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Why Egypt is Emerging as a Leading Outsourcing Destination

November 2010

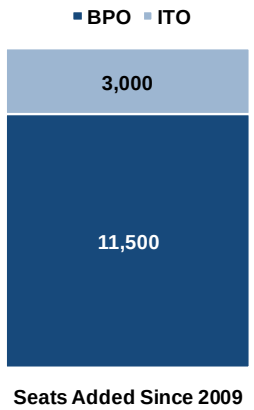
Executive Summary

Egypt is typically thought of as a cradle of civilization that is home to the Nile, the Sphinx and the pyramids. Business leaders should also know Egypt as a cradle of the regional outsourcing industry, which is home to:

- More than 40 global service delivery centers and 20 home grown global delivery centers;
- More than 29,000 direct export-orientated professionals and 27,000 professionals serving the domestic Egyptian market are expected in 2010;
- The largest labor force among Arabic-speaking countries;
- The top-rated sourcing industry workforce in all of Africa and the Arabic-speaking world per the TPI Momentum Outsourcing Viability Index;
- Smart Village, a 3 million square meter technology park built by the Ministry of Communications and IT (MCIT) that is currently home to more than 50 global companies and 28,000 professionals;
- Maadi Park, a state-of-the-art ITO/BPO campus under construction in the center of Cairo that will have more than 40 new buildings and capacity for 35,000 employees;
- Highly competitive multi-lingual labor costs;
- The most viable outsourcing environment in North Africa and the Middle East;
- Strong technology and transportation infrastructure that is improving through public and private investment.

Multinational corporations and outsourcing service providers have added around 15,000 new employees in Egypt since 2009 (see Figure 1 to the right), and IBM, Vodafone, Sykes, Stream Global Services, Oracle, Sutherland, EMC and other companies have all established new centers. These firms join leaders like Alcatel Lucent, HP Enterprise Services (previously known as EDS), Mahindra Satyam, Microsoft, Orange and Wipro who have operated in Egypt for years. Most of Egypt's ITO/BPO activities are centered around Cairo. However, MCIT and the Information Technology Industry Development Agency (ITIDA)[1], have been promoting Alexandria as a second destination in Egypt for services operations. In July 2010, Sutherland Global Services, a provider of technical helpdesk support services, opened its global delivery center in Alexandria.

Figure 1: Service Delivery Seats Added in Egypt Since 2009



[1] ITIDA - A unique PPP entity, responsible for developing the IT industry in Egypt

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There is clear, current momentum for Egypt as an outsourcing destination. The European Outsourcing Association named Egypt the Outsourcing Destination of the Year for 2010. A.T. Kearney ranked Egypt the top global services destination in the entire EMEA region in 2009, and the UK National Outsourcing Association named Egypt its outsourcing destination of the year for 2008. TPI's own Outsourcing Viability Index, an analysis of 115 nations that uses proprietary data and heavily factors each country's domestic market, ranked Egypt as the most viable country for outsourcing in North Africa, and more viable than any Middle Eastern country.

This white paper examines why Egypt is rapidly growing as an outsourcing destination. It provides an overview of outsourcing activity in the country, examines Egypt's fundamentals for supporting service delivery, including infrastructure, workforce, economic, legal and political conditions, presents exclusive data from TPI and other sources that document Egypt's competitiveness as a sourcing destination, and shares success stories from companies who have established efficient ITO and BPO centers in Egypt.

Market Profile

Egypt enjoys historically strong cultural, political and economic ties to the West, yet is strategically situated for doing business throughout the Middle East, Western Europe and Africa. Cairo is only one hour ahead of Central European Time and is within a five-hour flight of major European cities including London, Paris and Frankfurt. The Middle Eastern business centers of Dubai, Saudi Arabia and Kuwait are even closer. Egypt itself has one of the region's largest economies and attracts more foreign direct investment (FDI) than any other North African country.

Egypt has several strengths and advantages for ITO and BPO operations, particularly in the areas of outsourcing maturity, workforce and infrastructure. As noted, thousands of outsourcing professionals are already working in Egypt, with all major BPO and ITO service lines represented. Allied Soft, Raya, Xceed, Orange, Sykes, Oracle, Wipro, Sutherland, Stream Global Services, Teleperformance, IBM, HP Enterprise Services, Alcatel Lucent and Vodafone are among the largest employers. More than 330,000 students graduate from Egyptian universities every year, approximately 10 percent with technology, engineering or science degrees. Egypt's business-ready infrastructure will soon be enhanced with the completion of Maadi Park, a contact center technology park.

