



Ministry of Communications
and Information Technology

Digital Egypt Strategy for Offshoring Industry 2022-2026

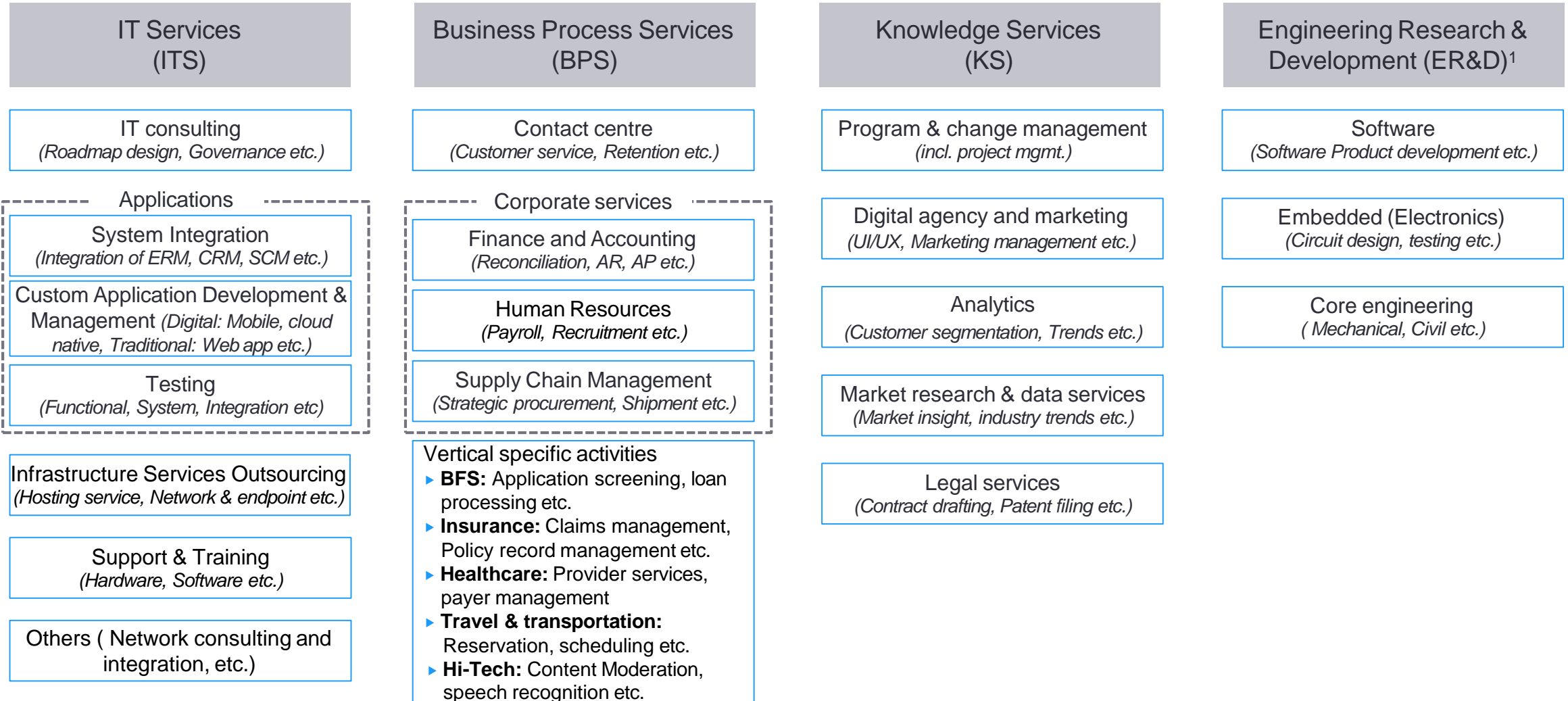


Sections

- ▶ **Global offshoring market overview**
- ▶ Egypt's offshoring services market landscape
- ▶ Focus segments (ITS, BPS, KS and ER&D)
- ▶ Egypt Vision, Value Proposition and Way forward
- ▶ ITIDA's new incentives program for the offshoring industry

