



United Arab Emirates: a pessimistic outlook anticipates deteriorating B2B payment habits

Atradius Payment Practices Barometer





The Payment Practices Barometer is a survey of business-to-business payments behaviour. The UAE survey was completed by businesses during March 2020. After reporting its first cases of coronavirus in late January, the UAE saw an escalation of the contagion and the application of containment measures aimed at limiting the spread of the virus.



**Schuyler D'Souza,
Managing Director Middle East,
commented on the report:**

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It is still very premature to predict the impact of the coronavirus pandemic on the economy of the United Arab Emirates. This is because the full extent of the impact is still to unfold. However, like all economies around the world, the UAE is dealing with an unprecedented disruption of business activity and tourism. This is especially true of the trade exchanges in which the UAE plays a central role at a global level. Moreover, the pandemic has come at a time of weak economic growth following the collapse in oil prices. All this has contributed to cloud the economic outlook for the UAE, placing a heavy strain on the domestic business environment.

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Introduction

Like all economies around the world, the UAE faces the disruptive impact that the pandemic has had on trade, tourism and business activity in the country, compounding years of weak growth following the collapse in oil prices. Despite the current measures planned to prop up the economy during the coronavirus pandemic, businesses interviewed for this survey felt pessimistic about their future and about the trends in their B2B customers' payment practices over the coming months.

Key takeaways from the report

More credit-based B2B transactions were recorded in the UAE than anywhere else in Asia, according to the results of our survey, with a majority associated with domestic as opposed to international B2B trade. For many of the businesses surveyed, this pointed to an example of short-term financing sought by their customers to support their own cash flow.

Regardless of the reasons for the widespread use of B2B credit, it is important to note that a significant amount of business capital is tied up in account receivables. Whilst it is a way to establish and strengthen B2B relationships, companies are also exposed to the risk of payment delays or non-payment.

Bank guarantees and letters of credit are frequently used by businesses in the United Arab Emirates to mitigate the risk of non-payment. However, with an anticipation of worsening payment practices including an increased risk of payment default, businesses in the UAE might benefit from further enhancing their credit management processes. This could include a regular and structured approach to pre-credit checks, regular monitoring of buyer's risks and outsourcing invoice collection to a professional agency.



Survey findings for the UAE

Trade credit plays a key role as a source of short-term finance in the domestic market

Responses to the Atradius Payment Practices Barometer survey in the UAE highlight that an average of 64% of the total value of respondents' sales to B2B customers was transacted on credit, while 36% was traded on a cash basis. The proportion of credit-based B2B transactions in the UAE is the highest recorded in Asia and is significantly above the 56% regional average, pointing to the key role that trade credit has in UAE B2B trade.

Furthermore, survey findings highlight that 78% of the B2B sales on credit have been transacted on the UAE domestic market (well above the 61% average for Asia). This is most often the case for respondents from large enterprises in both the manufacturing and services sectors. In contrast, UAE respondents are less inclined to grant trade credit to their B2B customers abroad, as 22% of sales to B2B customers were transacted on export markets (around half of the 40% average for Asia).

UAE extends region's longest payment terms

The UAE offers the longest average payment terms of all of the countries surveyed in Asia, at 57 days from invoicing (regional average: 43 days). The survey data shows that 25% of respondents requested payment from B2B customers within 30 days of the invoice date, 46% in the range from 31 to 90 days, while a sizeable percentage of respondents (29%) reported having set payment terms of 90 days or more from invoicing. This finding is consistent with the key role played by trade credit as a source of short-term B2B financing, as noted earlier. UAE large enterprises and enterprises in the manufacturing sector report far longer average payment terms (both 66 days).

