EXPATRIATE MANAGEMENT
FOCUS ON THE MIDDLE EAST

23–24 APRIL, MADRID
FOCUS ON THE MIDDLE EAST
AGENDA

From political and macro-economic trends to HR issues

Local (Local-Plus) packages versus expatriate (home-based) packages

Spotlight on allowances and benefits: housing, schooling, and hardship
FROM POLITICAL AND MACRO-ECONOMIC TRENDS TO HR ISSUES
THE GEOPOLITICAL CONTEXT

SYRIA
Continuing civil conflict affecting neighbouring countries

LEBANON
Rising instability over Syrian crisis

ISRAEL/PALESTINE
Revival of the intense Gaza conflicts

IRAQ/SYRIA
Rise of the Islamic State

IRAN
More positive environment, outlook; ease of economic sanctions

QATAR
Hosting 2022 FIFA World Cup

SAUDI ARABIA
Strong government push for Saudisation

Intervention in Yemen

UAE
Hosting the world exhibition (EXPO) in 2020

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NUMBER OF NON-NATIONALS IN THE GULF COOPERATION COUNCIL (GCC) COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>31%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>55%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>54%</td>
</tr>
<tr>
<td>Qatar</td>
<td>85%</td>
</tr>
<tr>
<td>UAE</td>
<td>87%</td>
</tr>
<tr>
<td>Oman</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: IMF; The World Factbook
NATIONALISATION POLICIES IN THE GCC

- In the GCC, various nationalisation policies have been adopted to increase local nationals’ participation in the labour force.
- Several industries have been targeted throughout the region — energy, banking, and legal.
- Employers are trying to understand how to attract local nationals.
- Qatar increased the salary of local nationals in 2012 by 60% at public and semi-public organisations — causing a ripple effect.
- Saudi Arabia has the most comprehensive system.
- Employers in Saudi Arabia are rated on a “traffic light system” (green, yellow, red) called *Nitaqat*.
- Employers in Saudi Arabia face the biggest challenge in attracting Saudi employees.
- UAE has the most liberal laws, with free zones that allow organisations to operate where Emiratisation is not applicable.
DEPENDENCE ON NATURAL RESOURCES IN THE GCC
PERCENTAGE OF OIL & GAS SECTOR IN TOTAL GDP

Source: http://gpcasupplychain.com/
GCC Labour Market

- Workforce Dominated by Foreign Expats
- Sponsorship System of Employment
- End of Service Benefit
- Suite of Allowances
- Local-Plus Structure of Compensation
- Tax-free Environment
- Nationalisation Driven by Government

Sponsorship
System of Employment

Suite of Allowances

Local-Plus Structure of Compensation

End of Service Benefit

Workforce Dominated by Foreign Expats

Nationalisation Driven by Government

Tax-free Environment
# Mobility Approaches for Assignees in the Middle East

<table>
<thead>
<tr>
<th>Mobility Pattern</th>
<th>Policy</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>There and <strong>back</strong> (quick)</td>
<td>Short-term Assignment</td>
<td>Per diem</td>
</tr>
<tr>
<td>There and <strong>back</strong></td>
<td>Long-term Assignment</td>
<td>Balance sheet or Local-Plus?</td>
</tr>
<tr>
<td><strong>Staying</strong> there</td>
<td>Localisation</td>
<td>Phasing out allowances Transition to Local-Plus</td>
</tr>
<tr>
<td><strong>Moving</strong> there</td>
<td>Permanent Transfer</td>
<td>Net to Net Analysis Local-Plus</td>
</tr>
<tr>
<td><strong>Already</strong> there</td>
<td>Locally Hired Foreigner</td>
<td>Local-Plus</td>
</tr>
<tr>
<td><strong>From</strong> there</td>
<td>Local National</td>
<td>“Local Plus +”</td>
</tr>
</tbody>
</table>
LOCAL (LOCAL-PLUS) PACKAGES VERSUS EXPATRIATE (HOME-BASED) PACKAGES
SALARY DIFFERENCES
ANNUAL BASE SALARY, PC 43 VS 63 (USD)

Source: Mercer Total Remuneration Surveys, 2014
TOTAL GUARANTEED ALLOWANCES
COUNTRY COMPARISON (MEDIAN, USD)

<table>
<thead>
<tr>
<th>Salary Range</th>
<th>Blue Collar</th>
<th>Professional / Admin. / Staff</th>
<th>Supervisors / Specialists</th>
<th>Managers</th>
<th>VPs / Directors</th>
<th>General Directors / Presidents</th>
</tr>
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<tbody>
<tr>
<td>40-45</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>45-51</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50-54</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>53-59</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>58-62</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>60-70</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Total Remuneration Surveys, 2014
LOCAL PACKAGES: PAY MIX — UAE

