Middle East

Point of View

Published by
Deloitte & Touche (M.E.)
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across the region.

Spring 2016

On Malta

Right on track
IFRS in Saudi Arabia

High-rise
Dubai real estate predictions

Open sesame!
Malta, a door to the EU

Out of the shade
Talent in the GCC public sector

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Ninety years in
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Spring 2016
Middle East Point of View
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The British, the French, the Spanish, the Normans, the Arabs, the Greeks and the Romans couldn't all have been wrong, could they?

Since before Christendom, the isles of Malta have been conquered time and again by the various powers that sought to cultivate its natural harbors and take advantage of its strategic position in the centre of the Mediterranean Sea. Malta has come a long way since then, achieving independence from the United Kingdom in 1964 to eventually join the European Union and the Eurozone in 2004 and 2008 respectively.

Malta's gravitational force is well earned though: offering climate, historical sites, beautiful landscapes and education, the country also offers investment incentives to boot. In our special feature in this issue of *Middle East Point of View*, Nick Captur, Conrad Cassar Torregiani, Stephen Paris, Patrick Mangion, Chris Curmi and Michael Mercieca guide us through Malta's competitive advantage for business, investment, residence and citizenship. Check out our articles on the subject *Malta is ready for business, V.A.M. (Value-Added Malta), Taking up residence in Malta and A door to the EU,* in this issue's special insert.

Otherwise it's business as usual here at the *Middle East Point of View*, with our regular features covering the hot topics in our region. Paul Manduca takes a closer look at IFRS adoption in Saudi Arabia in his article *Getting it right*. "Careful planning and preparation," says Mr. Manduca "will determine the success or otherwise of the effective IFRS implementation in the Kingdom."

Martin Cooper offers his predictions on the real estate market in Dubai for 2016. Mr. Cooper retains a positive outlook for Dubai's residential, hospitality, office and retail markets. The lifting of sanctions on Iran, says Mr. Cooper also "presents potential opportunities" for Dubai as capital in Iran is released.

We borrow our title for the article on talent management in the GCC from Benjamin Franklin. Ghassan Turqieh, Joana Abou Jaoude and Sami Kahale discuss the need for talent management in the GCC public sector in order to face the challenges imposed by a growing workforce and government initiatives. After all, as Mr. Franklin said, "What's a sundial in the shade?"

Also in this issue of ME PoV, a growing concern among many businesses in the Middle East and the Gulf, managing family business conflicts (*The ties that bind* by Deloitte Private regional leader Walid Chiniara and Yasmine Omari) and fraudulent behavior in the workplace (*Spotting a fraudster* by David Clements) complete this edition of our magazine.

We hope that you enjoy reading this issue of *Middle East Point of View*. We hope to meet again in our next edition. In the meantime, we're off to see about some islands.

ME PoV editorial team

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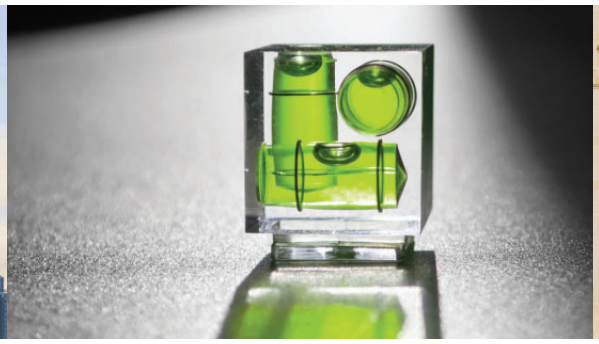

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Getting it right

Adoption of IFRS in Saudi Arabia

The Kingdom of Saudi Arabia (KSA) is soon set to join 130+ countries across the globe in the application of International Financial Reporting Standards (IFRS). Today, all companies in Saudi Arabia, other than banks and insurance companies, must follow accounting standards generally accepted in KSA as issued by the Saudi Organization for Certified Public Accountants (SOCPA). Banks and insurance companies are regulated by the Saudi Arabian Monetary Authority (SAMA-the Saudi Arabian central bank) and are already required to comply with IFRS.

In an era of globalization of businesses and markets, financial information prepared and audited according to national accounting Generally Accepted Accounting Principles (GAAP) no longer satisfies the needs of users

whose decisions are more international in scope. Saudi Arabia has recognized the need to participate in the opportunities offered by globalization and consequently, SOCPA approved an IFRS Convergence Plan, called the "SOCPA Project for Transition to International Accounting & Auditing Standards." Under this convergence plan, all listed companies are required to adopt IFRS for financial periods beginning on or after January 1, 2017, and all other entities for financial periods beginning on or after January 1, 2018. Unlisted entities may opt for an early adoption of IFRS from January 1, 2017. SOCPA is in the process of adopting IFRS for small- and medium-sized entities (SMEs) to be effective in 2018 for use by non-publicly accountable entities.

Since Saudi Arabia joined the Group of Twenty Finance Ministers and Central Bank Governors (G20) in 2009, the adoption of IFRS has been viewed as an important milestone in the country's future economic development and has been working towards this end ever since.

Since Saudi Arabia joined the Group of Twenty Finance Ministers and Central Bank Governors (G20) in 2009, the adoption of IFRS has been viewed as an important milestone in the country's future economic development and has been working towards this end ever since

The convergence of national GAAP with IFRS (Fontes et al, 2005, p. 416) promises "transparent, comparable and consistent financial information" to guide investors in making "optimal investment decisions" (Jacob and Madu, 2004, p. 357.)

Increased foreign direct investment and enhanced quality reporting, transparency and comparability are some of the key benefits that the country will enjoy from IFRS adoption. As KSA moves to reduce its dependency on oil, quality, transparent information, comparable to other preparers of IFRS reporting, will serve to attract direct foreign investment to the country.

The view that adoption of IFRS improves quality of financial information is critical to its adoption. If companies do not view the application of IFRS as beneficial to their business, then they are likely to face greater challenges in complying. As countries have over the years transitioned to IFRS, a common recurrence noted is that small businesses were slow to comply because they could not immediately see the benefits of the transition.

IFRS reporting is significantly more onerous than Saudi GAAP, in that its application will necessitate additional disclosures that will contribute to better informing the users.

The step change of moving from Saudi GAAP to IFRS comes with its challenges to corporates, practitioners and regulators alike. Some of the key challenges are the limited resource pool from which to draw upon, as well as Saudi's unique national practices. KSA is geographically the second largest state in the Arab world after Algeria, having a population of 32.2 million

people. Yet despite its size and population, the number of qualified Saudi accountants is a low 300. Compare that to Canada that has a similar population and has over 100,000 qualified accountants and the United Kingdom that boasts in excess of 200,000, the seriousness of the shortage is glaring and one which will need to be addressed if the adoption of IFRS and the regulation thereof by SOCPA is to achieve the desired results. The shortage of skilled accountants in Saudi Arabia is partially bridged by the numerous expatriates that have moved to the Kingdom, yet the Arabic language poses yet another challenge. All statutory financial statements prepared in accordance with Saudi GAAP are required to be filed with the relevant authority in Arabic. It is expected that this requirement will continue with the transition to IFRS. Consequently, there will be added pressure on Arabic-speaking qualified accountants to ensure that compliance with IFRS is, literally, not lost in translation.

A further challenge is the unique national practices of the country. Compliance with strict local laws and Sharia' law may not always be in accordance with IFRS. Additional disclosure requirements have been added to some standards, mainly to reflect Sharia' or local law. Also, going forward, SOCPA may from time to time decide to amend any IFRS requirement that contradicts Sharia' or local law, also taking into consideration the level of technical and professional preparedness in the Kingdom. Adding disclosures or removing an option from a standard would not normally prevent an entity following the standards from asserting compliance with IFRS. However, amending the requirements would generally prevent an entity following the standards from asserting compliance with IFRS if the amendment has a material effect.

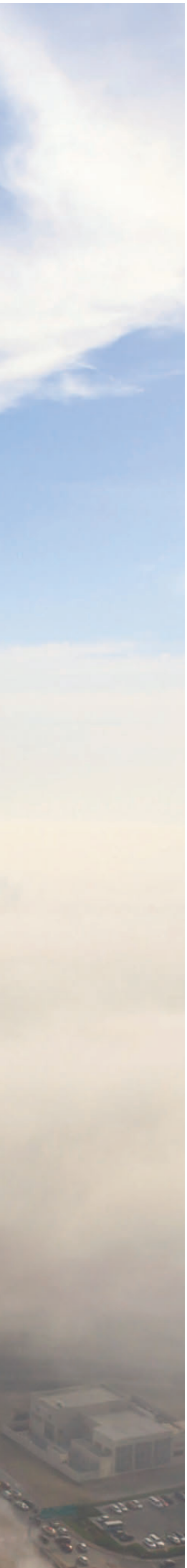
There will be added pressure on Arabic-speaking qualified accountants to ensure that compliance with IFRS is, literally, not lost in translation

Getting it right

Careful planning and preparation by corporates, practitioners and regulators over the next one to two years will determine the success or otherwise of the effective IFRS implementation in the Kingdom. Stakeholders should put in place adequate resources to support the sustainable implementation of IFRS. This includes setting up consultative groups to be available to respond promptly to challenges faced by users. Another critical element underlying the successful implementation of IFRS will be the assistance given to key stakeholders, including regulators, with training and dedicated required resources to interpret and apply the requirements of IFRS. It is imperative that the various stakeholders are integrally involved, because a smooth transition to IFRS cannot be achieved without their support.

