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– Common Themes and Future Opportunities
• Is the market really changing?
• Conventional and unconventional wisdom
• EMEA and the ME(N)A economy
“The ‘environment’ is where we live; and development is what we all do in attempting to improve our lot within that abode. The two are inseparable.”

Our Common Future
Points to ponder – 35 000 foot view

• Common Language for Compensation and Benefits (Redruth)

• Moral Hazards of economic prosperity
  – Access to non renewable resources and related strategies
  – Eurozone paradox (impacts of revised purchase power and status)
  – Infrastructure investment
  – Rapid hyper inflation of compensation and benefits
Who is at risk
Points to ponder – 35 000 foot view

• Road to Nationalisation – “State of Africa” / “Arab Spring”
  – Importation of skills
  – Growth of insurance markets
  – Lead indicators – white goods, cars, houses and medical inflation
  – Employment Equity – BEE/Saudirisation
  – Resource taxation

• Variable / fixed compensation models and the evolution of TCTC (African Sustainability report 2004)
Points to ponder – 35 000 foot view

• Maturation of market
  – Skills shift to national resourcing / resource scarcity / impact on quality / parity of benefits
  – Regulators and formalised pension structures
  – (de risking of social exposure through structured social taxation and compulsory savings)
  – Broader compensation strategies
Compensation and Benefit Trends in Africa and the GCC
## Common Themes

- **Nationalisation programs within the private sector**
- Developing compensation and benefit strategies that appeal to a broad employee demographic
- Increasing levels of legislation to protect foreign employees
- Pay increases of between 3% and 8% can be expected in 2012 dependent upon city / country
- Re-design and review of cash allowances
- There is a clear move to reduce fixed employment costs and increase “at risk” pay through short and long term incentives, moving towards rewarding individual performance
In the UAE, LTIs have a stronger representation in the pay mix this year.

The pay mix for KSA shows that base salary has a larger ratio in 2011.

Base pay constitutes a higher percentage of the pay mix in Oman and Kuwait in 2011 compared to last year, while the ratio of benefits and STIs was higher in 2010 in both countries.
Compensation Mix – SSA (TRS Countries only)

- Basic Salary
- Other Guaranteed Cash
- Non-Guaranteed Bonus (Variable)
- Employment Benefits

Percentage distributions for different categories, such as S1 (PC 40 - 41), S2 (PC 42 - 44), S3 (PC 45), etc., showing the varying compositions across different categories.
# Emerging Definition and the Scope of Total Rewards

## Compensation
- Base pay
- Guaranteed “bonuses”
- Short term incentives
- Long term incentives
- Financial allowances
- Financial recognition programs
- Deferred compensation

## Benefits
- Retirement
- Savings and other wealth creation programs
- Medical / Dental / Vision / Prescription Drug, etc.
- Life insurance
- Short and long term disability
- Accident coverage
- Job-related perquisites

## Development & Career
- Performance management
- Learning and development
- Career opportunity and paths
- Tuition reimbursement
- Mobility opportunities

## Work Lifestyle
- Time off
- Wellness programs
- Dependent care
- Workplace flexibility
- Commuter programs
- Workplace facilities and perquisites
- Experiential rewards
- Non-financial and status recognition
Future Opportunities

- Manage healthcare benefits on a regional basis
- Re-define the provision of cash allowances
- Evaluate the feasibility for expatriate retirement benefits
- Developing long term and short term disability provisions
- Reviewing the case for Flexible Benefits
The Case for Flexible Benefits
Supporting transformation of the Compensation Mix
Key drivers of flexible benefits
Global and regional themes

Global perspective
- The cost of insured benefits are constantly rising
- Shift to total compensation philosophies and defined contribution strategies
- Workforces are more demographically diverse
- Focus on employee empowerment and communication
- Promote internal employee equity but especially for benefits harmonisation in M&A
- EU placing greater emphasis on employment diversity and employee choice. Trade unions beginning to debate merits of flex

Middle East perspective
- High and escalating costs of insured benefits, especially medical
- High levels of western expatriates with experience of / preferences for flexible benefits
- Western multinationals with flexible benefits plans around the world, especially Pharma and Hi-Tech / IT
- Higher disposable income and allowances culture – ready made flexible benefits spending account
- High inter-regional employee mobility
Key drivers of flexible benefits
Business case / reasons why / return on investment

What can flex, in itself, achieve?
- Better attraction and retention
- Increased employee satisfaction
- Increased awareness of total reward
- Improved self-service behaviours
- Reduced HR effort
- Improved recruitment efficiency
- Increased flexible working
- Better targeting of reward
- Simplification / harmonisation of terms

