



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

UAE MSMES BUSINESS SURVEY REPORT 2020

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List of Abbreviations

AECB	<i>Al Etihad Credit Bureau</i>
AED	<i>United Arab Emirates Dirham</i>
AML/CFT	<i>Anti money-laundering and countering terrorism financing</i>
CBUAE	<i>The Central Bank of the UAE</i>
EDB	<i>Emirates Development Bank</i>
EFCI	<i>Etihad Export Credit Insurance</i>
KYC	<i>Know Your Customer</i>
LFI	<i>Licensed Financial Institutions</i>
MSMEs	<i>Micro, Small Medium Enterprises</i>
SMEs	<i>Small, Medium Enterprises</i>
TESS	<i>Targetted Economic Support Scheme</i>
UAE	<i>United Arab Emirates</i>
UN	<i>United Nations</i>
US	<i>United States</i>
ZCF	<i>Collateralized Zero Cost Facility</i>



Executive Summary

A vibrant sector of micro-, small- and medium-sized enterprises (MSMEs) in the UAE is an important pre-requisite of a diversified, innovative and resilient economy. Although the Central Bank of the UAE (CBUAE) is not in the driving seat to support MSME development, it can make an important contribution by issuing an appropriate prudential and market conduct framework for licensed financial institutions to support MSMEs. Moreover, it can collaborate with other governmental entities on measures to develop this sector further.

It is critical for CBUAE's ability to make informed decisions to have regular and accurate information on MSME sentiment and their access to financing. CBUAE thus conducts annual MSME surveys. This is the second such survey, which summarizes responses from 632 MSMEs and 7 banks active in their financing.

This year's survey is special. It was completed in early 2021, when the economy was still feeling

the consequences of the COVID-19 pandemic strongly, which hit SMEs particularly hard. Against this background, the survey responses reveal a troubled sector, but one with a great deal of resilience and an untamed hope of economic recovery.

The survey revealed that almost three-quarters of MSMEs considered themselves financially constrained; fewer than a third reported making new investments. However, only a small fraction of companies (17%) sought bank financing, about half of whom obtained it. The rejection of credit applications was mainly due to weak business performance and short credit histories. It is interesting to note that, among the factors explaining why MSMEs did not seek bank financing, 19% of the companies cited that they were debt-averse.

The survey also demonstrated that MSMEs have made significant steps to make themselves more "bankable". The use of collateral (other

than cheques and personal guarantees, which are always used in the context of MSME lending) increased significantly: three-quarters of respondents confirmed that they borrowed against collateral, a significant increase over the results reported in the previous survey. It also confirmed that complying with the Know-Your-Customer requirements is not seen as a constraint by over 95% of respondents, which shows that the increased focus on anti money-laundering and countering terrorism financing (AML/CFT) by financial institutions in the UAE has not adversely impacted commercial activity.

The survey also found a positive relationship between access to financing and audited financial accounts. 65% of medium-sized companies and 50% of small companies reported the positive impact of audited financial statements on access to credit, which sends a clear signal that financial transparency and the use of external audit increases MSME "bankability". Another factor positively affecting MSME bankability is the universal use of Al Etihad Credit Register and its credit scores, which are available for three-quarters of medium enterprises and two-thirds of small ones.

The survey revealed that the interest rates charged to SMEs remain high - often in double digits - reflecting the commercial risk associated with banks' exposure to this sector. CBUAE welcomes more extensive use of instruments to reduce credit risk, which should make borrowing less expensive, including the registration of collateral at the Emirates Movable Collateral Registry and export credit insurance. It is also important to continue raising the awareness about these instruments among the MSME community.

A survey of banks complements the MSME survey, whose results are largely consistent with the latter. CBUAE has mitigated the pandemic's effects through its TESS program, which benefitted MSMEs in several ways. CBUAE front-loaded the implementation of certain aspects of the Basel III regulatory standards by making it less capital-intensive for banks to finance small businesses. They were also eligible for loan deferrals during the pandemic, financed by CBUAE's zero-cost funding facility, which has been extended until mid-2022 to support

new lending to the sector. The TESS program and other regulatory relief measures are likely contributing factors behind the year-on-year increase in the MSME lending volume observed at the end of the second quarter of 2021.

Another important initiative in support of the small businesses sector is the issuance of the CBUAE's Small to Medium Sized Enterprises Market Conduct Regulation in April 2021. This regulation intends to promote best practice among licensed financial institutions (LFIs) when engaging with MSMEs. The regulation advances CBUAE regulatory agenda by setting standards of market conduct for LFIs; strengthens governance over the design, promotion and sale of financial products and services, and promotes responsible financing practices and appropriate disclosure of risks. In addition, it provides small businesses with access to timely and accurate information to make informed decisions, implements clear mechanisms for redress of their complaints, and requires appropriate debt counselling. Furthermore, LFIs are required to ensure that the opening of a bank account for a SME should be completed within three business days, provided that LFIs undertake appropriate due diligence related to financial crime compliance, and that the borrowing company presents a low risk of money-laundering or terrorism financing. The regulation also requires LFIs to establish an independent and effective complaints management function to ensure fairness, transparency and neutrality in resolving complaints.

At the end of 2020, CBUAE implemented a new regulatory framework for loan-based crowd-funding. This will diversify the funding sources available to MSMEs, without compromising on adequate regulatory protection for lenders and borrowers.

CBUAE expects that the TESS programme, in combination with the recently-adopted SME Market Conduct Regulation and the new regulatory framework for crowd-funding, will facilitate access to financing for the UAE's MSME sector, and will support the sector's recovery as the pandemic's effects gradually wane, and healthy economic growth resumes in 2021 and beyond.



Introduction

MSMEs play a vital role in job creation, economic diversification and competitiveness. The UAE authorities – federal and local governments – took important measures in recent years to improve the business eco-system and provide small companies with the financing and other support services needed.

To help data-driven and well-informed decision-making, central banks around the world conduct large-scale MSME surveys regularly, and issue reports on the subject. In the U.S, twelve Federal Reserve Banks join more than 500 business organizations to issue the annual “Small Business Credit Survey.” Similarly, the European Central Bank issues a “Survey on the Access to Finance of Enterprises in the Euro Area” twice a year.

Based on these benchmarks, CBUAE commissioned a survey of a sample of MSMEs for the first time in 2019, which was the basis for the issuance of “The UAE MSME Business Survey Report – 2019”¹. The present 2020 publication is the second such report.

Research shows that survey samples are more cost-effective than a census of the whole population under study. The current MSME Business Survey included 632 businesses, providing data that may not be available elsewhere. Respondent MSMEs expressed their views on financing constraints and other challenges encountered during the pandemic, and how they addressed them.

1. Available online: https://www.centralbank.ae/sites/default/files/2020-12/2019%20UAE%20MSMEs%20Business%20Survey%20Report_0.pdf

Nonetheless, survey research has also limitations, including the difficulty of representing the population under study correctly, different interpretations of the questions by respondents, and “selection bias” - companies that did not participate in the survey may be the very ones of particular interest to address the problems in focus, such as MSMEs struggling to survive the fallout from the COVID-19 pandemic.

The present survey covers a wide set of data on companies’ profile, which are included in an appendix. The report starts with the challenges

that MSMEs face, followed by answers to questions specifically designed to shed light on how the pandemic hit these companies particularly, the main challenges they faced and how they addressed them.

On the supply side, the survey sheds light on the same issues from the lender’s perspective and is based on responses from seven banks involved in SME financing.

Chapter 1:

The challenges of opening a bank account and audited financials

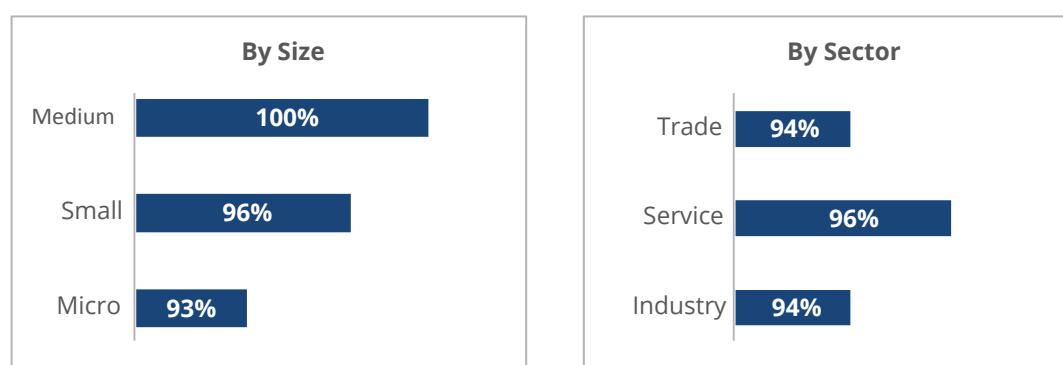


It is widely observed worldwide that MSMEs are particularly constrained when applying for bank financing, due to: (1) the low lending sums involved that makes them less important to lenders, (2) the resulting high cost of processing their credit applications, and (3) the high risk of default and lack of credible credit history for young companies. In addition, newly-established businesses in the UAE may face obstacles such as lacking a credit score from Al Etihad Credit Bureau, and not having audited financial statements that makes it more difficult for these companies to be bankable². MSMEs are often the first to be hit in an economic downturn. CBUAE conducted this survey of companies in December 2020 – February 2021, amidst the COVID-19 pandemic, albeit in the first quarter of 2021 witnessed the start of a recovery in economic activity.

A. Companies are aware of KYC requirements

About 91% of respondent MSMEs are aware of the KYC requirements, which typically include submission online of basic documentation. Also 95% find them “acceptable” or “easy to implement”, while for the remainder, they are “cumbersome”.

Percentage of respondents that find KYC requirements “acceptable” or “easy to implement”



2. The company survey took place before the issuance of the “Small to Medium Sized Enterprises (SME) Market Conduct Regulation” in April 2021, which instructed lenders to ensure that SME bank account opening should be completed within three business days, provided appropriate due diligence related to financial crime.

B. Easy bank account opening procedures

In addition to the awareness of KYC requirements and the ease to fulfil them, only 15% of the respondents found it hard to comply with the minimum balance requirement to open a business bank account, currently set at AED 3,000. Therefore, 97% of respondent MSMEs have a bank account that allows them to conduct business-related transactions.

C. Audited financial statements remain a challenge

To have a bank account and basic financial statements is not enough. Lenders require audited financials from borrowing companies that signal the credibility and accuracy of the submitted documents.

