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CURRENT POSITION OF EGYPT'S OUTSOURCING SECTOR

To date Egypt has had some minor success in attracting enterprises and third party providers to set up contact and technical support centers in Egypt. Some major names, such as Oracle, Orange and Microsoft have set up captive operations in Cairo and the major technology companies such as IBM and HP have had a presence there for many years.

However, in terms of global sourcing Egypt has remained largely under the radar up until relatively recently – but the country's industry body ITIDA (Information Technology Industry Development Agency) is hoping to turn the country into a major destination for IT and BPO services, through its "EgyptOn" programme. Tellingly, the organization is working with management consultancy McKinsey, which has been heavily involved in the success of Nasscom in India.

ITIDA has ambitious targets; for example, it is aiming to make Egypt a top five destination for outsourcing by 2017. As an industry, outsourcing has grown rapidly over the last three years, though from a low base, and currently has approximately 13,000 people working in the export IT and BPO services market. ITIDA claims that Egypt will have a talent surplus for at least the next five years to sustain its current growth rate of 30% to 40% a year.

Competitive snapshot of BPO and IT services in Egypt

Multinationals with captive operations in Egypt

There are a number of captive operations in Egypt to date, including:

- Mobile phone network operator **Vodafone** has 800 contact center agents in Cairo serving the domestic, UK, Australian and New Zealand markets.
- **Microsoft** outsources 500 contact center seats for product activation supporting English, French, German, Spanish, Portuguese, Hebrew, Greek and Arabic, and has a small "innovation lab" which specializes in prototype development and applied research. Xbox game console technical support is done from Egypt.
- Mobile network operator **Orange** employs 1,600 technical support staff, and is planning an R&D center as well as considering expansion into Alexandria.
- Network technology provider **Alcatel-Lucent** has 300 technical support staff in Cairo.
- **Oracle** has 500 employees which provide technical support to customers across 140 countries in multiple languages.

Outsourcing providers currently in Egypt

Egypt has attracted a number of IT service and BPO operations in recent years, including:

- **IBM** has set up a global resource center in Egypt, with 500 staff. Services provided at this facility include application development;
- **EDS** (now owned by HP) has been in Egypt since 1999 and has set up an application development and support center in Cairo;

- Local contact center outsourcing provider **Xceed** has 1,900 employees in Cairo supporting customers across Europe, the US, Canada and the Gulf
- **Satyam** opened a center in Cairo in July 2007, from where it does some application development work
- **Wipro** gained a presence in Egypt with the acquisition of development center New Logic. Currently it has around 40 employees, but has plans to expand to 300.

Currently most foreign companies locating IT and BPO positions in Egypt use Cairo, or more specifically, a technology business park called “Smart Village”, on the edge of the city. It will have capacity for 80,000 employees when all building work on the site’s three million square meters is completed. Currently around 20,000 workers are based there, from approximately 100 countries.

Another business park, designed for BPO and ITO delivery, is currently being built in downtown Cairo. Maadi Park will have capacity for 45,000 employees in over 40 buildings in two million square meters. Operations are expected to begin there later this year, with completion scheduled for 2012.

As well as expanding capacity, Maadi Park offers a more convenient location, being closer to central Cairo and having better transport links – it will be near the city’s metro network.

EGYPTIAN COST ANALYSIS

Low labor costs, competitive business costs

One of the key reasons for considering Egypt as an offshore outsourcing delivery site relates to its low costs – salaries, real estate and telecommunications are extremely competitive with other global sourcing locations. ITIDA claims that on a fully loaded basis for voice-based contact center work, the operating cost per FTE is even lower than India and the Philippines due to low cost employees, government subsidized telecommunications, and cheap infrastructure. Among other outsourcing locations in the same category, only Vietnam is considered cheaper. Further, the average salary of IT programmers is, at under \$16,000 per year, slightly higher than India, but substantially lower than competitors in Eastern Europe.

ITIDA estimates that the fully loaded costs of a contact center FTE in Egypt are approximately 5% lower than India, with the higher levels of sales, general and administrative costs and taxes offset by the lower cost of infrastructure, telecom and IT, and personnel.

Attrition, a major source of anxiety in the BPO sector globally, is currently lower than many competing destinations. This is due to the fact that Egypt currently is a nascent outsourcing market and has a high rate of unemployment – officially 10.5% - which rises to 17.5% among its graduate population.

