DRAFT REGULATIONS ON ENHANCING MARKET COMPETITIVENESS

Business Process Outsourcing: Comparative Study of Regulatory Environment and Incentives
Final Report

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Business Process Outsourcing: Comparative Study of Regulatory Environment and Incentives
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A. INTRODUCTION

"Outsourcing" refers to the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Outsourcing is a strategy by which an organization contracts out, on a long-term basis, major functions to specialized and efficient service providers who become valued business partners.[1]

"Business Process Outsourcing" (BPO) occurs when an organization turns over the management and optimization of a business process to a third party that conducts the activity based on a set of predetermined performance metrics. Typical business processes outsourced include call center, HR administration, finance and accounting functions.[2]

The key distinction between ITO and BPO is that while ITO is intended to lower costs and introduce new efficiencies (as well as more advanced technologies), IT outsourcers do not take on the direct responsibility for accomplishing the business results. In contrast, with a BPO, the outsourcing firm not only takes over administrative responsibility for a technical function but also assumes strategic responsibility for the execution of a complete, business-critical function. This additional step can introduce new efficiencies and cost savings but it also makes it possible for the outsourcer to deliver important strategic benefits to the client customer.

According to McKinsey, the global "addressable" BPO market is worth $122 - $154 billion, of which: 35-40 retail banking, 25-35 insurance, 10-12 travel/hospitality, 10-12 auto, 8-10 telecoms, 8 pharma, 10-15 others and 20-25 is finance, accounting and HR. Moreover, they estimate that 8% of that capacity was utilized as of 2006.[3] Moreover, according to IDC, the global market size for BPO in 2004 was estimated to be around USD 382.5 billion and is expected to reach USD 641.2 billion by 2009.[4]

India has revenues of 10.9 billion USD from offshore BPO and 30 billion USD from IT and total BPO (expected in FY 2008).[5] India thus has some 5-6% share of the total BPO Industry, but a commanding 63% share of the offshore component. This 63% is a drop from the 70% offshore share that India enjoyed last year, despite the industry growing 38% in India last year, other locations like Eastern Europe, Philippines, Morocco, Egypt and South Africa have emerged to take a share of the market. China is also trying to grow from a very small base in this industry. However, while the BPO industry is expected to continue to grow in India, its market share of the offshore piece is expected to decline. [6]

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[1] Outsourcing To Canada: Legal & Tax Considerations

[2] Ibid

[3] http://en.wikipedia.org/wiki/Business_process_outsourcing#Industry_size

[4] http://www.idc.com/research/

[5] http://www.nasscom.in/Nasscom/templates/NormalPage.aspx?id=53402

[6] Ibid

BPO Trends

The BPO industry is a developing sector and is being studied by analysts and researchers all over the world. Analysts tracking BPO have observed the following trends in the industry: [7]

- The BPO market worldwide is expanding with new services getting added to the list of business processes that are outsourced and new locations coming up as potential offshore destinations, India being the most preferred destination for offshore BPO.
- Cost savings is one of the most important drivers now. Information security, execution capability and financial stability are important considerations while selecting a vendor.
- According to IDC, customer care and logistics are mature segments, while procurement and training are emerging markets and are expected to have a growth of more than 10 percent in the next five years.
- Gartner has also observed the latest trend of offshore insourcing , in which firms establish their own offshore captive centers. These captive centers are generally shared service centers and allow the firms to retain control over the processes.

BPO Best Practices

With time, every industry starts following certain best practices as it develops and matures. The best practices followed in the BPO industry include: [8]

- Companies outsource critical but non-core business processes that are not strategic to the firm's vision.
- An inefficient process is not outsourced to a third party vendor without any re-engineering.
- Companies gather support from its employees before taking the outsourcing plunge. The first step towards this is early communication of the outsourcing decision to the employees and even the shareholders.
- Sourcing advisors are consulted for negotiating a deal.
- Vendor is selected based on various criteria such as quality commitment, cost, transparency of operations, data security, etc.

BPO Drivers and Inhibitors

The advantages offered by outsourcing in general are valid for BPO as well, and these advantages act as internal drivers for BPO. In addition to these internal drivers, companies are lured to choose the BPO option due to the following external drivers: [9]

- **Robust IT and telecommunications infrastructure**: The developments in IT and telecommunications infrastructure has enabled companies to transfer data to any place in the world instantaneously at very little cost. This infrastructure also allows them to increase their ROI and shareholder value.
- **Pressure to lower costs**: Companies are facing huge competition from their competitors to provide better services, and at the same time lower their costs. Companies are constantly innovating the way they are conducting businesses and BPO allows them to partner with external specialized vendors for efficient operations.

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[7] http://www.tutorial-reports.com/business/outsourcing/bpo/

[8] Ibid

[9] Ibid

Offshore BPO is cheaper than onshore BPO and many companies are now moving their operations to offshore locations, India being the most preferred destination.

- **Little infrastructure for automation**: The IT revolution has not achieved success in automating business processes and most of the business processes still need human labor for productive delivery. In such a scenario, resorting to BPO, which provides human labor at a lower cost, enables companies to maximize their ROI.

Global Attractiveness

In 2007, A.T. Kearny compiled a list of 50 most attractive locations for BPO activity. India landed on A.T. Kearney's list of top 50 global off-shoring locales. Jordan ranked an impressive 14, coming second after Egypt in the region. [10]

Financial attractiveness, based on a country's wages, infrastructure and taxes, accounts for 40 percent of the rating A.T. Kearney assigns to countries. The second factor is based on availability of people and skills, and the third factor is based on business environment (country environment, infrastructure, cultural exposure, and security of intellectual property), each factor accounting for 30% of the total weight. [11]

Governments often go to great lengths to improve the off-shoring appeal of their countries. It's not surprising that governments are willing to go to this kind of trouble given the value of the global market. And companies are increasingly willing to spread their offshore business around, says Gartner, which predicts that some 30 percent of Fortune 500 enterprises will outsource to three or more countries by 2010, up from less than 10 percent that do so now.[12] Jordan has received high standing among bench-marked countries without necessarily focusing on BPO has an industry. This is mainly due the talent Jordan has to offer. In a recent study by Hiedrick & Struggles, Jordan ranked number 2 in the Middle East Talent Index (see table below).[13]

Rank		Country	2012 score	RC
1		Egypt	**49.0**	0
2		Jordan	**44.9**	0
3		Qatar	**44.7**	0
4		Bahrain	**42.8**	0
5		Saudi Arabia	**39.5**	▲ 2
6		United Arab Emirates	**38.0**	▼ 1
7		Kuwait	**37.8**	▼ 1
8		Iran (Islamic Republic of)	**31.5**	0

The Report further notes that "Despite its small population, low dependence on oil exports and small employment growth, Jordan is one of the most consistent scorers in our group, ranking second in three of our categories in both 2007 and 2012. This is sufficient to give it the second spot overall. While it does not do well at attracting talent with low GDP per capita and low GDP growth, the data suggests a positive environment for developing talent in the

[10] http://www.atkearney.com/main.taf?p=5,3,1,185

[11] Ibid

[12] http://www.gartner.com/

[13] http://www.weknowglobaltalent.com/gti/window/meti/

future with high quality local managers and meritocratic remuneration. It also has the highest score in the region across the forecast period for the share of the population aged 25-64 with tertiary level education. Jordan has the second highest level of foreign direct investment after Bahrain."[14] Below is a table demonstrating overall performance of Jordan in the Talent Index.

	2007		2012		
Indicator	Score	Rank	Score	Rank	**Rank Change**
Overall Talent Index scores	43.3	**2**	44.9	**2**	0
Demographics	7.7	**7**	7.6	**7**	0
Quality of compulsory education	53.4	**5**	56.3	**5**	0
Quality of universities and business schools	44.2	**2**	41.4	**2**	0
Quality of the environment to nurture talent	60.3	**1**	63.3	**2**	▼1
Mobility and relative openness of the labor market	59.5	**2**	62.5	**3**	▼1
Stock and flow of foreign direct investment	80.7	**2**	77.3	**2**	0
Proclivity to attracting talent	12.1	**5**	17.1	**6**	▼

Incentives & Regulatory Framework

Incentives given to companies looking to set-up outsourcing operations is becoming an increasingly important factor in making investment decisions.

Furthermore, in a recent study by Datamonitor, it listed a number of areas that contact center investors have prioritized as key determinants when looking for a vendor:[15]

- Financial flexibility
- Geographical flexibility
- Vertical expertise
- Scope of customer
- lifecycle capabilities
- Leading-edge
- Technology
- Stability
- Horizontal expertise
- Contract flexibility
- Price
- Agent language
- capabilities

Jordan offers various regulatory schemes aimed at attracting foreign investment. This Report analyzes the schemes under Free Zones; Development Areas; Investment Promotion Law; and Aqaba Special Economic Zone. In addition, The Report examines and compares regulatory framework under these various schemes with those of Dubai, Philippines, Canada, India, and Egypt.

[14] Ibid

[15] Datamonitor Contact Center Outsourcing Business Trends Survey, 2007

B. JORDAN FREE ZONE REGULATORY REVIEW

Introduction

Free Zones are established and regulated under the Law of the Free Zones Corporation No (32) for the year 1984 and its Regulations. Free Zones are defined as "A part of the territories of the Kingdom marked and fenced by a partition, wherein goods are placed for storage and manufacturing purposes and whereby all taxes and fees payable thereon are suspended, as if these goods were outside the Kingdom". This definition gives the impression that free zones are restricted to storage and manufacturing purposes, however, Article (14) states that "any registered person may exercise an Economic Activity, except for what is prohibited or restricted in the free zone, in accordance with a regulation issued by the Council of Ministers for this purpose". The term "Economic Activity" is defined as "Any ***commercial***, ***industrial***, ***agricultural*** or ***service*** activity which is carried out by a registered person at the free zones". Free Zones are divided into three types; public free zones, private free zones and joint free zones, which are jointly established between the Kingdom and other countries, or between parties of the public and private sectors. Public free zones are administered by the Free Zones Corporation (the "Corporation"), whereas private free zones are administered by a private sector entity under the supervision of the Corporation.

The Corporation is entrusted with establishing and canceling free zones, administering, investing in and developing free zones, and with the registration of the entities and companies operating within any free zone.

Eligibility of Investors

There are no clear eligibility requirements in the Law and/or Regulations for establishing private free zones. Decisions to approve applications for establishing private free zones are made by the Board of the Free Zones Corporation (the "Board") upon the recommendation of a the "Investment Committee" which is formed by the Chairman pursuant to Article (18) of the Free Zones Investment Regulation No (43) for the year 1987. The Regulation does not specify the requirements for establishing a private free zone, (the "Investment Regulation"), however, the Corporation publishes a procedural guide (the "Guide") on its website at www.free-zones.gov.jo, which lists the requirements and explains the procedures. According to the Guide, an investor must submit an application (the "Application") to the Private Free Zones Committee, stating the purpose of the private zone, specifying whether industrial or multipurpose, and detailing the specifications of the site in terms of the location and the area; site plans, proof of ownership or the right to use the land, and the feasibility study must be attached to the Application. The Private Zones Committee (comprised of the Free Zones Corporation, the Customs Department and the Ministry of Environment), studies the application and conducts a field site visit, then prepares a detailed report and which is presented to the Board to make a decision; if the Board grants initial approval, it then addresses the Council of Ministers for final approval. The requirement for the approval of the Council of Ministers does not have an explicit legal basis in the Law or the Investment Regulation; to the contrary, the Corporation is entrusted with establishing or cancelling free zones pursuant to Article (4) of the Law, which does not distinguish between private and public free zones for this purpose. However, it may be construed that the Council of Ministers approval is based on the Council's right to approve all agreements entered into by the Corporation pursuant to Article (7) of the Law, considering that the establishment of the private free zone is accomplished through signing an agreement between the Investor and the Corporation. The Investor must comply with certain specifications for fencing the zone, allocating certain space for management offices and customs, putting in place a sign for the free zone in certain specifications, etc… once approval is granted, a new customs center is declared established by the Minister of Finance.

