

Is the Future Bright for Outsourcing IT Services to Egypt?

The Bottom Line:	Egypt is well on its way to establishing itself as an important player in the offshore outsourcing market. But it needs to take some steps to facilitate its ascendance in this market if it is to become the India of the Middle East.
Key Concepts:	IT outsourcing, business globalization, India, China, offshoring
Who Should Read:	CEO, CFO, CIO, director of strategy

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Executive Summary

Is Egypt the India of the Middle East? That's the reputation the Egyptian government and business community hope will take hold as the country aggressively enters the lucrative and fast-growing offshore outsourcing market.

The offshore outsourcing market continues to be a strong and resilient one for those regions that successfully enter it. Egypt, a relatively new entrant to this segment, has some unique advantages—as well as some significant hurdles it must overcome if it wants to reap the economic benefits of outsourcing opportunities.

India continues to be an outsourcing behemoth, leading the offshore outsourcing market both in IT outsourcing (ITO) and business process outsourcing (BPO). Currently, India holds about 60% of the overall offshore market, with revenue climbing to more than \$6 billion last year in the BPO sector alone, and \$22 billion in overall revenue.

But other regions have been threatening India's dominance in the offshore outsourcing sector, most notably China, Latin America and Eastern Europe. Can Egypt make a strong showing as well? Here are some of the factors that will help and hinder Egypt:

- Egypt is well-placed to go after the Middle Eastern market. With a workforce boasting multilingual capabilities (unlike India, where English speakers dominate), it can appeal to European-based companies as well.
- With its 80,000-some technical graduates each year, Egypt can claim a large and growing talent pool and has begun to make a strong play for IT outsourcing services. Its labor costs are lower than in some other low-cost regions, and it has time zone advantages with Europe, Africa, Asia and North Africa.
- Concerns about personal, property and data safety in Egypt exist, especially in North America. Can Egypt successfully fight these perception issues?
- Like India, serious infrastructure issues are rampant in Egypt, including bad roads, heavy traffic and older airports. Can Egypt learn from India's mistakes and avoid some of the pitfalls of jumping into the outsourcing market?

In this Yankee Group Report, we answer the questions: Can Egypt adequately exploit its advantages and overcome its obstacles? Can Egypt become the Middle East's India?

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I. Outsourcing Interest in Egypt Is Growing

Interest in Egypt as a location for outsourcing services is growing rapidly. The Egyptian government is implementing a range of initiatives to entice the industry and maintain the growth in interest. But Egypt has a number of unique structural and perception problems it must address first to compete.

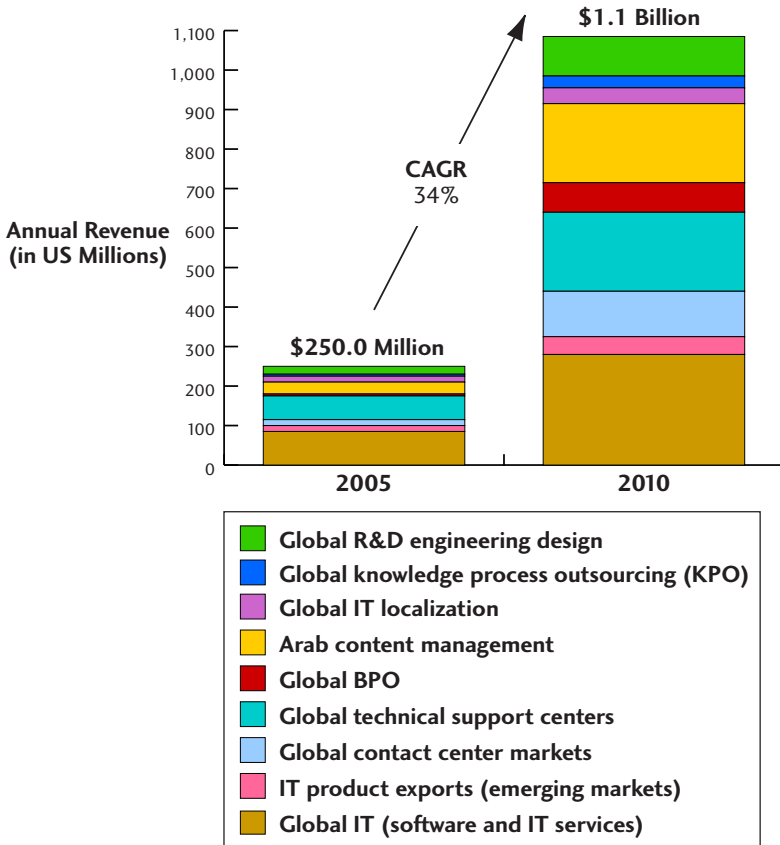
The good news, according to the A.T. Kearney 2007 Global Services Location Index, is that Egypt ranks above Eastern European locations such as the Czech Republic, Hungary and Poland as well as other Middle East and African locations such as South Africa and Tunisia as an outsourcing destination. Global information communications technology (ICT) companies such as Cisco, Google, IBM, Microsoft, Oracle and Orange Business Services are already exploiting Egypt's IT talent pool.

