

# Malta as a nearshore FDI and Outsourcing Destination

*The independent analysts' view*

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eCODE — European Centre for Offshore Development



- An *independent* Foreign Direct Investment and *vendor-neutral* Offshore Advisory Centre
- Offices in the US and mainland Europe, 3 in UK:
  - Chester (North)
  - Leatherhead (Central)
  - Portsmouth (South)

with representative offices throughout the emerging economies (Eastern Europe, India, MENA and Sub-Saharan Africa)

- 3 specialist areas of expertise:
  - FDI and Sourcing Consultancy
  - Implementation Management
  - Research and publication of Country & Comparison Reports for 36 international locations (incl. Malta)



# **eCODE** A selection of our clients in A, B, BW, CH, D, F, GB, H, I, MK, N, NL, PL, RO, USA, ZA





- Warm, sunny, southern Mediterranean climate
- 2,085 km (1,300 miles) from London — about 3 hours by air; frequent daily services by both low-cost and full-service airlines from multiple UK ports
- Full membership of both the EU and Eurozone
- Stable democratic Republic — active British Commonwealth member
- Friendly and hospitable people, comfortably combining British legacy and Mediterranean culture
- Population 420,000 (July 2013)
- Bilingual: Maltese (98%) / English (88%); additional 66% also Italian speaking
- Very open for business, with a familiar, largely British-based commercial law environment



“Malta's key location mid-way between Europe and North Africa gives the island added advantage as an investment location and services a combined population market of ~950M.

With its Western European business environment, sophisticated infrastructure solutions and its highly skilled workforce, the island is targeting investment from high value-added industries and service providers — and it is succeeding well.”

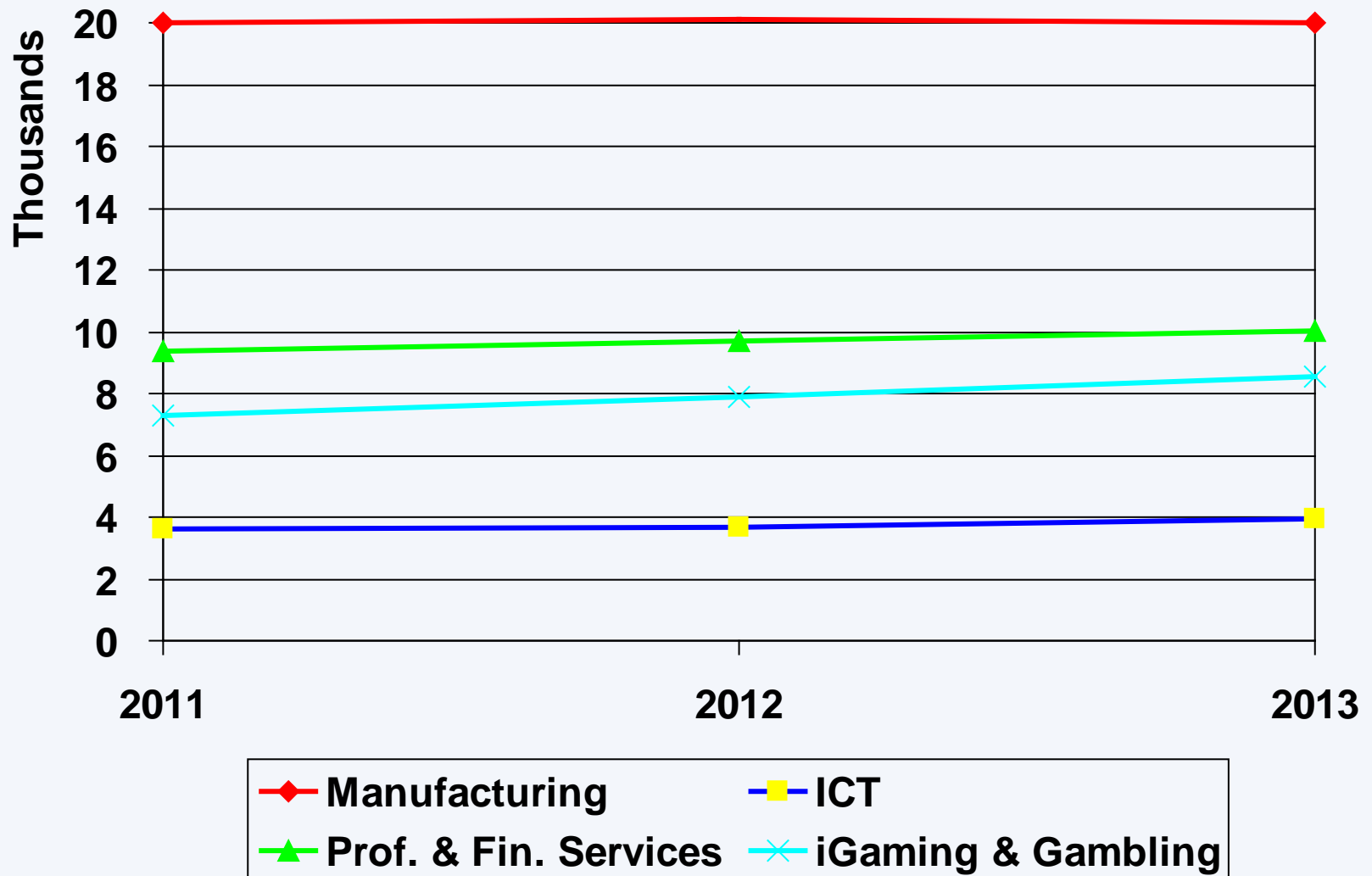
*Source:* “Global Outsourcing — Malta”, Copyright © 2010-2011 **eCODE** and Ovum