Eligibility of Registered Persons

The term "Registered Person" is defined as "the natural or juridical person, who is registered with the Corporation to undertake an Economic Activity, pursuant to the provisions of the Law".

Pursuant to Article (14) of the Law, a Registered Person may undertake any Economic Activity, except those that are banned or restricted pursuant to the provisions of the Regulation for Registration & Licensing of Corporations at the Free Zones No (58) for the year 2003 (the " Registration & Licensing Regulation"), and the Instructions issued pursuant thereto.

Article (6) of the Regulation lists a number of Banned and Restricted Activities; the Banned Activities are:

- manufacturing, storing or trading in weapons, ammunition and/or explosives;
- manufacturing, storing or trading in radioactive or nuclear material or any such environmentally hazardous material;
- manufacturing, storing or trading in dangerous material, narcotics and/or toxic material, except insofar as permitted under national laws;
- printing paper currency, stamps and/or producing coins;
- producing or trading in biological and active genetic material; and
- any other activity banned by the Council of Ministers.

Restricted Activities may be licensed provided that the person demonstrates compliance with the applicable national legislation, and subject to the approval of Board and payment of the dues determined by the Board for this purpose; the Restricted Activities are:

- generating electricity;
- issuing lottery;
- extracting subterranean water; and
- Mining and other similar extracting industries

<u>Another form of Restricted Activities is Services; Article (6) of the Regulation stipulates that registering a Person to provide any Service within the Free Zone must be completed in accordance with the respective national legislation and subject to the approval of the Board and payment of the dues determined by the Board for this purpose</u>. For example, for a lawyer to register an office at a free zone, such lawyer must be licensed in accordance with the Law of the Jordan Bar Association and must comply with the requirements therein. Similarly for engineering services, medical services, telecom services, auditing, etc.

The Registration & Licensing Regulation stipulates that a Person interested in registering with the Corporation must have signed a valid lease, except if the Economic Activity is restricted to warehousing. The Regulation exclusively identifies the "Persons" entitled to register with the Corporation:

- Individuals;
- General Partnerships;
- Limited Partnerships;
- Limited Liability Companies;
- Foreign Companies; and

- Professional (Vocational) Corporations[16], operating in the Kingdom in accordance with their respective laws and regulations.

In accordance with the Licensing Instructions No (1) for the year 2003, a License must be obtained before any such person may be able to undertake an Economic Activity; to obtain the License, the Registered Person must present a valid lease or a renewal thereof, as the case may be, with its application to the Director of the respective free zone, who makes recommendations to the Director General regarding the application. The License is valid for one year and is subject to the payment of fees determined by the Council of Ministers pursuant to Instructions issued in 1998.

FDI policy

According to Article (5) of the Registration & Licensing Regulation, "foreign companies" are one of the persons entitled to register and obtain a license at the free zones. The Law allows for the remittance of the Invested Capital and the profits therefrom to outside the Kingdom in accordance with the applicable rules. The "Invested Capital" is defined as "Foreign currency transferred to or out of the free zone in accordance with the Central Bank Instructions, machinery, equipment, materials, commodities and other supplies necessary to establish, expand or operate any project within the free zones". Also, the salaries of foreign employees working on projects within the free zones are exempted from income tax and social services tax.

Foreign companies are subject to the restriction provided for under the Law and the Investment Regulation explained above. Moreover, and considering that the license to provide any kind of services within a free zone are subject to the national legislation in the Kingdom, foreign companies registered in free zones shall be subject to any restrictions provided for under such laws and regulations.

Income tax; corporate and personal, and Social Services tax

According to Article (13) of the Law, all profits accrued from Economic Activities within the free zones are exempted from income tax, for products exported to outside the Kingdom, sold or transferred within the free zone, or passing in transit. Such exemption is not available for profits from placing products in the local market of the Kingdom.

Also, according to the same Article, salaries and other remuneration of foreign employees working on projects within the free zones are exempted from income tax and social services tax.

It is worth noting that all such exemptions are subject to the conditions and guarantees stipulated by the Board.[17]

[16] Professional Corporations are defined as "medical clinics, engineering offices, attorney offices and similar professionals practicing pursuant to the provisions of their respective laws, except for commercial companies and sole proprietorships.
[17] The Board publishes the set of conditions for exempting the Economic Activities at the Free Zones Corporation's Website www.free-zones.gov.jo.

Sales Tax

According to paragraph (g) of Article (13) of the Law, the commodities sold and services provided within a private free zone that is established for touristic activities are subject to a sales tax; the tax is determined according to the following provisions:

- 8% of the value of the commodities or the services provided when sold within the zone[18];
- The sales tax applicable under the valid General Sales Tax Law on all commodities originating from the free zones, when sold outside the free zone within the Kingdom or exported to other countries, provided that all customs rules are observed;
- The sales tax applicable under the valid General Sales Tax Law on all services rendered from the free zones to clients within the Kingdom or in other countries;

Other taxes

Subject to the conditions stipulated by the Board, according to Article (13) of the Law, all buildings and other constructions built within the free zone are exempted from licensing fees and from building and land taxes.

Customs; import, export, sale in Jordan

According to Article (13) of the Law, all goods imported to the free zones or exported therefrom to outside the Kingdom, are exempted from all import and export duties, customs duties and all other taxes, except for service charge and other handling costs.

Article (13) of the Law also provides that all products manufactured in a free zone are exempted from customs duties, subject to the conditions stipulated by the Board[19], when placed in the local market of the Kingdom, to the extent that the local inputs and costs contributed to its manufacturing; such value is determined by a committee headed by the Director General, and the membership of representatives from the Ministry of Industry & Trade and the Ministry of Finance/ Customs.

Article (4) of the Investment Regulation provides that due to the nature of the goods specified therein, foreign goods are allowed into the free zones without an import license, irrespective of its kind or country of origin, provided that they are not originating in a country that the Kingdom bans trading with. Such goods may also be exported outside the Kingdom without an export license and free from any customs duties or other taxes. Domestic commodities produced in the Kingdom may be deposited at the free zones, and products in the free zones may be taken out of the zones into the customs area to be placed in the local market, subject to applicable laws and regulations. Article (4) also provides that the materials, equipment and supplies necessary for establishing projects in the free zones are entered into the zone duty paid, namely; construction materials, furniture and office supplies, domestic raw materials, manufactured raw materials and fuel for industrial projects. Moreover, the Article allows the transfer of machinery, equipments and the parts thereof to the local market for repair, in accordance with the Instructions issued for that purpose.

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[18] The details for assessing and levying this particular type of tax are provided in Regulation No (40) for the year 2005.
[19] See FN , infra

Fiscal and Non-Fiscal Incentives

Article (4) of the Investment Regulation provides that due to the nature of the goods specified therein, foreign goods are allowed into the free zones without an import license, irrespective of its kind or country of origin, provided that they are not originating in a country that the Kingdom bans trading with. Such goods may also be exported outside the Kingdom without an export license and free from any customs duties or other taxes. Domestic commodities produced in the Kingdom may be deposited at the free zones, and products in the free zones may be taken out of the zones into the customs area to be placed in the local market, subject to applicable laws and regulations. Article (4) also provides that the materials, equipment and supplies necessary for establishing projects in the free zones are entered into the zone duty paid, namely; construction materials, furniture and office supplies, domestic raw materials, manufactured raw materials and fuel for industrial projects. Moreover, the Article allows the transfer of machinery, equipments and the parts thereof to the local market for repair, in accordance with the Instructions issued for that purpose.

National policy and legislation application

As stated above, the national legislation applies to the activities within the free zones in several ways, particularly:

- Restricted activities; the restricted activities provided for under the Investment Regulation may be licensed provided that the investor demonstrates compliance with applicable national laws.
- Professional Corporations; such corporations may only be registered in a free zone if they are duly registered in the Kingdom under pursuant to their respective laws and regulations.
- Services; services may only be licensed after the investor demonstrates compliance with the respective national legislations.
- Remitting Investment Capital; the Investment Capital may be remitted outside the Kingdom, subject to applicable Central Bank Regulations and Instructions.
- Domestic commodities produced in the Kingdom may be deposited at the free zones, and products in the free zones may be taken out of the zones into the customs area to be placed in the local market, subject to applicable laws and regulations

More generally, Article (21) of the Registration & Licensing Regulation provides that the provisions of the valid Companies Law shall apply to the Registered Person in so far that the Law or the Regulations governing free zones do not address.

Enforcement and Inspections

By virtue of the Law and the Regulations, the Corporation enjoys a broad authority to enforce the Law within the free zones. The officers of the Customs Department are authorized by law to inspect individuals and vehicles exiting the free zones. The Chairman may establish a committee(s) comprising representatives from the Corporation, the Customs Department and other concerned entities to carry out audits and inspections on goods, to combat smuggling, and the Director may authorize any official to enter into factories and other establishment for inspections.

Article (11) of the Registration & Licensing Regulation provides the Board with the right to revoke the registration of any Registered Person in the following instances:

- if it became evident that the information provided by the Registered Person is false;
- if the Registered Person did not duly approach the Corporation to issue a license to operate within 30 days from the registration date, unless such period had been extended prior to the lapse of the 30 day period;

- if the Registered Person did not commence operations within 6 months from the registration date, unless duly extended;

Article (12) of the said Regulation provides for instances where the Board must revoke the registration of any Registered Person; such instances are:
- if the Registered Person carried out banned or restricted activities in violation of the Regulation;
- if the Registered Person violated the provisions of Article (10) of the Regulation and did not comply within 30 days from a notice date to that effect[20];
- if the license granted to the Registered Person is deemed revoked pursuant to the provisions of the Law;
- if the Registered Person illegally placed goods in the local market; and
- if the Registered Person seized to exist for any legal reason.

Labor policies

Article (20) of the Registration & Licensing Regulation stipulates that each Registered Person must employ at least 50% Jordanian employees in his workforce, and in any case, this percentage should not be less than one employee. The Corporation has the right to refrain from addressing competent authorities to facilitate obtaining residency and work permit for foreign employees, if the Registered Person fails to present a document signed by the competent Labor Office evidencing that the Registered Person does in fact employee that percentage of Jordanian Employees.

As mentioned above, the salaries and other remuneration of foreign employees working on projects within the free zones are exempted from income tax and social services tax.