The resource shortage will likely continue for some years, but it is now that the industry and policy makers need to act, in order to begin to see the fruit in the near future. Extensive education is needed in schools and universities through the targeted allocation of resources.

by **Paul Manduca**, Partner, Audit, Deloitte Middle East



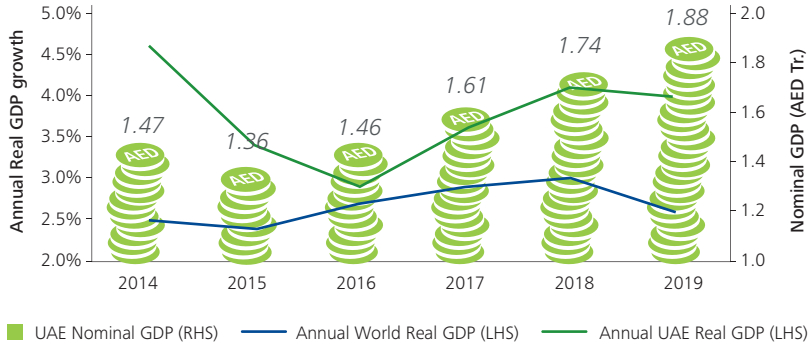
Dubai Real Estate Predictions 2016

Following two years of significant capital and rental growth across much of Dubai's real estate market, 2015 marked a slowdown and a return to more stable market conditions.

Our outlook for the year ahead is that generally market fundamentals for Dubai will remain positive in 2016, supported by a dynamic and growing economy, world-class transport and infrastructure and a stable investment climate. However, despite these market fundamentals, we do expect certain headwinds in Dubai's real estate market, largely influenced by external factors.

It is likely that Dubai's GDP growth will outperform the wider UAE in 2016, largely due to the fact that its economy is considerably less dependent on oil revenue compared to the other emirates

GDP growth, UAE and World, 2014 to 2019



Source: EIU (Dec 2015 forecast)

Economy overview

The Economist Intelligence Unit (EIU) forecasts real Gross Domestic Product (GDP) growth in the United Arab Emirates (UAE) to average 3.6 percent per annum between 2015 and 2019, a decline from the 4.6 percent growth experienced in 2014. This forecast is largely due to the significant fall in global oil prices, along with wider global economic factors, such as a slowing Chinese economy. It is likely that Dubai's GDP growth will outperform the wider UAE in 2016, largely due to the fact that its economy is considerably less dependent on oil revenue compared to the other emirates. Nevertheless, lower oil revenue is likely to drive lower bank deposit levels and greater withdrawals to support funding gaps that are likely to result in tighter liquidity and an increased cost of borrowing.

Despite the UAE's forecast budget balance of 0.2 percent of GDP in 2016[1], significant scaling back of key infrastructure projects should be eased by Federal reserves and the new Law No. 22 regarding Public Private Partnerships (PPP) passed in November 2015, which aims to boost private infrastructure investment and drive development.

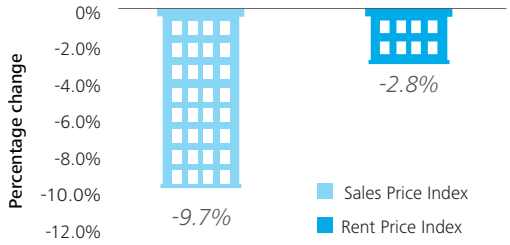
Meanwhile, the recent lifting of sanctions on Iran presents potential opportunities for Dubai in 2016. The release of capital locked in Iran is likely to prompt an influx of investment to safe haven markets from which Dubai may benefit, as well as the opportunity for Dubai to act as a gateway for businesses and investors considering Iran.

Dubai's residential market predictions for 2016

Following a significant number of project launches during 2015, the focus in 2016 will be project delivery.

Whilst published pipeline forecasts estimate that some 40,000 units will get delivered in 2016, consultations with key developers suggest that a more realistic number will be approximately 10,000 units.

Residential Sales Price Index and Rent Price Index percentage change, Dubai, 2015



Source: REIDIN (Jan to Nov 2015)

2015 saw average residential sales prices across Dubai decline by approximately 10 percent, which can be attributed to a number of factors, including exceptional growth experienced during 2013 and 2014; the ongoing decline in global oil prices, which has negatively influenced sentiment and demand from the Middle East North Africa (MENA) region; and the relative strength of the U.S. Dollar (to which the UAE Dirham is pegged), against currencies from key international source markets such as India, the United Kingdom and Russia, making Dubai a comparatively more expensive market. Average residential prices will decrease further in 2016 reflecting a transition to a more mature market. Further, an increase in more affordable stock and discounting in emerging locations placing downward pressure on citywide average sales prices, will likely take place.

While there may be a softening in residential rental prices in some submarkets, it is not anticipated that this will be to the degree of recent declines in residential sales prices. Rental price decline, however, could be exacerbated further if speculative investors, who are unable to sell product at pre-determined levels, decide to release units for rent instead.

Dubai's hospitality market predictions for 2016

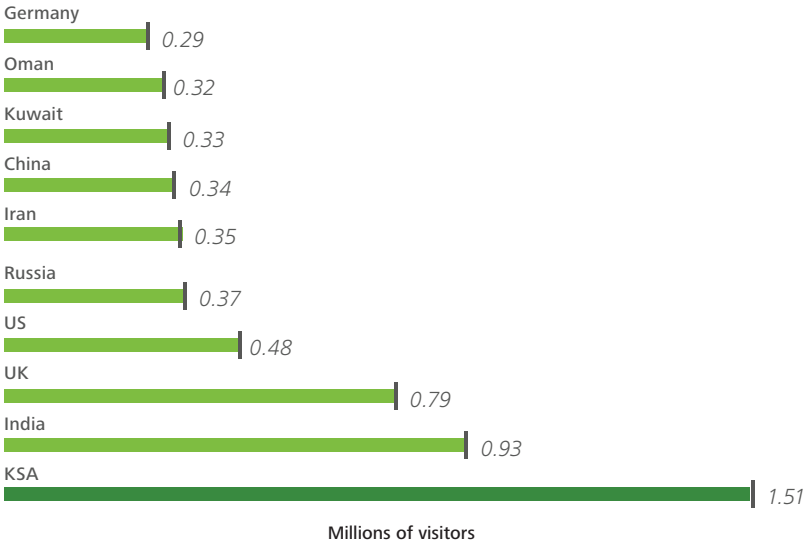
Occupancy levels at around 70 to 75 percent are likely to represent the "new norm" in Dubai's hospitality market in 2016, compared to 79 percent in 2014, largely due to new supply being delivered. This can potentially be viewed as a positive as it will make Dubai a more affordable destination. As operators compete for occupancy, Average Daily Rates (ADRs) will soften, further encouraging growth in tourism volumes required to support the investment in tourism infrastructure being developed over the coming years.

Serviced apartments are likely to be considered more in 2016, driven by key source market trends, growing visitor demand for longer stays and better value accommodation. Notably in 2014, Saudi Arabia was the largest hospitality source market with 1.51 million visitors to Dubai, whilst Iran and China experienced year-on-year growth of 42 percent and 24 percent respectively[2].

Occupancy levels at around 70 to 75 percent are likely to represent the "new norm" in Dubai's hospitality market in 2016, compared to 79 percent in 2014, largely due to new supply being delivered

With plans to increase capacity at Al-Maktoum International airport (DWC) and Dubai International airport (DXB) to reach a combined capacity of approximately 97 million passengers in 2016[3], there will be opportunities to capitalize on hospitality demand from transit and destination visitor growth and by promoting extended stay-overs in the Emirate, provided appropriate infrastructure, policies and incentives are implemented.

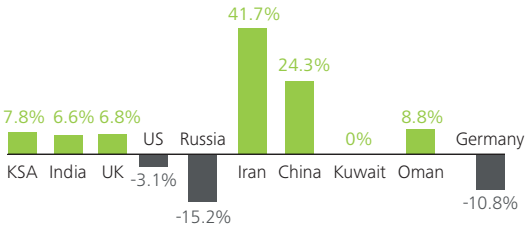
Top ten hospitality source markets, Dubai, 2014



Source: Tourism Economics

There will be more opportunities for investors and property managers to utilize data analytics and real time information to optimize lease management, occupancy, revenue and costs across their portfolio

Percentage change in hospitality source markets, Dubai, 2014 vs. 2015



Source: Tourism Economics

Dubai's office market predictions for 2016

With a number of quality office schemes in prime areas of undersupply due for completion by the end of 2015 and during 2016, rental growth will probably slow in some submarkets and the power of negotiation will shift from landlords to tenants. Free Zones will continue to perform well and maintain high occupancy in the most prime office buildings in Dubai, especially those located in proximity to key transport infrastructure (airports, ports and logistics) as these industries are projected to experience economic growth in Dubai in 2016.

Within the office sector, a trend towards more mixed-use developments and a greater allocation of space to amenities will be noticeable. This will enable schemes to differentiate against competing schemes and meet occupier demand for retail and other uses in proximity to the workplace, as well as a strategy for developers to diversify risk and generate a more robust cash flow.

Given the shortage of high-quality office space in Dubai, expanding companies will be more amenable to leasing additional space than is required at present in order to accommodate future expansion, with a view to subletting surplus space in the short term. Linked to this, there will be more opportunities for investors and property managers to utilize data analytics and real time

information to optimize lease management, occupancy, revenue and costs across their portfolio and better match occupier requirements with availability for improved financial performance.

Dubai's retail market predictions for 2016

Despite a strong start to the year with 56 million visitors to the Dubai Shopping Festival spending around AED145 billion, some retailers reported a fall in sales in 2015. There will likely be a further moderation in retail sales in 2016 against a strong Dollar and slowing demand from international source markets such as Russia, China and parts of Europe.