Businesses source services from Egypt primarily because it is a low-cost destination, has a well-established sourcing industry, is a convenient gateway to the Middle East and Africa and provides time zone alignment with Europe, along with its multi-lingual workforce and infrastructure advantages. Although there are thousands of

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people employed in Egyptian IT, technical support and R&D centers[2], companies are increasingly choosing Egypt for BPO, as Figure 1 illustrates.

There are challenges to doing business in Egypt, but some of the perceived problems are not necessarily drawbacks for companies that are seeking to establish service centers in the country. Unemployment remains high (9.7 percent in 2009), which helps hold down wage rates and attrition and contributes to an attractive, available talent pool. Egypt is only slightly below average compared to other countries for its legal and regulatory environment. Egypt has a reputation for having an unfavorable tax environment, but the corporate tax rate has been reduced from 42 percent to 20 percent, and the maximum personal income tax rate was cut from 32 percent to 20 percent.

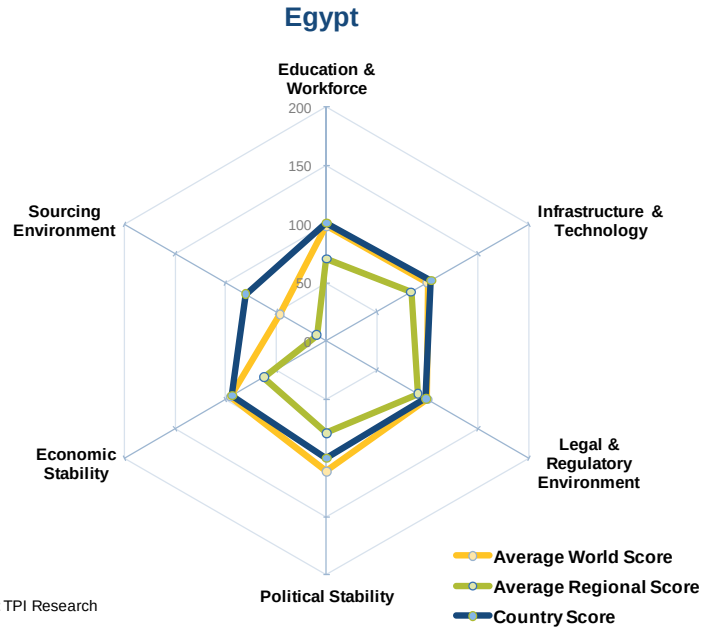
Despite these challenges, TPI considers Egypt a viable and vibrant sourcing destination. Overall it compares very favorably with countries throughout Africa and the Middle East. We base this assessment on our own TPI Outsourcing Viability Index™ (see appendix) and on our observations of market activity, which we detail in the following sections.

Egypt as a Sourcing Destination

Egypt is fundamentally sound in all the areas that are important for outsourcing. It has several strengths as a regional sourcing destination, and no real weaknesses. As Figure 2 shows, Egypt ranked above the African regional average for all six dimensions of the TPI Outsourcing Viability Index, has significant advantages in the important Education & Workforce and Sourcing Environment components, and is on par with global averages.

The following sections highlight these dimensions and how current conditions, programs and developments shape Egypt's status as a sourcing destination.

Figure 2: Comparative Outsourcing Viability Dimension



Source: TPI Research

[2] ITIDA "Egyptian BPO Value Proposition" March, 2010.

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Education & Workforce

Egypt has the highest-rated Education & Workforce component in Africa and also for the entire Arabic-speaking world. The country's higher education system produces thousands of qualified graduates annually, while coordinated, government-sponsored programs prepare graduates and other professionals specifically for work in the ITO and BPO industries.

Higher education is highly subsidized in Egypt, which gives the country an important, sustainable workforce advantage over many other countries. Approximately 330,000 students graduate from Egyptian colleges and universities each year. Of these, approximately 31,000 graduates with multilingual capability are considered well qualified for employment in the ITO and BPO industries because of their computer science, technical, engineering or business management degrees.

