

IT

Technology focus begins to pay off

Cairo's investment in education and IT infrastructure is helping to establish Egypt as a global outsourcing centre and attracting some of the world's leading technology companies to its Smart Village complex

JAMES GAVIN

India's rise to global prominence in software development over the past 10 years has helped to forge its reputation as one of the fastest growing of the world's major emerging markets. Now Egypt is also attempting to catalyse economic growth through the development of its information and communications technology (ICT) sector.

However, Cairo's vision for the sector does not just rely on the experience of India. It is also seeking to learn lessons from countries such as Ireland as it tries to develop its capabilities in both software and outsourcing.

Prime Minister Ahmed Nazif has rebranded Egypt as a global outsourcing centre. The country's growing ICT sector is playing a key role in attracting blue chip foreign companies such as the US' IBM, Microsoft and Intel to use Egypt as a platform for expanding into the Middle East and African markets, in the same way that Ireland has enabled hi-tech companies to penetrate the European market from its shores by offering favourable corporate tax rates.

Attracting business

Egypt's strategy of investing in education, infrastructure and IT is starting to pay off, according to the Beyond Bric report commissioned by the Information Technology Industry Development Agency (Itida), a government entity affiliated to the Communications & Information Technology Ministry. The report was authored by the London School of Economics & Political Science (LSE) outsourcing unit and published in March.

The investment is attracting offshoring and outsourcing business to the country, centred on the 600-acre Smart Village, a technology park in Giza that has attracted some of the world's leading IT companies to set up offices.

However, according to Hazem Abdelazim, chief executive officer (CEO) of Itida, Egypt's ICT strategy goes beyond call centres and telephone work.

"It is a compromise between the low end, to ensure mass employment, and the high end of

KEY FACTS

- Egypt's universities produce 31,000 science and engineering graduates a year
- Arabic web content accounts for less than 0.5 per cent of the world's total
- Just 700,000 Egyptians currently use broadband internet services

Source: MEED

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the value chain," he says. "For example, in the Smart Village, you will find Microsoft and Orange's research and development labs alongside the call centres."

A large part of Itida's remit is to help create industries that will absorb Egypt's large and growing workforce. About 330,000 Egyptians graduate in IT each year, and they need to find employment. For the 31,000 science and engineering students who graduate each year, the ICT sector also presents an ideal opportunity to forge a career.

The focus on the ICT sector has delivered early rewards. As Nazif told the ITU Telecom Africa conference in May 2008, the ICT sector in Egypt has been transformed from one that is competing for resources to a net contributor to the treasury, enabling it to improve the welfare of citizens through safer transport, better schools and a healthier environment.

Itida says Egypt's IT sector is forecast to grow in value from \$889m in 2006 to \$1.6bn by 2011. The sector has recorded annual growth rates of up to 20 per cent since 2006.

The Smart Village has been a success, drawing investment from across the globe and playing host to more than 100 companies,

which in turn employ more than 13,000 professionals. Indian IT services group Satyam last year inaugurated its Global Solutions Center (GSC) at the Smart Village, where it employs about 300 people, to serve as a major technological development and software support centre for Satyam's Middle East customers.

The GSC is a state-of-the-art centre spanning 2,100 square metres. Facilities include two training laboratories, video conferencing, high-speed networks and 24-hour-a-day connectivity to all other global locations.

Low-end dominance

Yet the Beyond Bric report points out that it is still the low end of the value chain – business process outsourcing (BPO) activities and call centres – that dominate.

Though leading foreign technology groups such as Germany's SQS, France's Valeo and the US' Oracle have set up software development centres in Egypt, these form only a small proportion of all the work outsourced to the country.

The vast majority of the work is still in the low-tech call centres and telephone support areas. Having earned a reputation as the region's call centre destination of choice, Cairo needs to move up the value chain.

To pull in more high-end software development, the report says Egypt needs to develop more relevant skills and experience in applied sciences.

Officials say that the mix of activities is starting to shift in the right direction. "In March, we signed an agreement with IBM to develop a centre for non-voice BPO in finance and accounting," says Abdelazim. "That shows the confidence among companies such as IBM to establish a centre in Egypt, in such a critical line of business."

One strategy advised by the Itida report is to provide targeted grants, investments and tax incentives to smaller firms, qualified individuals and training firms to help facilitate local entrepreneurial initiatives and make

them more attractive to graduates looking for careers in Egypt.

In India, international ICT companies have lost their best talent to local suppliers such as Infosys, Tata Consultancy Services and Wipro, who offer a greater variety of work than just call centre jobs.

Itida and the ministry are ramping up their efforts to develop local ICT capabilities. "We have a programme to encourage small and medium-sized enterprises to develop relationships with universities," says Abdelazim.