- **GDP / GROWTH**  
US\$ 9.831 bn.  $\equiv$  US\$ 23,800 *per capita* / Growth 22%
- **ANNUAL INFLATION**  
1.8%
- **UNEMPLOYMENT**  
4.12% (registered)
- **LABOUR FORCE**  
160,000 split as follows: Agriculture 3%, Industry 22%, Services 75%
- **MAJOR INDUSTRIES**  
Tourism, electronics, financial services, aviation, construction
- **NATURAL RESOURCES**  
Limestone, salt, arable land (31%)
- **EXPORTS**  
US\$2.26 bn.: machinery and transport equipment, manufacturing
- **IMPORTS**  
US\$3.84 bn.: machinery and transport equipment, manufactured and semi-manufactured goods; energy, food, drink, tobacco
- **MAJOR TRADING PARTNERS** (in alphabetical order)  
France, Germany, Italy, Libya, Singapore, UK, USA



*Source:* National Statistics Office — Malta





- **EDUCATIONAL ENROLEMENT (Source: UNESCO)**
  - Primary 91%
  - Secondary 98%
  - Tertiary 33%
- **QUALITY OF EDUCATION (Source: World Econ. Forum)**
  - Combined ranking 21<sup>st</sup> out of 139 countries (cf. UK at 55<sup>th</sup> and US at 52<sup>nd</sup>)
  - Management schools ranked 36<sup>th</sup>
- **TERTIARY STATS (Source: Univ. of Malta & MCAST)**
  - University of Malta: ca. 11,000 students; 3,000 graduates pa
  - MCAST: ca. 6,500 students at all levels, 300+ graduates pa
  - Middlesex University, Malta: First intake September 2013
- **LABOUR FORCE (Source: National Statistics Office)**  
161,548 as at June 2013, split as follows:
  - Agriculture 3%
  - Industry, Manufacturing and Maintenance 22%
  - Services 75%
- **UNEMPLOYMENT (Source: National Statistics Office)**
  - 7,279 (4.51%) registered as at June 2013



## General Strengths

- Bilingual, English speaking nation (many Maltese speak several additional languages)
- Highly educated and skilled workforce
- Familiar British-based accountancy and legal principles
- Liberalised Taxation Laws and supportive Government FDI policies, especially in the areas of dual-taxation and Corporation Tax
- Strong ICT Infrastructure
- Low wage and accommodation costs of around 40% of the original 12 EU nations
- Very low work attrition rates
- Politically stable, democratic Republic – very low security risks
- Strategic European location with full EU & Eurozone Membership and significant additional trade (and language) links to MENA
- Secure, stable base offering easy business access and a high-quality lifestyle

## General Weaknesses

- Whilst fluent English is spoken with a pleasant southern Mediterranean lilt, written language construction is not always on a par with the spoken word
- Sought-after graduates are in high demand, but the state institute of further education can be slow in responding to business needs
- Euro exchange rate changes have destroyed some of the former cost advantage for UK and US investors
- Commendable family values and a highly prized Mediterranean lifestyle may take precedence over the demands of global business requirements and international working hours in other time zones
- Relatively expensive power and comms costs
- Some companies have questioned being so geographically close to North Africa, especially in terms of Malta's trade with Libya. Others see it in a positive light, an entry point to the vast North Africa markets