To help ensure a steady, qualified talent pool for the outsourcing industry, the Egyptian government and ITIDA sponsor several workforce development programs. These include:

- **Egyptian Education Initiative (EEI)** – is a public-private partnership between the government and the World Economic Forum's (WEF) information and communication technology (ICT) community to improve the education system and increase access to technology. Thousands of students, educators and working professionals have received technology education in schools and through the EEI's e-learning programs.
- **EduEgypt** – a joint program developed by ITIDA, the Information Technology Institute (ITI), universities, multinational corporations and leading companies involved in BPO training. EduEgypt was created to train university graduates in the soft, technical, and language skills required for BPO careers. In 2009, 3,000 students graduated from this program, with 60 percent going straight into employment. In 2010, the program has increased its intake to 10,000; these students will graduate in 2011.
- **The European Language Program** – launched in 2010 to teach European languages to potential BPO and technical support employees. Leading Egyptian and overseas language institutes are partnering in the program, which offers courses in French, Spanish, German, and Italian. The program is expected to train 800 to 1,000 people in the first year and grow to 3,000 to 4,000 trainees in subsequent years.
- **The Advanced Management and Professional Training Program** – is a managerial training program available to multinationals and local IT and BPO companies in Egypt. It is scheduled to launch in 2010 with support from well-known global service and training providers.

The Egyptian outsourcing workforce does not come at a premium price. Fully-loaded FTE costs for BPO and ITO workers are highly competitive with global rates. Figure 3 presents FTE costs (in USD) for a sampling of sourcing functions.

Figure 3: Egyptian FTE Costs for BPO and ITO Workers

Type	Description	FTE cost
BPO	Large BPO center	$15,830
ITO	Technical support services	$18,510
ITO	Remote Infrastructure Management (RIM)	$17,690
ITO	Application Development & Maintenance (ADM)	$22,180

Source: MCIT/ITIDA

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Infrastructure & Technology

Egypt is strategically situated geographically and has developed the infrastructure to capitalize on it. Cairo is within a five-hour flight of the major business centers of the Middle East, Europe and Africa, it is only one hour ahead of Central European Time (which is an advantage over Mumbai, which is four hours ahead), and the Suez Canal is one of the world's most important logistics links. Besides these general business benefits, Egypt has assets specific to sourcing activity, including modern, purpose-built business parks, a strong IT industry and an expanding telecommunications infrastructure.

The establishment of the Smart Village campus in Cairo helped elevate Egypt's IT industry to a regional leader, and Maadi Park is expected to have a similar impact on the ITO and BPO industries. Smart Village (www.smart-villages.com) was built in 2003 as a state-of-the-art technology park and is currently home to more than 120 companies and entities, including ITO and BPO firms and the shared services centers of many multinational corporations. In 2010 officials broke ground to expand the Smart Village with six new buildings to house operations for IBM, Piraeus Bank, the Information Technology Institute and other organizations. There are approximately 28,000 professionals working in the Smart Village, which has capacity for up to 100,000.

Maadi Park was formally inaugurated in southern Cairo in view of the Nile and is accessible via public transportation and major roads. It is being developed specifically to meet the needs of contact centers and will have capacity for 35,000 seats when it is fully operational in 2012. Services and incentives offered will include funded employee training programs, special pricing for telecommunications services, language and logistical support for foreign companies, recreational facilities and more.

Organizations operating in Smart Village:

- Alcatel-Lucent
- Alcatel-Lucent University
- Amwal Al Arabia
- Beltone Financial Holding
- CI Capital Holding
- Citadel Capital
- Corplease
- Dar Al-handasah
- Delta Rasmala Securities
- Egyptian Financial Services Authority
- Egypt Post
- Engineering Consultants Group (ECG)
- Ericsson
- Etisalat
- HC Securities
- Hermes Holding SAE - EFG
- HP
- Huawei
- HSBC
- Information Technology Institute (ITI)
- Intel
- ITIDA
- Mahindra Satyam
- Microsoft
- Ministry of Communications & IT
- Mobinil
- Naeem Holding
- National Telecommunication Regulatory Authority (NTRA)
- National Telecommunication Institute (NTI)
- Nile University
- Nokia Siemens Networks
- Oracle
- Orange Labs
- Prime Group
- Software Engineering Competence Center – SECC
- Technology Development Fund (TDF)
- Telecom Egypt
- The Egyptian Exchange (EGX)
- Valeo
- Vodafone
- Wipro
- Xceed

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Most outsourcing activity is currently concentrated in Cairo, but Alexandria is growing strongly as a destination, with companies such as Sutherland Global Services opening centers in the city, as are El Mansura (site of the University of Cairo) and Assuit in southeastern Egypt, which is home to one of the country's largest universities. Additional Smart Villages are being planned for Alexandria and Damietta. There are currently six new undersea telecommunications cables being installed that will serve all of Egypt. Collectively the cables will add 20 Tbps of communications capacity.