SUMMARY OF MAIN FINDINGS OF FREE ZONES SCHEME

Below are the main findings that are of relevance to BPO activity within the Free Zones:

- Free Zones Corporation Law is largely oriented towards industrial and trade activities (and not services);
- Services are subject to the same limitations under national laws, in terms of licensing, regulatory frameworks and foreign investment. This means that some BPO activities (e.g. legal, engineering, architecture, auditing/accounting etc) would need to be licensed by relevant government authorities and private associations/union;
- All profits accrued from Economic Activities within the free zones are exempted from income tax, for products or services exported to outside the Kingdom, sold or transferred within the free zone, or passing in transit;
- Any goods/products entering into the Zone is not subject to Customs Duty (including those for use by establishment);
- Salaries and other remuneration of foreign employees working on projects within the free zones are exempted from income tax and social services tax;
- Buildings and other constructions built within the free zone are exempted from licensing fees and from building and land taxes;
- Each Registered Person must employ at least 50% Jordanian employees in his workforce, and in any case, this percentage should not be less than one employee.

[20] Article (10) provides for a set of requirements that a Registered Person must comply with to maintain its license.

C. DEVELOPMENT AREAS REGULATORY REVIEW

Introduction

Development Areas have been recently established in Kingdom with the aim to "enhancing the economic capability of the Kingdom, attracting investments and created an advanced environment for economic activities" (Article 2 of the Development Areas Law No. 2 for the Year 2008 (hereinafter referred to as "Development Areas Law or DAL").

The Development Areas Law has been drafted with a view to provide utmost flexibility to the Commission in setting out policies relating to investment environment; registration of entities, establishment of development zones; income tax; customs; and labor. In fact, at time of preparing this Report, the three Regulations have been passed and published in Official Gazette (Regulation relating to Designation of Development Areas, Business Environment, and Entities Registration), while several other Regulations have not been passed and are in draft form (Regulations relating to Tax, Customs, Labor and Residency, Vocational Training, and Environment). Analysis of the regulatory scheme of the Development Areas takes into consideration relevant Regulations that have been passed and those provided in draft form.

Eligibility of Investors

Pursuant to DAL, Development Areas shall be established by virtue of a decision of Council of Ministers upon the recommendation of the Commission for Development Areas ("Commission) and published in the Official Gazette. Development Areas may either be established by a designation by the Commission after undertaking necessary feasibility studies (in consultation with Cabinet) or by private entities who may apply for designation of a certain geographic area as a Development Area, such application is subject to review and approval by the Commission.

Eligibility of Registered Persons

The right to register with the Commission as an Investor, meaning a natural or juristic person, shall be open to any of the following:

- Personal establishments registered in the commercial register in accordance with the Commercial Law in force.
- Professional Establishments working in Jordan in accordance with the related legislation.
- Companies registered with the Controller of Companies in accordance with the Companies Law, including offshore companies that are provided for in the Companies Law in force.
- Foreign companies that are not registered with the Controller of Companies.
- Establishments and companies registered with the free zones.
- Non-commercial bodies operating in the Kingdom as decided by the Commission.

A special window at the Companies Control Department at the Ministry of Industry and Trade will be designated for the purpose of registering companies whose business objectives shall include working in Development Areas in addition to any other objectives necessary for exercising their economic activity.

The Board of Commissioner (the "Board") will issue its decision with regards to the registration application either by accepting or rejecting it, or by requesting the completion of information and documents required within a period to be set by the instructions issued for such purpose.

The Board may not refuse any registration application that is presented by an Investor for the purpose of registration as a Registered Entity in the Development Areas except in the following cases:

- Lack of qualification for registration, i.e. not one of the bodies described above.
- In the event of the contravention of any of the provisions of the Development Contract (as defined below) of the provisions of the Law, the regulations and instructions issued pursuant thereto or any of the Laws applicable in the Kingdom.
- Missing documents or inaccuracy of the information provided for the purposes of registration.
- If the applicant is an owner or shareholder in a Registered Entity in any Development Area whose registration has been cancelled during the three years prior to the presentation of the registration application.
- If the economic activity to be conducted by the application is prohibited in the Development Area or restricted and the conditions for allowance have not been met.

It shall be a condition for the registration of any Investor, meaning a natural or juristic person, as a Registered Entity to have executed a Development Agreement with the Primary Developer (the successful Announcement Applicant). The Development Agreement is the contract executed between the Primary Developer and the Investor that includes all the obligations and terms that the investor must adhere to when exercising economic activity and its right related thereto. If the Commission finds that a specific economic activity may be conducted by the Investor within the Development Area without the need to execute a Development Contract, the Board of Commissioners may agree to the registration of the Investor as a Registered Entity without the need to present a Development Contract.

The registration of the entity does not exempt it from the need to procure a commencement of activities permit or public safety certificate or health certificate necessary to commence activities, however the Board may based on the request of the Primary Developer exempt the establishment from procuring the commencement of activities permit based on the conditions and guarantees that the Board adopts for this purpose.

A Registered Entity must obtain an Activity Permit when necessary for the protection of public interest such a public health, environment, public economical interest, or the public order and security, or if it is stipulated in the Development Contract entered into by the Commission and the Main Developer for a certain development Area that a Registered Entity must obtain an Activity Permit before exercising a certain economic activity in that Development Area.

The activities that need an Activity Permit shall be determined in the instructions for every Development Area separately, which shall include the requisites for obtaining an Activity Permit, and the basis for granting or rejecting the issuance of a Permit, and it shall not be permissible for any Establishment to conduct any of the aforementioned activities before obtaining such Permit. The Commission may stipulate obtaining an Activity Permit for any economical activity if such activity was never previously exercised in Jordan and was necessary for the establishment of the Development Area.

Once it has obtained the relevant Health and the Safety Certificates the Registered Entity shall not need any further approvals prior to exercising its economical activities.

The Investor applying for a the permit shall enclose with his application the facility design of the facility where he exercises his economical activity in the event the above mentioned instructions shall require the Commission's prior approval of the facility's design.

In accordance with the above mentioned instructions, the Commission shall verify the following: The conformity of the design documents enclosed with permit's request with the technical requisites, and the necessity of conducting an evaluation study on the environmental effect in accordance with the applicable environment law and the environmental conditions that are required by the environment's protection legislations a in the region.

In the event the Registered Entity meets the technical prerequisites, then it may start setting up the Facility to exercise its activities without obtaining a prior approval of the Commission on the construction sketches excepting any activities stipulated in these instructions.

The commission shall make an appointment to inspect on the Facility provided that such date shall not exceed 10 working days from the date of receiving the application. The report will be prepared afterwards accompanied with needed recommendations. If the commission finds out from the inspection report that the Facility did not meet the Technical Requisites. The commission shall inform the applicant and specify the Technical Requisites needed in order to re-inspect on the Facility.

The commission shall issue its decision regarding permit' request during a period does not exceed 14 working days from the date of submitting the application satisfying all statements and documents needed, however earlier approval may be possible the Commission has granted prior approval on the designs, whereby approval shall be issued during three working days from the date of accepting the sketches and grating the permit. In such case the permit will be conditional upon satisfying the Technical Requisites by the facility while carrying out the inspection procedure and seeing the results of the environment effect study if required.

The re-inspection on the Facility shall occur after the commission receives an application from the Registered Establishment in this regard. The re- inspection shall be limited to the verification of Facility in order to comply with the remaining Technical Requisites. If the commission finds out from the inspection or re-inspection report that the Facility complied with all Technical Requisites. The commission shall inform the applicant within period does not exceed three working days from the date of concluding the inspection.

The Commission may determine, upon its approval of registering the Investor, exempting the Investor from submitting designs and obtain the Health and Public Safety Certificates or any related issue prior starting its activity based on the nature of activity and the evaluation of the commission to the applicant qualifications provided the compliance of the establishment with all health, safety and technical requirements and shall be subject to the consequent inspection by the commission at any time after informing the Registered Establishment. In the event the Commission discovers through such subsequent inspection that the Registered Entity did not comply with any of Technical Requisites or Public Safety and Health related to its activities, then the commission may oblige it to rectify and pay the determined fine according to Instructions issued for this purpose.

The decision of rejecting the permit shall be in writing, dated, justified and including all considerations that the Registered Entity shall take into consideration upon reapplying. It is permissible to appeal the rejection decision before the Board within fifteen working days from the date of informing the Applicant, and the Board shall render it decision regarding the appeal within five working days from the date of receiving it. The Board decision shall be in writing, dated and justified.

The permit shall be valid for one year starting from 1st January and shall be expired on 31st of December of the same year irrespective the date of permit's issuance.

FDI policy

There are no restrictions on foreign ownership as per the DAL. Moreover, minimum foreign capital requirements stipulated in the investment laws and regulations in force shall not apply shall not apply in the Areas.

Income tax; corporate and personal, and Social Services tax

The Registered Entity undertaking its activity in the Area shall be exempt from paying the Income Tax in force in Jordan. The Income of the Registered Entity that is generated from its activities in the Area shall be subject to 5% Income Tax deduction.

The provisions of the Regulations and Instructions issued by virtue of the Income Tax Law in force will apply in the Area except in the cases whether this Regulation or any of the instructions issued pursuant to it or this Regulation apply.

Notwithstanding the above, any income generated by a Registered Entity which is a bank, financial company, insurance company, reinsurance company, or land transport company shall be subject to the Income Tax Law in force in Jordan.

The income generated by the Registered Entity from its activities outside the Kingdom will be subject to the Income Tax Law in force.

The Council of Ministers will issue the necessary decision to delegate the Commission with the authorities of the Ministry of Finance / Income and Sales Tax Department as it relates to the collection of taxes and fines.

The basis of calculating the Income Tax of the Registered Entity and all related matters shall be in accordance with this Law and this Income Tax Law in force.

The Income of the Registered Entity shall be considered to have been generated from an economic activity within the Area if the following are satisfied:

(1) The income generated to the Registered Entity from the activities it is licensed by the Commission to undertake and which are completed in their final elements within the Area and which are described below:
(2) Income generated by the Registered Entity from the sale of its goods that are delivered within the Area.
(3) Income generated to the Registered Entity from provision of services within the Area provided that all the below are satisfied:
   - If the service is delivered in the Area.
   - If the service provider and the method for its delivery are within the Area.
   - If the service beneficiary is within the Area.
(4) Income generated by the Registered Entity from utilizing its intellectual property rights if that is done within the Area.

(5) Any other income of the Registered Entity that the Board decides to consider to have been generated from an economic activity within the Area by virtue of a decision it issues for such purpose.

The Income of the Registered Entity that is generated from its activities in the Customs Area and which is shown below shall be subject to Income Tax in accordance with the Income Tax Law in force:

- Income generated for the Registered Entity form the sale of its products that are delivered in the Customs Area.
- Income generated for the Registered Entity from the provision of services if the following are met:
  - The service provider or the service itself or the method of delivery has moved into the Customs Area.
  - If the beneficiary of the service resides in the Customs Area.

The income generated by the Registered Entity from utilizing its intellectual property rights if that is within the Customs Area.

Income generated from goods passing in transit within the Area shall be exempt from any kind of Income Tax, provided any transaction therein are done in the public warehouses of the Area or in the free zones established in the Area.