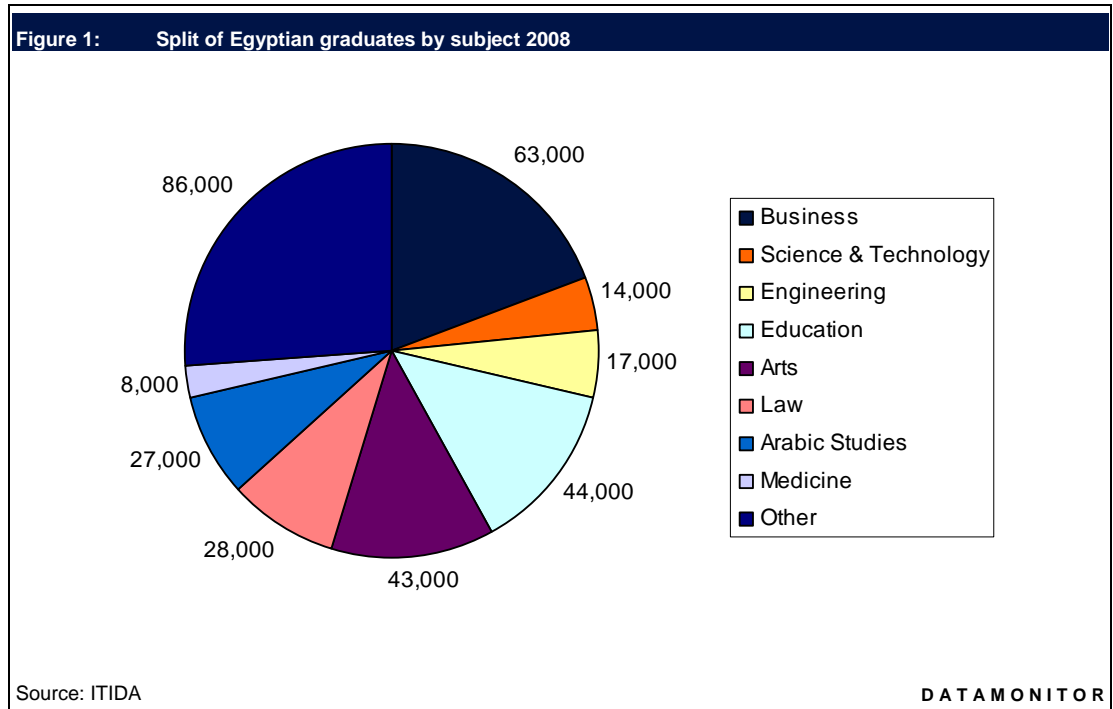
However, there are other concerns related to business costs in Egypt, which include:

- **Inflation:** Inflation exceeded 23% at one point last summer and, though it is expected to fall to single-digit levels this year, it is still high compared to rival destinations. This eats away at the cost advantage Egypt has over some countries, and could end up acting as an inhibitor to investment.
- **Currency:** The Egyptian pound is linked to the US dollar, and as such has not benefited from the high levels of depreciation other exporting countries have enjoyed. If this policy is maintained and the dollar increases in strength then Egypt's competitive advantage will be eroded.

EGYPTIAN EDUCATION OVERVIEW

Egypt creates 330,000 graduates every year, of which up to nearly 10% are considered suitable and willing for positions in the BPO and ITO industries.

Currently ITIDA claims that among Egyptian graduates 63,000 studied business and commerce, 14,000 were enrolled in science and technology, while 17,000 completed courses in engineering