Despite the benefits, 40% of the sample do not have audited accounts, especially micro-enterprises and companies in trade.

Looking at companies without audited financial accounts, 77.2% consider themselves constrained financially in 2020 (compared to 72.1% for companies that have audited accounts). 46% of the latter group reported that audited accounts resulted in a better access credit for them.

Percent of companies that reported a positive impact of audited financials on bank credit



A limited number of companies reported that audited financials allowed them to benefit from lower borrowing costs, especially micro-companies.

Percent of companies that reported a positive impact of audited financials on borrowing costs



Box 1. Enhancing MSME access to finance during the pandemic

Aware of the vital role MSMEs play in job creation, economic diversification and competitiveness, the UAE government introduced several initiatives to enhance the ecosystem for this sector. In March 2020, the Central Bank announced a Targeted Economic Support Scheme (TESS) to support MSMEs through payment deferrals and access to new credit facilities. The following month, they extended the scheme to provide banks with extra liquidity and encouragement to help MSME through:

- Provision of temporary relief to affected private sector corporates, especially MSME, in the form of payment deferrals to the end of 2021;
- Reduction of risk weighting applicable to rated SMEs to 75%, and to 85% for unrated SME, and expanding the SME definition so that more companies qualify for SME categorization for the purposes of banks' capital requirements; and
- Regulation to improve SME bank account opening and turn-around times.

CBUAE amended the scheme further in April 2021 to extend the collateralized Zero Cost Facility (ZCF) for eligible financial institutions and the TESS Recovery Program until 30 June 2022, worth AED50 billion. Approximately 10,000 MSMEs benefitted from the program by the end of 2020.

TESS helped maintain the flow of credit to MSMEs, which recovered in June 2021 to AED 94.6 billion (i.e., 2.3% higher than the same period of the previous year). In April 2021, CBUAE issued "The Small to Medium Sized Enterprises (SME) Market Conduct Regulation," which facilitated bank account opening and SME access to finance.

The Ministry of Finance has launched advanced digital solutions to create a business-friendly and encouraging environment for business owners and entrepreneurs. The Ministry also offers sponsorship covering all stages of development for thriving businesses and promising projects. Small entrepreneurs can join the Federal Supplier Register to participate in bids and tenders from federal government entities.

The Emirates Development Bank (EDB) successfully implemented the Movable Collateral Registry Project and established a Credit Guarantee Scheme, which allowed small businesses to receive financing at an affordable cost, and it signed an agreement in June 2021 with a Peer-to-Peer platform, to expand funding options for SMEs.

Box 2: The regulatory framework for loan-based crowd-funding

Crowd-funding is an alternative form of financing (as opposed to bank loans or other traditional financing), which pools funds from individuals to finance specific projects or businesses. Loan-based crowd-funding platforms provide a means for people and businesses (especially small and medium-sized enterprises - SMEs) to obtain access to finance, thus improving SME performance and filling some SME funding gaps.

CBUAE introduced a loan-based crowd-funding regulation to provide additional financing opportunities for SMEs at the end of 2020, part of the Central Bank's wider strategy to support the UAE economy. The regulation introduced a regulatory framework for crowd-funding activities, which requires licensing of loan-based crowd-funding activities in the UAE, and sets standards to safeguard the financial system and consumers' interests.

There are two categories of licenses, according to lending volume; a Category One license covers cumulative loans of AED 5 million or above in a calendar year, while a Category Two license covers cumulative loans below AED 5 million annually. The regulation also sets out governance, risk management and internal control requirements for the company carrying out the loan-based crowd-funding activities.

The aim of CBUAE's loan-based crowdfunding regulation is to provide additional financing opportunities for SMEs in the UAE, without compromising adequate regulatory protections for participants.

Chapter 2:

The challenges of collateral, high borrowing costs and credit rejection by banks



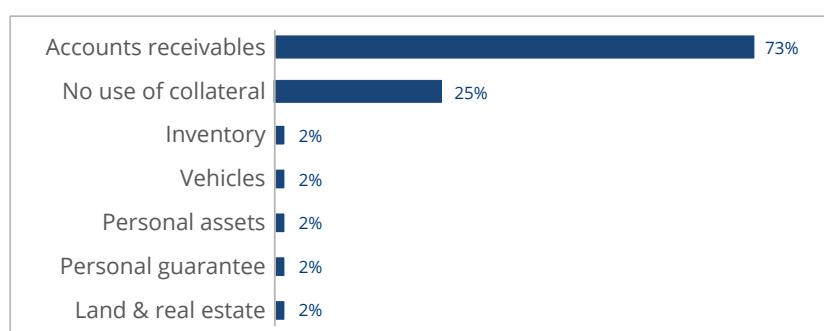
Shutdowns and tightened bank lending standards presented struggling MSMEs with new challenges during the pandemic, whose impact TESS was able to mitigate. More than half of the respondent companies reported facing challenges: 37% of micro-enterprises, 65% of small-sized companies and 55% of medium-sized companies.

The main financial challenges were:

A. Lack of collateral

In the 2019 Business Survey, only 10% of respondent companies said they provided collateral. In 2020, the ratio rose to 75%, with improved risk management and tightening lending standards during the pandemic. Collateral took mostly the form of accounts receivable, with other types of collateral playing a minor role.

Type of collateral used by borrowing MSMEs³

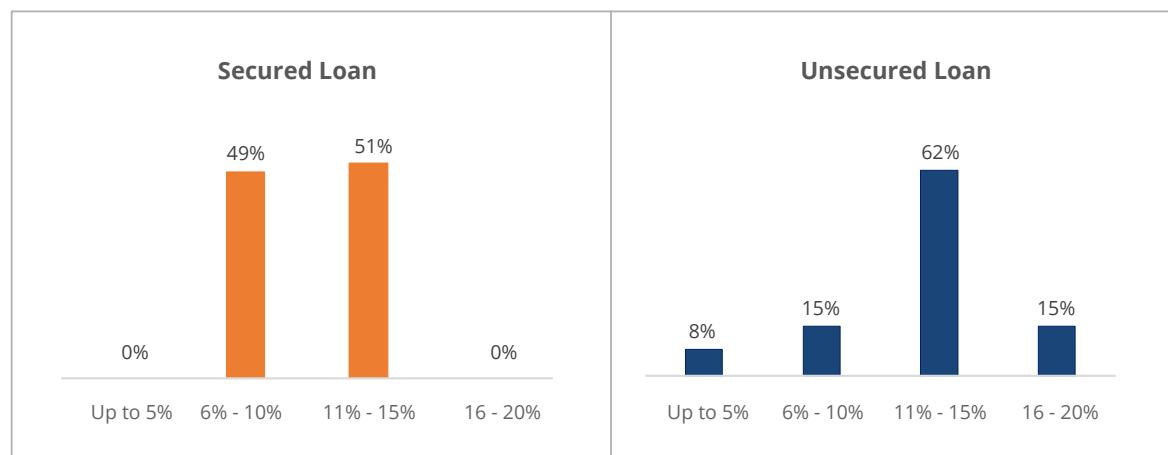


3. Cheques are not considered as collateral in the survey. Also, banks may accept personal guarantees of UAE nationals for loans granted to other UAE Nationals, but they are not considered as collateral in the survey.

B. High borrowing costs

High interest rates topped the list of challenges faced by MSMEs in 2020. More than half of respondents paid double-digit interest rates on collateral-secured loans. The ratio increased to 77% for unsecured loans.

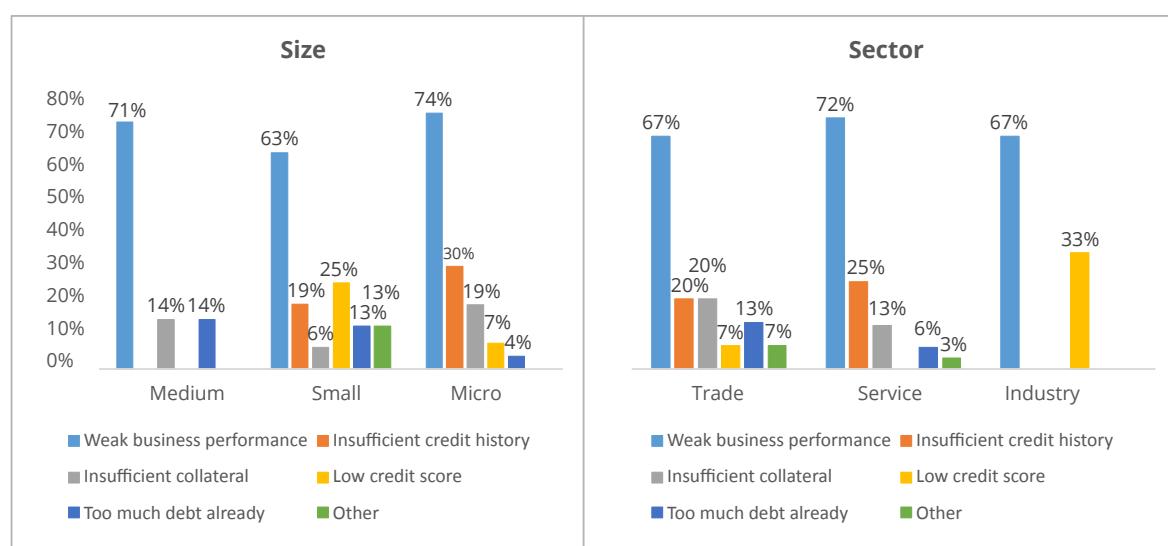
Percentage of MSMEs borrowing by interest rate bracket



C. High rejection of credit requests from small businesses

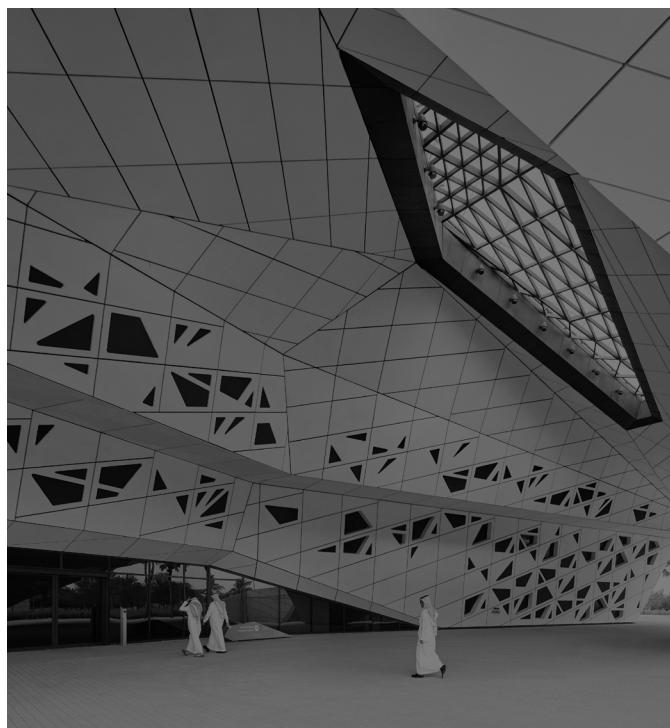
Among the sample of surveyed companies, only 17% applied for bank credit in 2020; and among the latter 53% were rejected. The survey sheds light on the main reasons of rejection, namely: weak business performance (reported by 70%), insufficient credit history (22%), insufficient collateral (14%), and low credit score (14%).