The Egyptian government has set itself an ambitious target of growing the country's share of the global outsourcing market (see Exhibit 1). The Egyptian government wants local companies to have revenue of more than \$1 billion by 2010, quadrupling the 2005 revenue.

Exhibit 1.

Is the Egyptian Government's Target Realistic or a Pipe Dream?

Source: MCIT and Yankee Group, 2007



But there are challenges, and Egypt can certainly take lessons from some of the problems in India today, such as the many serious infrastructure problems and the lack of an adequately sized and trained labor pool to meet all of the demand. India is attempting to rectify its problems and is slowly doing so. If Egypt can see where India has stumbled, perhaps it can head off some of the same obstacles India is facing today in trying to keep pace with the fast-growing outsourcing demand.

In this Yankee Group Report, we examine Egypt's case and what it will need to do to meet its ambitious government target.

II. Comparison of Egypt with Other Outsourcing Destinations

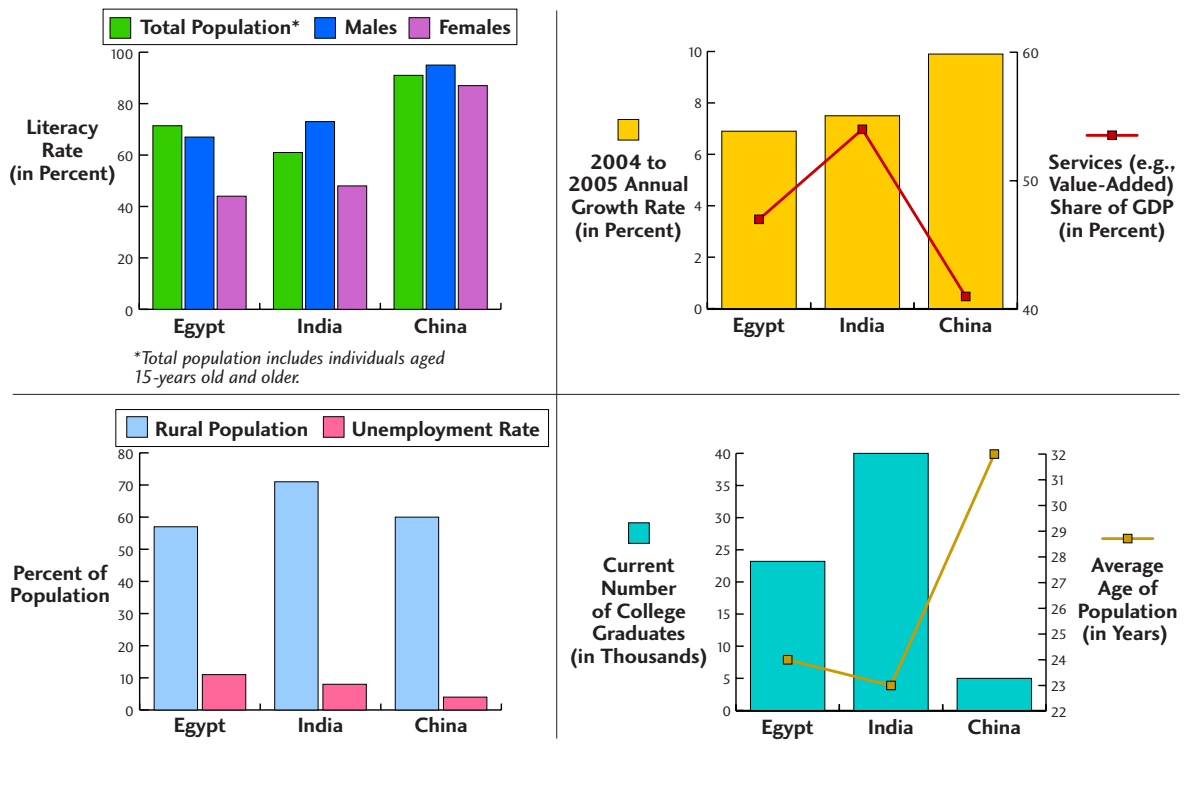
The offshoring of services and processes has been a growing market for the past decade. India has been the chief beneficiary of the need for North American- and European-based companies to achieve labor arbitrage and cost efficiencies through the outsourcing—and in many cases, the offshoring—of their IT or business processes.

Egypt is making a pitch that its foreign language skills, relatively cheap labor costs and proximity to Europe, Asia-Pacific and the Middle East make it a prime contender to be the next outsourcing hotspot. But how does Egypt compare to the leading and established offshore destinations (e.g., India) as well as to the nascent regions (e.g., China) (see Exhibit 2)?

Exhibit 2.

Strong Parallels Between Egypt, India and China

Source: The World Bank, United Nations Statistics Division, MCIT, TRAI and Yankee Group, 2007



Egypt vs. India

There are striking similarities between Egypt and India; each has high levels of poverty, large rural populations and high illiteracy rates (particularly among women). The comparisons do not stop there; in both countries, services contribute significantly to the gross domestic product (GDP).

Both Egypt and India allow high levels of foreign ownership of ICT companies. The allowed foreign ownership level in India is 75%, while in Egypt there is no limit. In both countries, this will have a positive effect on GDP.