Retail rental growth will be relatively flat in 2016, with the exception of super prime malls, which will likely continue to experience strong demand as they benefit from both tourist and resident spending. During the first nine months of 2015, Emaar Malls Group reported 90 million visitors, equating to 11 percent growth year-to-date and a 2 percent increase in tenant sales, compared to 2014 (Q1 to Q3.)

Sector specific, Food and Beverage retail will go from strength to strength in 2016, driven by greater brand penetration and expansion. Good prospects are also envisaged for fashion retail following the completion of the initial phase of D3 Design District, which has attracted a number of high-profile brands and fashion houses to Dubai. These key investments should attract talent and business to Dubai's fashion industry and contribute to trade.

The full Dubai Real Estate Predictions 2016 report can be downloaded from the Deloitte website.

by **Martin Cooper**, Director, Real Estate, Deloitte Corporate Finance Limited (regulated by the Dubai Financial Services Authority)

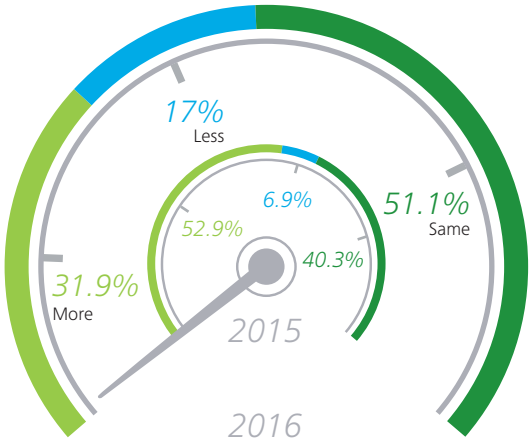
Endnotes

1. EIU
2. Tourism Economics
3. Dubai Airports

Key tourist retail mall source markets, Dubai, 2015

Source: grmc advisory services

Expectation on disposable income levels in 2015 and 2016, comparison to previous year, Dubai



Source: grmc advisory services

XI

Malta

Small archipelago, big punch

With its warm climate, numerous recreational areas, and architectural and historical monuments (including three UNESCO World Heritage Sites), what's not to like? Nothing it seems. Following its entry into the European Union, Malta has become the small powerhouse that packs a big punch.

Malta is ready for business

Located in the middle of the Mediterranean and on the southern tip of the European Union (EU), Malta is a hidden gem not just for visitors, but also for business operators seeking an entry into, or exit from the EU.

Malta is a small European country with a growing reputation for fast forward thinking. The island is quickly becoming known as a flexible and reliable location from which to do business. Enterprising policy makers, a mature and developed legal system, a competitive tax environment and an adaptable, highly skilled English-speaking workforce position Malta as a regional center of excellence.

History

Malta has a rich history that has been defined by its strategic location and its natural harbors. After the Knights of St. John, both the French and the British took turns governing the country. Today, Malta is an independent EU-member state, but never lost its strong British heritage and commercial links, being best described as a Southern European state with a Northern European work ethic.

Business enterprising policy makers, a mature and developed legal system, a competitive tax environment and an adaptable, highly skilled English-speaking workforce position Malta as a regional center of excellence

Economic sectors

A surprising variety of industries and economic sectors operate in Malta.

Currently, Malta is one of the world's fastest growing financial services mini-hubs. Asset managers, hedge funds, venture capital, insurance business and banks all enjoy the benefits of a pragmatic and accessible regulator–the Malta Financial Services Authority. HSBC is the largest bank on the island.

Manufacturing in Malta occurs in high-end value added niches such as pharmaceuticals or microchips, with the largest foreign direct investor being Germany.

IT activities and e-commerce are thriving sectors strongly supported by government policy. Malta was the first EU-member state to set up a regulatory framework for digital gaming. Smart City Malta is a Dubai-owned initiative to build a state-of-the-art IT and media business park.

Malta is becoming a hub for aviation activities and hosts large aircraft maintenance service centers for global airline carriers, such as Lufthansa and Easyjet.

Being a strategically well-positioned island in the center of the Mediterranean, shipping activities are intrinsic to Malta. The island has the largest ship register in Europe and its Freeport is amongst the largest transshipment and logistics center in the Mediterranean.

Due to its beautiful scenery and great weather, several well-known Hollywood movies have been filmed in Malta. For example, in 2014 Angelina Jolie and Brad Pitt spent the summer living on the Maltese island of Gozo, filming the recently released movie *By the Sea*.

Each year the population increases significantly due to tourism and English language schools. Malta welcomes 1.8 million visitors per year and is well connected to all main European hubs. Emirates operates a regular flight to Malta from Dubai.

Economic performance

Malta's economic performance continues to be robust. Its Gross Domestic Product (GDP) continues to grow while the EU average has shown contraction. Its banks have always been conservative and Malta is deemed to have the 14th soundest banking system according to the World Economic Forum.

Malta's GDP in the third quarter of 2015 grew by 5.4 percent in real terms. Standard and Poor's, the international ratings agency, projected that the Maltese economy will continue to outpace the Eurozone generally and expand by 2.8 percent per annum in real terms over the period 2016 to 2018.

Political stability

In addition to economic stability, the country is politically stable with well-established relations both with the West, like Europe and the United States, but also with countries in the Middle East and North Africa. Malta thus presents a reputable hub for multi-nationals operating in these regions with a competitive cost/benefit profile.

Malta was the first EU-member state to set up a regulatory framework for digital gaming

Competitive tax system

Malta's corporate tax system is unique, offering low effective corporate tax costs. Various incentives are available for intellectual property and research and development activities. There are generous provisions for the deductibility of expenses and for amortization and depreciation. Relief for double taxation is granted by way of foreign tax credits and full imputation with refunds.

With proper planning and economic substance, foreign investors in Malta can achieve an effective tax rate of 5 percent or less. Malta offers an imputation system of taxation, whereby tax paid at a Malta company level is credited to its shareholders in receipt of a dividend declared in their favor. Shareholders are then eligible to claim refunds of Malta tax paid, reducing the overall effective tax rate.

The introduction of the participation exemption has enhanced Malta's position as a premier EU holding company location. Any income (dividends) or capital gains derived from a "participating holding" being a Malta resident or non-resident company that does not own real estate in Malta, are wholly exempt from tax in Malta provided the applicable conditions are met.

Generally this requires that equity shares are held, with a minimum investment of 10 percent and no minimum holding period. There are then no withholding taxes on outbound dividends to shareholders.

From an international perspective, Malta provides access to EU Directives and has concluded an extensive network of double tax treaties. Currently there are 72 treaties in place, including treaties with a number of Middle East and North African countries including Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, and the United Arab Emirates.

A number of attractive tax regimes for individuals are also in place. In particular there is the Global Residence Program for non-EU nationals. There is also an opportunity for ultra high net worth individuals and their families to acquire Malta Citizenship under the Individual Investor Program.

From an international perspective, Malta provides access to EU Directives and has concluded an extensive network of double tax treaties. Currently there are 72 treaties in place, including treaties with a number of Middle East and North African countries including Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, and the United Arab Emirates.

Malta's tax laws reflect the original Income Tax Act introduced by the British in 1948. The scope of taxation in Malta largely depends on a person's residence and domicile, and a person who is not domiciled in Malta should only be taxable in Malta on foreign-source income remitted to Malta.

Legal forms

Malta offers a wide range of legal forms catering for all forms of investment. Company law is based on UK law and incorporation is straightforward without the intervention of a notary. It is also possible for companies incorporated under the laws of a foreign jurisdiction to continue to Malta without triggering liquidation.

Strong and effective anti-money laundering rules in line with EU law are in place and these must be satisfied *a priori* to setting up a business relationship or structure in Malta. However most international businesses and family offices will already be familiar with these requirements and have the available documentation.

There are no exchange control regulations and business may be conducted freely in any main currency. Although Malta is part of the Eurozone, Maltese companies can be set up with share capital denominated in U.S. Dollars, Pounds Sterling or any other major international currency.

Operating costs

Malta's labor force is versatile and operating costs for businesses are highly competitive and generally about one-third below those found in Continental Europe. Malta is one of three EU-member states where English is an official language. Italian is also widely spoken and the work force includes many expatriates seeking to capitalize on Malta's potential.

Education

Founded in 1769, the University of Malta is the second oldest in the Commonwealth outside of the United Kingdom. It attracts 11,500 students, including over 750 students from 82 different countries. Recently a private Jordanian investor announced plans to develop an American University of Malta on a campus on the southern coastline of Malta.

In addition, the Queen Mary University of London has come to an agreement to offer medical degrees in Malta taught by St. Barts and the London School of Medicine and Dentistry, offering clinical experience in co-operation with hospitals in Malta and Gozo.

Living in Malta

The attractiveness of Malta's investment environment is highlighted by the fact that international investors continue to expand activities in Malta once established. The quality of life and the unrivalled charm of the island are a successful combination. The island provides an expat-friendly environment with availability of international schools and excellent healthcare. In fact, as per International Living's Quality Index Malta is one of the best places to live and the United Nations has classified Malta among the safest places in the world. In 2016 Malta is listed as the third "must visit" destination by the *New York Times*.

by **Nick Captur**, Partner, Business Tax, Deloitte Malta and **Conrad Cassar Torregiani**, Partner, International Tax, Deloitte Malta

The attractiveness of Malta's investment environment is highlighted by the fact that international investors continue to expand activities in Malta once established

V.A.M.

(Value-Added Malta)

Malta is turning the European Union's challenging asset management regulatory landscape into a competitive advantage for your business.