Reasons for credit rejection



Chapter 3:

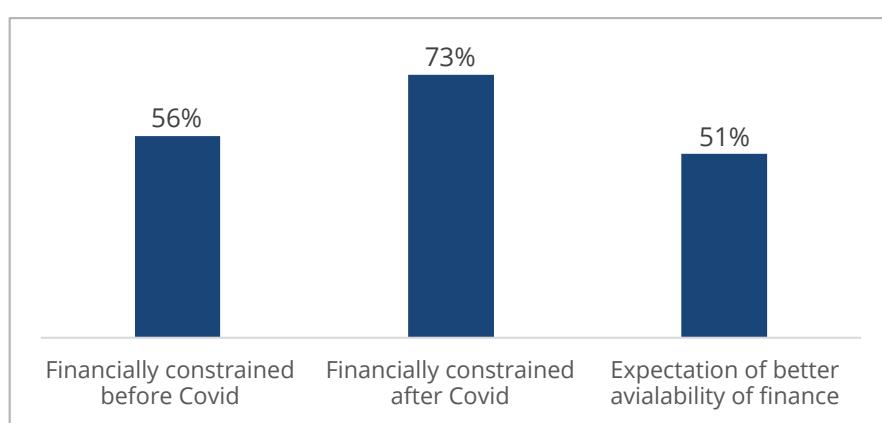
Financing constraints and other concerns during the COVID-19 pandemic



A. The number of financially-constrained companies increased during the pandemic

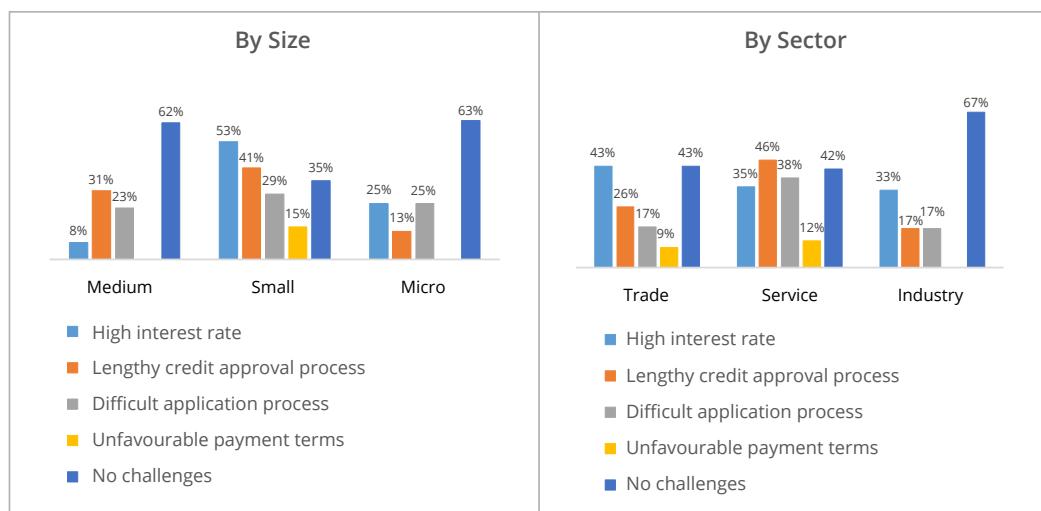
The 2020 survey asked companies if they consider themselves constrained financially, i.e., unable to get the finance they required at a reasonable cost, both before and after the COVID-19 stuck. The answers below show that the share of respondent companies considering themselves financially constrained rose from 56% to 73% after the COVID-19 pandemic.

Perception of financially-constrained MSMEs and expectations about future availability of finance



The main challenges reported to accessing finance were high interest rates, and lengthy and difficult credit approval processes.

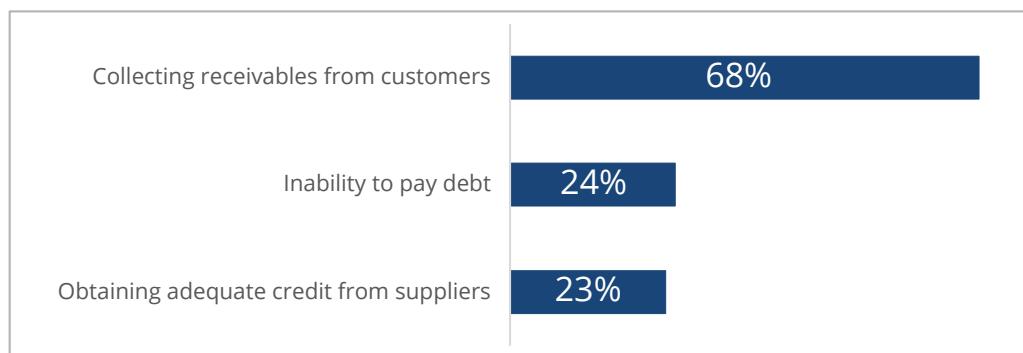
Reported challenges by MSMEs applying for financing in 2020



B. Collecting receivables remains a concern

More than half of respondent companies considered the inability to collect receivables as a major concern. Economic fallout from the pandemic forced many customers either to request payment deadline extensions, or to default on their loans.

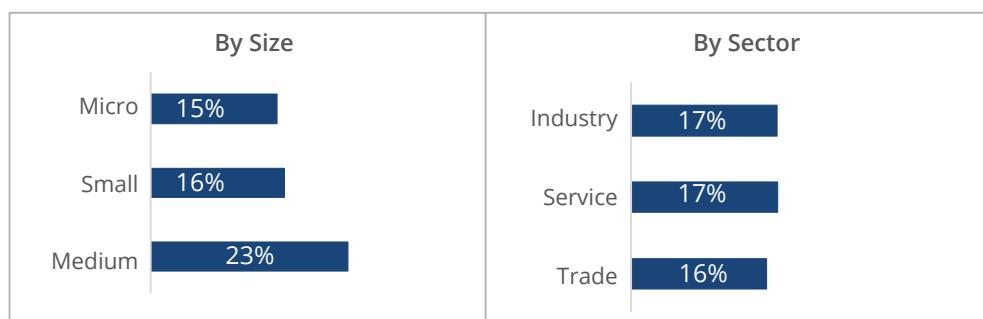
Key business concerns reported by MSMEs during COVID-19



C. Many challenged companies did not apply for credit, though

Despite the increased financing constraints, only 17% of MSMEs reported that they applied for credit in 2020. The low application rate may be due to companies being either risk-averse in an environment of rising defaults, or believing that their credit applications would be rejected.

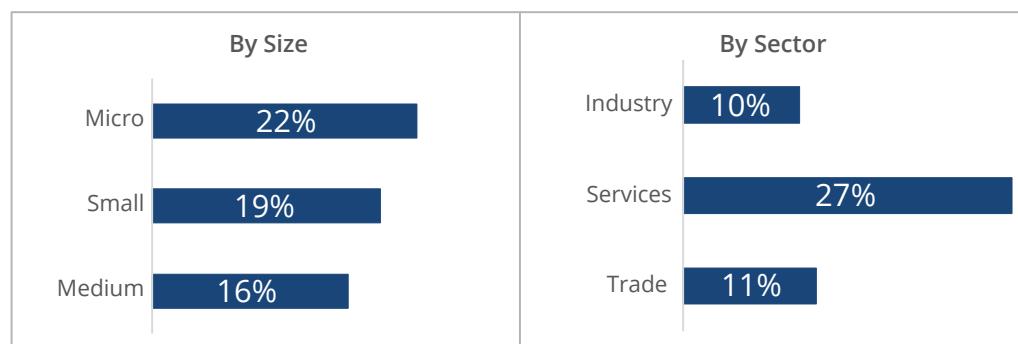
Percentage of MSMEs reporting challenges in receiving finance



D. Tightened lending standards reported by a limited number of respondents

A downturn creates an expectation of tightening bank-lending standards. Bank Credit Sentiment Surveys in the UAE in 2020, published by the Central Bank⁴, confirmed this occurrence. Nonetheless, the MSME survey results showed that only 19% of respondents experienced a tightening of bank lending standards during the year, which is roughly the percentage of companies that applied for credit (17%).

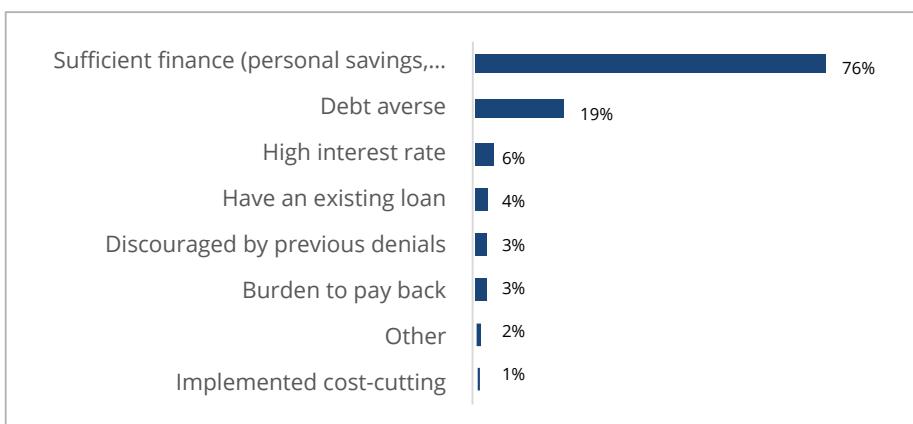
Perception of tightening of bank lending standards



E. Reasons for not applying for credit

Most of the 83% of MSMEs that did not apply for credit in 2020 reported either sufficient finance or being debt-averse.