Both Egypt and India are demographically similar; the average age is 23-years old in India and 24-years old in Egypt. This indicates that the workforce in both countries is very young and trainable.

Although India is far ahead of Egypt in terms of the development of IT service outsourcing, the basic indicators suggest that Egypt's ICT infrastructure is far ahead of India's ICT infrastructure. The penetration of both internet users and telephone subscribers in Egypt is three times higher than in India. Egypt will need to use this significant advantage to accelerate its development in the IT services market.

India is also grappling with several thorny labor and workforce issues. For example, the Indian market infamously suffers from serious attrition, which can range from 20% to as high as 50% per capita in some companies. Another problem for India is maintaining an adequate supply of skilled workers in the labor pipeline. Although Indian universities and technical schools graduate an average of 400,000 engineering and computer science students each year, the National Association of Software and Service Companies (NASSCOM, India's influential trade body) has predicted a shortfall of some 500,000 IT workers by 2010. Many of India's graduates are not adequately trained, lacking work experience and skills such as project management or the ability to work independently. In addition, India faces the labor challenge of rising wages, with wage inflation for IT workers increasing at a rate of about 10% to 15% yearly.

Adding to the workforce challenges are the many infrastructure woes plaguing India. Poorly planned roads in the leading outsourcing centers, including Mumbai, Bangalore, Hyderabad, Chennai and New Delhi, are choked with slow-moving traffic as cars and buses compete with three-wheeled cabs and even the occasional cow- or horse-drawn carriage.

Egypt can learn from some of the steps India is taking to fix these market growth obstacles. For example, Bangalore is building a public transportation system in the form of a subway and better bus routes, which is in addition to a new highway that will bring traffic out of the inner streets and into the office buildings and outsourcing campuses in the Electronics City section of the city. Indian universities have started to form partnerships with American universities to expand their capacity for instruction and knowledge.

The Indian providers are also moving well beyond the relatively simple IT application work and transaction processes of BPO, as they expand their consultancies and start to take on sophisticated R&D work. The Indian providers are also expanding their global footprints, with Infosys opening centers in Eastern Europe and China and Wipro purchasing American and European companies to gain a boost in other markets.

Although Egyptian companies will have to play catch-up to the nimble Indian providers and will have to fix several infrastructure and other issues to attract multinational corporations (MNCs), the country does enjoy some advantages over India. Some of Egypt's advantages include:

- Egypt's multilingual workforce is very appealing to European companies. As wage inflation hits Eastern European cities such as Prague, Egypt becomes a lower cost location. By contrast, English speakers dominate India's workforce.
- Egypt shares a time zone with many European regions, making doing business easier. Egypt is a potential nearshore outsourcing location that could rival Eastern Europe.
- Because of its longstanding tourism industry and familiarity with Western culture, Egypt's workforce and young people make a good fit with European companies.

Egypt vs. China

China is fast gaining strength in the ITO market and, relatively recently, in the BPO market as well. China's IT market grew at close to 50% CAGR in 2004 and has since continued to grow.

The push to outsource in China began when the Chinese government started to market the country heavily as an outsourcing destination. Major MNCs such as Microsoft and GE built centers in China instead of building their in-house IT and BPO capabilities, and began to look to outsource to a nearshore location with Chinese-language capabilities.

Thus far, much of the ITO and BPO demand in China is domestic, meaning it is coming from companies with branch offices in China and is not shipped in from other regions. But China has hopes to make a strong play for nondomestic outsourcing dollars, and has its eye on rivaling India as well. It can beat India on some fronts, including wages: In China, wages are as much as 40% to 50% less than India's wages. China currently graduates about 50,000 engineering and computer science graduates yearly, and expects that number to greatly increase in the coming years.

China has some advantages over other regions, including Egypt, as it seeks to grab a piece of the outsourcing market:

- **Low costs:** China currently has extremely low real estate and power costs compared to other offshoring destinations. Costs are not as low in Egypt.
- **Infrastructure:** China's infrastructure is relatively good in the major IT service centers of Beijing and Shanghai, and it is improving in other parts of the country as well. In addition, China's telecommunications infrastructure is relatively robust. Infrastructure is a serious problem for both India and Egypt.
- **Government policies:** The Chinese government has managed its economy with an eye toward growth. In addition, the totalitarian government can simply order a road to be built if needed, for instance, with no delays because of permitting needs. Although the Egyptian government is taking steps to attract the outsourcing industry to its shores, it is unlikely it can move quite as quickly to make improvements and remove roadblocks.

But there are many obstacles holding back the Chinese outsourcing market as well, including:

- **ICT ownership:** Although the Chinese government is raising the ownership percentage in ICT companies to 49% (up from 35%) at the end of 2007, a foreign investor will need to provide a minimum of \$250 million in equity. These rules are more to protect Chinese telecom operators from foreign investors than to open the ICT market. This is likely to have a negative effect on the development of Chinese ICT market.
- **Security:** China has infamous and rampant intellectual property theft. According to the Business Software Alliance (a software industry trade and lobbying group), some 90% of software in China is stolen.
- **Language barriers:** China has neither the excellent English language proficiencies of India nor the multilingual capabilities of Egypt.
- **Cultural dissonance:** China does not have the familiarity and comfort with Western culture and mores that Egypt does.
- **Lack of strong domestic contenders:** Unlike in India, where Indian service providers such as Tata, Infosys and Wipro have evolved into international powerhouses as well as leading Indian companies, China currently does not have any China-based companies with anywhere near the capabilities or status of the Indian providers. Egypt is in better shape with more domestic contenders than China.