A main objective of the European Union (EU) is to create a level playing field across the entire Union. This is especially evident in the asset management sphere. The Union's directives and regulations ensure that collective investment schemes, asset managers and regulated investment services companies created in any of the member states are regulated under a uniform set of rules, while benefitting from the opportunity to operate within the entire Union. Effectively, a fund or asset manager incorporated and regulated in an EU member state can operate throughout the entire Union. The objective is to eliminate jurisdiction shopping by having the same regulatory framework apply, irrespective of the jurisdiction in which the entity is incorporated and regulated.

That Malta is best in class in transposing and enacting relevant directives in an efficient manner is, for us, a given

While the objective is a noble one, in practice things have panned out differently, and this for a number of reasons. First and foremost there are a myriad of non-regulatory factors, such as fiscal considerations and the cost of operations that weigh in when a promoter is making his choice of jurisdiction.

More importantly, the European Union's challenging and ever changing regulatory regime itself also creates opportunities for efficient and proactive jurisdictions such as Malta to differentiate themselves from other member states.

The background

The regulatory operating landscape within the European Union has experienced a seismic change in the wake of the financial crisis of 2008. In the space of seven years the European Commission enacted approximately 40 pieces of legislation and regulation, most of which have generated an average of around 10 technical standards and sub-regulations, making a daunting total of some 400 documents to assimilate, evaluate and comply with when appropriate. Nowhere is this more evidenced than in the asset management sector: regardless of the spate of new regulatory requirements, the entire hedge fund industry now falls under the Alternative Investment Fund Managers Directive (AIFMD), whence this sector had not previously been regulated at Union level.

So in this daunting regulatory landscape, how is it that Malta can offer a competitive advantage to financial services firms looking for a European solution?

Firstly, Malta is the EU Member State with a record for efficiency in transposing EU Regulations and Directives into its domestic legislation. Malta has continued to rank top among European Union Member States, having the best transposition record of European Legislation, according to the May 2015 scoreboard published by the European Commission.

The scoreboard benchmarks Union member states' efforts in the implementation of Internal Market Law, by recording the transposition deficit, which is the gap between the number of Internal Market laws adopted at EU level and those in force in the member states.

To name just one example, Malta was the first member state to fully transpose the aforementioned AIFM directive.

There are even more compelling reasons for Malta to be considered as a natural choice for companies seeking to gain a competitive advantage in terms of regulatory challenges in the asset management industry.

Our single best testimonial comes from the industry itself. Regulated companies in Malta repeatedly assert that the big attraction to the industry is the peace of mind with which they are able to deal with regulatory change. This is the result of a well-honed approach that sees all the stakeholders–whether the legislator, the regulator, the various industry bodies, the service providers or the license holders themselves–come together to ensure that regulated entities always have complete visibility, instant access and timely responses on regulatory matters. The country's size ensures that it

is nimble and effective, and this is something that is difficult for larger jurisdictions to replicate.

Add to the above the fact that English is an official language in Malta, and that the prevailing company law is based on UK Company Law and it becomes clear why Malta is a favorite destination for promoters looking for a European Union regulatory solution.

That Malta is best in class in transposing and enacting relevant directives in an efficient manner is, for us, a given. Our real strength is the continuous evolvement of our regulatory solutions, enabling market players to find a 'best fit' in terms of the most appropriate channel through which to offer their services.

Let us take the advent of the aforementioned AIFMD as an example.

Apart from having a fully- fledged AIFMD solution, Malta provides, among other things, the following possibilities:

- Re-domiciling non-EU managers and non-EU funds into the European Union. Effectively this is a simple continuation procedure wherein the fund, or manager, transfer their operation to Malta, where they will fall to be licensed and regulated by the Malta Financial Services Authority. The continuation is a seamless one wherein the entity retains its track record and there is no requirement for any redemption or realization of any sort.
- Establishing a fully regulated manager and fund outside the scope of AIFMD. Malta has retained its popular Professional Investor Fund regime and as long as the structure falls outside the scope of the directive, it will be possible to continue operating without adhering to the more onerous obligations of the AIFMD.
- Malta does not adopt a one-size fits all approach to regulatory obligations. The principles of proportionality are firmly entrenched in our jurisdiction such that the substance requirements will be firmly in line to the nature and complexity of the operation and the assets being managed.
- Fund platforms that allow the co-existence of fund structures operating under different regimes.

Malta has a vibrant financial services sector, with one of its main assets being its robust and yet flexible regulatory regime

This last point is a very relevant one and a further illustration of Malta's ability to create new products to satisfy market requirements. In this particular sphere Malta has not one, but three different regulatory modules under which a fund platform can be established. These range from the traditional model wherein each sub-fund is legally a separate patrimony of assets, distinct and ring fenced from other sub-funds within the platform, to the more recent incorporated cell concept, where each cell regulated as a fund scheme has its own independent board of directors and is a separate and distinct legal personality at law.

Yet another strong selling point is the plurality of structures available to establish a fund, ranging from a limited liability company with variable share capital, to a partnership, to a mutual fund and beyond.

There is also plenty to look forward to with the Capital Markets Union aiming to bring about greater flexibility and access to the capital markets and the imminent introduction the European Long-term Investment Funds that should open the market of infrastructure investment to the retail market.

In conclusion, Malta has a vibrant financial services sector, with one of its main assets being its robust and yet flexible regulatory regime, enabling you to transform the EU's challenging regulatory regime into a competitive advantage for your business.

by **Stephen Paris**, Partner, Financial Services Practice leader, Deloitte Malta and **Patrick Mangion**, Principal, Financial Services, Deloitte Malta

Taking up residence in Malta

In view of its strategic geographic location in the heart of the Mediterranean and its highly regulated business and banking infrastructure, Malta has, over the last two decades, become an international financial services center of high repute.

In 2004 and 2008 Malta became a full member of both the European Union and the Eurozone respectively, events which have both contributed to the island's growth from a local and international perspective. This growth has been noted on various occasions when Malta has ranked highly on both standard of living and business jurisdiction indexes.

Malta has the advantage of having two official languages–Maltese and English–together with other non finance-related benefits such as a warm climate, excellent cuisine, a rich history and a general jovial and welcoming culture. The island is easily accessible through its modernized airport with a variety of international flight connections.

During Malta's period of growth as an international business center it became evident that various programs for attracting foreign individuals wishing to take up residence in Malta should be introduced to sustain and increase this growth

During Malta's period of growth as an international business center it became evident that various programs for attracting foreign individuals wishing to take up residence in Malta should be introduced to sustain and increase this growth. This led to the introduction of the Global Residence Programme (GRP) and the recently introduced Malta Residence and Visa Programme (MRVP) that are targeted at non-EU/non-EEA/non-Swiss nationals while other similar residence programs are targeted at EU/EEA/Swiss nationals. This article will concentrate on the GRP and MRVP.

Basis of taxation in Malta

The basis of taxation in Malta is determined in relation to whether the individual is resident in Malta and domiciled in Malta. An individual who transfers his residence to Malta without the intention of residing indefinitely there is typically considered, for Malta income tax purposes, to be resident in Malta but not domiciled in Malta. It is important to note at the outset that Malta adopts a "remittance basis" of taxation in respect to the taxation of foreign-source income of individuals who are resident in Malta but not domiciled in Malta. This means that such individuals are subject to tax in Malta on income and capital gains arising in Malta and any foreign-source income received in, or remitted to, Malta. Foreign-source income not remitted to Malta is not subject to tax in Malta whilst foreign-source

Basis of taxation in Malta		
Income or capital	**Taxation in Malta**	
	Income received in Malta	Income not received in Malta
Income and/or capital gains arising in Malta	Yes	N/A
Foreign-source income ("remittance basis" of taxation)	Yes	No
Foreign-source capital gains	No	No

capital gains are not subject to tax in Malta irrespective of whether or not remitted to Malta.

Both programs discussed below cater for resident non-domiciled individuals and the aforementioned remittance basis of taxation would apply to such persons. Furthermore, it is important to note that for both programs, separate Malta residence application procedures have to be carried out.

The GRP

The main advantages available to a beneficiary of the GRP and qualifying dependents is that such an individual would be subject to tax in Malta at a flat rate of 15 percent on foreign-source income remitted to Malta, with no tax arising on remittances of foreign capital to Malta. The beneficiary and qualifying dependents would also be granted a Malta Residence Permit that provides access to the Schengen Area, with certain restrictions.

In order to qualify for the GRP, as per application conditions, an applicant should be a non-EU, non-EEA, non-Swiss national. The applicant should also be a "fit and proper person," fluent in English, who is in receipt of stable, regular resources, is in possession of medical insurance and who owns a qualifying property in Malta (i.e.: purchased for a consideration of not less than €275,000[1] or rented for not less than €9,600 per annum.) An application fee of €6,000[2] applies upon submission of the application and an annual minimum tax of €15,000 per annum is payable.

The MRVP

The MRVP, unlike the GRP, is not a tax program but an immigration program that grants the beneficiary and qualifying dependents a Malta Residence Permit, and which provides access to the Schengen Area, with certain restrictions. The beneficiary may also take advantage of Malta's source and remittance basis of taxation, however any income remitted to Malta would be taxable at progressive rates of up to 35 percent and not a flat rate of tax of 15 percent, as is available in terms of the GRP.

The main advantages available to a beneficiary of the GRP and qualifying dependents is that such an individual would be subject to tax in Malta at a flat rate of 15 percent on foreign-source income remitted to Malta, with no tax arising on remittances of foreign capital to Malta

In order to apply for the MRVP, the main conditions state that an applicant should be a non-EU, non-EEA, and non-Swiss national. The applicant should also be a "fit and proper person" who is in receipt of stable, regular resources, is in possession of medical insurance and who owns and holds a qualifying property in Malta for at least five years (i.e.: purchased for a consideration of not less than €320,000 or rented for not less than €12,000 per annum.) The individual must also make a qualifying investment in Malta (i.e.: investment will remain to be an asset of the individual) of €250,000 (held for a minimum of five years) and should have annual income of not less than €100,000 outside of Malta or be in possession of capital of not less than €500,000. A non-refundable contribution of €30,000 also has to be made to the Competent Authority.