Legal & Regulatory Environment

Egypt ranks slightly below the world average for Legal & Regulatory Environment, which is the country's weakest component in the TPI Outsourcing Viability Index relative to other countries in the region. The Egyptian government is confronting these shortcomings head-on with specific initiatives:

- Aforementioned tax reform, which cut the corporate tax rate by more than half and personal income taxes rates by nearly a third;
- Introduction of intellectual property reforms designed to align Egypt with WTO rules;
- Simplification of the tariff system.

These efforts appear to be making an impact. As noted, there have been around 15,000 ITO and BPO positions added in Egypt over the past 18 months. In 2008 the World Bank named Egypt the leading global economic reformer. Egypt continues to outperform many peers in attracting foreign direct investment, which is an indication of investor confidence in the country's legal and regulatory institutions.

Political Stability

Egypt earned the same Political Stability rating on the TPI Outsourcing Viability Index as many leading outsourcing destinations, including India, China, and the Philippines. Egypt's Political Stability score was well above average for Africa and on par with the Middle East.

Egypt's next presidential election will take place in November 2011, and will be the second since a constitutional amendment cleared the way for a popular vote for multiple candidates. Until 2005, the People's Assembly nominated the president and the citizens elected the nominee through a referendum vote. Hosni Mubarak has been president since 1981 and last won reelection in 2005, with 89 percent of the popular vote.

Economic Stability

Egypt's Economic Stability score is in line with world averages. However, Egypt's generally strong economic performance is undermined by high inflation, unemployment and public debt. Despite these challenges and the

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economic downturn, the Egyptian economy continues to grow. GDP rose 4.7 percent in 2009, which ended a six-year run where GDP growth exceeded the previous year's rate[3]. Foreign direct investment (FDI) also tapered off after a prolonged, dramatic growth cycle. Annual FDI grew from $509.4 million in fiscal year 2000-01 to $8.1 billion in 2008-09, and peaked at $13.2 billion in FY 2007-08 before the global economic crisis hit[4]. Between 2003 and 2008, Egypt rose from 126th (out of 141) to 20th in attracting FDI, according to the United Nations Conference on Trade and Development (UNCTAD)[5].

2010 will be a historic year for Egypt's economy because of the introduction of the Nilex, which is Egypt's first stock exchange for small and midsized businesses. Trading began in June with 10 companies listed.

Egypt's economy is much more diverse than those many oil-dependent countries in the region, which provides some buffer against boom-and-bust cycles. Service is by far the largest segment of the Egyptian economy, which contributes to its strength as a sourcing destination.

Sourcing Environment

No country in the North Africa-Middle East region had a higher Sourcing Environment score than Egypt on the TPI Outsourcing Viability Index. This result is consistent with assessments studies done by other organizations. For example, the A.T. Kearney rating system, which is designed to measure a country's attractiveness as a location for corporations to establish offshore locations, rated Egypt the top destination in the EMEA region and sixth worldwide in 2009, which was a seven-position improvement in one year. As noted, Egypt is the European Outsourcing Association's 2010 Destination of the Year, the Commonwealth Business Council and CyberMedia ranked Egypt the best outsourcing destination in Africa in 2009, and the UK National Outsourcing Association named Egypt its 2008 Offshoring Destination of the Year.

Egypt's support for the ITO and BPO industries and the resources available for them are significant factors in its strength. Outsourcing service providers operate more delivery centers in Egypt than in the rest of North Africa and the Middle East combined. Smart Village is a valuable asset and Maadi Park will only enhance Egypt's standing as a desirable outsourcing destination.

Rankings and statistic provide perspective Egypt's ability to support and grow outsourcing operations, but they do not tell the full story of its climate for operating a services business. The following case studies highlight some of the real-life issues faced by companies that established services operations in Egypt, and document the impact on their businesses.

[3] CIA World Factbook, 2010.
[4] Egyptian Ministry of Investment, as reported by the American Chamber of Commerce in Egypt (www.amcham.org.eg/bsac/ustrade/investment.asp).
[5] UNCTAD 2008 World Investment Report.