III. Foreign Direct Investment in Egypt

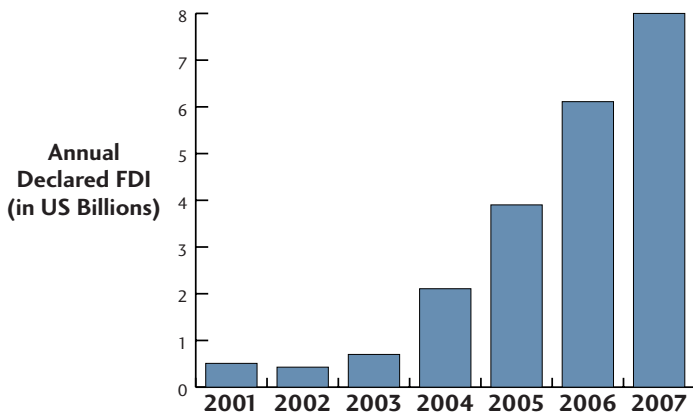
Foreign direct investment (FDI), along with growth in international trade and capital flows, is a measure of MNCs' cross-border transactions and investments.

FDI flows into Egypt have grown at a compound annual growth rate (CAGR) of 64% per annum between financial year (FY) 2000/2001 and FY 2005/2006 (the Egyptian government's FY runs from July until the next June). In FY 2005/2006, FDI inflows into Egypt reached a record \$6.1 billion (see Exhibit 3). The rise since FY 2003/2004 is even more remarkable; FDI inflows nearly tripled during that period, growing at a CAGR of 70% per annum. Before FY 2003/2004, more than 70% of inward investment focused on the petroleum sector.

Exhibit 3.

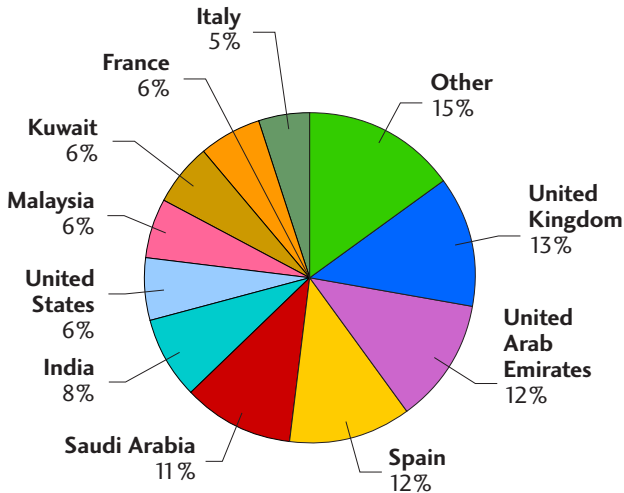
Feeding the Fire

Source: MCIT, MIPO and Yankee Group, 2007



Note: Years indicate financial years. The Egyptian government's financial year runs from July until the next June.

Announced FDI Projects in 2005



According to the General Authority for Investment and Free Zones (GAFI), in FY 2005/2006, the petroleum sector attracted only 30% of inward FDI. Construction, banking, real estate and other sectors attracted the majority of investment. According to GAFI, nonpetroleum investments rose 214% between FY 2004/2005 and FY 2005/2006, reaching \$4.3 billion. The majority of these investments (78%) focused on establishing new companies and increasing company capital. This is an encouraging sign for Egypt because it indicates that it is attracting greenfield investment as well as companies established before 2005/2006.

Who Is Investing

Until FY 2003/2004, Egypt was heavily dependent on FDI from the United States and the European Union. For example, in FY 2002/2003, US FDI accounted for 77% of all of Egypt's inward FDI.

Exhibit 3 also illustrates a different set of investors are now attracted to invest in Egypt. According to data collated by the Mediterranean Investment Project Observatory (MIPO), the largest group of newly announced investment projects comes from Gulf Cooperation Council (GCC) countries (Kuwait, Saudi Arabia and United Arab Emirates); these investment projects account for 29.4% of all of Egypt's projects by value, followed by the European Union (28.9%).

The main thrust of the GCC investment is the real estate and construction sectors. In FY 2005/2006, real estate accounted for less than 0.5% of Egypt's received FDI. This sector contains some mega long-term projects, totaling more than \$50 billion. Projects include:

- Al-Futtaim Group (United Arab Emirates) made a \$3.5 billion investment in Cairo Festival City.
- M.A. Kharafi Group (Kuwait) made \$3 billion in investments, including a build-operate-transfer (BOT) deal for the Marsa Alam International Airport and resort community on Egypt's Red Sea coast (250 km south of Hurghada).
- Kuwait and Gulf Link Port International made a \$1 billion investment to build a major container terminal at Damietta (first phase will be ready in 2Q08). The agreement includes a 40-year concession for operation.
- DAMAC (Dubai) is looking to invest \$15 billion in the Gamsha Bay development (near Hurghada on Egypt's Red Sea coast).
- In August 2006, four Gulf-based investment houses signed an agreement to establish a \$1 billion holding company in Egypt. The jointly owned holding company will focus on developing a number of build-own-operate-transfer (BOOT) transportation projects valued at \$30 billion.