Comparison of the programs

The following is a comparative summary of the GRP and MRVP:

Details	GRP	MRVP
Basis of taxation	Source and remittance basis. Foreign-source capital gains outside scope of Malta income tax.	Source and remittance basis. Foreign-source capital gains outside scope of Malta income tax.
Malta income tax rate on: (a) Foreign-sourced income	Flat rate of 15 percent on foreign-sourced income in respect of applicant and certain dependents.	Progressive rates up to 35 percent; zero percent tax rate on income up to €9,100 (single)/€12,700 (married) as of 2016.
(b) Income earned in Malta	Flat rate of 35 percent on income earned in Malta.	Progressive rates up to 35 percent; no tax on income up to €9,100 (single)/€12,700 (married) as of 2016.
Minimum annual remittance to Malta of foreign-sourced income	No minimum annual amount of income required to be remitted to Malta.	No minimum annual amount of income required to be remitted to Malta.
Minimum annual Malta income tax	€15,000.	No minimum annual tax payable.
Minimum Malta annual residence period	None–but must not reside for more than 183 days in any foreign jurisdiction.	None.
Minimum Malta immovable property acquisition requirement	Minimum values of immovable property: €275,000 (€9,600 if rented.)	Minimum values of immovable property: €320,000 (€12,000 if rented) and held for a minimum period of five years.
Minimum Malta investment requirement	None.	Qualifying minimum investment of €250,000 and held for a minimum period of five years.
Minimum net wealth requirement	None.	Annual income > €100,000 or capital of > €500,000.
Non-refundable financial contribution	None.	€30,000 (of which €5,500 payable as application fee.)
Statutory application fee	€6,000.	€5,500 (deductible from non-refundable financial contribution.)
Private health insurance requirement	Private health insurance coverage in respect of all risks across the whole of the EU for applicant and dependents.	Private health insurance coverage in respect of all risks across the whole of the EU for applicant and dependents.
Eligible dependents of applicant	Yes–wide spectrum including dependent brothers, sisters and direct relatives of applicant or the applicant's spouse/partner.	Yes–but restricted spectrum of dependents.

Conclusion

The above are two programs through which an individual and his/her qualifying dependents may take up residence in Malta. In terms of both programs a minimum presence in Malta is not required, however in terms of the GRP the individual cannot spend more than 183 days in any other jurisdiction. That being said a number of applicants do spend quite some time in Malta; in fact, the island was selected as the third best place to live for expatriates according to a survey published by *The Wall Street Journal* in 2015.

by **Chris Curmi**, Partner, Global Employer Services, Deloitte Malta

A number of applicants do spend quite some time in Malta; in fact, the island was selected as the third best place to live for expatriates according to a survey published by *The Wall Street Journal* in 2015

Endnotes

1. Lower thresholds apply if property is purchased or leased in Gozo or the South of Malta
2. A lower fee of €5,500 applies if the property purchased is in the South of Malta.

A door to the EU

Obtaining Maltese citizenship

Overview of the Malta Individual Investor Programme

Malta, which became a member of the European Union (EU) in 2004, has since introduced a citizenship program, entitled the Malta Individual Investor Programme (MIIP). The program grants Maltese citizenship–and hence EU citizenship–by investment and by means of the issue of a certificate of naturalization for the main applicant, and the eligible dependents thereof, following the satisfactory conclusion of a thorough and rigid due diligence process and the satisfaction by the main applicant of a number of conditions. The said conditions include the payment of a non-refundable financial contribution to the economic development of Malta; investment in, or rental of, immovable property situated in Malta; local investment; and a Malta residency requirement.

The benefits of obtaining Maltese Citizenship would include EU Citizenship entitlements: namely, the free movement of persons (workers and establishment), and the free movement of services, capital and goods. Moreover, discrimination within the EU on grounds of nationality is prohibited, hence the EU citizen and his/her family members residing in Malta benefit from equal treatment with the nationals of Malta and, if residing in another EU Member State, with nationals of the said Member State within the scope of the Treaty of the Functioning of the European Union. Furthermore, visa free entry to over 160 countries and territories will be obtained and the individual would benefit from the absence of border controls when travelling within the EU Schengen area. A Maltese identity card should also be obtained (subject to the satisfaction of certain criteria.)

The residence requirement referred to above does not mean that the main applicant must be physically in Malta for 365 days before obtaining citizenship

It is important to note that every application is presented and examined by the competent authority–Identity Malta–through an Accredited Person of Identity.

In order to apply for the MIIP the applicant has to be a "fit and proper person" who is at least 18 years old, and is required to:

- Make a non-refundable contribution to the Malta National Development and Social Fund (i.e.: €650,000 for the main applicant plus varying additional amounts for each eligible dependent (see below.)
- Be covered by global health insurance policy.
- Acquire or lease a qualifying property (i.e.: minimum purchase value of €350,000 or minimum annual rental of €16,000.)
- Undertake an investment in Malta Government Stocks of a minimum of €150,000 and have been a resident of Malta for a period of at least 12 months prior to the day of the issuing of the certificate of naturalization.

It is important to note that both the Qualifying Property and the Malta Government Stock have to be held for an uninterrupted period of five years.

The residence requirement referred to above does not mean that the main applicant must be physically in Malta for 365 days before obtaining citizenship. In fact this residence requirement is, in practice, satisfied by the obtainment of a Malta Residence Permit and creating a series of "links with Malta" as well as by visiting Malta at least twice in 12 months and by staying at least 15 days in Malta in total prior to obtaining citizenship. The "links with Malta" include the opening of a bank account in Malta, becoming a member of a social club in Malta, obtaining a Maltese mobile number, appointing a medical practitioner in Malta and registering for income tax in Malta, besides the purchase or rental of a qualifying property in Malta and the investment in Malta Government Stock.

It is important to note that the non-refundable contribution that is required in terms of the MIIP regulations, the investment in Malta Government Stock and the lease/acquisition of immovable property in Malta is not required to be made before Identity Malta issue a Letter of Approval in Principle, confirming that the application has been approved.

One of the attractive aspects of the MIIP is that a number of eligible dependents may apply as part of

the main application. The contribution payable to the Malta National Development and Social Fund in respect of eligible dependents is significantly lower than that payable by the main applicant (i.e.: the amount payable ranges between €25,000 and €50,000 depending on the age/relationship to the main applicant of the dependent.) The eligible dependents are not required to own or lease property in their own right or make investments in Malta Government Stocks. Eligible dependents may include the applicant's spouse, children younger than 18 years of age, unmarried children between the ages of 18-27 years who are wholly maintained by the main applicant, the parent or grandparent of the applicant or spouse older than 55 years old and who is wholly maintained by the main applicant and forms part of his household.

Malta tax implications for MIIP applicants

From a Malta tax perspective, it is important to note that obtaining a Maltese passport does not result in an individual becoming a Maltese domicile. An applicant of the MIIP should be taxable in Malta on a "source and remittance basis" or solely on a "Malta source" basis, depending on whether the individual remains a resident of Malta after obtaining their passport or not.

While a resident of Malta, and in view of the non-Malta domicile status of the main applicant, the remittance basis of taxation should apply in respect to foreign source income and as a result of which such foreign-source income is only subject to Malta income tax if received in, or remitted to, Malta. If the said income is not received in or remitted to Malta, the income is outside the scope of Malta income taxation. Furthermore, foreign-source capital is outside the scope of Malta income tax irrespective of whether or not it is remitted to Malta.

Timeline from date of presentation of application (T)	Process
T + 90 days	• Application form checked. • Preliminary due diligence process concluded. • Due diligence fees + passport fees + non-refundable payment of €10,000 paid to Identity Malta Agency. • Source of funds verified.
T + 120 days	Review and assessment by Identity Malta and issuance of a Letter of Approval in Principle.
T + 125 – 145 days	Payment of Contribution (less non-refundable payment of €10,000) (Purchase/lease of immovable property and Malta Government Stock required to be made within four months from the issuance of the Letter of Approval in Principle.)
T + 183 days – 2 years	Issuance of certificate of naturalization, subject to applicant having been resident in Malta for 12 months and having taken oath of allegiance.

One of the attractive aspects of the MIIP is that a number of eligible dependents may apply as part of the main application

Conclusion

The MIIP is a program by which an applicant and eligible dependents may obtain Maltese and hence, EU citizenship. The MIIP has proven to be an attractive EU passport program to non-EU nationals: a total of 900+ applications have already been made to Identity Malta Agency and a total capping of 1,800 "Main Applications" is currently in force. It is worth noting that the MIIP is the only EU citizenship program that has been approved by the EU.

by **Chris Curmi**, Partner, Global Employer Services, Deloitte Malta and **Michael Mercieca**, Manager, Global Employer Services, Deloitte Malta

Out of the shade*

Talent management has become a priority on the agenda of public sector leaders in the Gulf Cooperation Council (GCC) countries as they seek to cope with the peculiarities of the GCC labor market and governmental drivers impacting it.

The challenges

Technology, globalization and demographic changes are reshaping the way organizations around the world interact with the talent market. At the same time, the GCC's workforce distribution and governmental drivers are putting further pressure on public sector organizations in the GCC to rethink their talent management approach at all stages of the employee lifecycle (i.e. from hire to exit.) Never before have these public sector organizations faced such a range of talent management challenges that imminently require a sustainable, integrated and comprehensive talent management system across the GCC.

The GCC's workforce distribution impacts talent management

Both a surplus in the supply of young national

*"Hide not your talents. They for use were made. What's a sundial in the shade?" Benjamin Franklin.