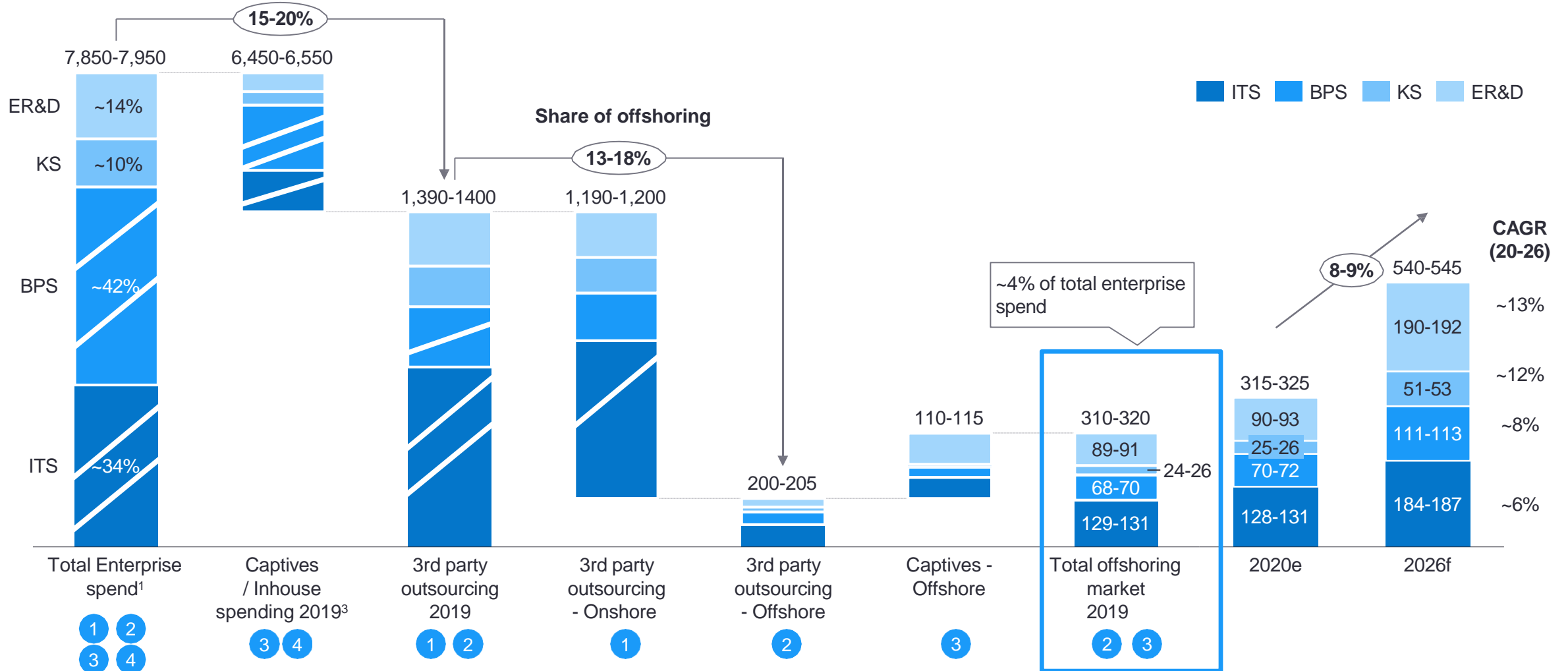
The traditional taxonomy represented by industry standard terms

Taxonomy



The offshoring market is expected to show strong growth and reach ~USD 540b by 2026 from USD 310-320 b in 2019

Outsourcing services market 2019 (USD b)