Asian investors are also attracted to Egypt, particularly Chinese, Indian and Malaysian companies. These investments are either in mineral extraction or in basic industries such as fertilizer production. Examples of recently announced investments include:

- In September 2006, CITIC Group (China's largest company) signed an \$800 million deal to construct an aluminum smelter.
- China National Chemical Engineering Corporation (CNCEC) is partnering with Kuwait's M.A. Kharafi Group to establish a \$700 million chemicals and petrochemicals manufacturing complex in Fayoum.
- In November 2005, the Indo-Egyptian Fertilizer Company Ltd (a joint venture between Indian Farmers Fertilizer Co-operative [IFCO] and the Egyptian state-owned El Nasr Mining) announced its intention to construct a phosphoric acid plant in Egypt's Aswan Governorate at an estimated cost of \$325 million.
- PETRONAS (Malaysia) along with its partner BG Egypt signed a new concession agreement. It will invest \$80 million in exploration in Sidi Kerir Deep Offshore Concession Area.

Although the examples given are predominantly in basic industries, Chinese and Indian investors are also investing in textile and garment manufacturing in Egypt.

Egypt is maintaining the momentum of inward FDI, with flows from the first half of 2006 to 2007 increasing to \$7 billion, and the Egyptian government forecasts flows by year-end to reach \$8 billion or increase by 31%.

Egypt has made huge strides in weaning itself off petroleum sector FDI into investment in other sectors. Unfortunately, significant amounts of future FDI are focusing on the real estate and construction sectors. This does not address the areas that Egypt needs to focus on, such as promoting investment in infrastructure (including education, roads, rail and sanitation). These types of investments are the prerequisites to enable Egypt to compete with other outsourcing destinations; they will enable the IT outsourcing industry to spread to other cities of Egypt such as Alexandria.

IV. The Egyptian Business Environment

Egypt's relative familiarity with Western culture and business values makes it a viable location for outsourcing growth.

However, success in this market will depend—at least in part—on overcoming some perception problems, especially in the North American market. Although US-based companies have grown increasingly comfortable with outsourcing and offshoring (often more so than European-based companies, where labor laws are stronger and controversies about offshoring can be more intense), they still hesitate to send their work—especially the highly sensitive data inherent in BPO work—to untested offshore locations. BPO, which includes human resources (HR) data and finance and accounting work, is something many North American companies still want done in nearshore locations—or at least in a company with a nearshore presence as part of its global delivery network.

Two of the biggest multinational service providers, IBM and Accenture, say they currently do not see Egypt as part of their BPO delivery networks because they are not seeing a need for such from their customers.

Whether fair or not, many North Americans view Egypt as being part of a region that is beset by geopolitical instability. In an article in *IT Week* in the United Kingdom, for instance, an Xceed executive told of a potential US client who asked if one can hear the bombing in Iraq while in Egypt.

However, Egypt has a much better shot at building momentum with European-based companies. And it is taking steps to remove other impediments to growth as well.

Reforms of the labor laws in 2003 created a very powerful, flexible workforce and removed many of the previous impediments to recruiting staff in Egypt. Reforms have focused on creating a balance between employees' and employers' rights. Specifically, the reforms address areas such as the right of an employer to fire an employee and the conditions pertaining to this, and also grant employees the right to carry out a peaceful strike according to controls and procedures.

One of the biggest worries facing investors in an emerging market such as Egypt or China is the protection of intellectual property. In Egypt, intellectual property protection was introduced in 2002 under Law 82, indicating the Egyptian government's commitment to protecting investors' intellectual property.

In December 2004, the Egyptian government amended the investment Law 8 of 1997 by introducing Law 14/04. This made the General Authority for Investment and Free Zones (GAFI) the sole authority to which investors have to turn to have their proposed projects approved, making it a one-stop shop. The one-stop shop encompasses delegates from different governmental agencies under a single roof.

GAFI's one-stop shop has streamlined the number of procedures and has simplified the investment law. For example, it has profoundly reduced the time necessary to establish a new company from 4 months to a maximum of 3 days. However, reducing the time to establish a new company was just one of six steps: registration, tax card, industrial project approval, building permit, industrial registration and operating license. Previously, the International Finance Corporation (IFC, the private sector arm of the World Bank Group) says the whole process took 277 days; now it's 135 days and four steps. Soon it will be only 45 days and three steps: pre-approval and land assignment, final approval and building permits, and industrial registration and operation licensing.

Since 2004, the Egyptian government has worked hard to increase the attractiveness of Egypt's business environment. This includes the introduction of an anti-trust law and a unified tax law. The latter increased the transparency of the Egyptian tax system and reduced corporate and personal taxes by half.

Within the ICT sector, the Egyptian government also offers incentives to attract international companies to set up call/service center and BPO-type operations in Egypt. These incentives include the Egyptian government (via the Ministry of Communications and Information Technology [MCIT]) paying for the training of staff to bring them up to the required standard to deal with the clients from the multinational companies they support. Orange Business Services is an example of a company that established a major service center that has received support in training its resources.