What is talent management?
Developing, engaging, and retaining employees. Successful talent management better enables organizations to achieve their strategic objectives from a talent perspective, by developing employees and aligning their individual goals with those of the organization.

professionals and a deficit in the supply of experienced and qualified talent present talent management challenges that public sector organizations in the GCC should address to cope with skill shortages.

The International Monetary Fund (IMF) estimates that up to 1.6 million nationals could enter the GCC labor market by 2019, with new private sector jobs covering a maximum of half the expected labor market entrants. As a result, public sector organizations in the GCC could be pressured to absorb the surplus of young national professionals in order to avoid an increase in national unemployment rates and to comply with nationalization requirements.

Moreover, there is a deficit in the availability of sufficiently qualified nationals for leadership and middle management positions. As such, public sector organizations in the GCC tend to fill these positions with expatriates or newly empowered, and relatively young, nationals some of whom might lack the required experiences or qualifications to effectively fulfill their position's requirements.

The GCC's workforce distribution and governmental drivers are putting further pressure on public sector organizations in the GCC to rethink their talent management approach at all stages of the employee lifecycle

Governmental drivers impact talent management
In addition to the GCC workforce distribution, GCC governments have launched several initiatives that impact talent management.

Nationalization agenda: GCC governments have enforced nationalization requirements on public and private sector organizations in the GCC. These requirements aim to up-skill nationals, address high national unemployment rates, particularly among millennials who constitute more than 50 percent of the GCC's workforce (IMF), and reduce reliance on expatriates in certain sectors. Not complying with nationalization requirements may hinder the organization's ability to participate in the labor market. For instance, the Nitakat program in the Kingdom of Saudi Arabia classifies private sector organizations based on their nationalization performance; the better the organization's classification, the easier it becomes for that organization to participate in the labor market. As a result, both public and private sector organizations in the GCC face a challenging balancing act to attract and retain nationals while maintaining the right mix of competencies to effectively operate their organizations.

Efficiency and excellence: GCC governments have launched several innovation and excellence strategies to which public sector organizations in the GCC should be aligned, in addition to government awards that acknowledge and reward public sector organizations that provide efficient and innovative services to their customers. For example, the Government of Abu Dhabi's 2030 Economic Vision sets out guidelines for optimizing the Government's operations by improving the efficiency and accountability of government departments and related public sector organizations. GCC governments' drive for efficiency and excellence is further reflected in their performance compared to that

of other countries around the world. According to the World Economic Forum's 2015 Global Competitiveness Report, Qatar emerged as the country with the most efficient government in the world, while the UAE ranked fifth, Oman 19th, the Kingdom of Saudi Arabia 23rd and Bahrain 24th. Because of the emphasis placed on efficiency and excellence within GCC governments, public sector organizations are required to sustain employee engagement and increase productivity to support their government's objectives.

Budget optimization: Public sector organizations in the GCC are the largest employer of nationals. According to the IMF, more than 75 percent of employed nationals in Kuwait, Qatar and the United Arab Emirates (UAE) worked in public sector organizations in 2013. The ratio is also high in the Kingdom of Saudi Arabia and Oman at 50 percent each. As a result, public sector wages as a percentage of Gross Domestic Product (GDP) in the GCC are among the highest in advanced and emerging economies, totaling 11 percent in the Kingdom of Saudi Arabia and 10 percent in each of Bahrain and Kuwait. However, with budget cuts resulting from the drop in oil prices, public sector wages as a percentage of GDP are unlikely to be sustained at current levels. GCC governments' efforts to optimize their budgets will present challenges to public sector organizations by decreasing their ability to provide jobs for the expanding national population and forcing them to "do more with less." Hence, engaging employees and driving their performance becomes of utmost importance.

Key talent management challenges

We have identified key talent management challenges that are further amplified by the GCC's workforce distribution and governmental drivers. These include:

Skills matching: Skills mismatching is the root cause of the youth employment problem in the GCC. There need to be national education policies that bridge the gap between labor market demand and supply, and enhance young nationals' employability. Skills shortages are putting pressure on public sector organizations to attract and retain scarce talent.

> To effectively address their current talent management challenges, public sector organizations in the GCC should revisit their perspective on talent management and be prepared to question longstanding practices and beliefs

Workforce optimization: In their drive to nationalize the workforce, some public sector organizations in the GCC have tended to recruit more nationals than they require, resulting in overstaffing. As a result of budget constraints that are impacting the way public sector organizations recruit, there is a need to adopt a scientific method of determining future workforce requirements while factoring in nationalization targets.

Productivity improvement: Public sector organizations in the GCC have had limited success in promoting engagement among most nationals partly due to the guaranteed benefits they are entitled for, and which are not necessarily directly linked to their productivity or performance. As a result, there is a need to revisit the workplace culture and rewards philosophy by focusing on productivity and performance.

Talent development: Public sector organizations in the GCC often employ individuals who require further development to effectively fulfill their position's requirements. This is mainly due to the unavailability of sufficiently qualified talent, particularly in leadership and

Organization cultures should be shifted from cultures focusing on policies to cultures focusing on people and rewarding performance

middle management positions. As a result, there is a need to develop and implement learning programs to upskill talent and groom next generation leaders.

The solutions

Revisiting the talent management perspective

To effectively address their current talent management challenges, public sector organizations in the GCC should revisit their perspective on talent management and be prepared to question longstanding practices and beliefs.

Talent management tied to a strategic plan: Currently, the majority of talent management activities such as planning for recruitment and implementing trainings are reactive, driven by incidental requests received from concerned line managers. To be viewed as a strategic partner rather than a transactional support function, the Human Resources (HR) function should develop a strategy that is in line with that of the organization and broader government priorities (e.g. nationalization.) This strategy should also include a talent component that both focuses on enabling the organization to achieve its objectives from a talent point of view and guides proactive talent management activities such as recruitment and learning.

Competency-based talent management: In order to achieve integration across HR functions, a competency framework should be developed and used as the base to drive interdependency across talent management initiatives. The below highlights how competencies link various HR functions:

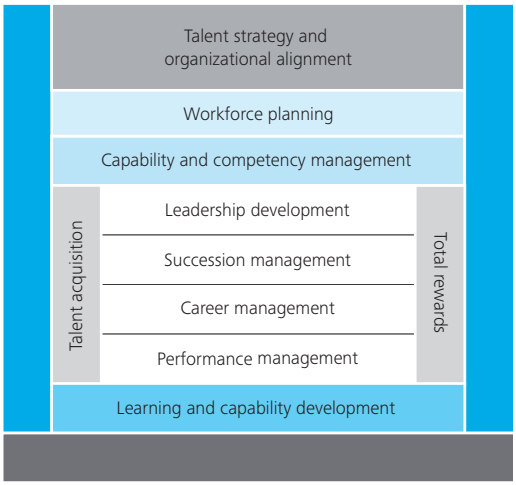
- Workforce planning: Competencies enable the development of a competency-based workforce plan that matches demand and supply. How can an organization determine its workforce needs without knowing what skills are required?
- Recruitment: Competencies enable recruitment activities to be focused on job-specific ability through competency-based candidate screenings and interviews.
- Performance management: Competencies enable the setting of goals and development opportunities related to critical job requirements.
- Learning and development: Competencies enable the targeting of skills development areas through appropriate learning programs.

People and performance-focused culture: Organization cultures should be shifted from cultures focusing on policies to cultures focusing on people and rewarding performance. This could be achieved by revisiting the rewards philosophy to focus more on productivity and performance and by accommodating for factors that might improve employee happiness at work such as flexible working hours, job rotations, contingent work arrangements (e.g. working from home, part-time work, other forms of work arrangements that suit working mothers' requirements.) In addition, shifting organization cultures requires employees to understand how their performance affects the broader organizational strategy and how their individual contributions impact its mission. As a result, a people- and performance-focused culture increases

employee satisfaction and engagement levels, thus enhancing talent retention and productivity.

Talent analytics: Currently, talent management activities are not consistently monitored and, as a result, lessons learned and trends are not extracted. To support the decision-making process, HR functions could use talent analytics tools to provide talent-related insights and trends. HR functions could use talent analytics as a descriptive and monitoring tool to measure employee metrics such as productivity and turnover, and determine trends and corrective actions. Talent analytics could also be used as a forecasting tool to support the workforce planning process.

Talent management functions across the employee lifecycle



Source: Bersin By Deloitte Integrated Talent Management Framework, 2015

Integrated talent management

In order to plan for the talent management transformation, organizations should assess the maturity of their current approach to talent management, and determine the desired future state. Based on our experience working with public sector organizations in the GCC, the desired future state tends to be at an integrated talent management maturity level, one that focuses on connecting and integrating HR systems and processes. This poses a realistic target that public sector organizations in the GCC could achieve in the short- to medium-term.

Given the talent management challenges that public sector organizations in the GCC are facing, it is time to move beyond gut instinct when making workforce decisions

The high-impact talent management framework (left) illustrates how talent management functions across the employee lifecycle are integrated.

From an implementation perspective, not all the components within the talent management framework can and should be implemented at the same time. Key solutions within the talent management framework should be exploited first based on their importance to public sector organizations in the GCC. The following key talent solutions should be implemented first:

Talent strategy and organizational alignment: The talent strategy guides all other talent solutions; therefore, it should be developed first. The talent strategy should complement the organization's strategy

by outlining the talent challenges and implications to achieve the organization's strategic objectives, and then defining key talent initiatives to address organizational needs and talent challenges. Considering the importance of the talent strategy in achieving the organization's objectives, it should be business-driven and HR-enabled, requiring a joint effort between the HR function and organization leaders.