"Most local companies still shy away from research and development and do not want to take the risk. So we tell them that if they have an established case, give it to us and we will fund them up to £E1m [\$170,000] for a period of up to three years."

A research facility has been set up at the Smart Village, with centres of excellence bringing together start-up companies, multi-nationals, Egyptian expatriates and research centres in key niche areas such as data-mining and wireless technology.

A private technology development venture capital fund was established in 2004, starting out with seed capital of \$10m, which has now grown to \$50m.

Software development is a growing area of importance for Itida, but the body wants to fine-tune its focus on areas where Egypt offers a natural advantage. "We have to find some niche areas where we can see certain competences," says Abdelazim.

Arabic content

These niche areas could include Arabic web content, which accounts for less than 0.5 per cent of the world's total web content. As the long-standing centre of publishing in the Arab world, Egypt is a natural centre for developing Arabic language applications, such as internet search engines and translation software. Egypt's government has already launched the Arabic e-Content Initiative in 2005 and created a specialised portal for Arabic online content.

Value-added services on mobile phones is another potential growth area. One approach involves developing high-quality Arabic language support to capitalise on opportunities such as mobile social networking. There is massive untapped demand in the Arab world for this kind of application.

The government has already attracted major mobile phone companies to established a presence in Egypt. In 2008, Finland's Nokia opened a regional maintenance centre at Smart Village.

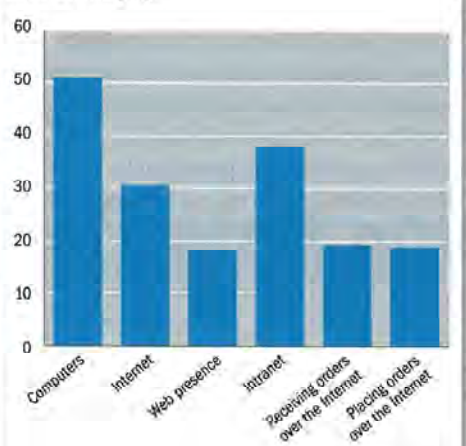
EGYPT'S ICT TARGETS

	Target revenues, 2010 (\$m)
Research and development/engineering	100
Knowledge process outsourcing services	30
Localisation	40
Arabic-language content	200
Business process outsourcing services	75
Technical support	200
Contact centres	115
IT products	45
IT services	280
Total	1,085

Source: Communication & Information Technology Ministry

ICT USE AMONG EGYPTIAN COMPANIES

JULY 2008 (%)



Source: Arab ICT Organisation

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Hazem Abdelazim, chief executive officer, Itida

The mobile industry is a good fit for Egypt and has been a massive growth area over the past year. "We are adding about 1.5 million mobile subscribers a month at current rates, even during the downturn," says Abdelazim.

In contrast, Egypt is behind in the uptake of broadband, with 700,000 users. The government is looking to redress this with a plan to bundle PCs with high-speed internet services. Its Egypt PC 2010 initiative promises a PC for every home, and there are plans to connect about 40,000 schools to broadband services.

The Free Internet Project, a public-private partnership (PPP), is a ministry initiative aimed at providing easy and affordable access to the internet without customers having to agree to onerous subscription fees. Under the scheme, internet users are only charged for the price of local phone calls associated with connecting to the internet.

The Free Internet Project is based on a revenue-sharing model: internet service providers (ISPs) are allowed to place their equipment at Telecom Egypt-run local telephone exchanges. Customers' internet calls are serviced at the nearest exchange and then rerouted to the ISP. In return, revenues from the calls are shared between Telecom Egypt and the service providers.

With such projects in the planning or under way, Cairo is thinking strategically about how

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it can continue to grow its ICT industry. The current mix of activities remains heavily weighted towards BPOs, and Egypt's strong performance as an offshoring centre has clearly paid dividends in pulling in foreign direct investment and creating jobs.

However, Itida will not be able to rest on its laurels. Investors can just as easily move on to new offshore locations if they begin to look more attractive.

This means evolving a coherent strategy to allow Egypt to play to its distinct advantages. One possibility is to become a regional delivery channel for ICT services. This process is already under way, says Abdelazim.

"We can complement areas like Dubai as a delivery base," he says. "Take Satyam. It has chosen Egypt as a base for its back-office operations in the Middle East, while leaving its regional headquarters in Dubai."

The potential for Egypt's ICT sector is enormous, says Abdelazim. According to ministry forecasts, Egypt expects to be able to export \$1.1bn worth of IT and IT-related services by 2010. Its confidence is being boosted by companies establishing themselves in the Smart Village, turning Giza into the region's hi-tech hub of choice.

"We have all the ingredients available," says Abdelazim. "But education is the key. Any kind of incremental improvement in the education system is multiplied in the ICT sector."