<table>
<thead>
<tr>
<th></th>
<th>BASE SALARY</th>
<th>GUARANTEED ALLOWANCES</th>
<th>SHORT-TERM INCENTIVES</th>
<th>LONG-TERM INCENTIVES</th>
<th>BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50</td>
<td>55%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50-54</td>
<td>58%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td>55%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;59</td>
<td>57%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed Allowances</td>
<td>10%</td>
<td>2%</td>
<td>7%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>33%</td>
<td>5%</td>
<td>7%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Long-term Incentives</td>
<td>30%</td>
<td>5%</td>
<td>7%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>2%</td>
<td>2%</td>
<td>7%</td>
<td>21%</td>
<td></td>
</tr>
</tbody>
</table>

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LOCAL PACKAGES: ALLOWANCES
PREVALENCE OF ALLOWANCES — UAE

- Transportation Allowance
- Housing Allowance
- Meal Allowance
- Shift Allowance
- Furniture Allowance
- Utilities Allowance
- National Allowance
- Other Guaranteed Allowance
- Consolidated Allowance
# Comparison Balance Sheet Versus Local Salary in the GCC Countries

**Example: Dubai**

<table>
<thead>
<tr>
<th>Compensation Element</th>
<th>Balance Sheet Approach</th>
<th>Local Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Country Base Salary</td>
<td>Based on home country</td>
<td>Local salary structure (highly competitive internationally)</td>
</tr>
<tr>
<td>Tax</td>
<td>Tax equalisation with home</td>
<td>No-tax environment</td>
</tr>
<tr>
<td>Mobility Premium</td>
<td>Five to 15% of gross base salary — not provided by all companies or for all types of assignees</td>
<td>No</td>
</tr>
<tr>
<td>Hardship Premium</td>
<td>Usually 0 to 10% of base salary</td>
<td>No</td>
</tr>
<tr>
<td>Cost of Living</td>
<td>Allowance based on home host differential</td>
<td>No</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Reimbursement of housing costs or housing allowance with deduction</td>
<td>Cash allowance determined as % of base salary</td>
</tr>
<tr>
<td>Education</td>
<td>Reimbursement of international school costs</td>
<td>Cash allowance depending on position level</td>
</tr>
<tr>
<td>Home Leave</td>
<td>Once per year</td>
<td>Often provided</td>
</tr>
</tbody>
</table>
LOCAL VERSUS HOME-BASED PACKAGE
MANAGER — IPE PC 55; MARRIED +1; TRANSFER MADRID — DUBAI (USD)

Source: Mercer Global HRMonitor 2015 – 1 USD = 3.67 AED; 1 USD = 0.88 Euro
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LOCAL VERSUS HOME-BASED PACKAGE
MANAGER — IPE PC 55; MARRIED +1;
TRANSFER DÜSSELDORF — DUBAI (USD)

Source: Mercer Global HRMonitor 2015 – 1 USD = 3.67 AED; 1 USD = 0.88 Euro
INBOUND ASSIGNEES: TYPES OF MOVES
LONG-TERM ASSIGNMENTS (ONE TO FIVE YEARS)

• Home-based approach prevalent, but local approach also common.

• Tax-free local package can be more attractive than tax-equalised home-based package (but it depends on the home-host combination).

• Some companies give the employee the choice to opt out of the mobility policy and receive a local package.

• Degree of mobility of the employee needs to be clearly established: a local package is not always recommended for an assignee staying only for a few years.
Local approach most common.

Local-Plus standard package combined with one-time relocation package, including settling-in allowance, temporary accommodation, and moving allowance.

The objective is to avoid ongoing liabilities and links with the home countries.

Could be a win-win for the assignee and the employer.

The risk is misjudging future plans. (Will the employee be mobile again?)

Link with talent management is essential.
**Inbound Assignees: Types of Moves**

**Locally Hired Foreigners**

- Local approach (Local-Plus) most common.
- Local-Plus standard package combined.
- No link with home country unless the intention is to relocate the employee again.
- As with permanent transfers, the risk is misjudging future plans. (Will the employee be mobile again?)
Using GCC countries as base for a balance-sheet approach can prove very costly. Possible options to mitigate costs:

- Avoiding double provision of allowances (treatment of guaranteed allowances).
- Using a host approach and using the new country as base (valid for moves to high-paying countries).
- Running a balance sheet calculation based on the original home country of the assignee (prior to localisation in GCC country).
- Using a GCC country as base, but applying a hypothetical tax deduction to lower the cost of the assignee.