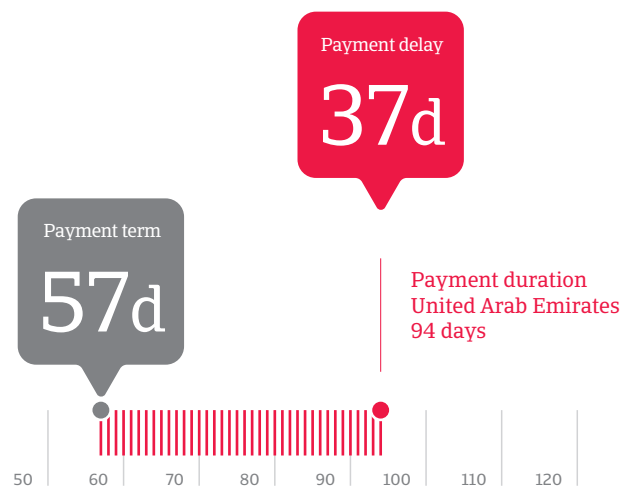
When asked about the underlying criteria for setting payment terms, 41% of respondents in the UAE, chiefly large enterprises and the services sector, reported that they set payment terms in accordance with their company standards and internal business practices (below the 51% regional average). In contrast, over one quarter of respondents (26%) set payment terms that are in line with the trade relationship with the customer (regional average: 19%). This is particularly true of enterprises with turnover ranging between 4 to 7 million AED and in the wholesale trade sector.

Letters of credit the most often used B2B trade financing tools in the UAE

A sizeable proportion of working capital in the UAE is tied up in B2B receivables, and is vulnerable to the risk of payment default from customers. This may explain why respondents in the UAE display a strong focus on the liquidity aspect of credit management. This is reflected in the nearly 60% of survey respondents reporting that their credit-based B2B sales are normally preceded by the request of a letter of credit, to be initiated by the customer as a guarantee the timely payment of the invoice amount (average for Asia: 65%). Letters of credit appear to be most often used by large enterprises and by businesses in the services sector.

Bank guarantees for credit sales are also quite extensively used instruments of B2B trade financing in the UAE (requested by 53% of the respondents, vs. a 67% average for Asia). Both these instruments are most often used by mid-sized businesses and again in the services sector. Payments in cash and cash equivalents are also methods often requested by survey respondents in the UAE (45%).

Payment duration in the United Arab Emirates



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – June 2020



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53%

of UAE respondents expressed concern about a deterioration of their B2B customers' payment practices, leading to an upswing in long overdue B2B invoices over the coming months

Atradius Payment Practices Barometer – June 2020

Businesses hit hard by late payment in B2B trade

Despite the extended payment terms enjoyed by B2B customers, it appears that many do not pay invoices in a timely manner. Survey findings highlight that, on average, 72% of the total value of the B2B invoices issued by respondents in the UAE is overdue (above the 52% average for Asia). 13% extend over 90 days overdue (average for Asia: 15%), with a high likelihood of ending up as bad debts that may never be collected. Despite this, the percentage of write-offs of uncollectable receivables amounts to less than 1% of the total value of B2B invoices (below the 3% average for Asia). Of note, respondents reported that they had the most difficulty in collecting outstanding debts from B2B customers in the construction industry.

For most respondents in the UAE (68%, well above the 49% average for Asia) late payment from B2B customers is chiefly due to liquidity issues. This was most often reported by mid-sized and in the services sector. For 52% of respondents (regional average: 28%), chiefly from large enterprises and in both the manufacturing and services sectors, the most frequent reason for B2B customers' late payment is the market power of the customer. This seems to tally with the finding that large enterprises and enterprises in the manufacturing sector report far longer average payment terms than the country average, in the sense that long payment terms seem not only just dictated

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UAE companies responding to our survey expressed concern about their future business performance, anticipating a deterioration of their B2B customers' payment practices that could negatively affect their cash flow position. To face these growing challenges, it is essential for UAE businesses to protect their core value from unrecoverable trade receivables. This involves reducing customer credit risk exposure to levels that are manageable for the company and which can, in turn, free up capital that can be used to weather these challenging economic times.

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Schuyler D'Souza,
Managing Director Middle East



by financing reasons but also by the customer's market share or position in the market.

Not surprisingly, given the high percentage of overdue payments, nearly half of the respondents in the UAE reported that due to late payments they had difficulty in paying bills and staff. Nearly 30% of respondents reported they needed to delay payments to their own suppliers, while around one quarter put in place measures aimed at strengthening their own credit control procedures, including the suspension of deliveries until overdue invoices are settled.