## Strengths

- Close legal and accountancy affinity to that of the UK makes services virtually seamless
- Close cultural affinity to the UK and, to a lesser extent, Italy enhance the customer experience when servicing those countries.
- Malta Enterprise has considerable leeway to negotiate deals for investors and can help them in a way that best suits each company coming to Malta
- Very business-friendly environment, with strong support from banks, peers and government
- Being a small country makes reaching the senior decision makers very easy, both in government and in private companies
- Important hub of business and international relationships, being at the centre of the EU and MENA business flows

## Weaknesses

- Headline rates can look favourable when compared to those in Western Europe, but Eastern Europe is cheaper and Asia significantly less than that
- Salaries remained fairly static during the period of global economic slowdown, but the financial services and IT sectors remain strong with continued growth in salary expectations due to the relatively small pool of local expertise
- Relatively low number of new IT graduates and CC agents is sufficient to satisfy present demands but unlikely to cater for rapid expansion
- Although it is an option to bring in EU citizens when scaling up an operation quickly, using non-locals is a very difficult ongoing strategy
- Sluggish ability of the University to react quickly enough to changes in rapidly changing technological developments and business requirements. This is counteracted to some extent by other institutions such as MCAST
- New entrants to some professions are very quick to learn, but lack some of the practical skills that business deems advantageous or even mandatory
- Experienced mentors or supervisory skills may need to be costed in to look after inexperienced graduates in order to prevent unnecessary rework or errors in professional judgement



- Banking system is considered secure, with competitive rates of interest and stability through the ECB
- Financing through the local equities market has been very successful, especially in the hi-tech areas such as software development and other engineering skills
- The *Global Competitiveness Report* (2011) places Malta 9<sup>th</sup> in the world and 12<sup>th</sup> in loan accessibility
- Malta offers various forms of assistance to prospective inward investors; these include *inter alia*:
  - innovation grants
  - assistance to support and training costs for SMEs
  - access to finance



- Under the Malta tax imputation system, whilst the current rate on chargeable income is 35%, the tax paid on dividend payments of Maltese companies to non-resident shareholders is eligible for a six-sevenths (85.7%) rebate, effectively reducing the corporate tax rate to just 5% for qualifying companies
- Branches of foreign companies are taxed at the same rate of tax as domestic companies and no additional taxes are withheld on profits transferred back to head office
- Low Malta tax burden for overseas shareholders. The effective rate of Malta tax for overseas shareholders is:
  - 0% on participating holding income
  - 5% on trading income
  - 10% on passive interest and royalties
- Extensive network of Double Taxation Treaties (incl. UK)
- No withholding tax on dividends



- Malta's a small country, so:
  - **Business, Education, Government** and the **Law** are all very closely aligned
  - It can be relatively easy to be introduced at the highest levels when appropriate — **CxO's & Tax Experts, Faculty Deans, Ministers, Advocates**
  - The domestic market is small, but it offers a natural and experienced bridge to and from the MENA region
- Malta simultaneously positions itself as low cost compared to other Western European nations whilst offering high value-add services compared to many of the CEE EU alternatives
- There are no export-zone benefits within the EU; however, there are other cost-neutralisation strategies which Malta can offer



- Compared with many alternative locations, Malta is simply a nice place to be, welcomed by both staff and clients alike. More important, however, are the Western values and the high level of cultural affinity to the UK, especially where service centre staff may be operating in a customer-facing or telephone rôle
- Salaries in Malta are significantly higher than for those in Asia, but the high value-add can more than compensate
- Being in the same time zone as most of the rest of Europe and the ability to get there and back within a short timeframe gives Malta an advantage over far eastern locations such as India
- For many investors, knowledge of languages other than English — including French, German, Italian, Spanish and Arabic — is a key consideration in any decision to open new markets and to transfer or supplement services