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HP Enterprise Services Case Study:

Quality of Work Creates Larger Role for Egyptian IT Services Center

Operations at the HP Enterprise Services' facility in Egypt first began in 1991. The service center was established to provide low-cost IT support primarily to international banks. Since then the operations have undergone a dramatic evolution. First the center grew to support more customers, then it won a larger share of the company's internal support, became a leading nearshore delivery center for EMEA, and is now one of the HP Enterprise Services' key strategic assets for global service delivery. The company nearly doubled its employment in Egypt between 2008 and 2010, and plans to do so again by 2012 when a new facility will be added to the original Cairo office.

"We first came to Egypt in 1991 primarily because of its low cost structure," said Osama Badr, Delivery Center Manager (HP Enterprise Services). "We discovered that besides low costs, the quality of work is very good. The center began getting more projects – from clients around the world as well as from HP's internal support group."

The Egyptian service center's reputation for quality of work helped it win more business, and Egypt's large, educated workforce has made the growth possible. The center provides application services in multiple languages for clients in Europe and around the world. HP has hired hundreds of recent graduates with programming and application support skills to staff the center.

"The quality of people here is very high. There are technical skills available, and there is very mature CMMI capability," said Badr, referring to Capability Model Maturity Integration (CMMI), a widely used and respected process improvement model for software development. "We work with Egypt's universities to help meet our workforce needs, and recently began discussions with the Information Technology Institute (ITI) with ideas on how to further develop the talent pool."

ITI provides specialized, advanced technology training and professional development programs to some of the thousands of students who graduate from Egyptian universities with IT degrees each year. Programs can be tailored to meet specific needs, and complement other Egyptian government-sponsored workforce development programs, including language training for ITO and BPO workers.

HP expects Egypt's talent pool to continue to support its growth. During peak times the company has been able to hire 30 to 50 new applications services professionals a month. It now plans to almost double the size of its Cairo workforce by 2012 and is considering expanding the scope of services delivered from Egypt, which would take the headcount even higher.

Hewlett Packard Enterprise Services is building a state-of-the-art new facility to support its expanding workers. The new building will be in Smart Village, a modern technology campus outside Cairo that is currently home to more than 120 technology organizations. Hewlett-Packard Enterprise Services' new building in Smart Village will have capacity for 1,000 workers and is expandable to support 2,000.

"HP has operations throughout North Africa and the Gulf region. Egypt is a very good place to do business because it has the combination of good infrastructure, good labor resources and a low cost structure," said Badr. "Once we were a low-cost nearshore delivery center for Europe, but now we are one of the top offshore destinations for customers worldwide."

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Stream Global Services Case Study:

Stream Global Services Finds Egypt is the Environment for Growth

When Stream Global Services took its first call at its new Cairo service center in 2009, there were 10 employees at the site. Within 18 months, that center had grown to more than 700 employees providing service in six languages. Stream expects to have 4,000 employees working in Cairo by 2013.

“For the call center industry, Egypt today is what Amsterdam and Dublin were 10 years ago, in terms of growth potential. The excellent language skills, labor pool scalability and exceptional government support has enabled Stream to provide unparalleled service programs for its clients,” says Mohamed Fouad, Cairo site director for Stream Global Services. “There is nowhere else in the world where you can find an available talent pool with such extensive language skills – all in one country.”

Stream’s service center outside Cairo provides customer service, revenue generation services and technical support for well-known companies across North America and Europe. The wide availability of English-language skills is one of the assets that originally drew Stream to Egypt. The comparable time zone and availability of a multi-lingual workforce also makes Stream’s service center ideal for servicing clients across Europe. Currently, Stream’s Cairo service center supports customers in six languages – French, German, Italian, Spanish, English and Arabic.

To support its aggressive growth projections, Stream entered into an agreement with the Egyptian Information Technology Development Agency (ITIDA) in 2009 to employ and train more than 1,000 Egyptian employees in its Cairo facility through 2012. As a result of this agreement, Egypt’s abundant labor force, excellent infrastructure and government support, Stream Global Services has expanded its operations far beyond original expectations of employing more than 700 in the first year. Following its initial success, Stream Global Services has altered its long-range plans for Egypt, setting a target for 4,000 employees by 2012.