Key reasons for not applying for external finance



4. See as an example the second quarter issue of 2020: <https://www.centralbank.ae/sites/default/files/2020-08/Credit%20Sentiment%20Survey%20-%20Q2%202020.pdf>

Chapter 4:

The pandemic's impact on MSMEs in 2020

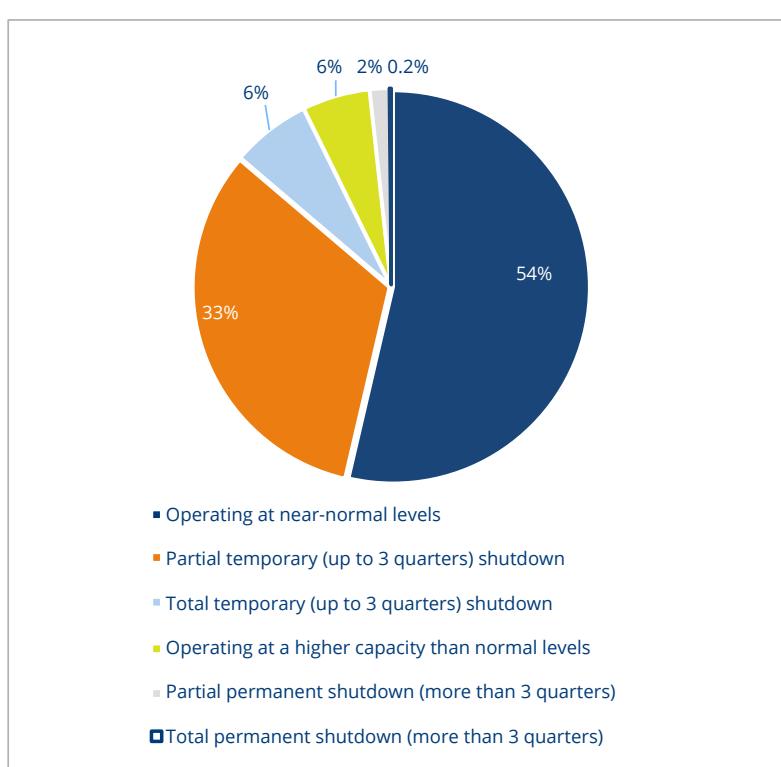


A. Impact on business activity

More than 54% of respondents reported that their business was operating at near-normal levels during the pandemic, and did not shut down permanently (only a tiny 0.2% of respondents closed shop). Nonetheless, the pandemic's impact on the MSME sector can hardly be overstated. About 47% of respondents reported a negative impact on business activity, mitigated by support programs enacted by the CBUAE (TESS) and the wider UAE government (federal and local).

The results show that medium-sized companies were able to survive the crisis better than micro and small businesses. Sector-wise, 69% operated at normal capacity in industry, compared to 52% in services and 53% in trading.

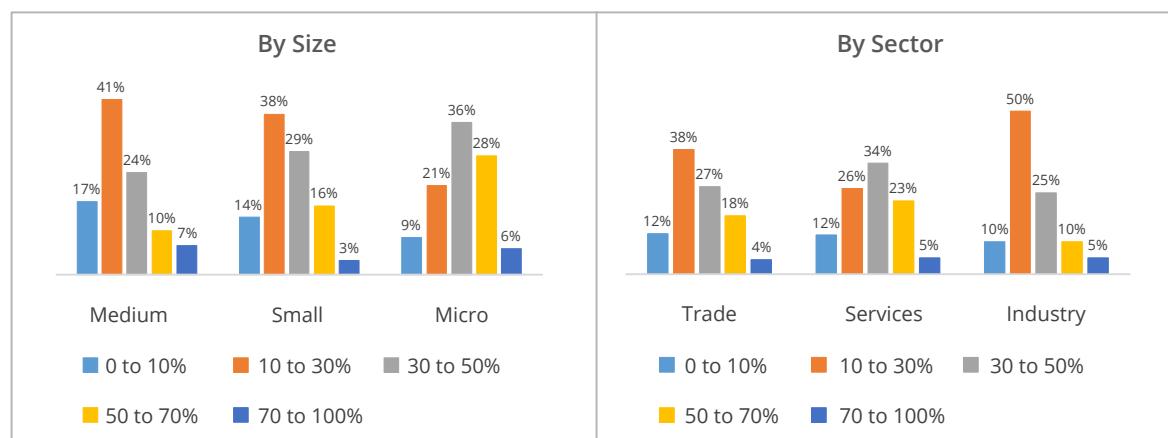
The level of business activity reported by MSMEs



B. Impact on revenues

As economic activity decreased and the subsequent recovery was slow to materialize, 46% of respondents reported falling revenues, notably micro-sized (50%) businesses and those in the service sector (54%). Estimated losses were particularly high; 66% recorded a fall in revenue of more than 30%, compared to the pre-pandemic levels.

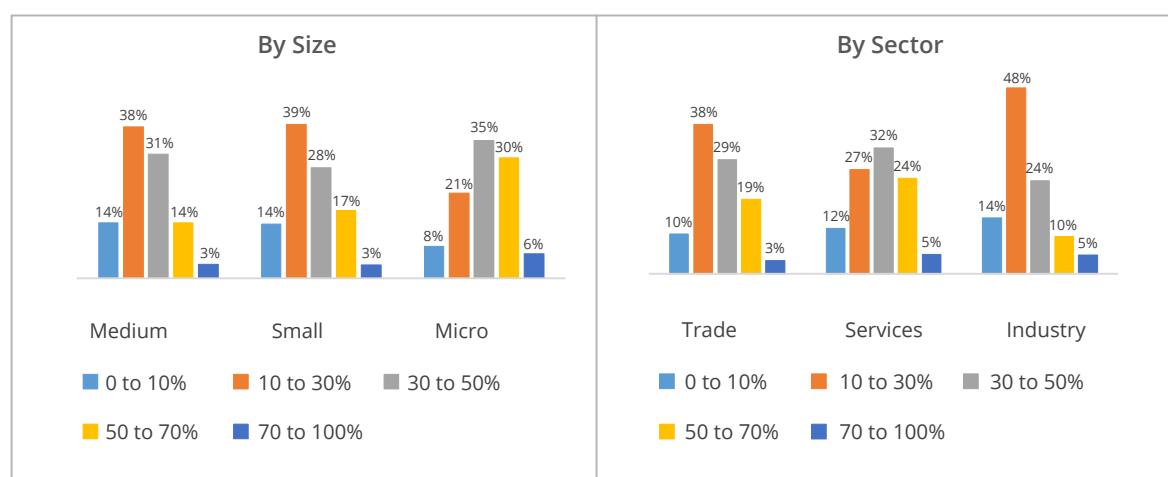
Reported fall in revenues



C. Impact on profits

About 46% of respondents reported falling net profits, particularly for service-related micro-enterprises and companies. 32% indicated that the pandemic did not adversely impact their profit margins.

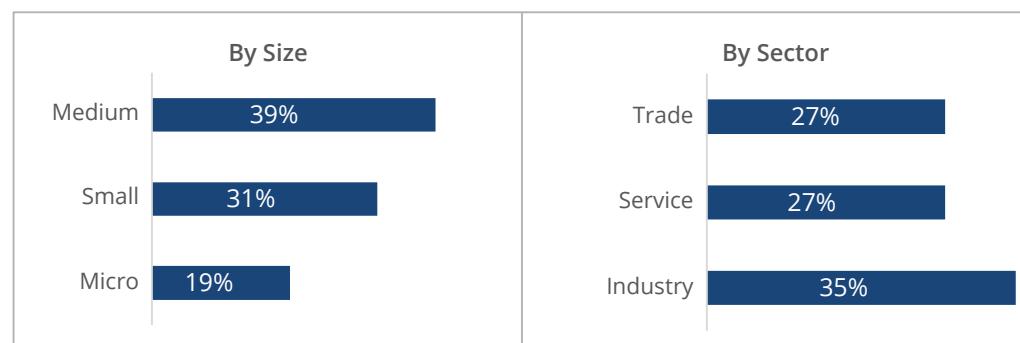
Reported fall in net profits



D. Impact on investment

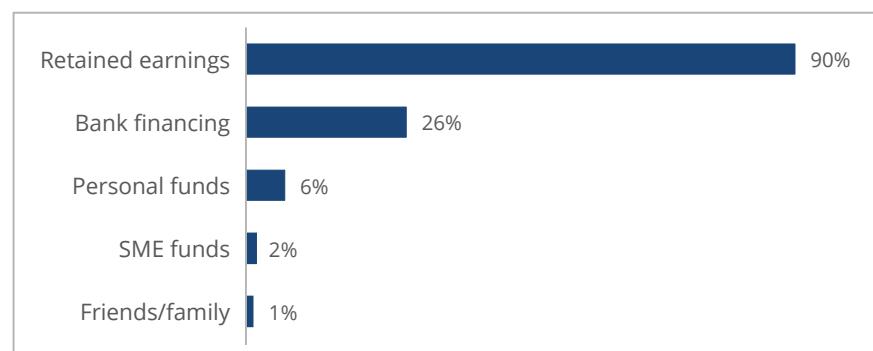
Faced with lockdowns, decreasing revenues and falling profits, only 28% of respondents invested in their business in 2020. Smaller enterprises were affected disproportionately (only 19% reported investing during the year, compared to 39% for medium-sized companies). From a sector point of view, those in industry invested the most (35% of companies), compared to 27% in services and trade.

Percentage of companies making capital investments in 2020



Investments in 2020 were mostly funded from retained earnings or bank credit.