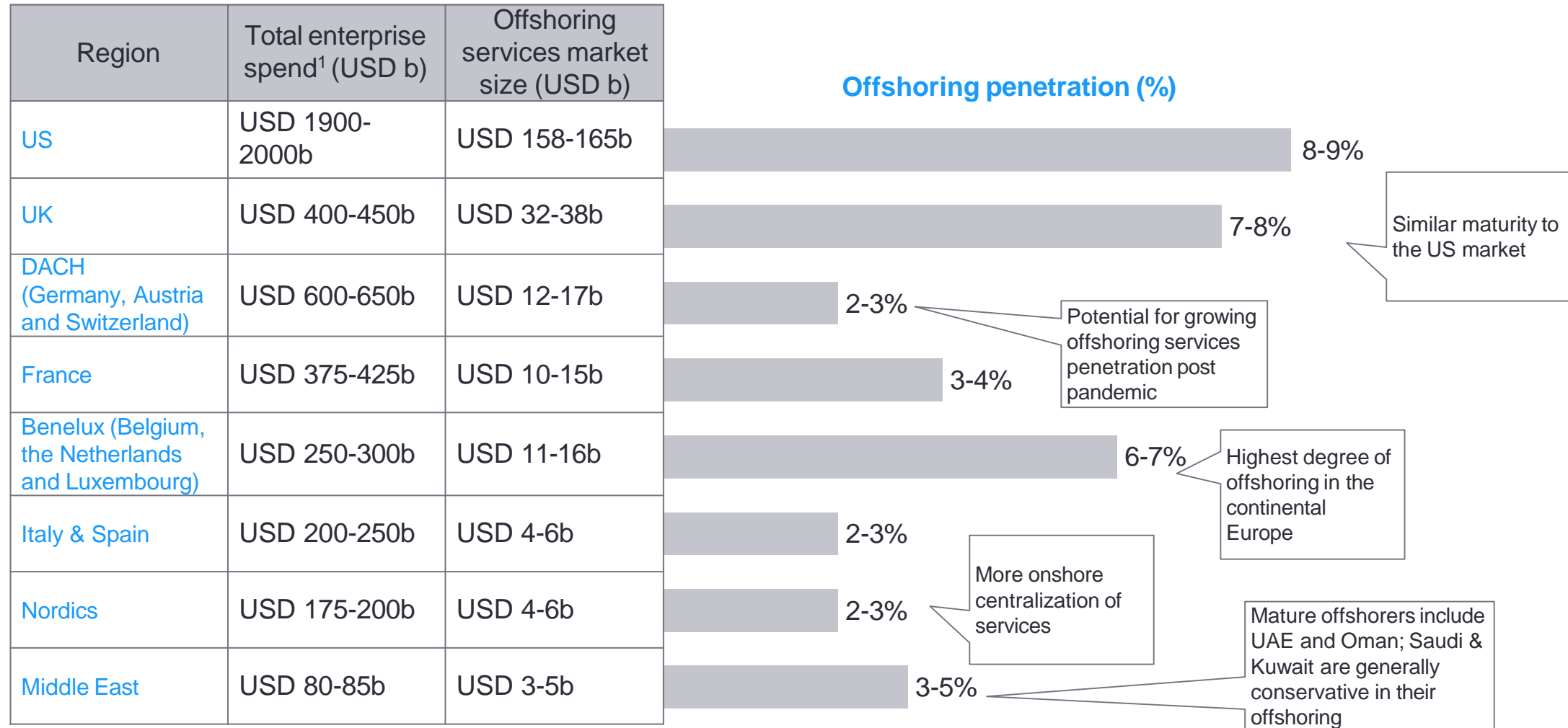


1. The total enterprise spend includes IT, BP, KS & R&D spend. It is estimated basis revenue of companies with revenue >USD100m and employee count >1000 & benchmark share of spend on IT, BP, KS & ER&D
 2. While, the values are adjusted to account for the impact of COVID-19, as on Dec 2020, the actual impact could differ. e stands for estimated and f stands for forecast

3. ~98% of this spend is in market / onshore (No. 4 quadrant)
 * Based on the terminology defined in slide 3

Besides UK, the other European market are yet to reach offshoring penetration similar to the US indicating a potential for future growth