Workforce planning: Public sector organizations in the GCC generally develop recruitment plans, however strategic workforce planning is hardly done. Given the talent management challenges that public sector organizations in the GCC are facing, it is time to move beyond gut instinct when making workforce decisions. As such, it becomes essential to use a more scientific method of determining workforce requirements. The aim of the strategic workforce planning process is to develop actionable priorities for bridging competency gaps by identifying the required competencies to achieve the organization's strategy, defining critical workforce segments based on positions requiring scarce skills and of high value to the organization, and conducting a competency gap assessment to forecast talent requirements.

To comply with their governments' nationalization agendas, public sector organizations in the GCC might find it beneficial to develop robust succession management processes which aim to identify "high-potential" talent, particularly among nationals

Capability and competency management: Competencies are defined as the combination of knowledge, skills, abilities, and personal attributes that are required to effectively perform a job. Additionally, competencies should be aligned with the organization's strategy and values to help foster common purpose and organization success. Competencies, therefore, when used holistically across the talent management process, can serve as the common language that integrates talent management activities such as workforce planning, recruitment, performance management and succession planning. As such, the development of a competency framework and job profiles are essential to integrate talent management processes.

Leadership development: Public sector organizations in the GCC should implement tailored learning programs aimed at developing technical and general leadership competencies of leaders to better equip them to achieve organizational objectives, respond to challenges and engage employees. Leadership development initiatives can also include the participation of high-potential talent, as identified in the succession management process, in order to groom next generation leaders and ensure a smooth transition between them. Moreover, leadership development programs should not only focus on traditional and class-based trainings, other channels should be explored as well such as coaching, mentoring and job rotation.

Succession management: To comply with their governments' nationalization agendas, public sector organizations in the GCC might find it beneficial to develop robust succession management processes which aim to identify "high-potential" talent, particularly among nationals, at the early stages in their career, and develop their competencies to fulfill potential future leadership responsibilities. As such, succession

management can enable these organizations to reduce their reliance on expatriates and smooth the transition between expatriate leaders and up-and-coming nationals.

Performance management: Currently, performance management in public sector organizations in the GCC is mostly an "appraisal system" rather than a system focusing on competencies and objectives. Additionally, the link between performance and other talent programs is not clear. Public organizations should develop and enforce a standardized and transparent performance management framework that rewards and recognizes performance by accurately assessing and evaluating individual contribution to the organization's objectives. Building and maintaining a pay-for-performance culture will increase employee productivity and drive employee engagement.

Learning and capability development: Learning and capability development initiatives in public sector organizations in the GCC generally do not address targeted competencies, and are largely viewed as a break from work. Organizations should strive to become learning entities by developing a learning strategy that is driven by organizational priorities and integrated with the overall talent strategy. Learning initiatives should be in line with employees' job requirements and areas for improvements, as per performance management results, thus fostering interest and active participation. Additionally, public sector organizations could explore the idea of partnering with private sector organizations for joint learning initiatives where mutual interests coincide.

Concluding remarks

The timing could not be better for public sector organizations in the GCC to rethink their talent management approach as a result of the talent challenges they face. HR functions stand at the center of these changes. However, achieving the necessary transformation to effectively address talent challenges requires both leadership sponsorship and bold and innovative thinking, with a greater focus on integrated talent management as a key element in driving both workplace change and organizational success.

Achieving the necessary transformation to effectively address talent challenges requires both leadership sponsorship and bold and innovative thinking

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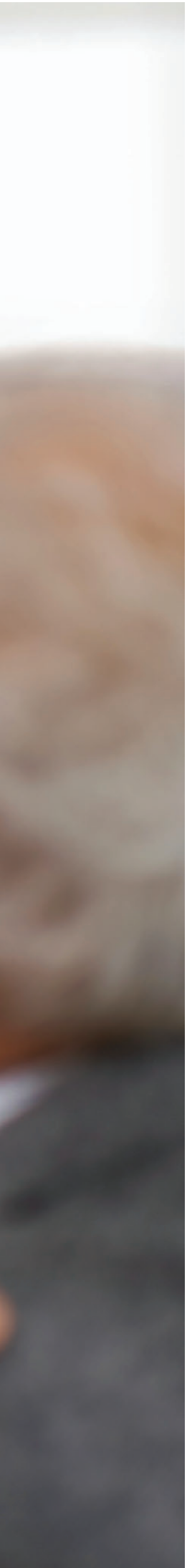

The ties that bind

Managing family business conflict

Families in business gain great personal, operational and market advantages by their very nature, but the added complexity of family matters becoming intertwined with business matters cannot be ignored.

The ownership and management constituencies of any business will influence the day-to-day running and strategy. In a family-owned business, there are often family members who sit outside the formal ownership and management structure but who wish to exert control and influence.

This situation presents conflicting needs, priorities and expectations–from all stakeholders–that need to be continually balanced if both family and the business are to be served effectively. Often, these various groups, who sit outside the formal structure, are either not represented effectively within the business or their views are not effectively managed, which often leads to conflict.

Conflicts in family businesses differ from those in non-family businesses. Family-related issues tend to take precedence over business issues, sometimes even dominating day-to-day interactions within the operating business, which can ultimately jeopardize the future prospects of that business and the family it was initially meant to serve.

Family disagreements can arise on many subjects ranging from company strategy, management, commercial partnerships and appropriation of earnings. All of these (and more) are critical issues that can threaten the process as well as progress, of both family and business succession strategies by diverting time, energy, and money away from the longer-term family and business goals.

These disagreements are even more critical at a phase where a business has yet to find suitable successors to steer the family and the business through the next cycle of ownership. Family businesses in the Middle East, particularly in the Gulf Cooperation Council area (GCC) have reached a critical transition period, with a significant number of families likely to be handing over the management and ownership to the next generation over the next five years.

To better ensure that the needs and wants of both the family and business constituencies are addressed, it is necessary to put in place the right forums, systems and processes.

What is required is a Family Governance framework that defines a common system of values and objectives, as well as a structure for solving conflicts. In the first instance, agreeing on, and documenting a common system of values and objectives to which each family member subscribes, can reduce the chances of disagreement and subsequent conflict, and in the worst case scenario it provides a method to resolve such conflict.

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The key to building conflict management mechanisms is to understand the predictable roots, as well as what exacerbates conflict, and building around both of these. So what are some of the key tools and methods that are essential to help resolve conflicts? Techniques for managing a family business disputes include the following:

Communication - It is important to communicate openly and honestly while being sensitive to everybody's needs. Often conflicts arise as a result of repressed historical issues that have been brought to the surface. While it is important to understand the past, we always suggest that family members only raise topical or current issues and discuss them only with those directly concerned. This helps to avoid "going round in circles" and allows family members to resolve practically the issue(s) at hand. In such a situation, we would encourage everyone to acknowledge that each family member has a right to raise their concerns and voice their opinion. Furthermore we stress to the family the importance of understanding one another's positions and points of view.

Inclusion – It is critical that all parties are involved in the communication process. Often however, some family members may not voice an opinion. But it is essential that we identify such individuals and ensure that the rest of the family engages them by asking questions and prompting them to answer. However, we balance this advice by also strongly advocating that the family listen to others, which allows them to get a better understanding and awareness of the issues at stake.

Negotiation – It is necessary to review and rank all the areas of disagreement. Once issues are ranked, it is possible to reach a middle ground with the parties involved. This process also allows for low-priority, or less significant problems, to be resolved by the family coming together and reaching a mutually acceptable outcome. Thus existing common ground among the parties is reinforced, and trust and understanding are built, which are the foundations required when trying to negotiate the more critical issues and conflict.

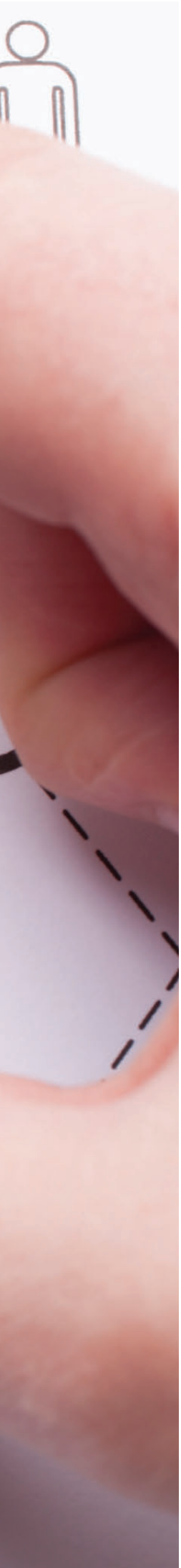
Objectivity – It is important to maintain an objective approach when dealing with other parties to establish trust, credibility and respect. We understand that conflicts often can become emotional and that objectivity is difficult to maintain. In such instances, involving a neutral outsider or mediator can be of paramount benefit and can help the parties explore settlement options and move towards a solution upon which all can agree.

Timing – When dealing with family business conflicts, timing is of the essence. It is imperative that the matter is addressed when the time is right. Problems can be caused and conflicts exacerbated both by moving too soon or by acting too late. Of course, there are many contextual conditions that determine when the time is right to address a subject, but it is important also to recognize that in the life-cycle of a conflict there are multiple opportune moments to resolve an issue. All too often, the concept of "the right time" is misused as an excuse for procrastination, which can be damaging as it often leads to even more procrastination, making intervention at a later stage much more difficult.

All being said, however, we also acknowledge that conflict is not always necessarily a bad thing. Properly managed, moderate doses of conflict can be beneficial. Conflict is the root of change and allows people to learn and grow.