Aside from these compensation approaches, many companies reported that, from a talent management perspective, they would avoid this situation whenever possible.
OUTBOUND ASSIGNEES
ENCOURAGING UAE NATIONALS TO GO ON ASSIGNMENT — INITIATIVES TO SUPPORT EMIRATISATION

• Developmental international assignments are a good way to develop the local workforce.
• The focus is on short-term assignments (up to six months), with clearly outlined learning objectives and possibly mentors.
• Characteristics of developmental assignments from the GCC:
  ✓ Comprehensive package, including per diem and full coverage of housing costs.
  ✓ Additional mobility premiums, or higher premiums for nationals than for foreigners sometimes provided.
  ✓ Female assignee on single status: a male family member should have the ability to accompany the assignee.
• For long-term assignments, higher mobility premiums are provided to Emiratis by some companies.
SPOTLIGHT ON ALLOWANCES
HOUSING, SCHOOLING, AND HARDSHIP

MAKE TOMORROW, TODAY
During the “boom years” (2003–2009), housing prices steadily increased. Employers tended to follow suit: the market was growing, voluntary turnover was high, so housing allowances increased — consistently. Finally, in 2009, the market crashed. Yet employers typically did not reduce their housing allowances. From 2009 to 2013, employees enjoyed a surplus: – Housing prices of a recession. – Housing allowances of a boom. In 2013, the Dubai housing market started to spike again. We believe the Dubai housing market has reached pre-2009 levels. The main challenge for employers is to determine if their housing allowances are still inadequate.
HOUSING ALLOWANCE DUBAI
2013 VS 2014 — MEDIAN(AED)

Para-professionals
Professionals
Management
Executives

Source: UAE Total Remuneration Survey, 2014
Housing Allowance Increase Intentions for 2015

<table>
<thead>
<tr>
<th></th>
<th>Median</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubai</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Abu Dhabi</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: February 2015 UAE Housing and Schooling Increases Spot Poll (Prelim. Results)
Accommodation Costs
Two-bedroom furnished apartment — monthly rent (USD)

Source: Mercer Cost of Living Reports, March Editions, Table 2 Excellent Level Accommodation
HOUSING ALLOWANCES
HOME-BASED AND LOCAL PACKAGES

• Different logic:
  – Home-based expatriate package: covering all or part of the housing costs.
  – Local package: % of base salary designed to contribute to housing costs, but the amount is not always in line with the housing market.

• Is the company committed to paying for the full housing costs? If so, for what duration? There is a need to make a distinction between fixed-term assignments and permanent assignments.
SCHOOLING ALLOWANCE INCREASE INTENTIONS FOR 2015

<table>
<thead>
<tr>
<th>Location</th>
<th>Median % Increase</th>
<th>Average % Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubai</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Abu Dhabi</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: February 2015 UAE Housing and Schooling Increases Spot Poll (Prelim. Results)
Schooling
Tuition trends across the region (in USD)

Source: Mercer Cost of Living Reports, Primary Education
* English School in Riyadh

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SCHOOLING ALLOWANCES
HOME-BASED APPROACHES AND LOCAL APPROACH

- Home-based expatriate packages usually cover full tuition fees for children ages four to 18.
- In local packages, schooling allowances depend on position level.
- Locally hired foreigners and employees transferred permanently usually receive a schooling allowance — but, unlike for a fixed-term assignment, the allowance is sometimes capped (maximum amount allowed or, less frequently, there is a cap on number of children).
ASSIGNMENTS TO COUNTRIES IN TURMOIL
CURRENT HARDSHIP TRENDS

Extreme hardship
Allowance 30% to 100%
Expat selection
No-go zones
Syria, Iraq, Yemen

Medium hardship
Allowance 20%
Jordan, Bahrain

High hardship
Allowance 20% to 30%
Expat selection
Saudi Arabia, Lebanon

Low hardship
allowance 10 to 15%
Qatar, Oman, Israel

Very low or no hardship allowance 0 to 12.5%
UAE
ALLOWANCES AND PREMIUMS RELATED TO HARDSHIP

- Distinction between “office jobs” and “on-site jobs”.
- Remote or site-specific location premium.
- Pioneer premium.
- Rotation allowance.
- Completion bonus.
- Danger pay.
- Family separation allowance.
MOBILITY IN THE MIDDLE EAST
A CHECKLIST

• Defining the right mix of local and home-based approaches is key for moves to the Gulf.
• Talent management: Clear planning for future moves/next steps is crucial.
• Define clearly the logic of each allowance in local packages.
• The housing market is stabilising, but volatility will remain an issue.
• Check End of Service Benefits and double-payment of allowances and benefits.
• Hardship is not disappearing — finding the right incentive for each type of move is important.
• Keep an eye on nationalisation plans, if relevant for your locations and sector.