Reported funding of capital investment in 2020



Chapter 5:

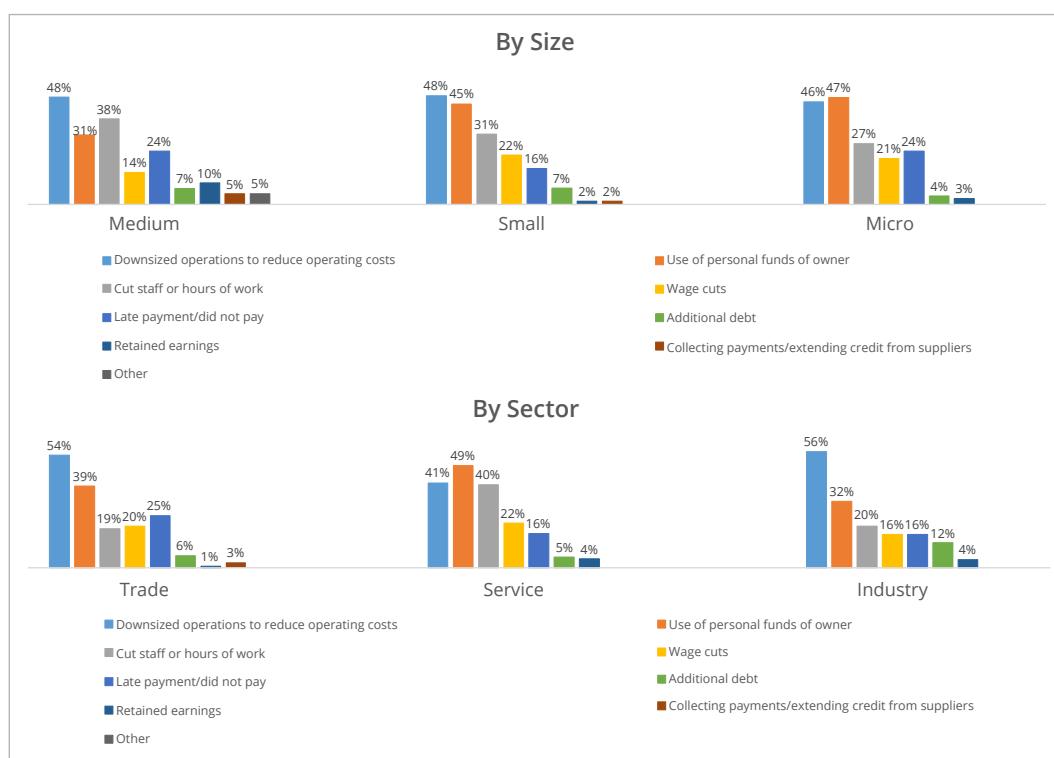
Addressing the perceived challenges



A. Downsizing operations and cutting costs

Nearly half of the companies downsized their operations to address the pandemic's financial challenges. MSMEs used different means to manage cash-flow during this period, including the use of personal funds (44%) and reducing staff or work hours (30%)⁵.

Actions undertaken to address the pandemic challenge



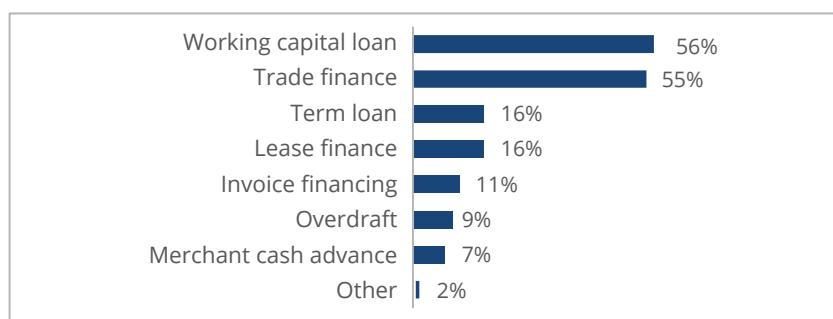
5. It is worth mentioning that The Ministry of Human Resources and Emiratization (MOHRE)'s Ministerial Resolution No. 279 of 2020, effective 26 March 2020, allowed private-sector businesses to restructure employee contracts to reduce costs. The initiative is based on resolutions about redundancy, restructuring and remote working.

Size-wise, a relatively higher proportion of micro- and small companies (47% and 45%, respectively) used the owner's personal funds to survive during the pandemic, compared with 31% of medium-sized companies.

B. Access to financing from banks and other sources

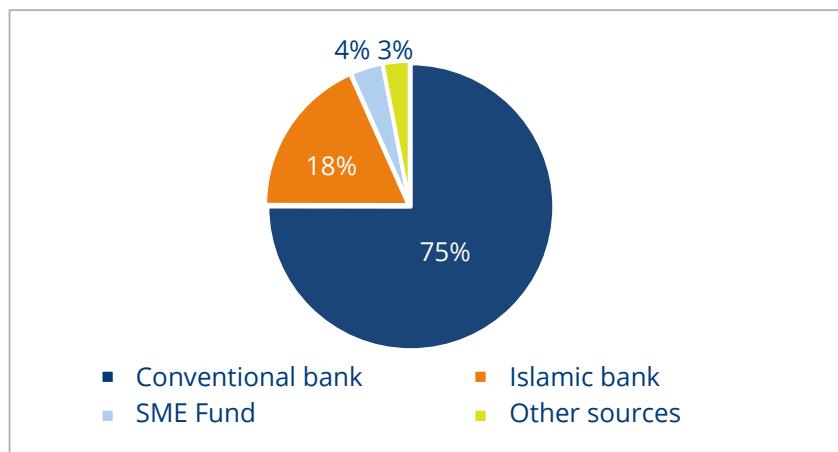
Only 17% of MSMEs applied for bank credit in 2020, and 9% of MSMEs were able to secure the finance needed, i.e., about half of those who applied. Survey results show that securing bank financing for MSMEs was challenging for several reasons, including inadequate liquidity, cash-flow constraints and lack of collateral.

Type of financing granted to MSMEs in 2020



A higher proportion of MSMEs secured finance from conventional banks than from Islamic banks, while SME Development Funds and other sources (e.g. family and friends) played a limited role. In contrast, 70% of medium-sized companies accepted finance from an Islamic bank, compared to 35% for small companies. Sector-wise, those in industry had the highest preference for an Islamic bank, followed by trade and services.

Sources of MSME financing in 2020



C. Use of websites and social media for marketing and communications

The use of websites for marketing and communications became common during the pandemic, including among micro-firms. Social media use was also more prevalent, perhaps because of its cost-effectiveness, allowing contact with many customers.

Website use for marketing & communications



Social media use for marketing & communications



Chapter 6:

The limited use of Credit Registries and Export Insurance

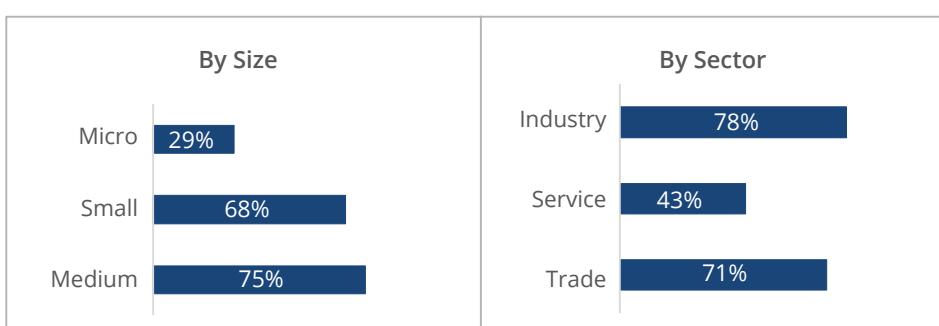


A. Not all companies provide Al Etihad with credit scores

CBUAE regulations request banks to use Al Etihad Credit Bureau (AECB) score when assessing company loan applications, given its importance in determining potential default risks. Lenders are thus in a better position to assess the creditworthiness of borrowing MSMEs, enabling the former to make better and well-informed lending decisions.

Nonetheless, not all respondents have an AECB credit score - notably micro-enterprises. New companies may not have a long-enough credit history; micro-enterprises may not be aware that they have a credit score.

Percentage of MSMEs responding to have an AECB credit score



B. Emirates Movable Collateral Registry listing

The Emirates Movable Collateral Registry at the Emirates Development Bank allows the registration of interests in specific moveable assets used as collateral in secured transactions⁶. Although the availability of movable asset registers (such as machinery and motor vehicles) makes these assets easily acceptable as collateral at banks, only 21% of respondents are on the registry; small businesses have the highest share (30% of small businesses are listed). A higher proportion of industrial MSMEs are on the registry, compared to those in trading and services.

Percentage of MSMEs at the Emirates Movable Collateral Registry

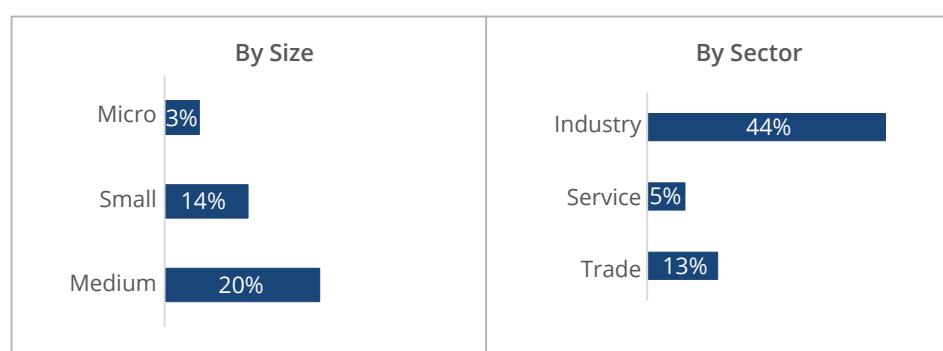


C. Etihad Export Credit Insurance remains limited, despite rising risks

The UAE federal government established the Etihad Export Credit Insurance (EECI) in 2017 to support exports, re-exports and foreign investment by UAE companies. Its products include export insurance against commercial and non-commercial risks, such as buyer insolvency or bankruptcy, failure to pay, refusal to deliver goods, foreign exchange transfer delay, import bans or cancellation of import licenses, payment moratorium, etc.

Only 11% of companies surveyed have taken an EECI credit insurance product - 14% of small-sized, and 20% of medium-sized companies. Of these, the majority reported an improvement in bank credit and/or lower borrowing costs.

Use of Etihad Export Credit Insurance



6. The Law allows both companies and banks to register. In practice, however, mostly banks register their rights on movable assets as collateral.