Offshoring penetration as a percentage of enterprise spend



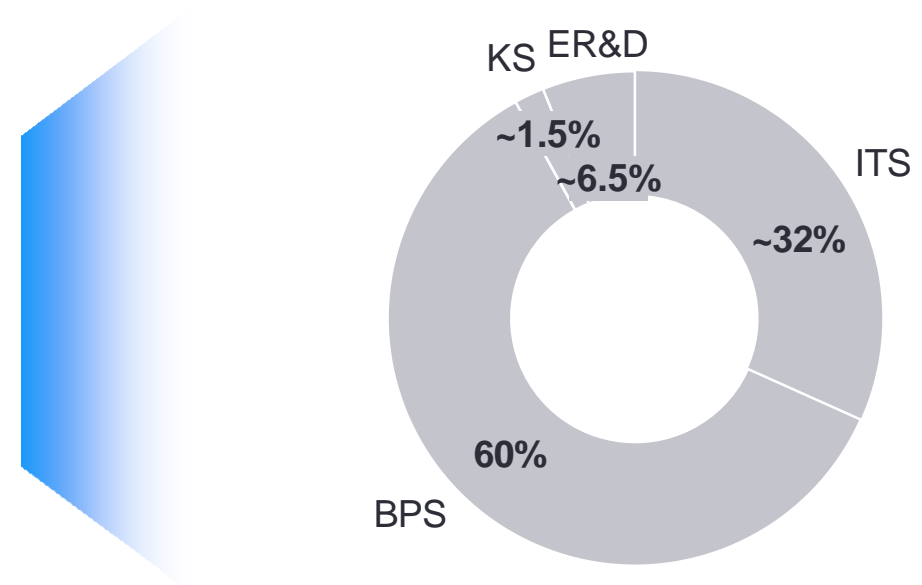
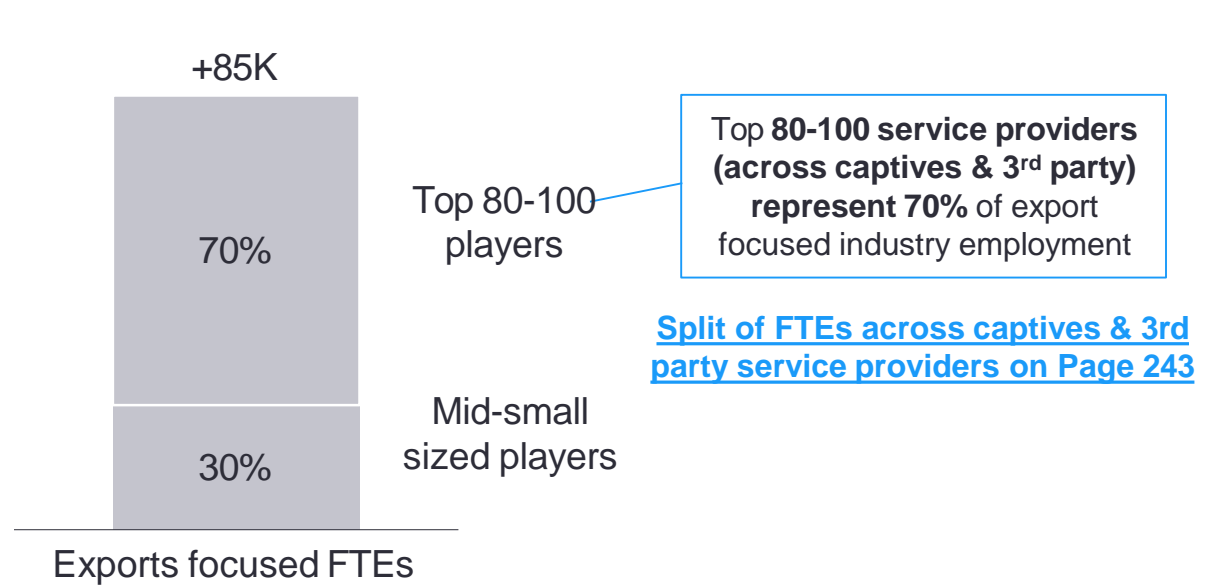
1. The total enterprise spend includes IT, BP, KS and R&D spend. It is estimated basis revenue of companies with revenue >USD100m and employee count >1000 and benchmark share of spend on IT, BP, KS and ER&D
 Source: S&P Capital, NASSCOM, IBPAP, ABSL, team analysis

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Leading 80-100 players contribute ~70% of the +85K export focused FTEs employed in the focus subsegment of the industry, ~92% of whom are employed in BPS and ITS functions