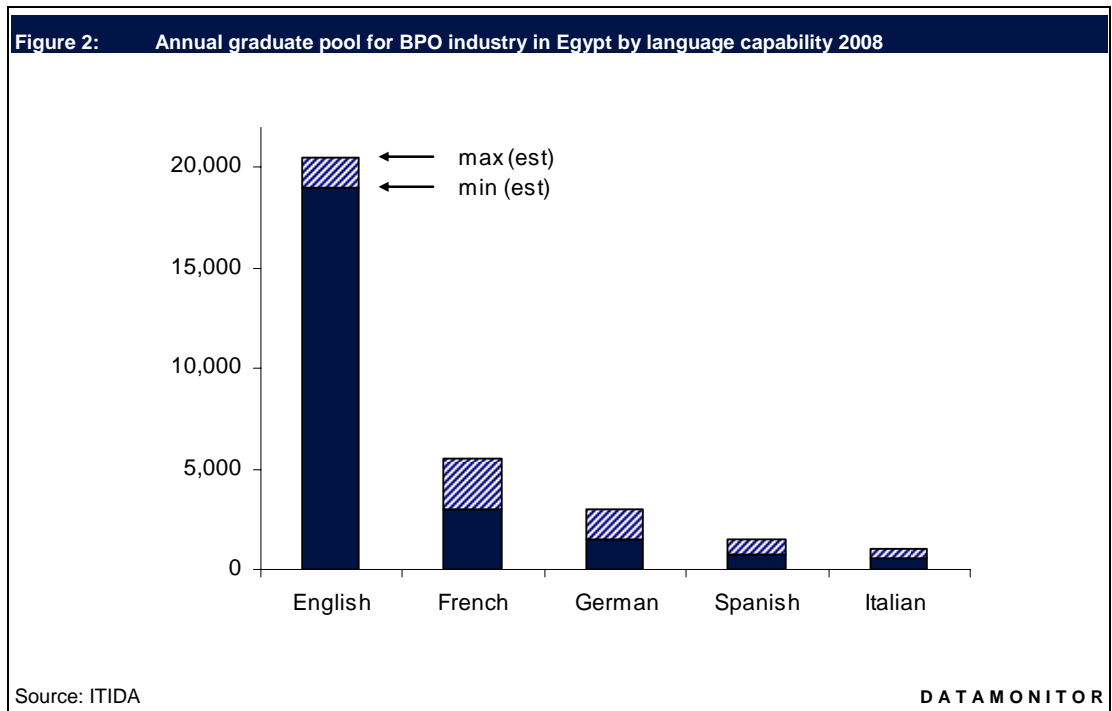
Egypt has a high rate of unemployment at around 10%, but this rises to 17.5% for graduates, indicating a high availability of labor. Even if the IT and BPO industries in Egypt continue to grow at the rapid rate they have done over the past few years, supply will continue to outstrip demand in the short to mid-term.

ITIDA is currently running an education program called EduEgypt, which involves liaising with universities and integrating training initiatives to ensure that students are ready for BPO and ITO employers straight after graduating. 5,000 students are currently enrolled in the "University intervention for BPO", which ITIDA plans to scale up to 20,000 a year, and 700 students are enrolled in the IT equivalent. It also has "finishing schools" which will be rolled out at the end of 2009 and will offer graduates and those just starting employment which it plans to scale up to 20,000 places by 2012.

Language capabilities in Egypt

Of the 31,500 potential graduate employees, up to 20,500 are considered suitable for English speaking roles, and up to 5,500 for French speaking roles. Datamonitor observed that the quality of spoken English at a number of contact centers visited in Cairo was very high. This is also illustrated by multinationals such as Microsoft, Oracle and Vodafone, which have all located technical support work for multiple languages in Egypt.

It is also easy to hire French-speaking graduates at a competitive cost, and many other language capabilities are available. While there are approximately two thousand German speaking graduates, they are more often from technical disciplines and are more difficult to hire for contact center or BPO work, and therefore more expensive.



INFRASTRUCTURE

While the telecommunications infrastructure is poor in many parts of Egypt, the business parks that are encouraging enterprises to locate in that country are well served in terms of redundancy of power and telecommunications provision.

Telecommunications

Up until relatively recently, telecommunications has been expensive in Egypt, but a combination of government subsidies and the completion of the submarine cable linking Europe and Singapore has changed this. Data connection costs for a 2Mbit leased line to the US is lower than for India and Philippines.

Transport

While there are plans to build business parks in other cities in Egypt, currently nearly all ITO and BPO work is located in Cairo's Smart Village. The largest expansion plans are also in Cairo, with the previously-discussed Maadi Park location, which is being developed currently. Traffic in Cairo is a key problem, journey times from central Cairo to the Smart Village can sometimes take longer than an hour, and there is little public transport. The ring road around Cairo is expected to finally be completed this year after long delays, and there are plans to expand the metro system to a third line, but these alone will not significantly decrease the city's transport congestion.

Energy

Electricity costs are very low compared to competing countries, and there are no issues regarding power availability in Cairo's Smart Village business park.

Real Estate

ITIDA estimated that the cost of Egyptian "Class A" real estate in 2008 was around \$150 per square meter, putting it on a par with India. The options of where to locate are limited outside Cairo's Smart Village, and while there are plans to build other parks in other Egyptian cities, these are still in the planning phase.

EGYPTIAN ECONOMIC AND POLITICAL ENVIRONMENT

Economy

Egypt has enjoyed strong economic growth in recent years, with GDP growing by over 7% a year, but the global recession means that 2009 is likely to see GDP grow by less than 4% according to investment analysts. The country's reliance on exports, property, construction and tourism means that living standards are likely to get worse, though this could be said of most countries in 2009.