All being said, however, we also acknowledge that conflict is not always necessarily a bad thing. Properly managed, moderate doses of conflict can be beneficial. Conflict is the root of change and allows people to learn and grow. In many cases, after conflict and subsequent resolution, closer unity and stronger relationships may even be established. Knowing how to manage and resolve these conflicts is what is ultimately important for the overall success of the family business.

by **Walid Chiniara**, Partner and Deloitte Private Leader in the Middle East and **Yasmine Omari**, Manager, Family Enterprise Consulting, Deloitte Middle East



Spotting a Fraudster

Most company owners do not realize that the average business loses around five percent of its annual income as a result of fraud/embezzlement[1]. Statistically, losses from bigger fraud schemes are usually attributable to highly valued, experienced, senior management/executives.

Research has revealed that there are certain behavioral traits, which, if identified in conjunction with other factors (such as issues with bookkeeping, controls or accounts), should give sufficient cause for making some discrete enquiries. Some examples of noteworthy behavioral clusters are:

- Overbearing conduct (this may indicate the person is trying to deflect attention away by imposing a communication barrier),
- Secretive conduct and keeping work hidden (hiding notes, documents or files would normally be perceived as meaning the person does not want others seeing the content–for whatever reason),
- Not taking holidays (when persons in positions of responsibility steadfastly refuse to relinquish control of their responsibilities, it could either be as a result of great pride in their work, or that they need to retain control in order to maintain a certain façade or cover-up),
- Leading a lavish lifestyle (an employee who appears to be living beyond their income should be cause for concern) and also being overly likeable or often prying (although in some ways the opposite of being overbearing, such behavior may be displayed for the same reasons.)

These behaviors should be considered particularly interesting if displayed by members of senior management, who are between the ages of 31 to 45 years and who have been with the company for over five years[2]. Statistically, male fraudsters outnumber female fraudsters two to one[3]. Working in regions like the Middle East and North Africa (MENA), with multicultural and multilingual work places, we must also be culturally sensitive and aware of how different societal norms affect people's conduct. This complicates the matter, for although the behaviors described above still remain indicators, they may be perceived differently within different cultures. In particular cases, one needs to spend time understanding which behaviors are cultural norms and which are personality traits, before becoming too suspicious and possibly insulting someone or embarrassing oneself.

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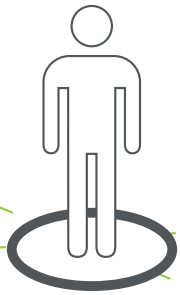
Of course, we are all only human and most people in the work place who display some (or even all) of these traits are not necessarily criminals, but that's not to say it would hurt to keep a close eye on them and do a little investigative work: some subtle cross-checks to make sure.

Arguably, the uncovering of fraud is a science, whereas uncovering the fraudster is an art. The fraudster is the Janus (man or woman), the two-faced being masquerading around the work place like an actor on a stage. Nonetheless, the core psychology of the fraudster is relatively simple, but usually very well disguised and tricky to uncover.

In its training manual, the Association of Certified Fraud Examiners (ACFE) refers to a "Fraud Triangle" when discussing the root causes of the crime. The three sides (or aspects) that create the triangle are: Motivation, Opportunity and Rationalization. The most recent fraud theory refers to the "Fraud Diamond," adding the factor of Capability to the triangle: the potential and skill to undertake the fraud.

Motivation may be either internal or external. It may take the form of in-house pressure to achieve financial targets or domestic pressure to bring home more income to pay for lifestyle or other expenses.

Opportunity relates to positioning within the company as well as proprietary knowledge and/or having a high level of authorization (a sufficiently high level to avoid scrutiny.)



Rationalization is, in my opinion, the most interesting aspect–this is where the psychology of self-deceit is to be found. The perpetrator may be reconciling the criminal behavior by saying to themselves something like: "The company owes me," or "I deserve more and it won't matter if I just take it," or "I'm not being unreasonable, anyone in my position would do the same thing."

Capability refers to having the ability to lie continually, deceive and cheat and hide the evidence of their actions.

Fraudsters tend to fabricate a personal scenario that they rely on to justify to themselves their deceptive criminal conduct. The art of uncovering the fraudster (or the fraud) is in getting behind the lies and discovering the truth. The examiner needs to find the seam between reconciliation and reality and prize it open. Even so, unlike in the movies, not all investigations end with confessions. Sufficient evidence usually takes the form of a blend of real physical evidence, circumstantial and testimonial evidence and maybe some admissions by the perpetrator.

Interestingly, even after having been made aware of the Fraud Triangle (or Diamond as is now widely accepted) and the work behavior indicators, many business owners still do not feel inclined to take a closer look behind the scenes. Those indicators are free and easily observed, if you're looking for them. A cursory investigation behind the scenes may bring something interesting to light and cause a red flag to pop up. The behaviors may just be personality traits, but they may also be signs of an underlying deception; however if one doesn't look, one may never know.

Working in regions like the Middle East and North Africa (MENA), with multicultural and multilingual work places, we must also be culturally sensitive and aware of how different societal norms affect people's conduct

Statistically, most frauds are only discovered once they have been underway for between 12 and 18 months[4] and they tend to escalate in number over time as the perpetrator's needs (greed) increase. Schemes tend to progress, sometimes exponentially, to a point where the true facts can no longer be concealed by false bookkeeping entries or other deceptions and direct signs of fraud become apparent.

A 12- to 18-month monetary leak could mean irreparable damage to a company's financial buoyancy; possibly resulting in far reaching issues such as cash-flow and debt problems, tax and regulatory/legal issues, brand damage and adversely affected customer/client confidence impacting the business' value, and of course, costly litigation.

One cost-effective method of addressing and minimizing fraud risk is to perform background checks on key staff, vendors and suppliers. The good news is that business owners don't need to try and become Sherlock Holmes or Dr. Watson, because there are already reputable, ethical professionals out there, whose skill is to perform discrete, thorough, background checks on key staff and vendors. Making such background checks company policy is one of many best practice corporate governance controls that should be implemented in order to reduce the risk of fraud. There are numerous fraud risk assessment techniques that can be applied to any business, from a corner shop to multinational corporate–the trick is to actually follow through.

Of course one could perform some of those checks oneself, but having them performed independently can bring a more objective, analytical angle to the information obtained.

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In a recent case the branch manager of a national distribution company in South Africa was caught out after 20 months of double-billing legitimate transportation invoices against his own ghost company. Twice a month double payments were made for distribution; one for the real vendor and one for the ghost vendor. This eventually came to light after a long overdue stock-counting exercise revealed that the warehouse was greatly over-stocked. Only half the amount of stock booked as having been distributed had actually been moved.

You may not be too surprised to read that the manager had, on two prior occasions, successfully foiled attempts to perform stock-counts at his warehouse; and that when the count did finally go ahead, he was off sick for a few days. That is surely proof that it is true that stress can make you sick!

Examination of the business' vendor list with background cross-checks to determine details of vendor owners' names and letters to confirm their banking details, revealed that the branch manager himself was on the list via his ghost company. In 20 months he had syphoned ZAR3.5 million off the books.

Interviews held with the warehouse staff revealed that the manager had been displaying many of the classic fraud behavior traits: in the preceding three years he never took vacation leave, he held final authorization on all payments at his branch and had full access to the entire bookkeeping system, he was always ingratiatingly nice to everybody, he was known to spend a lot of his time gambling and had bought a car disproportionate to his salary. He was 33 years old and had been with the company for seven years at the time.

The case described above shows textbook hallmarks of those behavioral clusters being closely associated with bookkeeping, controls and accounts issues. Staff fraud awareness training, together with a robust and well-advertised Whistle-Blower Hotline, may have encouraged a staff member to report their concerns much earlier. In fact, the crime may never have even been committed if there had been a proper vendor onboarding policy and procedure, regular background checks and cross-referencing of vendor bank account details against the staff's bank accounts. According to the ACFE report mentioned above, even ensuring key staff either take their annual holidays or spend some time on job rotation can reduce the duration of a fraud scheme by as much as 62.5 percent. Governance controls like these should be implemented and adhered to as a bare minimum of fraud prevention.

A little prevention can go a long way and periodically calling in the experts to assist you with performing a fraud risk assessment, prevention and awareness exercise will always be worthwhile. After all, prevention is better than cure.

by **David Clements**, Principal Director, Forensic Services, Deloitte Corporate Finance Limited (regulated by the Dubai Financial Services Authority)

Endnotes

1. ACFE Report to the Nations 2014
2. ACFE Profile of a Fraudster
3. ACFE Profile of a Fraudster
4. ACFE Report to the Nations 2014

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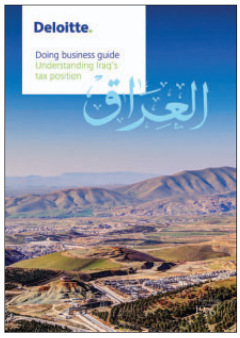

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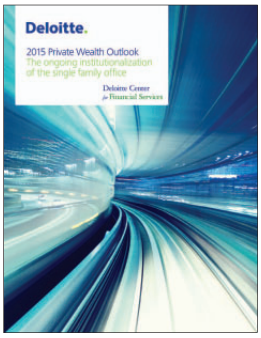

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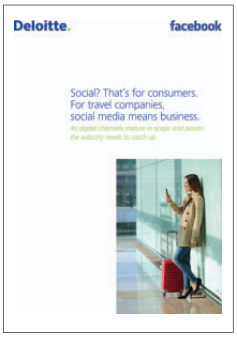

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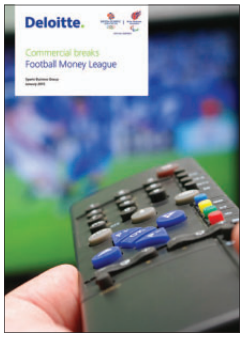

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