Chapter 7:

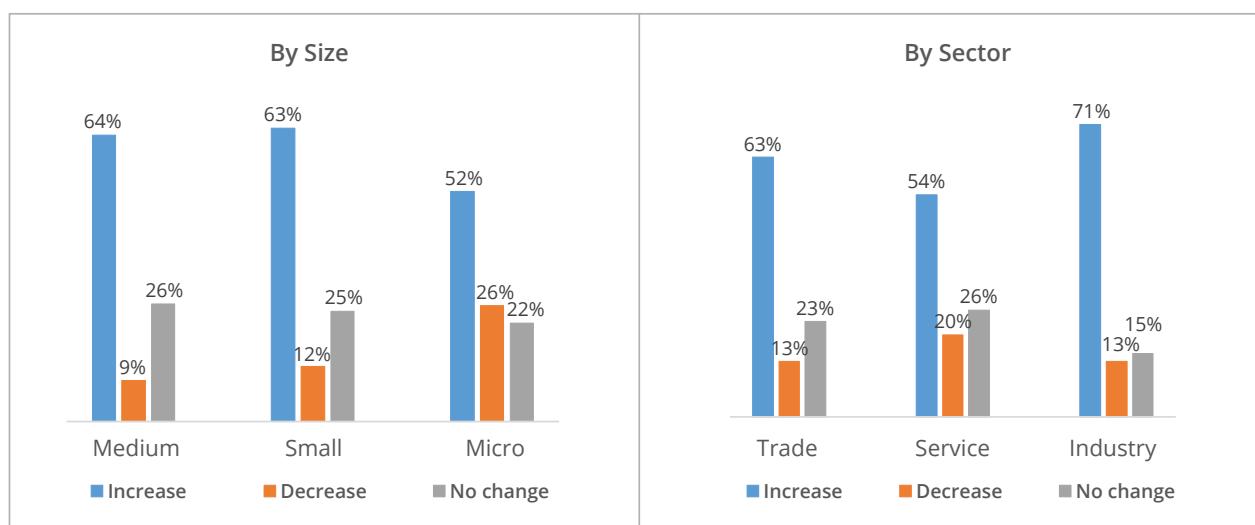
MSME expectations for 2021 and beyond



A. Expected improvement in sales

60% of respondents reported an expected increase in sales. Only 17% expected a decrease.

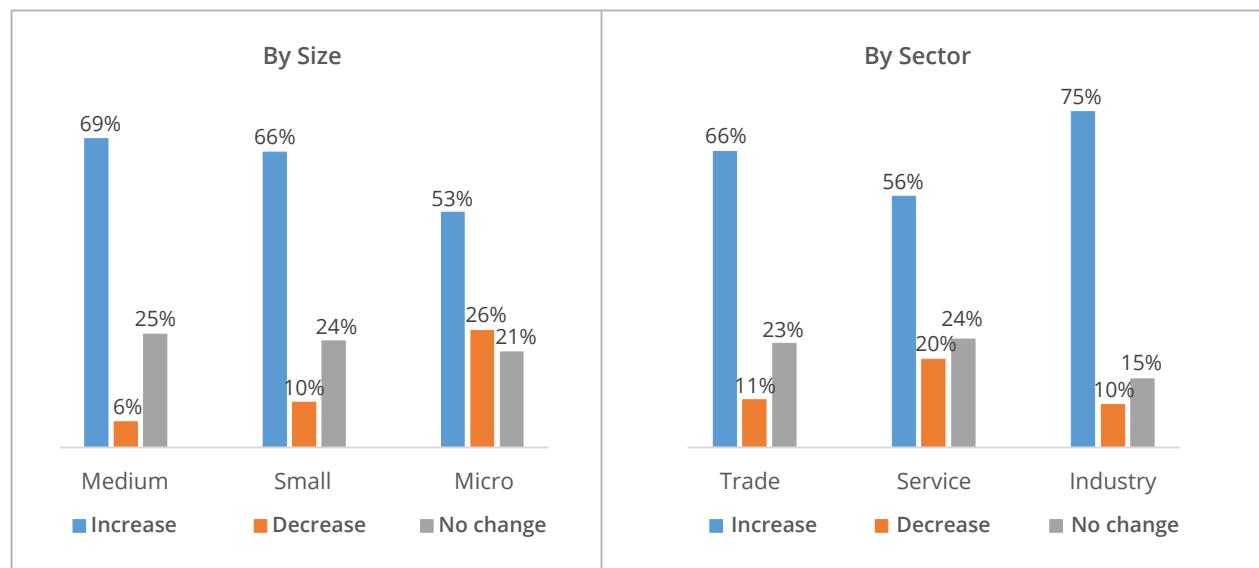
Expected MSME sales in 2021



B. Expected improvement in profits

The COVID-19 crisis has made businesses more resilient and agile in adapting to new challenges, which is reflected in overall MSME sentiment in relation to their net profit performance in 2021. More than 62% of respondents expect their net profit to increase in 2021, compared to 2020; 23% of firms expect it to remain the same, and 15% expect it to decline.

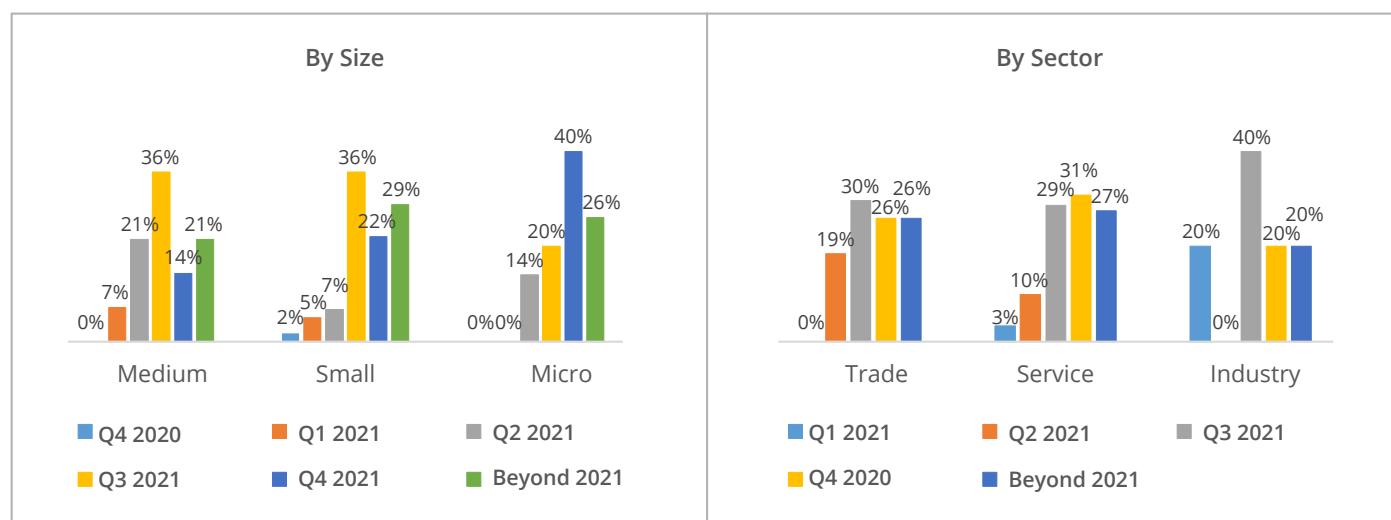
Expected MSME profits in 2021



C. Expected credit to bounce back in Q3 or beyond

About two-thirds of respondents expect credit to rebound in Q3 2021 or beyond.

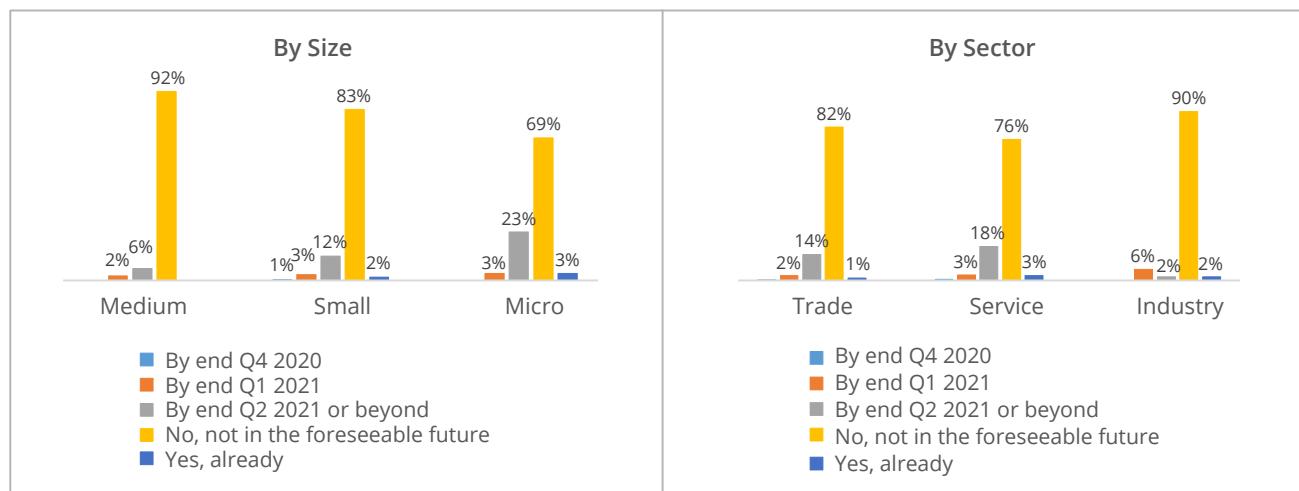
Timeframe for credit to rebound



D. No risk of cash shortage from COVID-19 risk

A majority of MSMEs (79%) do not anticipate a cash shortage due to COVID-19 in the foreseeable future, most likely due to the benefits of the CBUAE TESS facilities, including payment deferrals extended initially to June 2021 and then to end of the year⁷. Nonetheless, the risk is higher for micro-enterprises and companies in the service sector.