# Malta compared to alternative locations — Extract from 6-monthly Comparator Chart

Criterion / Location	Weighting	Bangalore	Chennai	Hyderabad	Argentina	Australia	Brazil	Canada	China
Availability of Resources	9	5	5	5	2	3	3	4	5
Barriers to Entry	7	5	5	5	3	5	3	5	5
Bureaucracy	4	3	3	3	3	4	2	5	5
Cost of Labour	10	3	5	3	4	2	3	2	5
Cost of Real Estate	7	3	4	3	3	2	3	3	5
Cultural Compatibility	8	3	3	3	3	5	4	5	5
DPA Compliance Issues	2	4	3	4	2	5	2	4	5
Education Standard	8	5	5	5	3	4	2	4	5
English Language Proficiency	10	4	4	4	3	5	3	5	5
General Infrastructure	5	4	3	4	2	5	4	5	5
Geographic Accessibility	5	4	4	4	3	2	4	4	5
Government Support	6	4	4	4	2	3	2	3	5
ICT Infrastructure	9	4	4	4	3	5	5	5	5
Legal & Market Maturity	2	5	5	5	3	4	3	5	5
Multi-lingual Capabilities	1	1	1	1	3	1	4	3	5
Political Stability	7	5	5	4	2	5	3	5	5
Quality Certification Standards	2	5	5	5	2	3	3	4	5
Scalability & Ramp-up Speed	8	5	5	5	2	3	4	3	5
Security of Data & IPR	7	4	3	4	2	5	2	5	5
Tax & Legal Implications	6	3	3	3	3	4	3	4	5
Working Window	4	2	2	2	2	1	3	2	5
		Bangalore	Chennai	Hyderabad	Argentina	Australia	Brazil	Canada	China





- Availability of Resources
- Barriers to Entry
- Bureaucracy
- Cost of Labour
- Cost of Real Estate
- Cultural Compatibility
- DPA Compliance Issues
- Education Standard
- English Language Proficiency
- General Infrastructure
- Geographic Accessibility
- Government Support
- ICT Infrastructure
- Legal & Market Maturity
- Multi-lingual Capabilities
- Political Stability
- Quality Certification Standards
- Scalability & Ramp-up Speed
- Security of Data & IPR
- Tax & Legal Implications
- Working Window

Key: Gartner® criteria in brown, eCODE criteria in blue



# Malta compared to alternative locations — Unweighted scores

Criterion / Location	Weighting	Malta
Availability of Resources	9	2
Barriers to Entry	7	5
Bureaucracy	4	5
Cost of Labour	10	3
Cost of Real Estate	7	2
Cultural Compatibility	8	5
DPA Compliance Issues	2	5
Education Standard	8	4
English Language Proficiency	10	5
General Infrastructure	5	5
Geographic Accessibility	5	5
Government Support	6	3
ICT Infrastructure	9	3
Legal & Market Maturity	2	5
Multi-lingual Capabilities	1	5
Political Stability	7	5
Quality Certification Standards	2	3
Scalability & Ramp-up Speed	8	2
Security of Data & IPR	7	5
Tax & Legal Implications	6	4
Working Window	4	5



# Malta compared to alternative locations — Weighted results by an existing client

Criterion / Location	Weighting										
Availability of Resources	9										
Barriers to Entry	7										
Bureaucracy	4										
Cost of Labour	10										
Cost of Real Estate	7										
Cultural Compatibility	8										
DPA Compliance Issues	2										
Education Standard	8										
English Language Proficiency	10										
General Infrastructure	5										
Geographic Accessibility	5										
Government Support	6										
ICT Infrastructure	9										
Legal & Market Maturity	2										
Multi-lingual Capabilities	1										
Political Stability	7										
Quality Certification Standards	2										
Scalability & Ramp-up Speed	8										
Security of Data & IPR	7										
Tax & Legal Implications	6										
Working Window	4										
		Bangalore	Chennai	Hyderabad	Argentina	Australia	Brazil	Canada	Chile	China	Costa Rica
Gartner© 2003 Unweighted Totals out of 50		42	42	41	26	41	29	43	30	28	26
Gartner© 2003 Unweighted Rankings out of 36		2	2	5	30	5	21	1	17	25	30
eCODE Unweighted Totals out of 105		81	81	80	55	76	65	85	60	55	56
eCODE Unweighted Rankings out of 36		4	4	6	31	7	21	2	27	31	30
Xoomwork's Weighted Totals out of 100		79.5%	81.6%	78.4%	53.7%	75.4%	62.8%	81.4%	59.2%	58.0%	53.5%
Xoomwork's Weighted Rankings out of 36		4	1	5	31	7	21	2	26	28	32

Keys: eCODE Criteria & Scores in blue

1 is Poor, 5 is Good Americas Asia/Pac. EMEA

Gartner© Criteria & Scores in brown

Notes: Gartner© information not public domain for Egypt, Malta and the Baltics - eCODE figures substituted

These countries represent approximately one quarter of those across the globe offering Outsourcing services

Top 6:	Gartner©	Rank	Gartner©/eCODE	Rank	(weighted)	Rank
	Canada	1	Malta	1	Chennai	1
	Bangalore	2=	Canada	2=	Canada	2
	Chennai	2=	Eire	2=	Eire	3
	Malta	2=	Bangalore	4=	Bangalore	4
	Eire	5=	Chennai	4=	Hyderabad	5
	Hyderabad	5=	Hyderabad	6	Malta	6



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