher than the 44% average for Asia.
From an industry perspective, the United Arab Emirates chemicals industry is the most likely to trade on credit terms, with an average of 51% (lower than the 54% average for the industry in Asia).

The steel/metals industry ranks second, with 50% credit sales (consistent with the average in the same industry in Asia). The agri-food industry follows with an average of 46% credit sales (lower than the 52% average for the industry in Asia).

UAE: how do you expect your business performance to change over the coming months?

IMPROVE	NO CHANGE	DETERIORATE
51%	41%	8%

Which key developments will drive your business improvement?

Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Businesses offer open credit to win new customers more often than in Asia

More businesses polled in the United Arab Emirates (37%) than across Asia (26%) told us they increased the use of open credit to win new customers. 44% of businesses increased the frequency of trading on credit over the past 12 months to encourage repeat business.

53%

of the businesses polled in the United Arab Emirates, compared to 37% in Asia overall, believe that their DSO will deteriorate over the coming months chiefly due to less efficient collection of overdue B2B invoices.

This was significantly lower than the 54% response rate across Asia. Increasing the use of open credit to stay competitive was reported by just over 10% of businesses polled in the United Arab Emirates and across Asia alike. Less than 10% of businesses in the United Arab Emirates and Asia reported offering credit to provide customers with short-term finance.

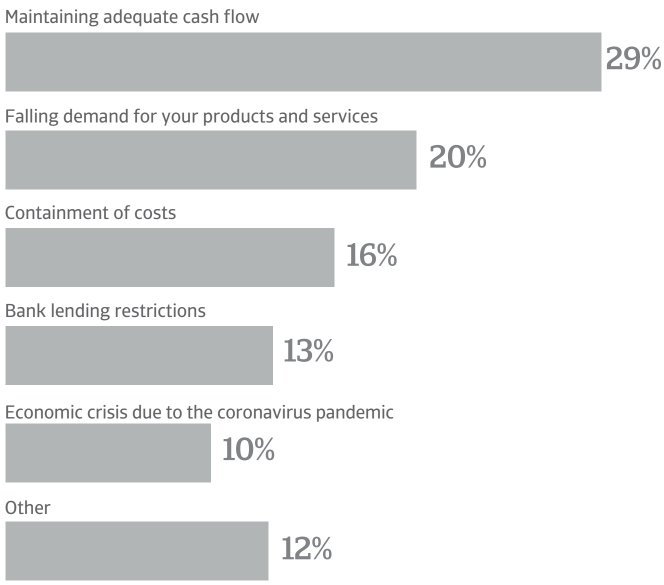
Over half of businesses reported increased credit administrative costs

More businesses in the United Arab Emirates (52%) than in Asia (49%) reported an increase in administrative costs associated with management of accounts receivable arising from B2B trade in the year that followed the pandemic outbreak. Most of this was spent on maintaining a credit department dedicated to assessing and monitoring customer credit risk using information acquired either through external specialist agencies or financial statements and bank references. Fewer businesses in the United Arab Emirates (32%) than in Asia (41%) reported no change, and more businesses in the United Arab Emirates (14%) than in Asia (9%) reported a decrease in the administrative costs.

The capital costs (i.e. financing or interest paid during the time-lag between the credit sale and the settlement of the invoice) either did not change or increased significantly for the same percentage of businesses in the United Arab Emirates over the past year, likewise for their peers in Asia. Interestingly, 42% of the businesses polled in the United Arab Emirates (21%) than in Asia reported decreased costs associated with collection of overdue B2B invoices. This is likely due to more effective invoice collection efforts in the United Arab Emirates than in Asia. This was most often cited by businesses that frequently adjusted payment terms to reflect varying credit risk profiles.

UAE: top 5 greatest challenges to business profitability in 2021

% of respondents



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Payment terms hold steady year-on-year

Over the past year, most of the businesses we polled in the United Arab Emirates (49%) did not alter their average payment terms. Those that that did alter payment terms most often gave their customers longer to pay (cited by 41% of businesses in the United Arab Emirates and 35% in Asia). Only 10% of the businesses polled cut payment terms shorter than last year (in line with the regional average).

52% of the businesses polled in the United Arab Emirates most often set payment terms according to their company standards (average for Asia: 53%). More businesses in the United Arab Emirates (45%) than in Asia (39%) determined payment terms according to the reference parameters of their profit margins. Additional reasons cited by respondents included reflecting the payment terms of their own suppliers, as well as being guided by the availability and cost of capital needed to finance credit sales. This suggests a strong focus on working capital requirements, although this appears to be less strong in the United Arab Emirates than in Asia. A breakdown of payment terms by industry can be seen below, in the overview by industry section.