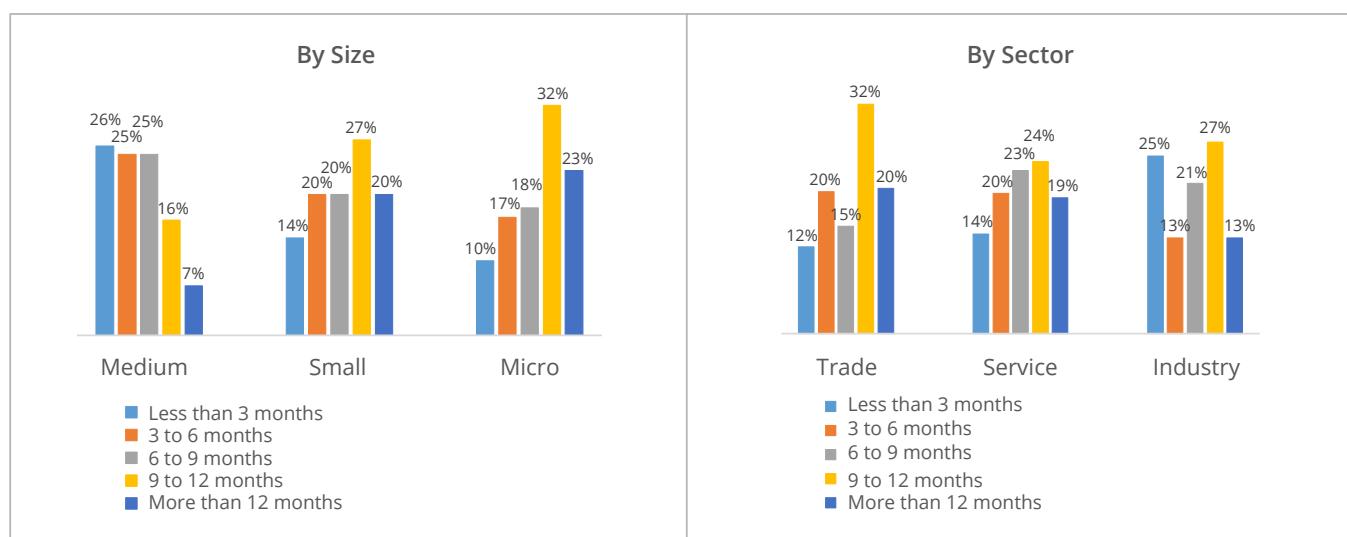
Percentage of MSMEs expecting cash shortage



E. Expected job recovery to take time

MSMEs foresee a recovery in jobs taking some time – more than 9 months for 47% of respondents, and more than a year for 19% of respondents – following cuts in employee numbers and a lengthy return to “the new normal”, which may never reach pre-pandemic levels. Micro-firms are the most pessimistic, with 73% indicating jobs will recover, but only after 9 months.

Expected time for job recovery



7. Available online: https://www.centralbank.ae/sites/default/files/2021-04/TESS_Standards_5.pdf

Chapter 8:

The Supply Side: Survey of Banks



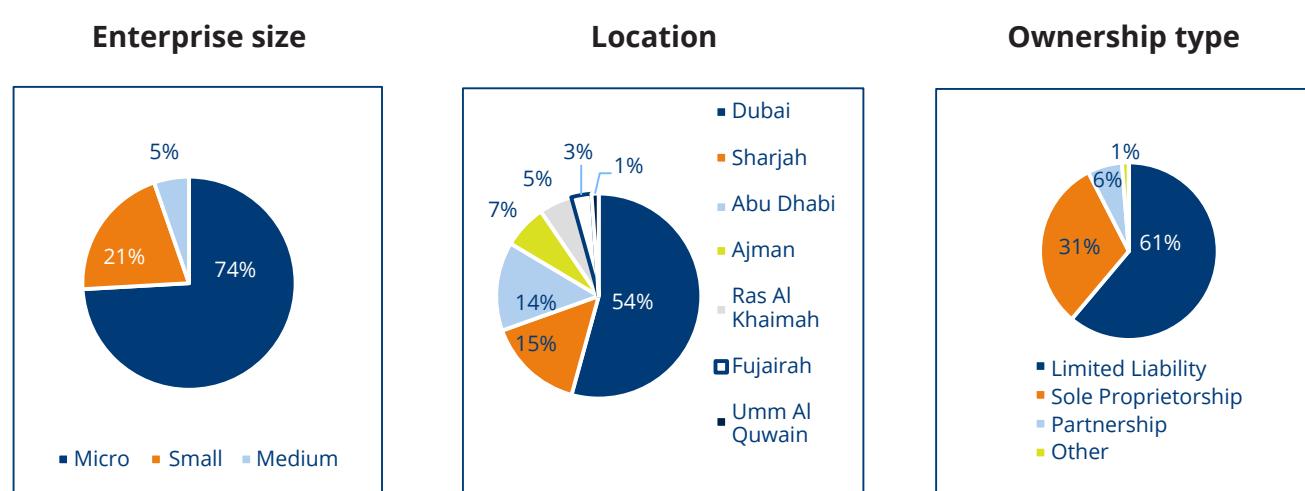
Background

The survey approached commercial banks, SME Development Funds and the Emirates Development Bank to obtain information on their lending standards to MSMEs, how their loan portfolio changed in 2020, as well as their views on the critical challenges faced by borrowing companies during the pandemic. The survey's main findings comprise information from seven respondent banks in March 2021.

A. Large MSME numbers throughout the country

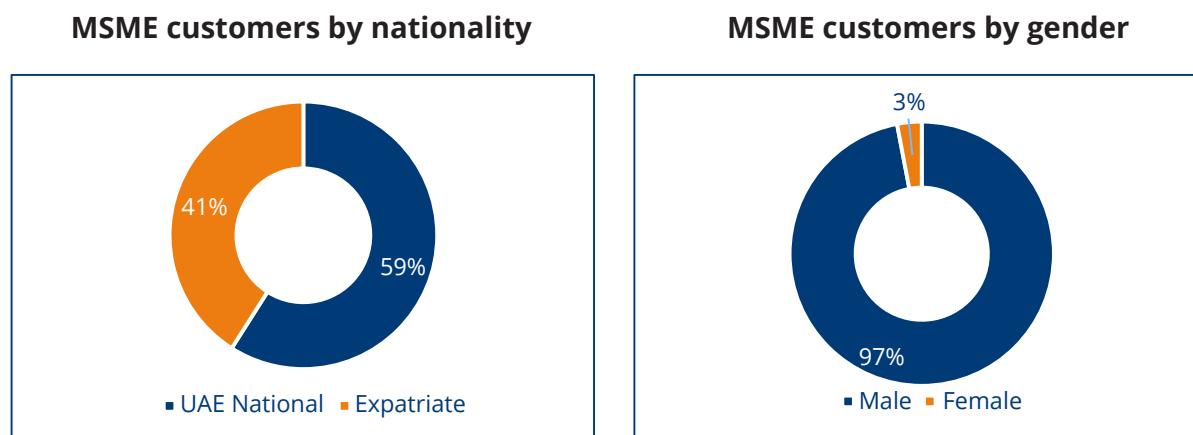
According to respondent banks, their MSME customers are from across the UAE, mainly micro- and small-sized, and with limited liability or sole proprietorship as the most common ownership types.

MSME customers of banks



B. UAE nationals comprise the majority, while female ownership remains low

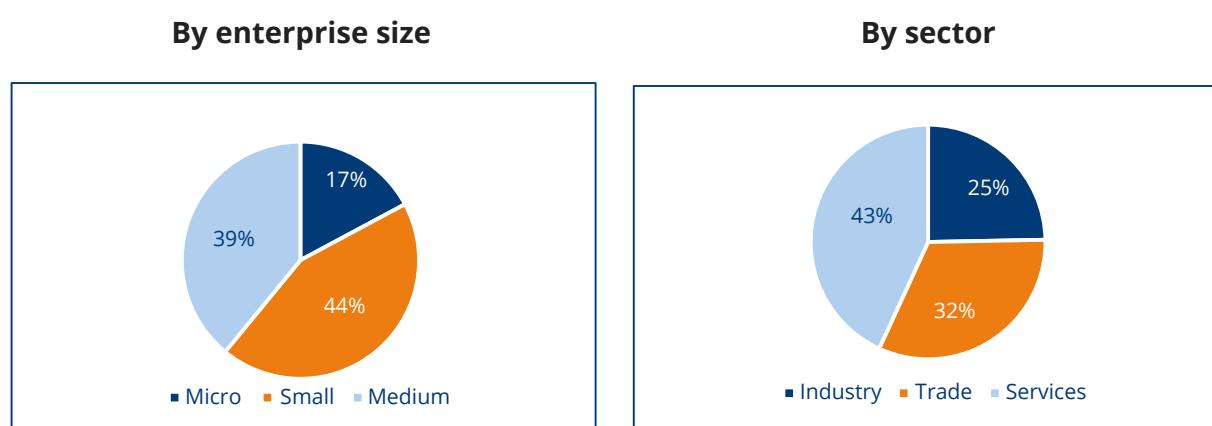
Until June 2021, a UAE national had to hold a majority share of any company on the UAE mainland; it is thus not surprising that 59% of the companies in the sample are owned by Emiratis. Female ownership remains limited to 3%.



C. Bank loan portfolio squeezed towards small businesses

The banks' MSME portfolio was valued at AED 22.7 billion in 2020, with small businesses the largest sector, and 57% of total loans granted to companies involved in trade and services.

MSME loan portfolios



D. Favourable KYC requirements, while audited accounts remain a challenge

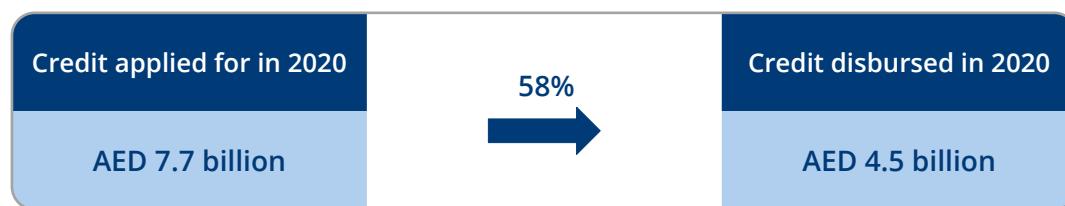
Respondent banks are positive about the KYC requirements for MSMEs. 57% consider them favourable and the remaining 43% find them easy to implement.

Only 55% of MSME have audited financial accounts. 71% of banks surveyed reported that audited financials facilitated their lending to MSMEs, and 57% highlighted that audited accounts enabled them to lower their lending costs.

E. Severe impact of the pandemic on sales and profits

Respondent banks reported that the pandemic impacted MSMEs more severely than large companies, with more frequent closures and cash-flow disruptions, leading to a significant decline in sales and profits.

F. Credit applications and disbursements



Respondents reported that a MSME's credit-worthiness is based on three metrics: (1) growth outlook in terms of sales and profit, (2) credit history and debt levels, and (3) review of audited financial accounts to evaluate creditworthiness.

Factors to assess MSME creditworthiness before approving loans



G. Collateral

77% of disbursed loans were guaranteed with collateral other than cheques. 41% of MSMEs secured financing against assets (bank deposits, account receivables, etc.), 14% provided land as collateral, and 20% of credit was guaranteed with other fixed assets (e.g. plant and buildings).

H. Use of registries and export credit insurance

75% of borrowers had an AECB score. As per CBUAE requirements, banks request this score from all applicants; the remaining 25% without a score are either new businesses or foreign-owned companies obtaining past financing from abroad.