The Registered Entity shall enjoy any tax exemptions in force in Jordan which affect goods and services exported outside Jordan.

Sales tax

All the services and goods bought or imported by the Registered Entity for the purposes of performing its economical activities within the Areas shall be subject to zero sales tax. The Registered Entity shall not be required to submit any guarantee with this regards to the income and sales tax department.

Goods and Services originating from the Area and sold to other areas of the Kingdom shall be subject to the General Sales Tax.

A 7% tax shall be allocated from the sale value of the services which shall be specified by a regulation to be issued for this purpose when this service is sold for consumers in the Areas.

All goods consumed within the Areas shall be subject to General Sales Tax.

Other taxes

To the extent it does not contradict with the Area's Laws and Regulations, the Registered Entity which operates in the Area shall enjoy the all the incentives and exemptions related to taxes and fees stipulated in the Free Zones Association Law and any other Law in force in Jordan.

The Registered Entity shall be exempt from paying Social Services Tax and taxes on dividend distributions on income generated from the Registered Entity in pursuance of its activities within the Area.

Customs; import, export, sale in Jordan

The Registered Entity which operates in the Areas shall enjoy an exemption from all custom duties, fees, taxes, excluding applicable service charges, on all goods imported imported into the Area or exported from the Area outside Jordan.

Goods that originate in the Areas and sold in the rest of Jordan shall be subject to customs duties to the extent of foreign costs and expenses. Goods that transit through the Areas into the rest of Jordan shall be subject to custom duties and taxes.

The Registered Entity which operates in the Areas shall enjoy an exemption from all custom duties, fees, and other taxes, on all materials, equipment, machinery, and tools required to construct, erect, and furnish all types of projects undertaken by them in the Areas.

Fiscal and Non-Fiscal Incentives

The Registered Entity operating within the Areas and which conducts activities only within these areas is exempt from the requirement to register in the Chamber of Commerce or Industry.

Minimum foreign capital requirements stipulated in the investment laws and regulations in force shall not apply shall not apply in the Areas.

The One-stop Shop: Services provided:

- Providing general guidance related to registration or licensing and exercising the economical activities.
- Providing the investor or any other entity with registration application samples and its requirements.
- Receiving registration applications and any other documents required for registration purposes within the Area and transferring it to the Commission or the entity according to the instructions and decisions rendered in this regard.
- Receiving the stipulated registration fees and any other related fees due to the Commission. For the purposes of this paragraph the commission shall coordinate with different official bodies in order to regulate the mechanism of receiving stipulated fees to the benefit of such bodies in accordance to the agreement stated in the memorandum of understandings that commission conclude for this purpose.
- Informing the investor about issuing the approval of registration in case all approvals were achieved, provided that it is not permissible to any official body to stop its approval or its statement regarding exercising the economical activity against the application submitted through the one-stop shop provided obtaining an approval of any official body unless if the approval or its decision related to the necessity of approving the other official entity.

National policy and legislation application

- Companies Law:

Registered Companies shall be subject in such cases to the Companies Law in force in all matters that have not been addressed in the Law, Regulations and Instructions issued for the Area, and there shall be coordination with the Companies Controller in this regard in order to issue instructions for this purpose.

- Labor Law

Taking into account any regulation that may be issued by the Law of the Areas the provisions of the Labor Law shall apply to workers in the Area.

Enforcement and Inspections

The Commission shall have the right to cancel the granted permit to the Registered Entity if it does not proceed with exercising its permitted economical activities during the specified period stipulated in the permit unless this period is extended prior its termination according to the establishment request and approval of the commission.

The Commission may decide to discontinue the activities of the Registered Establishment in the following cases:

- If it exercised illegal activity in the region.
- If it exercised a restricted activity without adhering to the conditions of exercising such activity.
- If it violated any of the Permit's conditions or the provision of the licensing regulation subsequent to being served with fifteen days notice of discontinuance.

The Registered Entity may not exercise its economical activity during the term of discontinuation by virtue of a decision from the Commission. In the event the Registered Entity does not comply, then after being served 15 days notice, then the Commission may cancel the Entity's granted permit or cancel its registration as the case may be.

Labor policies

The Commission shall have the authority to issue to and grant non-Jordanians visit visas, transit visas, work visas, work permits, and residency permits.

A non-Jordanian may not enter or reside in the Area without procuring an entry visa or a residency permit, nor can he/she work in the Area without procuring a work permit.

A Specialized Unit in the Commission shall be responsible for issuing entry visas to the Area and work permits and residency permit and to undertake the necessary procedures in relation thereto. The Commission will issue the necessary instructions for the issuance of entry visas of all kinds and durations to the Area and the process for issuance thereof, exemption there from and renewal.

A non- Jordanian may apply to the Specialized Unit to procure a visit visa from any Point of Entry.

A non-Jordanian who wishes to enter the Area for the purpose of transit between a foreign country to the customs zone or to another foreign country may apply before the Specialized Unit at the Commission to procure a transit visa for a period that does not exceed (72) hours.

A resident in the Area or an employer therein, whether a registered entity or not, may request that Commission issue a work visa for the purpose of soliciting any non-Jordanian workers into the Kingdom to work within the Area. Such work visa shall be valid for three, six, or twelve months or for the period of the employment contract provided that it does not exceed five years, and the period of the visa shall be renewable. The work visa shall be considered equivalent to a residency permit for the duration of the visa and the holder shall be required to leave the Area within (15) days from the date of its termination or cancellation.

The worker that procured a work permit in the custom zone and moved to work for the same employer to work in the Area is exempt from the requirement to procure a new work permit issued by the Commission provided the Specialized Unit is provided with a copy of the work permit, and not more than three months have passed since the work permit issuance date.

The work permit issued by the Commission shall be for three, six, or twelve months of for the duration of the employment contract provided that it does not exceed five years and the work permit shall be renewable upon the approval of the Specialized Unit. The non-Jordanian worked who has procured a work permit will be provided with a residency that is valid for the period of the permit and he/she must leave the Area within 15 days of the date of its termination or cancellation.

Non-Jordanian workers will be allowed to work in all occupations in the Area with the exclusion of the closed occupations provided that priority in employment opportunities is given to Jordanian employers. The Board will determine the occupations which are closed to non Jordanians.

Any registered establishment or any project in the Area whose employees exceed more than five employees may not employee less than the following Jordanian employees:

- Three employees if the total number does not exceed eighteen workers.
- (30%) of the total workforce if the number exceeds eighteen workers.

If it is proven that there are no sufficient or qualified Jordanian employees to work with the registered entity or the relevant project then the Board may reduce the percentage of the required Jordanian work force or exempt the employer there from in accordance with standards set by the Board based on a decision to be issued for this purpose.

The procedures for the issuance of a residency permit and its renewal shall be set in accordance with instructions issued by the Board provided that they are for periods of three, six, or nine months or one to five years based on the work permit.

The Specialized Unit may provide the non-Jordanian investor and his wife and Dependants and the management staff of the project with residency permits. It shall be a condition that whoever receives a residency permit as a non-Jordanian investor that they be an investor in the Area or a Dependant of one of the investors who have received a residency permit in the Area. A non-Jordanian to be considered an investor if he/she is an owner of a registered entity or a shareholder or partner therein, and that the investment or paid up shares of the non-Jordanian investor in the registered entity be not less than one hundred thousand Jordanian dinars. Project management staff shall mean members of the Board of Directors or Management Board of the registered entity or members of the committee that are formed to manage the projects that are being executed by the registered entity whether they are employees of the entity or not.

The Specialized Unit at the Commission must address work visa, work permit, residency permit or renewal applications within ten days of the date of the application. The applicant may present a written objection to the Chairman on the decision of the Specialized Unit to reject the application and that is within three working days after his/her notification. That decision of the Chairman as it relates to the objection shall be final. The Specialized Unit at the Commission shall address the application for transit visas and visit visas and their renewal at the time of the presentation of the application and without delay and the decision of the Specialized Unit shall be final.

Taking into account any regulation that may be issued by the Law the provisions of the Labor Law shall apply to workers in the Area. Each employer must conduct the medical fitness tests prior to beginning work, and ensure periodical medical checks for workers are conducted on a continuous basis, and that the medical files of workers are duly updated and kept. The employer shall establish a medical center, and appoint a certain number of doctors and nurses depending on the size of the workforce.

Each employer within the Area who employs ten or more workers must put in place an internal regulation that regulates the work place in the entity and that establishes working hours, daily and weekly rest periods, work violations, penalties, and steps to be followed in connection therewith including termination and how it will be conducted and any other matters that are necessitated by the nature of the work and the internal regulation shall be subject to certification by the Commission and will come into effect from the date of certification.

With the exception of the cases, such as times of annual inventory and budget closing and for the purposes of avoiding losses to merchandise, the worker may not work for more than eight hours a day or forty eight hours a week unless the employment contract otherwise provides and the time for meals and rest shall not be calculated as a part thereof. Any hours worked above such limits shall be subject to overtime payments.

The provisions relating to working hours provided for in this Regulation do not apply to individuals handing general supervision or management duties in any entity and those that work in some circumstances outside the entity or whose duties require travel or movement within the Area, or the Kingdom or outside.

SUMMARY OF MAIN FINDINGS OF DEVELOPMENT AREA SCHEME

The main findings that are of relevance of BPO within the Free Zones are:

- Ability to register as foreign branch or company win Development Area
- No limitation on Foreign Direct Investment or minimum capital
- Registered Entity's activities are subject to 5% corporate tax. Income generated by the Registered Entity from provision of services within the Area provided shall be subject to 5% income tax if following three conditions are satisfied:
    - If the service is delivered in the Area.
    - If the service provider and the method for its delivery are within the Area.
    - If the service beneficiary is within the Area.

  If the conditions are not met, Jordanian Tax Law shall apply.

- All equipment, machinery, tools, etc., needed by Registered Entity to conduct its business is subject to 0% sales tax and custom duty.
- There is no mention of Services being subject to the same limitations under national laws, in terms of licensing, regulatory frameworks and foreign investment.
- One stop shop to cater for all investors needs.
- Flexible scheme for employment of non-Jordanians
- Employment regulations mirror national employment law and policy

D. BPOS UNDER OTHER SCHEMES IN JORDAN

In addition to the above, BPO operations may exist under the “conventional” foreign investment law or in Aqaba Special Economic Zone (ASEZ):

a. Under Foreign Investment Law

Incentives under the Investment Law would only be available to Calling Centers which was added as a sector to benefit from Investment Promotion Law, and would not be extended to other BPO operations.

The following incentives are provided for Calling Centers under the Investment Promotion Law:

- exemption from Income and Social Services Tax up to 75%, depending on location;
- exempting the fixed assets of the project if imported within three years from the date of decision approving the exemption, from customs duty and sales tax
- Calling centers are open 100% to foreign investment

b. Under ASEZA

To benefit from the following incentives provided with ASEZ, a company must be registered with ASEZA as a “Registered Enterprise” and must provide its services strictly within ASEZ and outside the Kingdom.