Egypt's offshoring industry employment (Focus Subsegment) , 2020

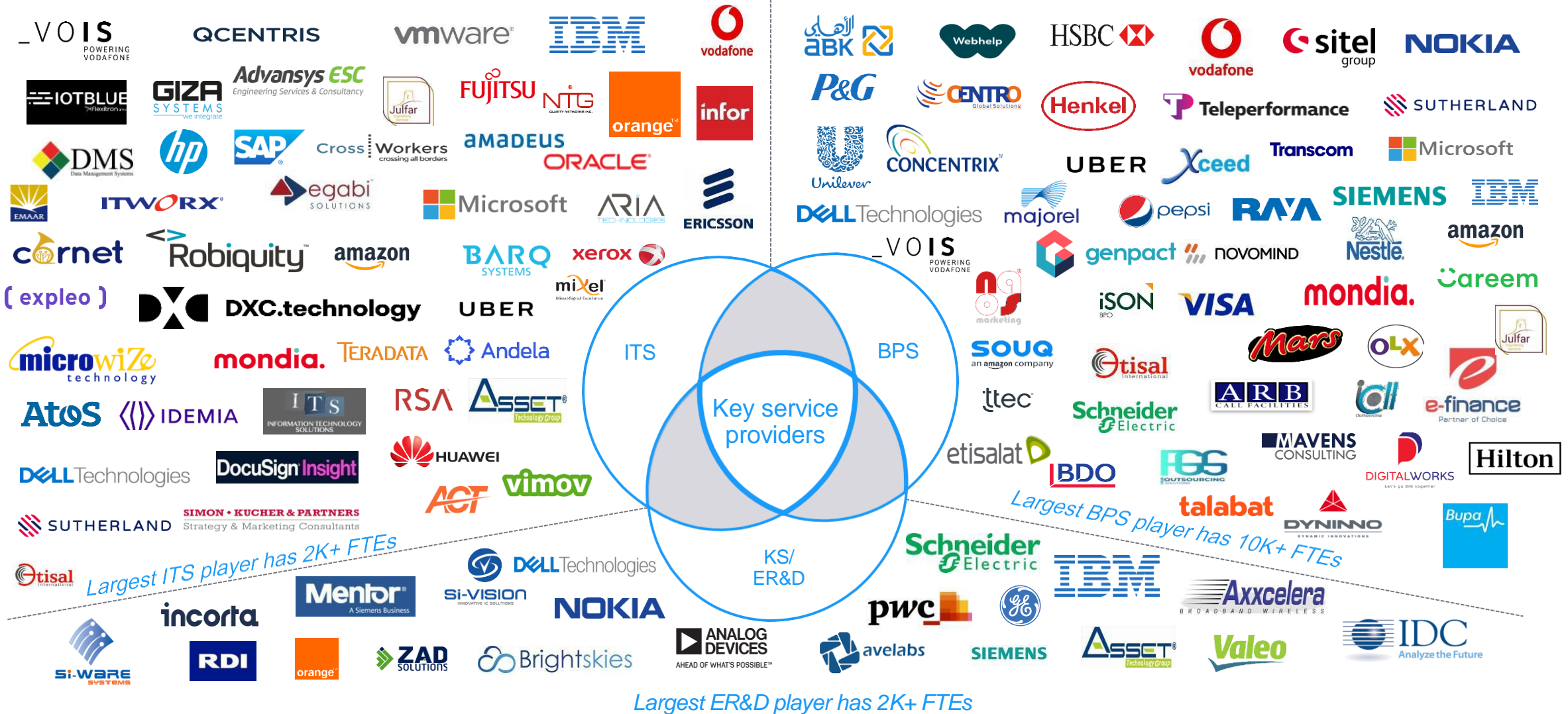


Assumptions for estimating industry employment

- ▶ **ITS:** Fragmented industry, where top ~50 players contribute 60-65% market share and remaining market consists of ~200 mid size service providers with <50 seats
- ▶ **BPS:** Top 40-45 scaled captives and 3rd party service providers contribute ~75% market share
- ▶ **KS:** Diversified service providers interviewed/ surveyed have indicated that ~10% of total workforce is deployed in knowledge processes
- ▶ **ER&D:** Consolidated industry – top 10 ER&D players hold 75-80% market share