All banks state that having an AECB score improved a company's access to credit, and enabled some banks to provide preferential lending terms.

In addition, 95% of banks' customers have assets registered at the Movable Collateral Registry.

Only 10% of MSMEs have availed Etihad Export Credit Insurance, which eased their access to bank credit.

I. Barriers restraining credit

Barriers to credit increased in 2020, as banks tightened their lending standards. These barriers include the absence of a dedicated regulatory framework for MSME lending, although the issuance by CBUAE of "Small to Medium Enterprises (SME) Market Conduct Regulation" on 26 January 2021⁸ should resolve this issue in future.

8. Available online: <https://www.centralbank.ae/sites/default/files/2021-03/2021%20SME%20MC%20regulation.pdf>

Five Most Important Obstacles Restraining MSME Credit in the UAE



K. Fintech solutions

All surveyed banks provide Fintech solutions for their MSME customers. These include digitized products - credit lines and guarantee, digital tools for financial analysis and planning, and hedging services.

Banks mentioned that digital payment solutions and digitized products (credit guarantees, credit lines, and invoices and bills management) were the most important Fintech services to ease credit conditions.

L. Central Bank support scheme benefitted MSMEs

Surveyed banks responded that 7,751 MSME customers benefitted from the enhanced TESS in 2020, amounting to AED 2.3 billion⁹ of support. This took the form of loan instalment deferral, restructuring working capital facilities, reduction in interest on new borrowing, and a reduction in the minimum balance requirement to open a new business.

9. Compared to an approximate total of 10,000 companies for banks operating in the UAE as a whole.

Appendix: The 2020 MSME sample

A. A large MSME sample, representative of the UAE landscape

The Central Bank survey is based on the official MSME definition by the UAE SME Council, based on both employee numbers and company turnover, as indicated below.

Size	Services		Industry		Trading	
	Number of Employees	Total Turnover (AED)		Total Turnover (AED)		Total Turnover (AED)
Micro	Up to 5 Or	Up to 2 million	Up to 9 Or	Up to 3 million	Up to 5 Or	Up to 3 million
Small	6 – 50 Or	2 – 20 Million	10 – 100 Or	3 – 50 Million	6 – 50 Or	3 – 50 Million
Medium	51 – 200 Or	20 – 200 Million	101 – 250 Or	51 – 200 million	51 – 200 Or	50 – 250 million

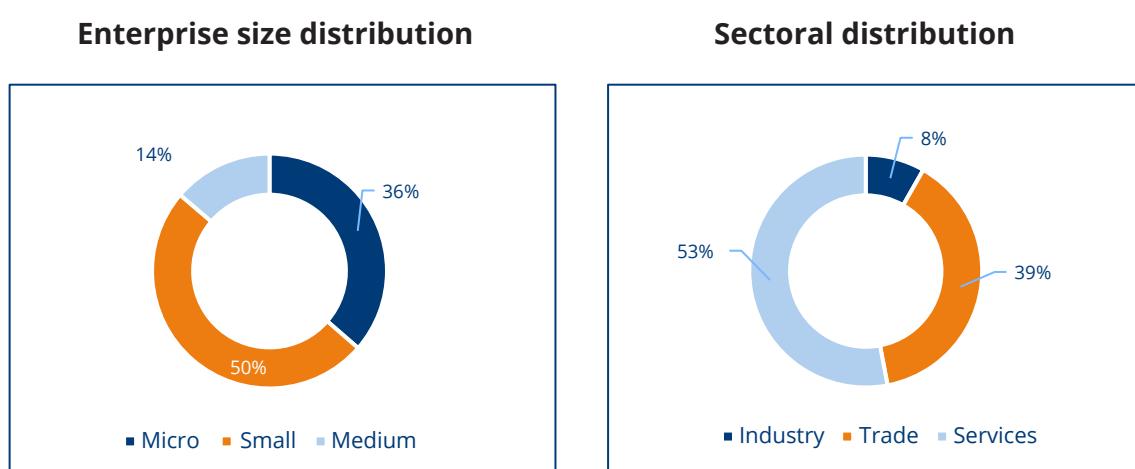
Source: UAE SME Council at the Ministry of Economy

The MSME sample surveyed in 2020 comprised 632 companies, of which 239 also participated in the 2019 survey. Many companies involved in 2019 did not respond in 2020, either because they had shut down or did not want to participate this year. The survey included 393 new companies to increase the sample size and maintain its representative nature.

B. Size and Activity

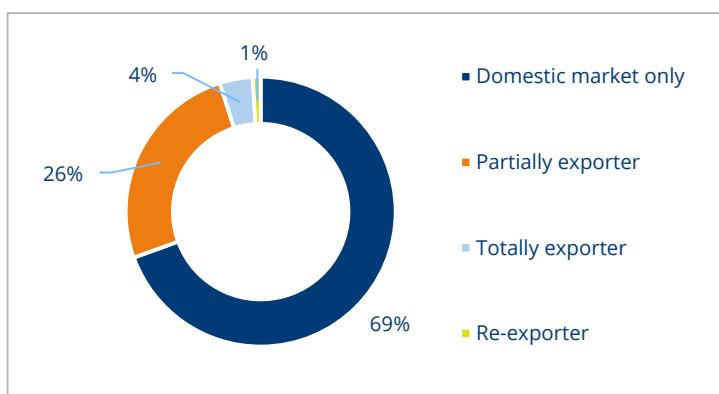
Micro- and small enterprises dominated the sample (86% of the total). These companies are mostly involved in trade and services (39% and 53%, respectively), reflecting the UAE status as a regional trade and business hub.

Distribution of the 632 companies



Even though MSMEs in the sample are mostly oriented towards the domestic market, 26% of them are partially exporters.

Company trade orientation



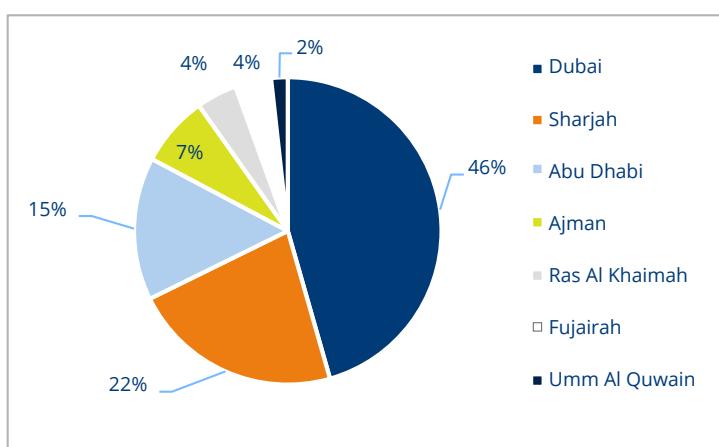
C. Free Zone companies are also included in the sample

11% of the total MSME sample are based in the UAE's free zones. These companies can borrow from mainland banks. With a valid UAE residence and three years of business activity, free zone-based companies can apply for mortgages secured by collateral (property purchases), car loans (with the purchased vehicle used as collateral), etc.

The others - 89% - are mainland-based MSMEs, generally more exposed to the domestic eco-system, and thus potentially more constrained financially.

The sample partition by Emirate shows Dubai with the major share, followed by Abu Dhabi and Sharjah.

Sample distribution by Emirate (in %)

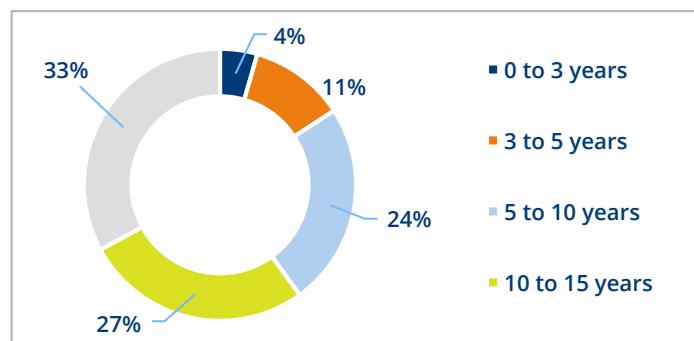


D. MSME sample profile

1. Company age

85% of the sample are mature companies - in operation more than five years. They are expected to have credit records that enhance their access to financing from banks and other sources.

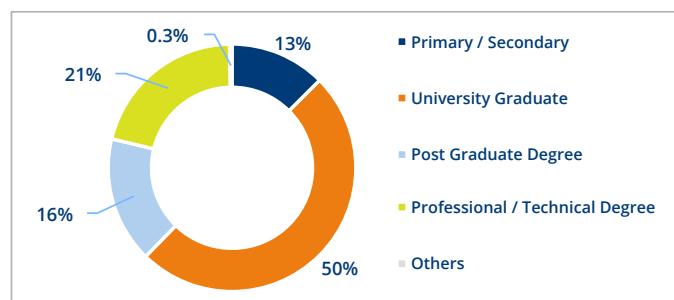
Sample distribution by age



2. The majority of company owners are well-educated

Survey results show that 87% of legal majority owners hold either a university (66%) or a professional (21%) degree.

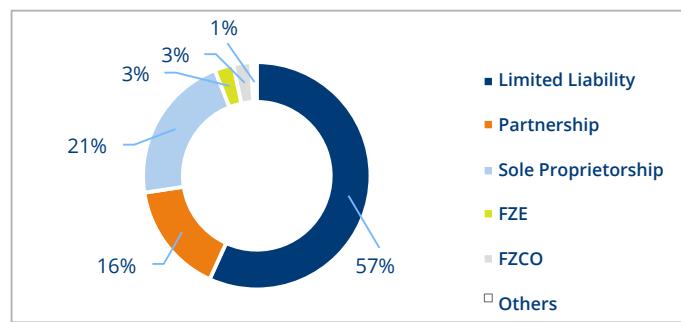
Sample distribution by company owner's education (in %)



3. Limited liability companies are the dominant legal status

More than half of the sample are limited liability companies, followed by sole proprietorship.

Company legal status



4. UAE nationals are well-represented, but female ownership in the sample is low

UAE nationals represent 36% of the sample; female ownership is 4%. The latter is lower than the 10% female share in small businesses founded by women in the UAE, as reported in UN Women¹⁰, and lower than female representation on the Boards of Directors of the Chambers of Commerce and Industry (about 15%).

10. Website: <https://www.unwomen.org/> United Nations Entity for Gender Equality and the Empowerment of Women.



United Arab Emirates

مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