Egyptian Government Initiatives

To compete with China, India and other outsourcing destinations, Egypt needs to create a pipeline of highly skilled and trained, business-savvy graduates who will enable the country to compete successfully against the outsourcing giants.

The MCIT has a number of initiatives in partnership with the United Nations Development Programme (UNDP) under the banner of the ICT Trust Fund. These initiatives are backed by some of the global players in the ICT market, including:

- **Egyptian Education Initiative (EEI):** The EEI is looking to use ICT as a vehicle to improve education throughout the country via a public-private partnership model. It aims to benefit trade and industry by improving the standards of information and communications technology in the country's schools and colleges through partnerships with private firms. CA, Cisco, HP, IBM, Intel, Microsoft, Oracle and Siemens each signed a letter of intent supporting the initiative. Phase 1 targets 820,000 students at more than 300 colleges.
- **E-Learning Competence Center (ELCC):** The ELCC was established in 2004 as a partnership between the MCIT and the Cisco Academy Program, a nonprofit arm of Cisco. ELCC is focusing on delivering e-learning to universities and public and private (particularly SMEs) sector companies. Microsoft and Oracle have already signed agreements with ELCC.
- **Illiteracy Eradication Initiative (IEI):** The IEI is looking to create easily accessible digital media (accessible via CDs or the internet) to teach written Arabic (both words and characters) and basic mathematics. The aim is to make this digital media available at Egypt's numerous IT clubs. The ICT Trust Fund has partnered with the National Council for Women, several nongovernmental organizations and the General Authority for Literacy and Adult Education (GALAE) for this project.
- **Mobile IT Club:** The ICT Trust Fund kicked off its Mobile IT Club project initiative to serve communities in remote and rural areas in October 2005. The Mobile IT Club is a bus or a caravan equipped with a generator, air conditioning and satellite internet access, plus digital cameras, printers and a scanner. On average, the mobile units can accommodate 10 to 15 visitors at a time and are accommodating between 40 and 150 visitors per day, depending on whether the unit is a bus or caravan.

The MCIT is implementing the National Telecommunications and Information Technology Strategic Plan aimed at building a strong IT industry in Egypt. This includes a number of initiatives focusing on developing the necessary high-quality human capital needed to drive the IT industry forward.

Key to this plan was the establishment of the Nile University (NU), which opened in early 2007. NU is focusing on applied IT research, looking to create solutions to industry challenges via strong linkages between the university and industry. NU has three main centers specializing in research and development (R&D), entrepreneurship and incubators, and innovation and intellectual property. These centers act as catalysts to drive and harness the technological capabilities of local industry, thereby improving Egypt's international competitiveness.

In addition, the Egyptian government is constructing "smart villages"/technology parks as part of its efforts to entice ICT companies, targeting the Middle East market, to base their operations in Egypt. The first smart village was constructed outside Cairo.

Although Egypt is competing with other established centers of outsourcing such as India and China, the Egyptian government is setting up a number of intercountry initiatives. These cover education, assistance in building ICT workforce capacity and knowledge exchange.

Examples of these initiatives include pacts signed by the Information Technology Institute (ITI) of Cairo with NIIT (Asia's largest IT trainer) in November 2006. NIIT will provide IT education programs to assist in building a pipeline of skilled ICT professionals. In September 2006, Cairo University signed a letter of intent with a Chinese educational delegation to set up a Confucius Institute to promote Chinese language and culture.

Most of the initiatives focus on creating the basic knowledge platform that will sustain the technology graduate pipeline supplying the IT sector. Yankee Group sees the important part as the specialist centers established within the Nile University to nurture R&D, incubators and innovation; these centers should lead to a sustainable IT industry.

However, what appears to be missing is the ability to teach business or IT process development, in which Egypt has no history. These skills should come from the links with NIIT and the Indian government, but the Egyptian government should not be overly reliant on external sources to assist with its IT capacity-building initiatives.

There is a dangerous overreliance of the Egyptian government to develop initiatives. The Egyptian government must ensure that bureaucracy and red tape do not strangle these initiatives. Therefore, it is imperative for the Egyptian government to encourage increasing levels of private sector involvement, which is one area where India is extremely successful.

V. OBS Service Center: A Case Study

The following case study illustrates how the Egyptian government has supported an investment by a global ICT player, Orange Business Services (OBS). In May 2006, France Telecom rebranded its business communication service units to OBS. The OBS brand encompasses the former France Telecom, Equant and Orange business services, plus a tighter integration of fixed and mobile services.

OBS established the downtown Cairo major service center (MSC) in 2005. Both Equant and SITA, OBS's predecessors, had offices in Cairo for a number of years. OBS uses the downtown location (readily accessible to all potential recruits because it is close to the main residential areas of Cairo) of the MCS to differentiate itself from other service centers located in Cairo and to attract staff. Other service centers are located in the smart village, which is located on the outskirts of Cairo near Sixth of October City and is underserved by public transport.

Before establishing the MCS, the Egyptian government offered OBS a number of incentives. These covered areas such as corporation tax holiday, reduction of international circuit charges, relocation from downtown Cairo to the smart village and reduced cost of staff training.