The Egyptian’s government support programs and ongoing commitment to the services industry set it apart. The pro-business-economic climate is supported by the Egyptian Information Technology Agency (ITIDA). ITIDA built an alliance with Stream Global Services and provided hiring and employment training assistance, as well as government incentives for telecommunications rates. Within three months after Stream decided to begin operations in Egypt, it was processing calls in Cairo. Stream has since renewed its services agreement with ITIDA to support further expansion.

Stream’s Cairo service center has proven to be a great addition to the company’s established footprint in EMEA and its recently expanded Cairo facility further highlights the success that Stream has achieved in this growing geographic market for its global client base. The Cairo service center is well-suited to support Stream’s existing and future client base, with its highly technical support professionals and extensive language support.

“Stream currently maintains service centers in more than 22 countries, but considers Egypt a strategic, high-growth market,” said Fouad. “Stream’s strategic partnership with ITIDA and the Egyptian government ensures Stream’s clients reap the benefits of Egypt’s advanced technology infrastructure and highly educated workforce. More importantly, Stream’s success with ITIDA support proves that Egypt has positioned itself as the next large scale location for global BPO and Call Center requirements.”

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Conclusion

Egypt has many fundamental advantages as an outsourcing destination and has emerged as a regional hub for service delivery. Its status as a regional leader has recently been enhanced through a series of public and private investments in new facilities, infrastructure improvements and workforce development initiatives that have helped bring more than 15,000 new offshore service delivery jobs to Egypt since 2009. TPI expects this momentum to continue because of ongoing Egyptian efforts to meet the needs of the sourcing industry, and because of planned expansion at existing service delivery centers.

Egypt's fundamental advantages include its geographic and time zone proximity with major business centers, historical status as a gateway to the Middle East, Western Europe and Africa, a growing, business-ready, multi-lingual workforce, and technology and transportation infrastructures. Egypt is actively trying to develop these fundamentals into assets specific for the sourcing industry by making targeted investments in infrastructure (e.g. Maadi Park and the Smart Village expansion) and workforce development (e.g. EduEgypt, the European Language Program and the Advanced Management and Professional Training Program), plus tax, legal and administrative reforms.

Egypt is already a strong option for sourcing service delivery and will continue to get stronger as its outsourcing industry, infrastructure improvements and development programs continue to mature. The recent wave of new services center openings plus other foreign direct investment are seen as validations of Egypt's business development efforts and as confidence in the future. These efforts not only establish Egypt as highly suitable for service delivery, they provide advantages over many other countries in the region and around the world. Companies that are considering sourcing service delivery in the Africa, Western European or Middle East regions should seriously consider Egypt as an outsourcing destination.

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Appendix

The TPI Outsourcing Viability Index

TPI developed the TPI Outsourcing Viability Index in 2009 as a tool to rate a country's ability to support the business of outsourcing. The end result is a model that allows for the identification of the comparative strengths, weaknesses and rankings of countries' outsourcing viability.

The research model compares the viability of outsourcing across 115 countries using a set of common evaluation criteria. This model includes a total of 23 weighted evaluation criteria built around six areas of focus, which we call dimensions. The six dimensions are:

- **Education & Workforce** – What is the size, availability and quality of the workforce able to work in a professional services environment?
- **Infrastructure & Technology** – Is there a strong infrastructure across the entire country and is the country/region prepared to leverage it for business benefit?
- **Legal & Regulatory Environment** – How do the tax, legal and regulatory environments favor elements important to the outsourcing business?
- **Political Stability** – How likely is the political climate to pose threats to a company's ability to provide continuous service to internal and external clients?
- **Economic Stability** – How stable is the overall economy and how conducive is it to doing business?
- **Sourcing Environment** – How mature is the outsourcing industry?

Because the TPI Outsourcing Viability Index is primarily focused on the outsourcing industry, the Sourcing Environment dimension carries the strongest weight. The Sourcing Environment dimension addresses such things as the number of active ITO and BPO contracts signed by local companies, the number of active service provider delivery centers in the country and the number of prospective large buy-side clients.

This report focuses on Egypt's suitability as a service delivery location. To gain clearer insight into this topic, we reweighted the TPI Outsourcing Viability Index to exclude domestic contract activity and spending levels. The adjustment provides a truer measure of a country's suitability for service delivery today by taking historical domestic spending out of the formula.

For more information about the TPI Outsourcing Viability Index visit www.tpi.net/

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