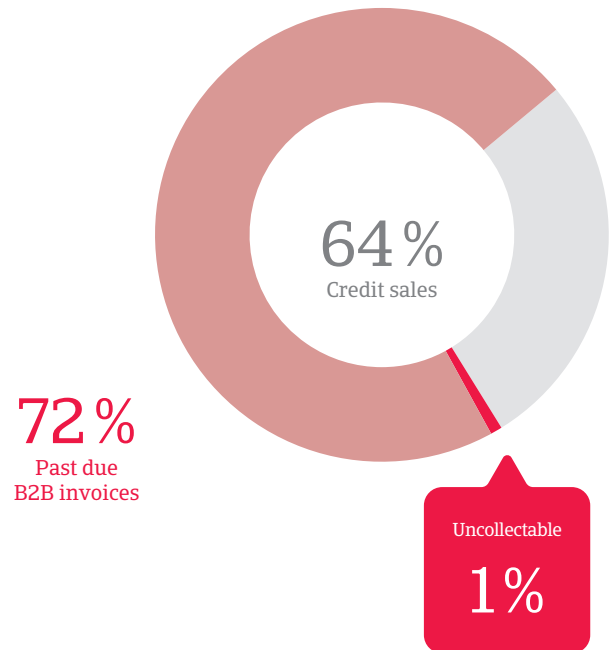
Majority of businesses in the UAE anticipate worsening of B2B customers' payment habits

Due to the disruptive impact caused by the coronavirus pandemic to international trade and the domestic economy, over half of the survey respondents in the UAE (53%) expressed concern about a deterioration of their B2B customers' payment practices, leading to an upswing in long overdue B2B invoices over the coming months. The remaining 45% anticipate no change, and only 2% foresee a positive trend in customers' payment habits going forward. In response to this, the majority of respondents in the UAE (70%) will continue to focus on their internal credit control procedures, using the same credit management instruments they currently use and strengthening their internal debt collection procedures going forward (58%).

Nearly 60% of the respondents are of the opinion that their industry's indebtedness will trigger an increased dependence on bank finance. Interestingly, a sizeable percentage of respondents (28%) believe that banks will be less likely to lend financial support to businesses in the coming months. This contrasts with the 33% of respondents with a more optimistic view of bank behaviour and 29% who are convinced that the situation will remain as it is now. Against this backdrop, and

Uncollectable B2B receivables in the United Arab Emirates

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

amid measures undertaken to support the economy, nearly half of the respondents in the UAE (49%) expressed concern about a deterioration of the business performance of their industry, in terms of sales and profits, over the coming months. The remaining half of respondents did not have a clear-cut view on the future trend of their industry's business performance.

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1 in 2
respondents in the UAE are concerned about a deterioration of the business performance in their industry over the coming months

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Overview of payment practices in UAE

By industry



Chemicals

Overdue invoices affect three fifths of total B2B sales value

According to respondents from the chemicals industry in the UAE, 64% of the total value of B2B invoices is overdue and less than 1% is written off as uncollectable. Just under half (36%) is paid on time. Due to late payments from their B2B customers, over half of the respondents (52%) needed to delay payment of invoices to be able to pay bills and staff. In terms of debt collection, many respondents (26%) reported they had the most difficulty in collecting outstanding debt from B2B customers in the construction industry, while for 20% it was most difficult in their industry.

For most of the respondents (79%), B2B customers pay invoices late due to liquidity shortages, while 63% attribute late payment to the market power of the customer. Reflecting low efficiency in collecting long-term outstanding invoices of high value, 22% of respondents reported DSO (Days Sales Outstanding) figures up to 30 days, 29% up to 90 days and 49% of 90 days or more. This results in an 83-day average DSO for the industry.

Atradius · Key Findings

56%
of UAE respondents in the chemicals industry expect their B2B customers' payment practices to worsen

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Letter of credit the most common credit risk mitigation tool in the industry

In order to manage customer credit risk, and ensure the financial viability of the business, the majority of respondents from the UAE chemicals industry (71%) reported they most often requested letters of credit to be initiated by the B2B customer prior to a credit sale. 62% of UAE respondents requested guarantees of payment from their B2B customers to ensure fulfilment of payment obligations.

Despite their strong focus on credit risk control, still a sizeable percentage of respondents (36%) reported they needed to delay payments to their own suppliers to remain financially sound, increasing time, resources and costs to chase overdue invoices. For 69% of respondents this involved, in particular, a strengthening of their internal debt collection procedures.