- A flat 5% income tax on the net profit.
- Exemption from social services tax.
- Exemption from annual land and building taxes on utilized property.
- Exemption from taxes on distributed dividends and profits.
- No foreign equity restrictions on investments.
- No foreign currency restrictions.
- Full repatriation of profits and capital.
- Streamlined labor and immigration procedures through the one-stop-shop.
- 100% foreign ownership
- Up to 70% foreign labor

However, certain services (including legal, auditing, engineering) can only be undertaken within the ASEZA if duly licenses in accordance with national laws.

E. DUBAI

i. Background

Dubai established Dubai Outsource Zone (DOZ) under the umbrella of the Dubai Technology, Electronic Commerce and Media Free Zone, known as "Dubai Media City", which has today evolved into a dynamic international community of over 750 ICT companies. The global ICT giants have all established there. Companies from the entire ICT industry spectrum are represented in Dubai Internet City. The key sectors are Software Development, Business Services, Web Based & e-Commerce, Consultancy, Sales & Marketing and Back Office Operations. Dubai Media City provides an advanced infrastructure and supportive environment for media-related businesses to operate globally out of Dubai. Dubai Media City is a place where every kind of media business, specifically; Media and Marketing Services, Printing and Publishing, Music, Film, New Media, Leisure and Entertainment, Broadcasting and Information Agencies can operate with collective synergy and individual freedom. Knowledge Village provides an infrastructure and environment for a variety of organizations and individuals to create and disseminate knowledge. Knowledge Village is home to a variety of knowledge providers including e-Learning companies, educational institutions, R & D organizations, corporate training institutions, innovation organizations, science and technology institutes, certification and testing organizations and incubators.

Furthermore, DOZ purports to be the first free zone in the world dedicated to the outsourcing industry. In 2007, A.T Kearney ranked Dubai number 20 on the Global Services Location Index stating that Dubai "is particularly active as an offshore hub, given its liberal tax, investment and residency laws. In fact, oil services giant Haliburton will relocate its corporate headquarters from Houston Texas to Dubai, the first move of its kind by an American company."

However, businesses from the following sectors only are allowed to licenses in DOZ:

- Finance & Accounting
- Customer Care
- Human Resource
- Transaction processing
- Information Technology Management
- Document Management
- Call Center Training

DOZ therefore, is only interested in high-value BPO services and has therefore, implicitly excluded Call Centers and other "low-value" offshore services.

In addition to the above, DOZ advertises the following support products and services.

1. Residence and Business Visa

DOZ helps companies obtain different types of residence and entry permits for your employees without restrictions on nationality.

These include:

- Employment Residence Entry Permits
- Transit Visas (only for business purposes)
- Visit Visas (for business and personal purposes)
- Family Residence visas

2. Office Space

Companies can rent flexible office space upwards of 1500 square feet. The rent covers the basic shell of the office which companies can add to and modify based upon their requirements. Lease of land for office facility is also available based on certain specific criteria.

3. Telecommunications

IP TELEPHONY

Dubai Outsource Zone's voice infrastructure will be built on IP Telephony. This technology allows for data, voice, and video to be transmitted over a single, IP-based network infrastructure. Combining multiple types of traffic on a single network connection reduces cost of investment in separate networks and the complexity in managing and maintaining both networks. DOZ telephony solution provides clients with the option of using its Virtual PABX eliminating the need to invest in their own PABX platform.

Benefits of using Dubai Outsource Zone’s Telephony solutions include:

- Feature rich user phones with continuous upgrades
- Flexibility in reconfigurations (adding lines, moving extensions)
- Reduced costs for investment and maintenance
- Scalable solutions

DOZ can also cater to other telephony needs including:

- Analog lines
- ISDN PRI
- ISDN BRI
- Trunks

Bandwidth

Bandwidth offered by DOZ ranges from 56 Kbps to Gigabit speeds depending on the access technology.

Analogue interfaces : Speeds up to 56 Kbps
ISDN interfaces : Speeds up to 128 Kbps
ADSL interfaces : Speeds ranging from 384 Kbps – 2Mbps

Leased Circuits : As required by customer
Ethernet interfaces : Up to Gigabit speeds

Other value added features available with bandwidth include: Email accounts, IP addresses, Domain Names and virtual web spaces.

Call Center Technology - IP Contact Center Solution

Dubai Outsource Zone's IP Contact Center (IPCC) Solution based on Cisco technologies delivers intelligent contact routing, call treatment, network-to-desktop computer telephony integration (CTI), and multi-channel contact management over an IP infrastructure. By combining multi-channel automatic call distributor (ACD) functionality with IP telephony in a unified solution, The IPCC solution enables companies to rapidly deploy a distributed contact center infrastructure.
The solution enables you to seamlessly integrate inbound and outbound voice applications with Internet applications including real-time chat, Web collaboration and e-mail. This integration allows for unified capabilities, enabling a single agent to support multiple interactions simultaneously regardless of the communications channel the customer has chosen. Since each interaction is unique and may require individualized service, the solution enables you to manage each interaction based on virtually any contact attribute.

Satellite Communication Services

Through its sister company SamaCom, DOZ provides world-class professional broadcasting and Internet/data services via satellites. SamaCom currently broadcasts most of the television channels in the region from its own teleport. SamaCom owns and operates its own communication infrastructure, including its own Teleport, enabling it to act as a strategic partner to its customers. SamaCom also shares infrastructure with other service providers and distributes the services of other network.

Hosting and Security Services

DOZ provides security and hosting services through its sister company e-Hosting DataFort (EHDF). EHDF's services encompass an entire range of managed hosting and security services coupled with cutting edge consultancy, strategic outsourcing and data management.

The portfolio of EHDF's services include:

- Co-location
- Dedicated Server
- Dedicated Managed Hosting
- Multimedia Web Casting Services
- Disaster Recovery Services
- Strategic Outsourcing
- Professional IT Services
- Professional Security Services
- Training

4. Land Lease

Dubai Outsource Zone provides land for lease to build office facilities. Leases are given based on certain specific criteria.

ii. Legal Set-up

There are three ways in which to establish a company in DOZ:

a. A. Branch Office
b. New Incorporation of a Free Zone Limited Liability Company with Corporate Person as Shareholder(s)
c. New Incorporation of a Free Zone Limited Liability Company with Individual(s) as Shareholder(s)

In addition, applicants wanting to register establishment in DOZ must present a business proposal. Dubai Outsource Zone evaluates the proposed business activity to be conducted from the entity in Dubai Outsource Zone. Dubai Outsource Zone will utilize the information provided in the evaluation process.

The following points must be clearly explained in the Business Proposal:

1) Description of Business
a) A REGULATIONS AND PERMITS
b) STRATEGIC ALLIANCES
c) PRODUCT OR SERVICE
d) UNIQUE FEATURES OR PROPRIETARY ASPECTS OF PRODUCT
e) VENDORS

2) Marketing
a) MARKET DEFINITION
b) MARKET RESEARCH
c) MARKET SEGMENT
d) MARKETING
e) POSITION
f) ADVERTISING, PROMOTION, TRADE SHOWS

3) Competition & Risk
a) COMPETITION
b) BUSINESS RISKS
4) Management Team
a) OWNERSHIP
b) PROFESSIONAL SUPPORT
c) BOARD OF [ADVISORS, DIRECTORS]

5) Capital Requirements

6) Financial Plan
a) ASSUMPTIONS
b) INCOME STATEMENTS
c) BALANCE SHEET SUMMARY
d) CASH FLOW AND BREAK EVEN ANALYSIS
e) ACTUAL CASH FLOW STATEMENTS
f) FORECAST CASH FLOW STATEMENT

iii. <u>Fiscal Benefits</u>

Investors in DOZ are offered 100% ownership and zero corporate and personal taxes. In addition, businesses operating within DOZ enjoy full exception from customs duties. In addition, DOZ establishments shall be excluded from any restrictions on repatriation and transfer of capital, profits or wages in any currency to any place outside DOZ. Said tax and customs exemptions are provided for a period of 50 years (to commence on date of actual operation). Companies in DOZ can have 100% business ownership and also lease land for up to 50 years to set up their own facilities. The Zone also offers 100% repatriation on capital and profits and has no currency restrictions.

iv. Labor

Establishments with DOZ are allowed to procure the services of foreign labor. Each establishment is allowed one work Visa per 80 sq foot. DOZ offers an immigration service that turns around visas in 24 hours helping companies hire staff quickly. There is a single-window facility for obtaining all government approvals and services including trade licenses, visas, work permits and telecommunication services.
Laws of UAE apply regarding all labor issues within DOZ.

F. PHILIPPINES

i. Background

A.T Kearney ranks the Philippines as number 8 in the Global Services Location Index for 2007. The Report notes that although growth in the sector and currency appreciation have driven up the wages in US dollars and this reducing the cost advantage, the Philippines remains "one of the lowest wage locations in the Index and now offers lowest telecom costs of any country on the index". In addition, "Back-office outsourcing has become a strong-point for the Philippines, where contact centers have been its traditional competitive advantage. Back-office companies there provide services including finance and accounting, human resources management, payroll, logistics and publishing." The Report estimates that 60 back-office providers employ approximately 25,000 people are able to attract global outsourcing leaders such as Convergys.

II. Legal-Set up

Business Process Outsourcing in the Philippines falls under the "Information Technology Enabled Services" Sector.

- Outsourcing in general is classified as an Information & Communications Technology (ICT) or Information Technology (IT) enabled Service Sector;
- The Outsourcing Industry in Philippines is divided into the following sub-sectors:
  - Contact Centers a/k/a Call Centers;
  - Business Knowledge Processing a/k/a Business Process Outsourcing (BPO) – e.g. shared financial and accounting services;
  - Software Development;
  - Animation;
  - Data Transcription;
  - Engineering Design; and
  - ICT Support Activities (excluding Internet Cafes)

Incentives vary depending on whether a project qualifies for "Pioneer" status, which is defined as a:

a. Project introduces a major innovation in technology; and
b. Project cost at a minimum of USD 5,000,000 (Five Million US Dollars) to be put up during the first year of operations, excluding cost for land and buildings.

BPOs can set-up under two distinct schemes (regulatory frameworks):

1. The Omnibus Investment Code
   - Register with the Board of Investment (BOI)
   - May locate anywhere in Philippines
2. The Special Economic Zone Act
   - Register with the Philippine Economic Zones Authority (PEZA) as an IT Enterprise
   - Must locate inside the Zone

i. BPO under the Omnibus Investment Code

a. *Eligibility*

For a project to be eligible under Omnibus Investment Code it has to meet certain requirements.

- Individuals – must be a citizen of the Philippines
- Registered Enterprise – General Rule; at least 60% Filipino capital;
    - Is engaged in a Pioneer Project;
    - Will be exporting at least 70% of total production;
    - Will be exporting 100% of total production; or
    - The pioneer are is not within the activities reserved by the constitution to the Filipino citizens.
    - Project must be from the preferred activities identified by the Board in the IPP; alternatively, must propose to export at least 50% of total production (limited incentives);
    - The applicant is capable of operating on a sound and efficient basis;
    - It has installed adequate accounting systems, if within preferred projects.

b. *FDI Policy*

Foreign Enterprise may set up a 100% owned branch. Foreign entities owned more than 40% by foreigners, 60% of total product must be exported "Export Enterprise"

If the activity to be engaged in is not included in the Foreign Investment Negative List, is more than 40% foreign-owned, and will cater to the domestic market, the capital required must be at least two hundred thousand dollars (USD 200,000.00).