Late payments hit businesses harder than across Asia

60% of all B2B invoices in the United Arab Emirates remain unpaid, significantly higher from the 50% average for Asia. It took business customers an average of 40 days longer, compared to last year's 37-day average, to settle overdue invoices. A similar trend was evident in the case of long-term overdue invoices (over 90 days overdue), which appeared to impact businesses in the United Arab Emirates slightly more than in Asia.

Despite such a large proportion of late payments, more businesses in the United Arab Emirates (12%) than in Asia (7%) reported a decrease in the frequency of late payments over the past year. Nearly half of the businesses polled in the United Arab Emirates and Asia alike reported no change and fewer businesses in the United Arab Emirates (36%) than in Asia (40%) reported an increase over the past year. Interestingly, despite spending more on the administrative costs associated with managing credit, bad debt losses and write-offs amounted to 8% in the United Arab Emirates (compared to last year's 1%). This is higher than the 5% reported in Asia.

Liquidity issues and potential drop in demand top future business worries

More businesses in the United Arab Emirates (29%) than in Asia (26%) expressed concern about maintaining adequate cash flow over the coming months. A potential fall in demand for their products and services concerns more businesses in the United Arab Emirates (20%) than in Asia (15%). Interestingly, businesses in the United Arab Emirates appear far more worried than the regional average about possible restrictions to bank lending alongside the continuation of pandemic disruptions to supply chains. Conversely, an increase in geopolitical tensions, is less of a worry to businesses in the United Arab Emirates than their Asian peers.

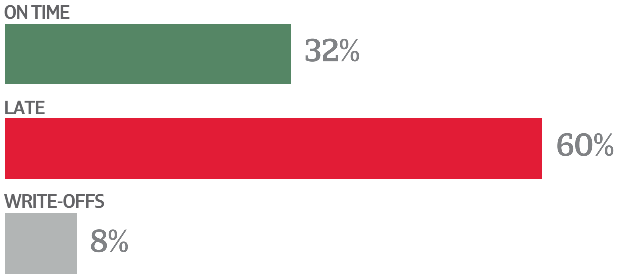
Half of businesses express upbeat business confidence

Half of the businesses polled in the United Arab Emirates (on par with the regional average) are optimistic about an improvement in their business performance (sales and profits) over the next 12 months. Twice as many respondents in the United Arab Emirates (32%) than in Asia (15%) believe the anticipated improvement will be mainly due to increased exports, which are expected to offset last year's sharp drop in the volume of trade. Interestingly, this is the highest response rate citing this amongst the countries surveyed in Asia.

This is may be a reflection of the fact that the United Arab Emirates is among the world's most dynamic markets in terms of export trade. Fewer businesses in the United Arab Emirates than in Asia believe that the expected improvement in business performance will be mainly due to either a rebound of the domestic economy or to a combination of this latter and healthier export flows. Against this backdrop, more businesses in the United Arab Emirates (36%) than in Asia (32%) are of the opinion that B2B credit sales will become an increasingly widespread business practice over the next 12 months. The main reason cited for this is to stimulate demand from B2B customers particularly in the industries where it may have dropped due to the pandemic economic downturn. This is followed by the desire to allow B2B customers time to pay.

UAE: on average, within what time frame do your B2B customers pay their invoices?

% of respondents



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Businesses turn to cash to protect accounts receivable

More businesses polled in the United Arab Emirates (46%) than in Asia (38%) told us they plan to request payment in cash or on terms other than open credit over the coming months. This suggests an increasing perception of customer payment default arising from trading on credit. For those businesses that plan to continue offering open credit, the majority (45%) will use in-house retention and management of customer credit risk through self-insurance (regional average: 43). In addition, many businesses told us they plan to request payment guarantees and of letters of credit more often. 40% of businesses plan to employ credit insurance over the coming months (more than the regional average of 37%). Businesses also plan to offer discounts for early payment of invoices more often, and intensify their invoice collection efforts, in particular of long-term overdue invoices. 36% of the businesses polled in the United Arab Emirates believe that DSO will deteriorate over the coming months. This is on par with the average for Asia.

40%

of the business polled in the United Arab Emirates plan to resort to trade credit insurance more often to protect their business from customer credit risk over the coming months (regional response rate: 37%).

Overview of payment practices in UAE By industry

AGRI-FOOD

Overview

Weather conditions and high irrigation costs mean that most of the United Arab Emirates' food needs are imported, and some are re-exported. The hospitality sector represents the main pillar of the industry. Business performance in this segment remains poor due to the negative impact of the pandemic, particularly on hotels and restaurants where consumer confidence and demand is extremely low. Lockdown measures have also negatively impacted the industry sales due to a decreasing population, as many expatriate workers returned to their own countries after the outbreak of the pandemic. Competition seems to have intensified in this segment as the customer base has reduced and supply remains at an elevated level. As a result, payment defaults have sharply increased in the industry.