Egypt is home to 400+ world renowned offshoring players, including 10+ Fortune 500 companies, serving offshoring demand for ITS, BPS, KS and ER&D

Marquee offshoring logos in Egypt



1. FTEs include total employees engaged in serving both domestic and international accounts

Source: Report on Egypt –The Destination of Choice, Egypt 2.0 Outsourcing Destination Guide by German Outsourcing Association and other secondary sources

As per leading service providers - talent pool, competitive cost and the 'location factor' are the corner stones of Egypt's proposition amongst global offshoring destinations

Voice of service providers on key value differentiators for Egypt's offshoring industry

	ITS	BPS	KS	ER&D	
Talent availability	▶ Large multi-lingual talent pool (well versed in English, German, French, Italian, Spanish and other European languages)	✓	✓	✓	✓
	▶ Technically skilled talent pool (35%+ graduates in STEM fields)	✓	✓	✓	✓
	▶ Emphasis on talent skilling initiatives at university and employer level	✓	✓	No specific KS/ ER&D focussed talent initiatives	
Competitive cost	▶ 20-30% more cost competitive compared to regional offshoring competition in Eastern Europe	✓	✓	✓	✓
	▶ Time zone advantage enabling real-time collaboration with clients in EMEA region	✓	✓	✓	✓
	▶ Cultural affinity with European and GCC countries	✓	✓	✓	✓
	▶ Ease of client travel due to locational proximity to EMEA region	✓	✓	✓	✓
Successful case examples	▶ Select case examples of scaled industry players (including well known captives)	✓	✓	No scaled specialists in this space	Few scaled players (Valeo, Mentor Graphics)
Regulations & strategies	▶ Recent regulations & national strategies to enable a strong digital ecosystem (AI, cybersecurity, data privacy, EMS)	✓	✓	✓	✓
Physical and ICT infrastructure	▶ Large recent investments to create a robust physical and ICT infrastructure	✓	✓	Lack of access to common super-computing infrastructure, high grade AI and electronic testing labs etc.	



Indicates a core value proposition (text) for the given segment

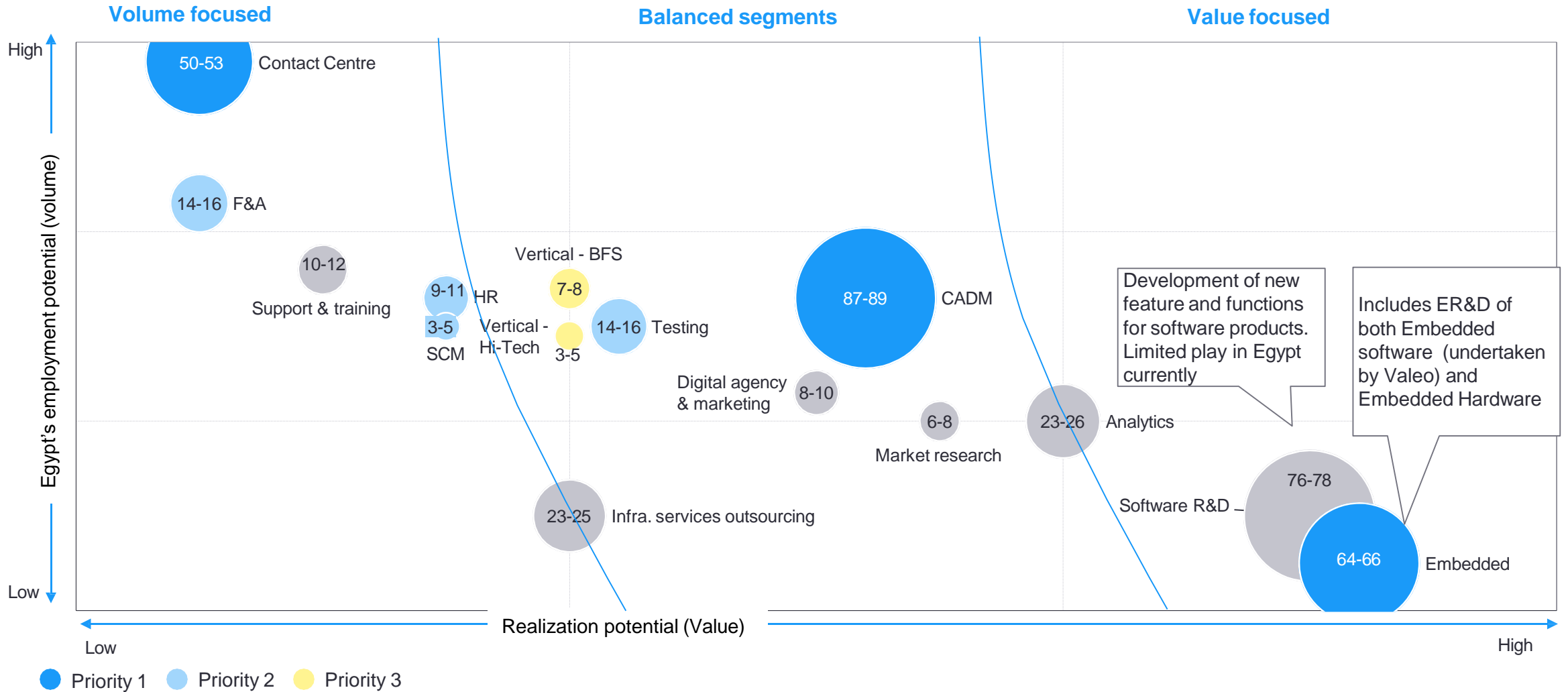
Indicates rationale for not being a core value proposition for the given segment