Deterioration of B2B customers' payment habits expected

Far more survey respondents in the UAE chemicals industry expect their customers' payment practices to deteriorate (56%) than to improve (42%) over the coming months. Only 2% of the respondents have an optimistic view in this regard. Owing to the anticipated deterioration, 3 in 5 respondents reported that over the coming months they will keep on using the same credit management tools they are currently using (see earlier on in this report) aimed at strengthening credit control procedures to protect cash flow and the investment capacity of the business.

The majority of respondents in the UAE chemicals industry (76%) believe that dependence on bank finance will increase over the coming months due to the increased indebtedness of the industry. However, far more respondents (38%) expect banks to decrease the provision of financial support to the industry to alleviate temporary cash-flow shortages than those expecting it to increase (28%). Against this backdrop, 54% of respondents are of the opinion that the UAE chemicals industry business performance (sales and profits) will deteriorate over the coming months.



Agri-food

Liquidity issues the most common reason for late payments in the agri-food industry

Late payments in the UAE agri-food industry correspond to an average of 73% of the total value of the B2B invoices issued. Long-term outstanding receivables (those more than 90 days overdue, with a high likelihood of turning into bad debts) average 12% of overdue payments. Both percentages are in line with the country averages. B2B customers in the UAE agri-food industry pay invoices late most often due to liquidity shortages (57% of survey respondents) while for 33% of respondents, late payments are attributable to B2B customers using outstanding invoices as a form of financing.

The proportion of B2B receivables written off as uncollectable in the UAE agri-food industry averages less than 1% of the total value of B2B invoices (in line with the country average). In terms of debt collection, respondents reported they had the most difficulty in collecting outstanding debt from B2B customers in the food industry. 44% of UAE respondents in the agri-food industry reported DSO (Days Sales Outstanding) up to 30 days, 28% up to 60 days and the same percentage of 90 days or more, resulting in a 71-day average (country average: 88 days).

Majority of suppliers in the UAE agri-food industry request cash payments in B2B trade

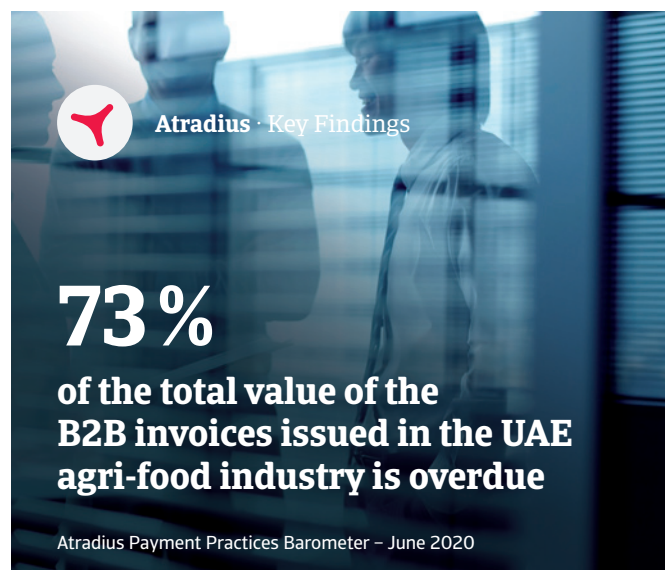
Nearly 60% of respondents in the UAE agri-food industry ask their B2B customers to settle invoices in cash, cash equivalents or in terms other than trade credit to safeguard the business from the risk of customer payment default. The request of letters of credit or of guarantees of payment prior to a sale on credit is reported by 51% of the respondents. For 41% of respondents, customer credit risk is best controlled through the adjustment of payment terms to reflect creditworthiness, as well as the trade relationship with the B2B customer.

Despite their strong focus on the liquidity aspect involved with the granting of trade credit, nearly half of respondents in the industry reported difficulties in paying bills and staff. This implied the need to delay payments to their own suppliers to remain financially sound, and to strengthen their internal credit control procedures through a substantial increase in time, resources and costs to chase overdue invoices.