The MCS is the largest service center OBS operates globally; its physical security meets the toughest standards required by OBS's global clients. It operates 24x7 and has a highly resilient network architecture. It provides all technical functions for OBS's global multinational clients, including:

- Problem management
- Service delivery
- Service desk
- Incident management
- Change and release management
- Configuration and data integrity

The MCS also develops new services for OBS in incubators. Here the service support, configuration and implementation processes are developed. When customer adoption reaches critical mass, there is knowledge transfer to the mainstream support teams.

The MCS currently employs more than 1,000 highly qualified and highly trained staff. All staff has both technical networking and linguistic skills. Of the 18 languages supported by the MCS, the largest support teams are for Arabic, English, French, German, Italian and Spanish languages. Only small teams support other languages such as Japanese, providing cover during Japanese business hours. More than 50% of staff has two technical certifications such as Cisco, IBM or Microsoft, which staff normally obtains via the internal training program.

Staff is recruited based on quality (identified from an entrance exam) and aptitude to learn, and an external third party assesses all linguistic skills. The same third parties also provide language training. For example, the British Council for English Language Teaching is used to assess and teach English language skills.

In the past year, OBS executives say that the talent pool has come under pressure because of Egypt's success in attracting global IT companies (e.g., Oracle) and the letting of third mobile license as all these players are looking to recruit the same people. This has led to higher levels of attrition because of competition between these companies for the limited talent pool.

The Cairo MSC is continually working to emphasize that it is the best quality option in terms of customer service and technical support. It is reorganizing its operations on an IT infrastructure library (ITIL) basis into three areas: service creation, product design and network engineering. In addition, the MSC is looking to reduce waste and increase efficiency by adopting quality processes such as Six Sigma and Lean Sigma.

VI. The Future of Outsourcing in Egypt

The Egyptian IT industry is between 15 and 20 years behind India in its development cycle and its outsourcing IT services. However, there is growing interest from Middle Eastern countries in outsourcing BPO to Egypt instead of India or Europe; this is particularly the case in the Gulf countries.

Indian companies even acknowledge that the skill base of Egyptian IT engineers meets the technical standards demanded by their Indian counterparts. Furthermore, Egyptian IT engineers are multilingual. This gives them an advantage over India, because India has primarily English speakers. The lack of multilingual capabilities in India makes it difficult for the EU countries to send some outsourcing work to India, which could make Egypt look appealing.

So, Egypt is off to a good start. However, there are structural problems in need of urgent attention before Egypt can leverage the progress it has made to date or before it can be a top five location for IT outsourcing during the next 5 to 10 years.

What Egypt Needs to Maintain Momentum

The Egyptian pitch is currently too focused on Cairo, which is one of the most polluted cities in Africa. Like Los Angeles, Cairo has its own smog problem, but Cairo also suffers from infrastructure problems such as a half-completed Ring Road. Although, the smart village outside Cairo has state-of-the-art infrastructure and has attracted a number of global IT players, it is only one location, whereas India offers at least six or seven different locations.

Therefore, the Egyptian government needs to replicate the ICT infrastructure of the smart village in other parts of the Egypt. To do so, the Egyptian government needs to tackle the following:

- **Quality of life:** When compared with the quality of life in the Gulf states, the quality of life in Egypt is significantly lower. Therefore, to attract foreign nationals to come and live in Egypt and work in the developing IT industry, the government needs to demonstrate that the quality of life in Egypt is on a par with Kuwait City, Saudi Arabia or Dubai. This includes convincing foreign nationals that they are safe walking along Egyptian streets.
- **Development of road and rail infrastructure:** According Egyptian government statistics, only 78% of roads in Egypt, are paved (2003 figure). Most main roads are adequate; however, local routes tend to be in a poor state of repair. A number of major routes are incomplete (e.g., the Cairo Ring Road). The Egyptian government has estimated it needs to spend \$1.7 billion on major road construction and expansion projects (including \$258.0 million on the completion of the Cairo Ring Road). Cairo also suffers from heavy congestion on its road, which prioritization of the third Cairo metro line (the Egyptian government has estimated the cost of phases 1 and 2 at more than \$1 billion) may ease.

Egypt's railways have suffered from long-time neglect and under-investment for the last 50 years. According to the Egyptian government, only 47% of the railways' locomotives are serviceable, and only 15% of the rail network is electrified. The number of fatalities also illustrate the dangerous state of the Egyptian railways; in the last decade, more than 500 people have died in accidents on the Egyptian railways. All this adds up to a dire need of investment required in the Egyptian rail infrastructure. The Egyptian government plans to invest more than \$2 billion on the rail infrastructure.

Prioritizing investment in the road and rail infrastructure will not only assist internal transportation, but it will also make life easier for the outsourcing industry. However, the Egyptian government must exploit private financing methods such as build, operate, transfer (BOT) if it is going to meet its ambitious targets.