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The attractive sub-segments were evaluated in line with ITIDA's strategic objective (volume / value play) to shortlist focus areas

Sub-segment prioritization based on strategic objectives



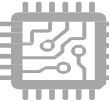






Development of new feature and functions for software products. Limited play in Egypt currently

Includes ER&D of both Embedded software (undertaken by Valeo) and Embedded Hardware

The segments identified have the potential to create employment at scale

Emerging areas of play for Egypt

		Rationale		
Priority 1	Build volume by focusing on core capabilities	 Contact center	<ul style="list-style-type: none"> ▶ Core segments with successful scaled business in Contact centre and CADM ▶ Multi-lingual talent availability, near shore proximity and cost competitive talent pool availability are some of the key proposition for EMEA region ▶ Strong existing case studies: IBM, VOIS, Teleperformance etc. 	
		 CADM		
	Build niche for high value services	 Embedded software		<ul style="list-style-type: none"> ▶ Ability to create a unique niche for Egypt especially in the Auto ER&D space ▶ Strong existing case studies: Valeo, Mentor Graphics
Priority 2	Expand capabilities in areas adjacent to core	 Corporate services	<ul style="list-style-type: none"> ▶ Ability to employ large pool of STEM² & Non-STEM graduates ▶ Capability in corporate services could attract large captives with end to end functions³ ▶ Potential to bundle testing services with CADM offerings ▶ Strong existing case studies: Henkel, Sutherland etc. 	
		 Testing		
Priority 3	Create differentiated vertical proposition	 Vertical BFSI	<ul style="list-style-type: none"> ▶ BFSI & Hi-tech are the leading vertical in terms of offshoring demand ▶ Potential to create a differentiated proposition based on the cultural affinity, multi lingual talent, near shore location along with the cost proposition ▶ Strong existing case studies: HSBC, Uber 	
		 Vertical Hi-Tech		

1. STEM: Science, Technology, Engineering and Mathematics
 2. Functions refers to F&A, HR and SCM

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The objective of the study was to create actionable strategy to propel Egypt's ICT offshoring sector on a higher growth trajectory

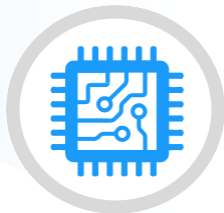
Sector objectives for 2026



- ▶ **Increasing export revenue for Egypt** from digitally-enabled offshoring services
 - ▶ ~3x increase with 19% CAGR (2022-2026)



- ▶ **Creating increased and sustainable employment opportunities** in the outsourcing services industry with a focus on higher value services
 - ▶ Create 215,000 jobs for the offshoring sector



