



AURELIEN PARADIS
CEO AU GROUP MIDDLE EAST

Dubai: a market facing a lack of transparency

The famous fashion designer Karl Lagerfeld has characterized Dubai as follows: *"A futuristic megalopolis of the 21th century; the ever-developing Emirate of Dubai is a crossroads of civilizations between Europe and Asia"*

This description is supported by The Where-to-be-born index, published by the Economist, which ranked the United Arab Emirates (UAE) 18th in 2013, just behind the United States: an impressive showing given that this same country was ranked 32 in 1988. This index attempts to measure the degree to which a country will provide the best opportunities for a healthy, safe and prosperous life in the years ahead and highlights the steady progress made by the United Arab Emirates over the last 25 years.

The UAE is a federation of seven emirates with the oil-rich emirate of Abu Dhabi as the capital. However, it is Dubai with its iconic tower 'Burj Khalifa', the tallest building in the world, which is the business and commercial hub, not only of the UAE, but of the entire Gulf region and beyond.

Oil has only ever played a small part in the development and consequent wealth of the Dubai emirate. The driving force behind this development is the energy of the ruler, "Sheikh Mohammed bin Rashid Al Maktoum" who, like his father before him, has focused relentlessly on developing a business friendly environment, with world class infrastructure political stability, low taxes and an awesome quality of life.

One can see the success of this strategy today; Dubai has become the leading trading hub between East and West thanks in part to its port, Jebel Ali, a Free Zone which is the world's 7th largest container port and the nearby Makhtoum International Airport which carried annual passenger traffic of 66.4m in 2013. Dubai is successfully meeting the challenge of economic diversification, which is less and less reliant on the hydrocarbon sector.

This success is very singular as Dubai has based its economic development on attracting expatriates from all around the world who bring their knowledge and best practices to the country. Expats enjoy economic growth with business opportunities, a good quality of life and in return they participate in the economic development of the country.

Nevertheless, from a business point of view, some steps still need to be taken to match the level of professionalism of developed markets such as the US or Europe so as to continue the increase in business activity within the country.

As the theoretician of capitalism, Adam Smith, explained in his book "The wealth of nations", increasing the transparency between economic businesses improves the market efficiency and therefore economic performance. With regard to this issue, a lot still need to be done in the UAE.

The lack of transparency is one of the remaining challenges facing the UAE. Easing access to business financial information and creating an insolvency law would enhance this transpa-

rency.

Firstly, it is still too expensive and difficult for specialist financial businesses, such as credit insurers and information providers, to collect relevant information about SMEs (small and medium-sized enterprises). Getting audited financial statements is complicated and most of businesses are reluctant to share this kind of information. Furthermore, they are not required, as in developed economies, to disclose their audited financials for tax purposes, as there are no corporate taxes.

This market characteristic has been quite challenging for the main credit insurers, Euler Hermes, Coface and Atradius, which started to establish their first offices in 2006 and 2007. There has been a clear need for trade credit insurance (TCI) in the UAE, especially since the financial crisis in 2008/9 with its consequent business failures and bankruptcies, but it was, and has been, difficult for them to offer efficient solutions to their clients especially at the beginning.

Risk underwriters need to assess businesses to grant a credit limit and obviously it is not easy to get a clear picture of a business without looking at the financials. However, Euler Hermes for instance, has reached a significant size, in terms of number of clients and level of exposure, in some business sectors which has enabled it to get a decent level of knowledge and so provide good offers. Furthermore, the awareness of TCI has increased over the years, which facilitates the work of credit insurers.

Secondly, there is another element which does not contribute to the transparency of the market. The government has not yet established an insolvency law similar to the "Chapter 11" law in the US.

Basically, according to insolvency law, a business is considered as insolvent when it is running out of cash and then is unable to meet its financial obligations. Under insolvency law, a business that faces this type of situation can either be declared bankrupt or continue its activity by freezing repayments to some creditors. Implementing this kind of law would enhance market transparency, as it would be easier for creditors to take a decision and then speed up the business activity. It would be even more relevant in a market such as the UAE where nonpayment of a cheque is punishable by jail. Therefore business owners, who are often not nationals (80% of the population are expat residents), prefer simply to leave the country rather than face jail and there was a lot of this behavior during the crisis in 2008. Moreover, clients of trade credit insurance companies would benefit from such a law, as policyholders are indemnified much faster in case of insolvency. But of course they need to be able to produce official documents acknowledging that the business is insolvent.

To conclude, we should see in the future an improvement in transparency in the UAE. The government is working on implementing an insolvency law and enhancing access to financial information through a credit agency. ●