The capital may be lowered to one hundred thousand dollars (US$100,000.00), if activity involves advance technology, or the company employs at least 50 direct employees.

If the foreign company will export at least 60% of its output, or a trader that purchases products domestically will export at least 60% of its purchases, the required capital of US$200,000.00 paid-in is not applicable.

If the company is at least 60% Filipino - 40% foreign-owned and will cater to the domestic market, paid-in capital can be less than US$200,000.00

c. *Fiscal Incentives*

Income Tax Holiday; new registered enterprise is fully exempt from income taxes levied by the National Government for a period of four (4) years from commercial operation of non-pioneer enterprises and six (6) years for pioneer ones, with possible extension of two (2) years but not to exceed eight (8) years.

A bonus year may be granted when 1) the ratio of total imported and domestic capital equipment to the number of workers for the project does not exceed USD 10,000 to one worker; ***or*** 2) the net foreign exchange savings or earnings amount to at least USD 500,000 annually during the first three (3) years of operation.

If registered projects are located in a less developed area as identified in the IPP, the firm shall be granted pioneer incentives, i.e., an Income Tax Holiday for six (6) years.

For foreign investment, the right to repatriate the entire proceeds of liquidating the investment in the original currency in which the investment was made and at the exchange rate the time of repatriation, and the right to remit earnings of from the investment in the currency in which investment was originally made and at the prevailing exchange rate at the time of remittance

d. Non-fiscal Incentives

Machinery, equipment and spare parts consigned to a registered enterprise shall not be subject to restrictions as to period of use of such machinery, equipment and spare parts, subject to following conditions; a) the appropriate re-export bond equivalent to 100% of the estimated taxes and duties is posted; and b) such consigned equipment are reasonably needed in the enterprise's registered operations and shall be for the exclusive use of the registered enterprise. This may be availed of for a period of 10 years from date of registration.

Foreign nationals under employment contract within the purview of this incentive, their spouses and unmarried children under twenty-one (21) years of age shall be permitted to enter and reside in the Philippines during the period of employment of such foreign nationals

e. Labor Policy

For the first five (5) years from registration, a registered enterprise shall be allowed an additional deduction from taxable income equivalent to fifty percent (50%) of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a BOI-prescribed capital to labor ratio and shall not be availed simultaneously with the Income Tax Holiday. This additional deduction shall be doubled if the activity is located in a less developed area.

A registered enterprise may be allowed to employ foreign nationals in supervisory, technical or advisory positions for five (5) years from date of registration. The positions of President, General Manager and Treasurer, or their equivalent, of foreign-owned registered enterprises shall however not be subject to the foregoing limitations.

ii. BPO under the Special Economic Zone Act

Special Economic Zones "Ecozones" –selected areas highly developed or which have the potential to be developed into agro-industrial, Industrial tourist/recreational, commercial, banking, investment and financial centers. An ECOZONE may contain any or all of the following: Industrial Estates (IEs), Export Processing Zones (EPZs), Free Trade Zones, and Tourist/Recreational Centers.

a. Eligibility

Establishing Ecozones – criteria:

a. The proposed area must be identified as a regional growth center in the Medium-Term Philippine Development Plan or by the Regional Development Council;
b. The existence of required infrastructure in the proposed ECOZONE, such as roads, railways, telephones, ports, airports, etc., and the suitability and capacity of the proposed site to absorb such improvements;
c. The availability of water source and electric power supply for use of the ECOZONE;

d. The extent of vacant lands available for industrial and commercial development and future expansion of the ECOZONE as well as of lands adjacent to the ECOZONE available for development of residential areas for the ECOZONE workers;
e. The availability of skilled, semi-skilled and non-skilled trainable labor force in and around the ECOZONE;
f. The area must have a significant incremental advantage over the existing economic zones and its potential profitability can be established;
g. The area must be strategically located; and
h. The area must be situated where controls can easily be established to curtail smuggling activities.

Other areas which do not meet the foregoing criteria may be established as ECOZONES; provided:

a. That the said area shall be developed only through local government and/or private sector initiative under any of the schemes allowed in Republic Act No. 6957 (the build-operate-transfer law), and without any financial exposure on the part of the national government;
b. That the area can be easily secured to curtail smuggling activities, and
c. That after five (5) years the area must have attained a substantial degree of development, the indicators of which shall be formulated by the PEZA.

B. Legal Set-up

Any person, firm, association, partnership, corporation, or any other form of business organization, regardless of nationality, control and / or ownership of the working capital thereof may apply for registration as an Export or Free Trade Enterprise within the ECOZONE in any sector of industry, international trade and commerce, except duty-free retailing and wholesale trading of imported finished products for purposes of serving the domestic market. Furthermore, if the area of investments of the said enterprises falls within Lists A and B of the Foreign Investments Act of 1991, then the applicable nationality, ownership or control requirements of the said law shall be observed

b. *FDI Policy*

Same as above

c. Fiscal Incentives

i. Income Tax Holiday (ITH) for four (4) years for Non-Pioneer IT Enterprises, or six (6) years for Pioneer IT Enterprises;
ii. After the ITH period, the perpetual option to pay a special 5% tax on gross income earned, in lieu of all national and local taxes, except real property taxes on land owned by developers;
iii. Exemption from payment of import duties and taxes on imported machinery and equipment and raw materials;
iv. Additional deduction equivalent to 50% of training expenses, chargeable against the 3% share of the national government in the special 5% tax on gross income;
v. The right to repatriate the entire proceeds of liquidating the investment in the original currency in which the investment was made and at the exchange rate the time of repatriation, and the right to remit earnings of from the investment in the currency in which investment was originally made and at the prevailing exchange rate at the time of remittance

d. Non-fiscal Incentives

i. Permanent resident status for foreign investors with initial investments of USD 150,000.00 or more, his / her spouse and dependent children under twenty-one (21) years of age shall be granted permanent resident status within the ECOZONE. They shall have freedom of ingress and egress to and from the ECOZONE without need of special authorization from the Bureau of Immigration
ii. The PEZA shall establish a one stop shop center for the purpose of facilitating the registration of new enterprises in the ECOZONE.
iii. Other incentives as may be determined by the Board

e. Labor Policy

i. May employ foreign nationals in executive, supervisory, technical and advisory positions, provided:
   1. that executive positions shall pertain only to the president, vice-president, treasurer and general manager, or their equivalents;
   2. that the total number of foreign nationals employed by an ECOZONE Enterprise in supervisory, technical or advisory positions shall not at any time exceed five percent (5%) of its workforce unless expressly authorized by the Secretary of Labor and Employment;
   3. that foreign nationals may be employed in supervisory, technical or advisory positions only if it is certified by the Department of Labor and Employment that no Filipino within the ECOZONE possesses the technical skills required therefore.

G. CANADA

Introduction

Canada is ranked the 35th most attractive location[21] overall and comes second place when it comes to quality and availability of skilled workers and quality of business environment, proving that developed countries can be profitable despite their high cost structures.

There is very little direct regulation of outsourcing arrangements in Canada. Only sector specific laws or regulations may restrict a party's ability to outsource.

Traditionally, cost savings has been considered the most important benefit realized by outsourcing; however as organizations become more experienced outsourcing business process functions other factors diminish the importance of cost saving as the sole factor for consideration. Canada provides:

- Experienced professionals.
- Availability of specific technical skills.
- High quality of English competency and cultural similarity
- Close proximity to the United States where it is the main beneficiary of US outsourcing that represents 70% of the total global outsourcing market.
- Geopolitical stability
- Population base with cultural linkages: Canada boasts a large immigrant group of skilled workers that provide a bridge to the world's major outsource destinations.

[21] A.T. Kearney, "Making Offshore Decisions: 2004 Offshore Location Attractiveness Index", 2004. See http://www.atkearney.com/shared_res/pdf/Making_Offshore_S.pdf.

- Less attrition rates than in the United States. Many Canadian call center staff considers customer service a career. For example CGI one of the largest operators in Canada reports 6 % attrition.[22]

a. Labor/Employment Policies

There are employment related issues that must be considered when outsourcing to Canada, mainly, how outsourcing will affect existing employees of the company that wishes to outsource. What are the legal obligation of employers in terms of hiring, termination and transfer of employees:

- Canadian employment laws are governed by the applicable law of the province where the work takes place, except when the employee works for a federally regulated entity. In that case, the federal employment law applies.
- Unlike the United States "Employment at will" does not exist in Canada. Employers must comply with the minimum standards set forth by legislation that governs that particular jurisdiction. Legislation prescribes minimum standards for employment and the courts have broad discretion to award damages that exceed the statutory minimum standards.
- In an outsourcing arrangement the law does not dictate the employer to inform or consult with employees or the trade union prior to the transaction. However in reality most employers do so.

Employment standards legislation prescribes the following minimum standards:

Payment of wages: the minimum wages vary by province generally ranging from C$ 7 to C$8.50 per hour
Paid vacation: Generally most provinces provide 2 weeks vacation with a vacation pay of 4% of the annual wage per year. Entitlement to vacation time and pay increases with the employee's length of service to a maximum of 3 weeks and 6% of the annual wage.
Hours of work: Generally maximum hours of work are 8 hours per day and 40 hours per week. In each province, provisions are included with respect to overtime pay. Managers and certain professionals are specifically exempted from this requirement.

Most jurisdictions require notice of termination or pay in lieu of notice. Notice is calculated on a sliding scale based upon length of service. In the case of mass termination which may occur with BPO arrangements some provinces prescribe a longer period of notice regardless of length of service. Some jurisdictions prescribe additional severance pay if employees are to be terminated and a determination must be made regarding who will be bear the expenses of such costs.

If the new supplier is going to hire former employees of the company who will otherwise be terminated as a result of the outsourcing of work, the supplier could be responsible for compensation for the prior service of the employee upon termination depending on the terms of employment that were set out.[23]

Since outsourcing arrangements necessitate the movement of people in and out of Canada, entry to Canada and immigration issues are relevant and must be addressed.

[22] Ibid P.14

[23] Outsourcing in Canada: http://www.blakes.com/pdf/outsourcing/Outsourcing_In_Canada.pdf

Immigration is a federal jurisdiction and is governed by the Immigration and Refugee Protection Act. The federal government's policy provides that employment opportunities belong to Canadian citizens and permanent residents. Temporary foreign workers must obtain a work permit. A work permit will generally be issued when the use of the foreign worker will not adversely effect employment opportunities for Canadians.

A foreign worker's entry into Canada is usually a two-step process. The Canadian employer must first obtain a "labor confirmation" from Human Resources Skills Development Canada (HRSDC), and then must procure a work permit from Citizenship and Immigration Canada. For individuals who intend to work in Québec, a different process may be required. Canada's domestic immigration legislation, international agreements, and certain government programs and directives provide exemptions to the HRSDC confirmation requirement.