- ▶ **Creating a recognizable brand name for Egypt in new & emerging digital services/technologies**
 - ▶ In Artificial Intelligence, Data Advance Analytical and Embedded (SW and Chipset design)

Egypt is poised to be the next big business destination and a global offshoring hub



▶ Egypt with its **young, educated and tech-savvy population** is emerging as an **economic powerhouse in the region**, enabled by recent structural reforms and Vision 2030



▶ Access to a **large multi-lingual talent pool of 600K+ graduates** with potential **operating cost savings of up to 60-70%** vis-à-vis other regional offshoring hubs in proximity



▶ Uniquely positioned to offer **central location and time zone, cultural affinity, world class infrastructure, high quality of life, flexible regulations and innovative entrepreneurship ecosystem**



▶ Large & growing **offshore market opportunity** with potential to deliver entire spectrum of services across 100+ countries and wide vertical coverage



▶ **Full suite of investor support** for a seamless journey – **attractive incentives** (rebates, reimbursements), **marketing support** and **aftercare support**

MCIT, ITIDA and other affiliate bodies provide all round investor support to enable a seamless investor journey

Investor support ecosystem

Key stakeholders in the investor journey



Ministry of Communications and Information Technology



Roles and responsibilities:

- ▶ Strategic planning and implementation
- ▶ Attracting foreign investments
- ▶ Providing transparency and access to market information
- ▶ Capacity building programs

Hand-holding throughout business lifecycle

Assistance provided to investors



Market intelligence, due diligence



Setup support (admin, funding, infrastructure)



Incentives based on scale of operations



Aftercare support with dedicated account managers

We have developed a set of actionable recommendations which would drive the next phase of strategic growth for Egypt

Egypt 2026 roadmap

Key Egypt 2026 roadmap pillars



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Four key tenets were identified based on which the new OPEX based incentives scheme can be structured to negate some of the challenges

Key tenets behind OPEX based incentive structure

Unified incentive scheme for export jobs

- ▶ Applicable for both MNCs & local/regional companies for **new & existing investors**

Offer differentiated incentives

- ▶ Based on complexity, currently availability of talent pool and future areas of strategic importance

Focus on reducing fully loaded operating cost/FTE

- ▶ Provides investors the autonomy to **make optimal usage of incentives**

Create velocity upfront, with additional kickers for scale hiring

- ▶ Offer higher quantum of incentives in the initial phases of the program to create more traction and scaling down with time
- ▶ Provide higher incentives for entities creating more jobs (above certain threshold)

New Incentive structure across segments

Incentive structure across segments

Approach

1. Quantum of incentive applicable in a particular year = (Amount of incentive in 2022 × % of 2022 incentive offered in that particular year)
2. Incentive to be offered for a period of 3 years. For instance a new headcount growth created in 2022, would be incentivized till 2024
3. Ensure incentives on net headcount growth created (Increase size of the company headcount)

Declining scale – quantum of incentives

Applicable Tier	Quantum of Incentive	2022	2023	2024	2025	2026
Tier 1	% of 2022 incentive offered	100%	100%	70%	50%	40%
Tier 2		100%	100%	80%	80%	70%
Tier 3		100%	100%	100%	100%	90%

Tiering by segments

Applicable Tier	Eligibility criteria (Total number of new net headcount growth in 3 years)					
	ITS (A)		BPS (B)		ER&D (C)	
Tier 1	30-75		50-300		30-75	
Tier 2	76-300		301-1800		76-250	
Tier 3	300+		1800+		250+	

Rationale

Incentive structure is based on:

- ▶ Scaling down on the quantum of incentives offered each year
- ▶ Tiering basis the number of new hires in respective segments
- ▶ Baselining of the existing headcount of entities and ensuring incentivizing of net headcount growth created

Disbursement approach

- ▶ Incentive to be disbursed when the **minimum threshold** is achieved
- ▶ When an **investor moves from tier 1 to a higher tier**, the difference in incentive will be applied .
- ▶ No incentive will be applied or reimbursed In case an investor failed to reach 50% of the target net headcount growth created per year.
- ▶ Only 90% of incentive will be applied and reimbursed In case an investor failed to reach 80% of the target net headcount growth created per year

Thank you

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