DSO far higher than regional average

The average DSO (days sales outstanding) for the local agri-food industry is 172 days; far higher than the average 119-day for the industry at the regional level. In an attempt to protect their businesses from the liquidity constraints caused by late payments, 61% of the industry withheld payment to their suppliers (regional average: 41%).

Credit management tools employed by the industry include letters of credit (reported by 59%; regional average: 55%), and payment terms set according to the customer's credit risk (reported by 57%; regional average: 51%). 57% of agri-food businesses in the United Arab Emirates (consistent with the response rate for the region) offered discounts for early payment of invoices. However, despite this diversified approach to managing credit risk, 56% of the agri-food industry in the United Arab Emirates appears to be impacted by late payments, compared to an average of 49% in Asia. Similarly, when it comes to bad debt losses, businesses in the United Arab Emirates appear to be worse off than their Asia-wide peers. On average, the former wrote off 10% of the total value of their B2B receivables, compared to a 6% average for Asia). This fairly high percentage of write-offs is despite active engagement in chasing overdue invoices, as reported by 26% of businesses polled in the United Arab Emirates and 29% in Asia.

Majority of agri-food industry expects improvement in business performance

More agri-food businesses in the United Arab Emirates (28%) than in Asia (17%) are concerned about ongoing depressed demand for their products and services over the coming months, as well as ongoing disruptions to the industry supply chain impacting their business operations and profitability. Concern about maintaining adequate cash flow levels is expressed by 24%, compared to a 32% response rate for Asia. Despite these concerns, nearly 60% of the businesses polled in the both the local and regional industry were optimistic about the potential improvement to their business performance (sales and profits). Significantly more businesses in the United Arab Emirates industry (33%) than in Asia (14%) believe their business performance will improve chiefly due to an increase in export trade flows. 33% of businesses believe that improvement will arise from either a rebound in the domestic economy or from a combination of increased exports and more favourable economic conditions (regional average: 57%). 44% of the industry believe that trading on credit will become more widespread to stimulate demand from customers over the coming months (regional average: 38%).

CHEMICALS/PHARMA

Overview

Deterioration in demand from key buyer sectors has negatively impacted the payments performance of the industry's chemicals segment. In the plastic and related segments, payment performance of businesses remains poor. In contrast, the payments performance of the industry's pharmaceutical segment is better, driven in part by the increased global demand for medicines and medical products caused by the pandemic.

Local industry impacted by more late payments than in Asia

70% of businesses in the chemicals/pharma industry in the United Arab Emirates prefer to retain and manage customer credit risk in-house (this is equal to the percentage reporting the same in Asia). Trade debt collection is an important aspect of this, undertaken by nearly 60% of the businesses in the local industry and in the industry in Asia alike. Businesses across the region as well as in the United Arab Emirates also expressed a greater preference for selling on terms other than open credit. Despite this, the local industry appears to be more impacted by late payments than their Asian peers. 62% of the total value of industry credit sales was reported to be overdue (higher than the 54% average for the industry in Asia).

A similar pattern can be seen with long-term overdue invoices of high value, where the local industry appears to be less successful at achieving prompt invoice-to-cash turnarounds than its peer across Asia. This is reflected in the 126-day average DSO, longer than the 95-day regional average . An average of 7% of receivables were written off (on par with the industry in Asia). 44% of respondents delayed paying suppliers (more than the regional average of 37%). Interestingly, more businesses in the local industry (30%) than in their industry peers in Asia (20%) told us they either delayed paying bills and staff, or delayed investing in plant and equipment. 25% of respondents (higher than 19% in the industry in Asia) told us they reduced the workforce.

Liquidity issues are a focus of concern for businesses in the industry

Like their industry peers in Asia, over one quarter of the businesses in the United Arab Emirates chemicals/pharma industry told us they are concerned about maintaining cash flow in the coming months. More businesses in the United Arab Emirates than Asia as a whole expressed concern over a potential fall in demand for products and services, possible bank lending restrictions that could hamper their financial flexibility and their ability to access cash to weather fluctuations in their business activity. However 44% anticipates no change in their business performance over the next months (regional average: 36%), although fewer businesses in the local industry (49%) than in Asia (57%) anticipate improvement. Unsurprisingly, in light of the increased global demand for medicines and medical products due to the pandemic, twice as many businesses in the United Arab Emirates industry than in its peer in Asia (15%) predict this improvement will come from increased foreign demand. 37% of businesses believe growth will be driven by an improvement in the domestic economy over the coming months (lower than the regional average of 43%). Similarly, fewer businesses in the local industry (31%) than in Asia (41%) believe growth will come from a combination of better domestic economic conditions and stronger export flows. Against this backdrop, most businesses in the United Arab Emirates and Asia agree that open credit will continue to play a great role in both domestic and foreign B2B trade relationships. This is, reportedly, both to strengthen demand that may have weakened in some sectors due to the pandemic, and to allow customers more time to pay, should they need to sell goods on or to obtain bank finance.