What can be achieved through flex?
- Reduction in benefit costs
- Increased control of volatility in benefit costs
- Increased risk-sharing with employees
- Reduced tax and social security payments
Key drivers of flexible benefits
What to consider: Four perspectives

- What are the key metrics that we will use to measure the flex plan’s effectiveness and return on investment (ROI)?
- How should the flex plan be designed and delivered in order to maximize ROI for the company?
- Can the flex plan be designed at an affordable and sustainable cost?
- If not, how should the design be modified to be financially viable?
- What type of plan design best differentiates the company from competing employment opportunities?
- How do employees place value on different elements of plan design?
- What are the labour and related rewards environments in which the company competes?
- How do they influence the optimal design of the flex plan and therefore restrict the company’s flex goals?
Overview of the GCC region
Regional Overview and Economic Trends
Focus on the Gulf Cooperation Council (GCC) countries

- GCC countries:
  - Bahrain
  - Kuwait
  - Oman
  - Qatar
  - Saudi Arabia
  - UAE (seven emirates including Abu Dhabi; Dubai)
Regional Overview and Economic Trends
All countries are experiencing rapid population growth

- Population growth of 3.4% across GCC over past ten years driven by immigration
- Economist Intelligence Unit forecast population to grow by 33% by 2020
- Young population with over 50% aged 20 or below
- Expatriates represent majority of workforce in all except Saudi Arabia and Oman

Population (in millions)

Source: Economist Intelligence Unit

Expatriate workforce as % of total (2009)

Source: Nationalisation surveys
2012 average GDP forecast for the region 3.3%

UAE tried to blunt the financial crisis by increasing spending and boosting liquidity in the Banking sector

Crisis hit Dubai the hardest, as it was heavily exposed to the depressed real estate prices

Long term challenges:
- Dependence on oil
- Large expatriate workforce
- Growing inflation pressures

Strategic plans focus on diversification and creating opportunities for nationals through improved education and increased employment of nationals in the private sector

The economy is expected to continue a slow rebound
Inflation (2008 – 2012)

Source: IMF
Cost of Living: lower across the GCC compared to 2010, most expensive city is Abu Dhabi

<table>
<thead>
<tr>
<th>GCC</th>
<th>City</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<td>Manama</td>
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<td>6</td>
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<td>-</td>
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<td>Jeddah</td>
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<td>109</td>
<td>181</td>
<td>185</td>
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</table>

Source: 2011 Mercer Cost of Living Survey
Compensation and Benefit Trends in the GCC
Companies from the consumer goods, services and durable sectors provide increases above the market.

Companies from the high-tech and energy sector provide increases slightly below the overall market level.

The consumer goods and high-tech sectors forecast the highest increases for 2012.

<table>
<thead>
<tr>
<th>Industry</th>
<th>2011 Actual</th>
<th>2012 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods</td>
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<td>6.6</td>
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<tr>
<td>Services</td>
<td>5.2</td>
<td>5.4</td>
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<tr>
<td>Durable</td>
<td>5.1</td>
<td>5.3</td>
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<tr>
<td>High-tech</td>
<td>4.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Energy</td>
<td>4.2</td>
<td>4.8</td>
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<tr>
<td>Others</td>
<td>6.0</td>
<td>6.1</td>
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</tbody>
</table>
Guaranteed Cash Allowances

Guaranteed allowances by career stream

- Executives
- Management
- Professionals
- Para-professionals

- Housing
- National
- Transportation
- Utilities
- Meal/Luncheon Voucher
- Fuel
- Furniture
- Shift

AED

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000 400,000
Employee Benefits
Introduction and comments

• In the five years prior to 2010 a steady increase of benefit levels was evident particularly in the areas of medical, death and disability

• The economic climate has not, broadly speaking, changed the prevalence or level of benefits being offered, although employers are:
  – looking for alternatives to cash as differentiators in their employment brand
  – looking to manage increasing medical costs
  – showing an increasing interest in employee engagement and retention
    - Retirement savings plans
    - Flexible benefit plans
Regional Employee Benefits
High prevalence of medical benefits

- Mandatory cover for expats and families
  - Introduced in KSA in 2006
  - Introduced in Abu Dhabi in 2007
  - Certain Dubai free zones in 2008
  - Expected across Dubai in 2011
  - Debated in Qatar and Bahrain

- Mandatory model requires core level of benefits under approved plans with limitations on co-pays / deductibles

- Uncertainty over legislative requirements has resulted in rich benefit provisions