Agri-food industry in the UAE pessimistic about future payment habits of B2B customers

As survey findings reveal, far more respondents in the UAE agri-food industry (68%) are pessimistic about the future trend of their B2B customers' payment habits than those who expect an improvement (32%). The anticipated deterioration is forecast to cause an upswing in long overdue invoices. However, in order to mitigate customer credit risk over the coming months, the majority of respondents (82%) reported they will keep on using the same credit management tools they are currently using (most often letters of credit and guarantees of payments). However, 33% of respondents plan on requesting payment in cash, or cash equivalents, from their B2B customers more frequently going forward.

Consistent with their pessimistic view about the future trend of their B2B customers' payment practices over the coming months, most respondents in the UAE agri-food industry (64%) believe that the overall indebtedness of their industry will increase and with that businesses will be more dependent on bank finance. Despite this, 36% of the respondents are confident that banks will continue to support businesses over the same period to alleviate pressure on cash flow, while 26% anticipate no change and a sizeable percentage (30%) anticipate that banks will decrease lending to the industry.





Steel / metals

Four out of five invoices in the industry are overdue

Based on survey responses, a very high proportion of working capital is tied up in B2B receivables, as 80% of the total value of the B2B invoices issued in the industry has been reported to be overdue (above the 72% country average). Long-term outstanding receivables (those more than 90 days overdue) average 16% of overdue payments. This is above the 13% country average. According to survey findings, most of the respondents in the UAE steel/metals industry (65%) attribute late payments from B2B customers to liquidity issues. For 53% of respondents, late payments were due to B2B customers' market power.

The proportion of receivables written off as uncollectable averages 2% of the total value of B2B invoices issued in the industry, (higher than the country average currently at less than 1%). Respondents reported they had the most difficulty in collecting outstanding debt from B2B customers in both the construction and construction materials industries. When asked to indicate their average DSO (Days Sales Outstanding), 24% of UAE respondents in the steel/metals industry reported DSO up to 30 days, 36% up to 90 days and 40% of 90 days or more, resulting in a 110-day average (significantly above the 88-day average for the country). This indicates very low efficiency in collections of overdue invoices of high value, depriving businesses of funds that could be used in their operations.

Significant increase in costs and resources to chase overdue invoices

To mitigate customer credit risk, respondents in the UAE steel/metals industry focused on increasing costs and time to chase and collect unpaid invoices (55% of respondents). 46% of respondents reported they needed to safeguard the financial flexibility of their business, alleviating pressure on cash flow. Many respondents did so by suspending deliveries until payment of invoices from the customer (37% of respondents).

In order to link the mitigation of customer credit risk with their trade credit policy decisions, most respondents in the UAE steel/metals industry (47%) reported that they frequently adjusted credit payment terms to reflect the credit quality of their customers. Moreover, 42% of respondents said they planned to avoid credit risk concentration through reducing reliance on a single buyer.

Upswing in long overdue invoices expected due to worsening of payment habits

The majority of respondents in the UAE steel/metals industry (55%) anticipate that their B2B customers' payment practices will deteriorate over the coming months, causing an upswing in long overdue invoices. 42% anticipate no change in customers' payment habits, while 3% foresee an improvement. To mitigate the expected worsening of customer credit risk, 35% of the respondents plan on requesting payment in cash or cash equivalents more often, while many respondents (22%) plan on offering discounts for early payment of invoices.

According to 44% of respondents, over the coming months dependence on bank finance by the UAE steel/metals industry will increase due to rising levels of indebtedness. 50% of respondents expect the industry's business performance to worsen over the coming months. However, many respondents in the industry (40%) believe that banks will continue to give the same level of financial support to the industry, or even to increase it, over the coming months.



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 2020 edition of the Atradius Payment Practices Barometer, companies from seven economies (China, Hong Kong, India, 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 1,413 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (China, Hong Kong, India, 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 country 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=1,413 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: March 2020.

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Sample overview – Total interviews = 1,413

Economy	n	%
China	209	14.8
Hong Kong	200	14.2
India	204	14.4
Indonesia	200	14.2
Singapore	200	14.2
Taiwan	200	14.2
UAE	212	12.3
Sector (total Asia)		
Manufacturing	593	42.0
Wholesale trade/ Retail trade / Distribution	598	42.3
Services	222	15.7
Business size (total Asia)		
Small enterprises	140	9.9
Medium-sized enterprises	949	67.2
Large enterprises	324	22.9

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 2020 Payment Practices Barometer of Atradius, available at

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