STEEL/METALS

Overview

The pandemic-triggered economic crisis has severely hit businesses in the steel/metals industry in the United Arab Emirates, further worsening an already subdued performance dating back over two years. This may explain the strong approach to cash flow management reported by the majority of businesses we spoke to. These include a focus on invoice collection aimed at safeguarding liquidity levels, containing credit management costs and protecting business profitability and viability going forward.

Ensuring cash flow is paramount in order to be able to actively participate in the expected rebound of the economy. This is forecast to trigger improvements in the industry's business performance, sustained by a bigger role played by open credit as a facilitator of B2B trade relationships.

SURVEY RESULTS
SURVEY DESIGN
STATISTICAL APPENDIX

Focus on liquidity protection paramount for business in the industry

In a bid to bring cash in sooner than the invoice due date and therefore safeguarding the business liquidity levels, 76% of the businesses polled in the United Arab Emirates steel/metals industry told us they frequently offer discounts for early payment. This helped half of the businesses polled in the industry to stabilise, or even reduce DSO over the past year to the current 100-day average (down from last year's 110 days). Businesses adjusted their payment terms to match the credit risk profile of the customer almost as often as they offered discounts for early payment. They also took in to consideration the availability and cost of capital needed to finance the time gap between invoicing and payment. Reliance on their own internal resources for credit risk management was reported by seven in ten businesses polled in the industry, while a lower percentage told us they opted to outsource protection of the business against the risk of customer payment default to a credit insurer.

Due to the severe impact of the pandemic-induced economic downturn on many segments of the United Arab Emirates steel/metals industry, customer payment default affected 60% of B2B invoices issued in the local industry over the past year. 7% of long-term overdue receivables (over 90 days overdue) was written off as uncollectable.

This has tripled over the past year, indicating pressure on cash flow due to a deteriorating efficiency in the collection of long outstanding overdue invoices of high value. This is despite an increase in the time, costs and resources spent on chasing up overdue payments over the past year (reported by 47% of the industry). As a consequence of pressure on cash flow, which deprives businesses of funds that could be used in their operations, the survey respondents told us they needed to delay payments to their own suppliers and reduce the workforce (42% of respondents in both cases).

Cash flow is primary concern for the steel/metals industry

Businesses in the United Arab Emirates steel/metals industry told us they will be increasing efforts to maintain adequate liquidity levels and to reduce pressure on profit margins over the next months. Containment of credit management costs to safeguard business profitability remains paramount for this.

Meanwhile, a significant reason for concern expressed by many businesses is the potential for a further weakening of demand from both local and offshore re-export businesses caused by the pandemic. However, business confidence is good due to an optimistic outlook for improving sales and profits (48% of respondents in the industry) despite continuing uncertainty about the duration of the pandemic-triggered economic crisis.

However, most steel/metals businesses in the United Arab Emirates (46%) believe any improvement in their business performance will be due to a rebound of the domestic economy, whereas 35% anticipate improvement will come from healthier export flows. Being confident that economic recovery is underway, nearly one in three businesses polled in the United Arab Emirates industry are of the opinion that trading on credit with B2B customers will become a more widespread practice over the coming months to allow customers more time to pay invoices as well as a tool to stimulate both domestic and foreign demand.

Survey design for Asia

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. In this report focusing on Asia, which is part of the 2021 edition of the Atradius Payment Practices Barometer, companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed.

Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results. Using a questionnaire, CSA Research conducted 1,200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and UAE) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of the market data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=1,200 people were interviewed in total (approximately n=200 people per market). In each market, a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021.

Sample overview – Total interviews = 1,200

Economy	Interviews	%
China	200	16.7
Hong Kong	200	16.7
Indonesia	200	16.7
Singapore	200	16.7
Taiwan	200	16.7
UAE	200	16.7
Business sector (total Asia)	**Interviews**	**%**
Manufacturing	521	43.4
Wholesale trade/Retail trade/Distribution	464	38.7
Services	215	17.9
Business size (total Asia)		
Small enterprises	99	8.2
Medium-sized enterprises	896	74.7
Large enterprises	205	17.1

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia.
This is part of the June 2021 Payment Practices Barometer of Atradius, available at
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