Inflation in Egypt is a major concern – it shot up in 2008 to reach 23% at one point due to the increased prices for food and energy. While inflation is expected to settle down at around 10% in 2009, this will still eat into Egypt's cost advantage over other outsourcing destinations.

Currency fluctuation is identified as a major concern by multinationals located in Cairo. While competing outsourcing destinations have seen their respective local currencies fall in value against the US dollar and Euro, the Egyptian pound follows the US dollar quite closely.

Red tape

Levels of bureaucracy in terms of getting an outsourcing operation started have been significantly reduced over the last two years. ITIDA handles all matters related to licenses, permits and incentives for incoming BPO and IT investments, and this has speeded to the process up somewhat. However, it is advisable to also engage with the Ministry of Communications and Information Technology as well.

Egypt has reduced the time it takes to set up a company to 15 days from two to three months, in addition to cutting the amount of capital required to do so. Foreign ownership restrictions have also been eased. As an example, the Egyptian government allows 100% ownership of companies and 100% foreign representation on the board of directors.

Egypt's corporation tax rate has been reduced to 20% from 42%. It has also reduced tariffs from an average of 14.6% to 6.2%, and simplified tariff bands from 27 to 6 while streamlining customs procedures.

Security issues

A fatal bomb explosion at a Cairo tourist spot in February 2009 was a stark reminder of the security issues which might affect the country's ability to sell itself as a destination to multinationals. ITIDA has been quick to point out that the number of terrorist incidents in its capital city in the last few years was much lower than in many other major outsourcing destinations and much lower than is perceived by potential customers. Perceptions are all important though, and much work needs to be done, especially in the US where the idea of locating work in the Arab world seems a step too close to current and potential areas of conflict.

Geopolitically, Egypt is in a very sensitive position, being a key ally to the West and mediator in the recent Gaza conflict. It is a stable quasi-democracy - President Mubarak has held power for 28 years, and the ruling National Democratic Party has 68% of seats in the People's Assembly. While the only real opposition, the Muslim Brotherhood, gained considerably in the 2005 elections and holds almost 20% of seats, its chances of gaining power have been neutered by a law which outlaws political parties from being religiously based, forcing them to run as independents.

Corruption

Egypt's rates poorly on Transparency International's Corruption Perception Index. It ranks Egypt 115th in the world (from the least corrupt in 1st place) and is considered more corrupt than all its major rivals bar the Philippines.

Table 1: Corruptions Perception Index 2008 (selected outsourcing destinations)	
Global position (highest = lowest perception of corruption)	Country
45	Czech Republic
58	Poland
70	Romania
72	Mexico
80	Morocco
85	India
115	Egypt
141	Philippines
Source: Transparency International, Corruption Perceptions Index 2008	
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CONCLUSIONS

Excellent language skills at a low cost

Egypt appears to be a quality destination for scalable English language requirements in contact center and technical support work, offering competitive costs and a convenient time zone for Europe – just one hour time difference from central Europe and two hours from the UK.

The high standard of English makes Egypt a strong candidate for outsourcing contact center work from the UK, and those that have multiple language requirements or need customer support for Arab markets.

Strong government support

Egypt's Prime Minister Ahmed Nazif, has a PhD in Computer Engineering and is seen by players in the domestic IT industry as being directly involved in helping with its development. The government has introduced a number of pro-business initiatives, and it is clear that the Egyptian government is determined to pursue the development of the outsourcing industry by giving it strong support. This is highlighted by the fact that during discussions with Datamonitor analysts, the satisfaction levels registered by executives at captives and services providers of the Egyptian government's efforts were very high.

Global recession may stop companies using untried locations

Egypt's ambitions may well suffer most from the global economic crisis, with companies unwilling to locate work at unproven destinations. Last year companies were talking about high attrition and wage inflation in India making them look elsewhere, but the global recession makes the idea of demand outstripping supply unrealistic.

Lack of experience in higher level processes

Egypt's lack of experience in higher level BPO and KPO work and the infancy of its ITO capabilities means that for the moment, it will have to take the route that India took years ago, of slowly building up with small scale projects to demonstrate its potential with major enterprises. This will take time, and for Egypt to reduce its unemployment rate, the government may find it easier to concentrate on more scalable contact center prospects.

Egypt's IT outsourcing capabilities are in their infancy, and as such there is a lack of highly experienced developers and middle management to take charge of complex projects. IBM and EDS have both located application development work there for many years, but few other companies appear to have built much scale in ITO.

APPENDIX

Ask the analyst

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Datamonitor consulting

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have further requirements, Datamonitor's consulting team may be able to help you. For more information about Datamonitor's consulting capabilities, please contact us directly at consulting@datamonitor.com.

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