- High prevalence of diabetes and obesity together with high benefit levels is driving premium escalation

- Need for employers to manage healthcare costs proactively going forward
Medical care
Widespread provision of private health benefits to employees

- Legislation in place in KSA and Abu Dhabi requiring employer sponsored medical insurance for employees (expats and Nationals in KSA) and their dependants
- Legislation planned to make medical insurance compulsory in Qatar. The timing of the introduction is uncertain
Medical care
Prevalence of benefits within medical plans

- Dental and vision cover are becoming more prevalent
- Prevalence of cover for vaccines has remained stable

Data for Management Level Employees
Supplemental death and disability benefits

- Lump sum death and permanent disability benefits are most commonly provided through fully insured plans insured
- Provision of supplemental short term disability benefits varies widely as do the funding mechanisms
End of service benefits
An integral part of the region’s rewards framework

Broadly one month’s salary per year of service

Built on basic or gross salary depending on the country

Originally designed as severance protection

Increasingly cited as an alternative to a retirement benefit

Reductions in benefit for voluntary employee termination

Varied practices in relation to funding and accounting for EOSB
End of service benefits
Organizations providing enhanced end of service benefits

- Approximately 40% of organisations enhance EOSB above statutory minimum
- Broadly equal numbers of companies enhance salary or service component of EOSB
- Formal funding policies increasing across the Gulf
Other key benefits
Prevalence of other benefits

- Organizations continue to review benefits for locally contracted staff with a view to curtailing or removing benefits usually associated with expatriate assignees or seconded personnel.
- There is also a trend to reduce expatriate benefits as the UAE is no longer seen as a hardship posting.
Overview of Africa – Economic trends
Regional Overview and Economic Trends

Africa countries

GDP Growth Forecasts 2012:

- Immense natural resources
- Large investments in people
- Region dominated by West Africa (oil-based economies)
- East Africa to be the fastest growing region
Regional Overview and Economic Trends

All countries are experiencing rapid population growth

- Population growth of over 8% across Sub-saharan African Region
- Surging external demand (from China & India) hungry for oil & mineral resources
- A drive towards “consumerisation” (demand for modern goods and services)
  - Telecommunications and banking are key industries in this area

Source: Economist Intelligence Unit
Economic & Business Trends
Inflation: Sub-saharan & North Africa

Source: Economist Intelligence Unit
Cost of Living: Cities across Africa, most expensive for expats is Luanda

<table>
<thead>
<tr>
<th>Africa Ranking</th>
<th>City</th>
<th>World Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Luanda</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>N’Djamena</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Libreville</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>Niamey</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>Victoria</td>
<td>25</td>
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<tr>
<td>6</td>
<td>Johannesburg</td>
<td>131</td>
</tr>
<tr>
<td>7</td>
<td>Cape Town</td>
<td>158</td>
</tr>
<tr>
<td>8</td>
<td>Tunis</td>
<td>207</td>
</tr>
</tbody>
</table>

Source: 2011 Mercer Cost of Living Survey
Annual Increases – SSA
Provision of Medical Care – SSA

The chart shows the percentage of countries in SSA providing medical care. The x-axis lists various countries including EQ Guinea, Zambia, Liberia, Burundi, Moz, Sierra L, Mali, Guinea, Ethiopia, Botswana, Senegal, Angola, Kenya, Nigeria, Ghana, Zim, Tanzania, Gabon, Malawi, Cam, Uganda, Benin, Burkina F, CDI, Congo, DRC, Madagascar, and Rwanda. The y-axis represents the percentage from 0% to 100%. The graph indicates that most countries in SSA provide medical care, with the majority falling within the 80% to 100% range, except for a few that are lower. The red line represents the average for SS Africa.
Private Retirement Provision – SSA

- Provide Private Retirement
- Average SS Africa
Total Contribution ( % of Basic Pay to Private Retirement ) – SSA (TRS Countries only)
Provide of Company Cars – SSA

![Graph showing provide of company cars in various countries in SSA with average for SS Africa.](image-url)
Pay Car Allowance – SSA (TRS Countries only)

- CDI
- Congo
- Guinea
- Mali
- Rwanda
- Gabon
- DRC
- Benin
- Zim
- Senegal
- Botswana
- Tanz
- Moz
- Ghana
- Cam
- Nigeria
- Malawi
- Zambia
- Kenya
- Uganda

Pay Car Allowance
Average SS Africa
Average Company Car Benefit per annum – SSA (TRS Countries only)
Car Allowance Value – SSA (TRS Countries only)

Car Allowance Value p.a.  Average SS Africa