Included in the exemption from HRDSC are "intra –company transferees – those are defined as "persons in senior executive and managerial categories and "knowledge workers" carrying a letter from a company carrying on business in Canada which identify the holder as an employee of a company located outside Canada". Knowledge workers must demonstrate a specialized of the company's service and or product.[24]

NAFTA exempts certain professionals from HRDC confirmation including: accountants, engineers, scientific technicians, certain medical professionals, architects, social workers, computer system analysts, management consultants and hotel managers.

Persons wishing to reside or work in Canada on an indefinite basis require permanent resident status. A permanent resident does not need a work permit to work in Canada. There are various categories of applicants for permanent residence in Canada, including skilled workers, business immigrants, and the family class. Permanent residents may eventually apply for citizenship.[25]

b. Regulatory Issues

The office of the Superintendent of Financial Institutions (OSFI), the entity that regulates banks and all federal companies has issued a guideline on outsourcing business activities for federally regulated financial institutions. [26]The Guideline contains specific provisions requiring those financial institutions to retain ultimate accountability for the outsourced activities and ensures OSFI's supervisory powers are not compromised by the outsourcing arrangement.

Canadian security laws, stock exchange rules and regulations that have been designed to protect investors result in an increased requirement to disclose risks and this has implications when disclosing the outsourcing of key corporate functions. There are various certification and filing requirements and therefore if outsourcing functions that could impact financial reporting, the company's CEO and CFO must ensure that the party providing the outsourced service complies with the company's internal controls and procedures.

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[24] Blakes Guide to doing Business in Canada: http://www.blakes.com/english/legal_updates/reference_guides/Doing_Business_in_Canada_2007.pdf

[25] Location Canada 2006: http://www.locationcanada.com/2006/art_6.htm

[26] Guideline B-10 for federally regulated financial institutions: Requires the completion of a risk assessment, the implementation of a program to monitor risks associated with the outsourcing arrangement and the provision of sufficient information to the board of directors to enable them to meet their duties. The Guideline also prohibits the outsourcing of certain business activities.

Furthermore, if the outsourcing involves the setting up of a Canadian subsidiary, federal and provincial legislation require a minimum number of resident Canadian Directors. [27]

In addition, restrictions on outsourcing by a telecom service provider depend on the terms of the license it holds from the Canada Radio and Telecommunication Commission (CRTC). The Telecommunications Act does not restrict outsourcing. Call centers are subject to some restrictions under the CRTC and telemarketers must abide by Canadian telemarketing rules.[28]

c. Tax Policies

The World Trade Magazine has ranked Canada in the Top 3 for Investment and Trade Opportunities. Canada offers businesses low tax rates. Canada has the lowest payroll taxes among the G7 countries and by 2010 Canadian–based firms are expected to average a corporate tax advantage of more than 4.5 percentage points over US based firms.[29] Significant tax risks associated with outsourcing are direct income tax and indirect tax and therefore, when considering outsourcing the main issue that will arise are whether the performance of outsourced activities create a taxable presence in the country and if so, how will the company be taxed and at what rates? And how can companies outsource from the most efficient locations which do not require the imposition of certain (indirect) taxes?

If the outsourcing arrangement results in a service provider establishing a permanent establishment in Canada in order to conduct business then this will subject the party to Canadian income tax. Moreover, there may be transfer tax and custom duty consequences related to the movement of assets, including intellectual property, into Canada.

In limited circumstances it is possible to transfer assets on a full or partial tax-deferred basis if the consideration includes shares of a Canadian corporation or a Canadian partnership acquires the assets.

If the outsourcing arrangement involves taking over data centers in more than one province, there are tax advantages in consolidating those services in one province.

When outsourcing it is important to ensure that payments are not subject to withholding tax since there are requirements to withhold tax on service fees paid to a nonresident company. The following factors are taken into account when considering the withholding of tax:

- Legal characterization of payments
- Location of the service provider carrying out the service
- Terms of the relevant double taxation treaty in place between the payer and the payee.[30]

[27] Outsourcing in Canada: http://www.blakes.com/pdf/outsourcing/Outsourcing_In_Canada.pdf

[28] Outsourcing in Canada: http://www.blakes.com/pdf/outsourcing/Outsourcing_In_Canada.pdf

[29] Invest in Canada: http://www.investincanada.gc.ca/en/advantage-canada/tax.aspx

[30] PWC, "A Fine Balance: The Impact of Offshore IT Services on Canada's IT Landscape", 2004. See http://www.pwc.com/ca/afinebalance/.

TAX INCENTIVES:

Outsourcing arrangements can take advantage of existing federal and provincial tax incentive programs. For example, the federal Scientific Research and Experimental Development (SR&ED) program allows an investment tax credit of between 20-35% on qualifying SR&ED expenditures in Canada relating to the establishment/operation of a research and development facility. Several Canadian provinces also offer similar incentive programs.[31] Following are a list summarizing various incentives the government offers:

- **Scientific Research and Experimental Development Program**
  Business involved in research and development can apply for tax credits on expenditures such as wages, materials and equipment. Administered by the Canada Revenue Agency (CRA).

- **Industrial Research Assistance Program**
  Small- and medium-sized foreign subsidiaries incorporated in Canada can apply for on-site aid from IRAP's Technology Advisors. Administered by the National Research Council of Canada.

- **BDC Financing**
  The Business Development Bank of Canada funds companies with a basis in technology and a sustainable, market-oriented business plan.

- **Natural Sciences and Engineering Research Council of Canada**
  NSERC works with companies that have been provincially or federally incorporated in Canada to encourage research and development in collaboration with universities and students.

- **Precarn**
  Precarn funds projects involving the participation of at least two companies and one university, and works with funding programs in other companies to support research and development in the field of intelligence systems.

- **Film Industry Services**
  The Canada Revenue Agency administers two film tax credit programs to help the film industry in Canada. [32]

[31] Outsourcing to Canada, Legal and Tax Considerations, Theodore Ling, September 2004.

[32] Invest in Canada: http://www.investincanada.gc.ca/en/advantage-canada/tax.aspx

H. INDIA

Background

India dominates AT Kearney's Global Services Location Index.33 India maintains its wide, albeit slightly shrinking, lead over China, confirming what industry surveys and visiting executives repeatedly find—for all the concern about overheating, wage inflation and service levels, India still offers an unbeatable mix of low costs, deep technical and language skills, mature vendors and supportive government policies.34 Double-digit growth rates have fueled wage inflation, with average compensation costs for sample functions rising by around 20 percent in India. But these cost escalations have been matched by corresponding increases in skill supply and quality indicators.35

India maintains a strong lead in terms of language skills and vendor maturity. In the spring of 2007, Citigroup Inc. announced it would move as many as 8,000 positions to India, particularly in equity research, investment banking and back-office transaction-related activities. This is in addition to its 12,000 employees in the BPO division there. The top five Indian BPO exporters for 2006-2007 according to NASSCOM are Genpact, WNS Global Services, Transworks Information Services, IBM Daksh, and TCS BPO. [36]

The AT Kearney Report also states that as "in-country shifts of resources away from expensive and overburdened tier-one cities to tier-two and tier-three cities, with their higher quality of life and lower costs, can also be credited in part for the country's continued competitiveness."[37]

Legal Set-Up and Incentives

Business Process Outsourcing (BPO) in India is also known as Information Technology Enterprise Solution Services (ITES), may fall under one of the following Schemes:

- **OSP License:**
  Business Process Outsourcing services, particularly Call Centers, are licensed by the Department of Telecommunications (DOT) under the "Other Service Provider (OSP)" category as identified in the National Telecom Policy of 1999. OSP licenses have a validity of 20 years from issuance date of the permission letter. Such units are 100% open for foreign investment, subject to statutory approvals under the prevailing regulations. The units can take the resources from any authorized service provider i.e IPCL from the authorized International Long Distance operators and local leased line from any authorized Service Provider. A non-resident or a foreign company is treated as having a permanent establishment or business connection in India under article 5 of the Double Taxation Avoidance Agreements or under section 5 of the Income Tax Act, 1961, if the said non-resident or foreign company carries on business in India through a branch, sales office etc., who habitually exercises an authority to conclude contracts, or regularly delivers goods or merchandise, or habitually secures orders in India, on behalf of the non-resident principal. In such a case, the profit of the non-resident or foreign company attributable to the business activities carried out in India becomes taxable under the Income Tax Act, 1961.

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[33] http://www.atkearney.com/res/shared/pdf/GSLI_2007.pdf

[34] Ibid

[35] Ibid

36 NASSCOM Announces Top-15 ITES-BPO Exporters Rankings for FY 06-07

[37] Ibid

OSPs include International Call Centers, Domestic Call Centers, Standalone Domestic Call Center, Sharing of common infrastructure, Network Operation Center, Tele-banking, Tele-medicine, Tele-trading, Tele-education, e-Commerce, Vehicle Tracking System, Long Range Alarm System and Bill Payment Terminal.

- **STPI Units:**
  Software Technology Parks of India (STPI) is a society set up by the Department of Communication & Information Technology, Government of India in 1991, with the objective of encouraging, promoting and boosting the Software Exports from India. BPOs may register as an STPI unit, which may locate anywhere in India, subject to the regulation of the STPI authority. India has established numerous STP Centers and Bangalore is considered among the leading ones due to the superior quality of the telecommunication infra structure at the State of Karnataka, which Bangalore is the capital thereof.

  As per the Notification No FD 154 CET 2004, dated January 6, 2005 under the Karnataka Special Tax on Entry of Certain Goods Act, 2004, the STPI units registered with the Government of Karnataka or Government of India are exempt from paying the entry tax on the import of electronic goods, parts and accessories, computers of all kinds, computer peripherals and computer software caused into a local area. It is worth noting that the Income Tax exemptions for STPI Units will be available only until March 2010. For the purpose of tax exemption under the Income Tax Act, the following services have been specified as BPO (ITES) services by the Central Board of Direct Taxes (CBDT); Back office Operations, Call Centers, Content Development or Animation, Data Processing, Engineering and Design, Geographic Information System Services, Human Resources Services, Insurance Claim Processing, Legal Databases, Medical Transcription, Payroll, Remote maintenance, Revenue Accounting, Support Centers and Web-Site Services.

  Furthermore, STP Units enjoy certain subsidies under the Millennium BPO policy of Karnataka; an investment subsidy of 20% with a ceiling limit of Rs 1.00 Crore[38] is provided to mega industries established outside the limits of Bangalore Metropolitan Region Development Authority (BMRDA). However such subsidy is available only for a period one year from the date of issue of the Millennium BPO Policy. Although the BPO Millennium policy, proposes concessions in stamp duty and registration fees, to date, there has been no notification to this effect under the Karnataka Stamps Act, 1957.

  As a general rule, foreign direct Investment in the IT and ITES (BPO) sector in India is allowed up to 100% under the Automatic Route[39] and remittances are allowed through the Authorized Dealers (designated banks). Repatriation is permissible subject to the existing Foreign Exchange Management (FEM) Regulations.

- **SEZ Units**
  Special Economic Zones (SEZ) are designated duty free enclaves which are treated as foreign territory for trade operations and duties and tariffs and are areas notified by the Ministry of Commerce & Industry, Department of Commerce. The units under SEZ must be physically located in the SEZ area notified by the department of Commerce.