- **Data and building security:** There are some concerns about terrorism and geopolitical stability in the region. For companies considering sending sensitive work such as BPO, convincing them that their data would be protected is extremely important. Of course, there are concerns about sending BPO work and even ITO work to India because of data and other security concerns as well. For instance, in 2005, four former workers of outsourcing provider Mphasis BFL Group were arrested for stealing more than \$426,000 from Citibank customers. However, this and other security lapses have led Indian companies to enact stringent security measures such as closed-circuit cameras watching employees and data-masking technology. Egypt would do well to tackle the reality of data and building security needs, as well as the perception problems that exist in some parts of the West.
- **The education system:** Ensuring an adequate educational system that will turn out well-trained employees—at a high rate—should be a paramount concern for the Egyptian government and business groups. If the outsourcing market continues to grow, pressure will build on companies to hire faster. In addition, the labor market will tighten, wages will go up and attrition will rise—just as has happened in India. Broadening educational access and ensuring high quality will help Egyptians by raising the standard of living and will provide an adequate worker pipeline for outsourcing service providers.

Egypt in 5 Years: Two Possible Scenarios

A broad range of factors will come into play in Egypt's development as an outsourcing locale, but one test of Egypt's ambitions is its ability to learn from the mistakes made by the Indian IT outsourcing market during its development. Yankee Group believes that there are two main paths by which Egypt can develop in the IT outsourcing market:

- **Learning from Indian mistakes:** Egypt has similar challenges in workforce creation and infrastructure to those of India. But if Egypt keeps in mind the spectacle of India wrestling with these problems *after* its outsourcing market exploded, and attempts to rectify these problems as it builds its market *before* the market takes off, it could succeed. And it could essentially succeed at a faster rate, potentially leapfrogging India in some areas. By focusing on its infrastructure woes, educational system and security issues, Egypt could become a significant player in the outsourcing world.
- **Not heeding the lessons learned in India.** Egypt's pool of technical graduates is starting to come under pressure because of the success of the Egyptian government in attracting global IT players. Staff attrition rates are rising as the talent pool cannot meet demand. This is the start of the upward spiral of rising staff and business costs. Poor planning in India means electricity and water supplies are inadequate, there are road construction delays and badly designed roads create traffic snarls and hours-long commutes. If Egypt fails to heed the lessons learned in India, it will be the end of any opportunity Egypt had of threatening India's dominance.

Based on its current efforts and plans, Egypt appears on track for the first scenario, learning from India's mistakes. However, the Egyptian government needs to continue to focus on its primary goal and to learn the lessons from countries with more developed IT service industries.

VII. Conclusions and Recommendations

The Egyptian pitch has a number of positives. For example, the Egyptian population is a young population, and the technical graduates produced by the universities are high quality and take to foreign languages easily. The country also has a central location equidistant from Europe and Asia.

However, there are concerns about security (data and physical), the standard of living and the ability of the industry to undertake process development (an integral part of the Indian skill set). With the locations for establishing ICT companies restricted to Cairo and the smart village, this will lead to competition between the companies located there for the limited talent pool. It would be advantageous for the Egyptian government to accelerate the pipeline of technical graduates and to develop an alternative center to Cairo for locating ICT companies. Otherwise, rising levels of competition and staff attrition will unravel all the progress made to date.

Egypt has a number of the required ingredients in place to become a major hub for IT outsourcing in the Middle East. The government just needs to steer the development of the ICT industry cautiously through the next 5 years.

Recommendations for the Egyptian Government

Egypt is well on its way to establishing itself as an important player in the IT outsourcing market. But it needs to take some steps to facilitate its ascendance in this market:

- **Invest in local infrastructure.** Taking on the expensive, but necessary task of improving roads, airports and telecommunications will make Egypt a more appealing place to do business. It is imperative that the Egyptian government makes these areas the highest priority in its investment strategy.
- **Promote technical education.** The educational system must be geared toward the needs of service providers expanding into Egypt. The Egyptian government needs to accelerate the production of high-quality technical graduates to meet the growing demands.
- **Encourage companies to obtain appropriate training and certification.** As the Indian companies have done, Egyptian service providers need to focus on attaining competencies in measurements such as the Capability Maturity Model (CMM), a method of assessing the quality of the work of software developers, as well as quality improvement methods such as Six Sigma.
- **Develop an alternative location for ICT companies in Alexandria.** The single location for the ICT industry is starting to unravel, as indicated by rising levels of staff attrition. Alexandria has good transport infrastructure, cheaper real estate than Cairo and an educational system that produces high-quality graduates.
- **Focus on the BPO Middle East market initially.** The Egyptian government needs to build a track record to convince potential European and North American companies that Egypt is the right place to which to outsource IT services. With growing interest in outsourcing IT services from the GCC states to Egypt, the country needs to exploit this trend so that it can leverage this with potential European and North American customers.

VIII. Further Reading

Yankee Group Link Research

[Corporations Opt for Blended Outsourcing and Local BPO Implementations](#), Report, January 2007

[Understanding Outsourcing Opportunities in Eastern Europe](#), Report, December 2006

[Indian BPO Vendors Battle to Grow Their Share of the Market](#), Report, August 2006

[OVERVIEW: Emerging Business Process Outsourcing Trends](#), Note, July 2006

[Global Business Process Outsourcing Market Still Booming; 10% Growth Forecasted in Next 3 Years](#), Report, April 2006

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