  SEZ Units have to be net foreign exchange earners within 3 years. Such Units enjoy other benefits, including; exemption from customs duty on import of capital goods, raw materials, consumables & spares, exemption from Central Excise duty on procurement of capital goods, raw materials, consumables, spares, etc. from the domestic market,

[38] As is standard in Indian English, large values of Indian rupees are counted in terms of thousands, lakh (100 thousand, in digits 1,00,000), crore (100 lakhs, in digits 1,00,00,000) and arawb (100 crore, in digits 1,00,00,00,000).

[39] In certain Sectors announced by the Indian Governments, 100% foreign investment is allowed without a need for government licenses or approvals by simply notifying the Reserve Bank of India (RBI) of such investments.

100% income tax exemption for a block of five years, 50% tax exemptions for two years, Up to 50% of the Profits ploughed back for next 3 years under S.10-A of Income Tax Act, and reimbursement of Central Sales Tax paid on domestic purchases.

I. EGYPT

Background

Egypt is making a pitch to be the next offshore outsourcing hot-spot, claiming that its foreign language skills and low labor costs put the country in a strong position to compete with India and eastern Europe. AT Kearney recently ranked Egypt number 13 in a list of top offshore outsourcing destinations and while the country's share of the offshore call-center market is still very small, analyst predicts that it grow by 50 per cent annually due to the country's competitive advantages such as; high skilled workforce, competitive cost of labor, multilingual skills, neutral accents, government support, friendly investment environment, in addition to the country's geographic advantages as well as low cost and advanced telecommunications infrastructure.[40] Egypt's leading call center company Xceed has a 1,200 seat operation at a new government-subsidized high-tech Smart Village just outside Cairo where salaries for staff working on offshore accounts range from around USD350 to USD 450 per month. The company, whose customers include General Motors, Microsoft and Oracle, also has no problem picking the best candidates - with 18,000 applications received for each position.41

Perhaps the most attractive feature of Egypt is its competitive advantage when it comes to providing services in different languages. The contact centers in Egypt provide eight to nine languages including Arabic, English, French, German, Greek, Hebrew, Italian, and Spanish. This gives it a decisive lead when competing for the multilingual markets such as Europe.

Most significantly, Egypt founded the Smart Villages Company to lead and foster branded chain of Technology and Business Parks on the local and regional level. Renowned emblematic buildings, state of the art infrastructure, environmental excellence and full-fledged business community services stands as the concrete evidences of Smart Villages Company unmatched professional capacities. [42]

Smart Village Cairo launched in 2003 as the first fully operational Technology and Business Park in Egypt, accommodates Multinational and Local Telecommunications and Information Technology Companies, Financial Institutions and Banks, together with Governmental Authorities on three Million square meters in the west of Cairo. The efficient mix of business services boosts the competitiveness and profitability of enterprises taking advantage of Fiber Optic Network, multi-source power supply, District cooling and Heating redundant network plant. Evenly, organizations in Smart Village Cairo, profits from world class standards amenities including Property Management & Maintenance, Event's Management, Transportation Services on 24/ 7 basis. Complementary Community & Business Services are available in Smart Village Conference Hall, Smart Village Club, Smart Nursery, Smart School, Postal and Parcel services, Travel Agency, Signboards Production, Copy Center, Graphic and Printing Agency, plants & flowers and First Aid Assistance and upcoming Smart Village Business Hotel. Currently, 12,000 professionals run operations of more than 100 Companies and expected to reach 80,000 by end of 2014. [43]

[40] http://services.silicon.com/offshoring/0,3800004877,39156347,00.htm

[41] Ibid

[42] http://www.smart-villages.com/docs/about.aspx

[43] Ibid

Legal Set-up

The Investment Law 8 of 1997, allows investors to operate BPO services, particularly IT-related services, and provides the following incentives:

- No corporate tax on income and profits for period of 5 years commencement of production or activity (additional years available for certain areas)
- No stamp duties on transactions
- 5% customs duty on all equipment, machinery used by entity

J. COMPATABILITY MATRIX

	Jordan (Development Areas)	Dubai	Philippines	India	Canada	Egypt
Corporate Tax Exemptions	Yes 0% until 2015	Yes 0% for 50 years	Yes 4 to 6 years	Yes Until 2010	No Tax Breaks by Regional Governments	Yes For Five Years
Income Tax Exemptions for Employees	No	Yes 0%	No	No	No	No
Customs Duty	Yes 0% on all equipment to be used by registered companies	Yes 0% on all equipment to be used by registered companies	Yes 0% on all equipment to be used by registered companies	Yes 0% on all imports necessary for operations	No	Yes 5% on all equipment to be used by registered companies
Foreign Employment	Yes	Yes	Yes	Yes	Yes	Yes Very Restricted
Restriction of BPO Services	No	Yes	Yes	Yes	No	Yes
FDI	Yes 100% Foreign ownership	Yes 100% Foreign ownership	Yes 100% Foreign ownership (for branches only)	Yes 100% Foreign ownership	Yes 100% Foreign ownership	Yes 100% Foreign ownership

K. FINDINGS & RECOMMENDATIONS

(a) Findings

Based on the above analysis, the Report makes the following findings:

1. Jordan offers excellent incentives that would attract businesses engaged in BPOs. Said incentives are very comparable to those offered by Dubai and are generally more attractive and comprehensive than all other countries bench-marked for purposes of this Report. This conclusion is supported by various independent reports, including a most recent report by Datamonitor which concluded the following:

"Throughout the course of this white paper, what has also become clear is that Jordan is positioning itself well to recoup contact center investment from nearshore and offshore clients due to:

• Ongoing political and economic liberalization policies;
• Investment in the country's infrastructure;
• Development of a globally-minded education system with an emphasis on western language instruction; and,
• An ever-growing contact center sector that provides services to both Jordanian and overseas clients.

Moving forward, Jordan is well positioned relative to other offshore locations, given its:
• Excellent incentives to establish contact center operations;
• Large pool of labor from which to draw agents;
• Ability to provide first rate Arabic service to Gulf States as well as Arabic-speaking residents in Europe and North America; and,
• Interest in growing business in Western languages in Europe and North America.
When compared with many other global locations, where costs are escalating at a rapid rate and agent churn continues to provide sleepless nights for contact center managers, the value that can be derived in Jordan by establishing customer care operations is compelling." [44]

2. The regulatory schemes under Free Zones, Investment Promotion Law, and ASEZA have major impediments to BPOs due to the linkage of services sector to national laws which would therefore only allow performance of services if licensed by competent authorities; this would directly affect accounting, auditing, legal, architecture and engineering services, since these services are governed and regulated by associations and unions.

3. Development Areas regulatory framework is potentially very appealing to BPO operations. However, the current framework needs to address the following issues (these are further discussed and elaborated in the recommendations section below):

a. Corporate Tax on Services:

Article 5(A)(2) of the Draft Regulation on Income Tax in Development Areas ("Tax Regulation") provides that 5% Tax rate would apply to services if all of the following conditions are satisfied:

[44] Jordan as a contact center location of choice, Data Monitor, May 2008

- If the service is delivered in the Area
- If the service provider and the method for its delivery are within the Area.
- If the service beneficiary is within the Area.

If the above are not satisfied, the prevailing Tax Law of Jordan shall apply. Therefore, under the above scheme, and since BPOs operating within the Development Area would usually providing services to customers outside Jordan, they will be subject to national Income Tax Law. The current Tax regime provides that net profits generated from most export revenues are fully exempt from income tax. Under the WTO, the exemption is extended until the end of 2015. Therefore, as per Tax Regulation above investors wishing to offer BPO services would be guaranteed income tax exemption until 2015 only.

b. Regulation of Services Industry:

Unlike other regulatory schemes in Jordan, the Development Areas Law and regulations does not restrict provision of services within the Developments Areas. This presents an important advantage that must be utilized.

c. Labor Policies:

The Development Areas Law gives important flexibility for the Commission to set labor policies and govern labor issues within the Development Areas. This may be important for BPO operations as flexible working arrangements are preferred by BPO investors, due to the contractual issues. However, the Draft Regulation on the Standards, Conditions and Procedures Relating to Work, Workers, Residencies of Investors and Workers Involved in Managing Projects in Development Areas. ("Labor Regulation") does not take advantage of this flexibility and currently mirrors national law labor legislation.

d. Residency Permits:

Article 22 of the Labor Regulation provides that holder of residency permits must reside in the Development Area and to leave and return to it throughout the period of its validity without having the right to reside outside the Area. This restriction may be un-workable for BPO arrangements.

e. Vocational Training:

The Draft Regulation on the Standards, Conditions and Procedures Relating to the Licensing of Vocational Training Centers and Institutes in Development Areas ("Vocational Training Regulation") is incompatible with BPO operations that want to engage in training activities. The Vocational Training Regulation is modeled on national laws which has many deficiencies and places a lot of unnecessary "control" in the hand of Commission.

(b) Recommendations

In light of the above, we make the following recommendations:

Recommendation No. 1 - Corporate Tax on Services:

Amend Article 5(A)(2) of the Tax Regulation so as to provides services delivered in the Development Area and outside Kingdom with 5% Tax rate, unless national laws provide such service-oriented operations with better tax treatment. Therefore, Article 5(A)(2) should read as follows:

“Income generated to the Registered Entity from provision of services within the Area provided that all the below are satisfied:

- If the service is delivered in the Area <u>or outside the Kingdom</u>
- If the service provider and the method for its delivery are within the Area.
- If the service beneficiary is within the Area <u>or outside the Kingdom</u>”

In addition, it is also advisable to amend Article 5(B) to read as follows:

“The Registered Enterprise shall enjoy any other tax exemptions in force in the Kingdom relating to exports of goods and services from the Kingdom”

Therefore, if the above amendments are considered, BPO operations operating from the Development Areas would be subject to 0% income tax on exported services until 2015 and 5% income tax on exported services thereafter.

Recommendation No. 2 - Regulation of Services Industry:

Consider liberalizing services such as accounting, auditing, legal, and engineering services from restrictions in place under national laws. Said liberalization can be made with consent (and consultation) of professional association and may be restricted to <u>exported</u> services only.

Recommendation No. 3 - Labor Policies:

Consider taking advantage of flexibility in Development Areas Law regarding labor policies and amend Labor Regulation to allow for flexible working arrangements, including part-time employment, “at-will” employment, and other forms of employment that offer flexible working arrangements for employers as well as employees.

Recommendation No. 4 - Residency Permits:

Consider amending Article 22 of the Labor Regulation to allow holders of residency permits to reside inside or outside Development Areas.

Recommendation No. 5 - Vocational Training:

Consider substantially amending the Vocational Training Regulation to allow for private sector freedom to operate vocational training centers with Development Areas with little or no interference from the Commission.

Recommendation No. 6 – Marketing:

Consider the following activities/initiatives that would market Jordan and/or Development Areas as a BPO hub:

1. Designate entire Development Areas or parts thereof as Business Outsourcing Zones
2. Survey existing talent to better understand points of strengthen of what Jordan can offer
3. Use current independent studies such a Location Attractiveness Index and Talent Index as testimony to Jordan's ability in the field

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