

# Can Middle Eastern Countries Fulfill the "Eastern" Promise?

<b>The Bottom Line:</b>	Middle Eastern countries ranging from the regional economic giants such as Egypt to the oil-rich Gulf States are all looking to attract outsourcing into their countries. But these countries must take some steps to become comparable to a country such as India in the Middle Eastern region.
<b>Key Concepts:</b>	IT outsourcing, business process outsourcing, enterprise globalization, business globalization, right-shoring
<b>Who Should Read:</b>	CEO, CFO, CIO, director of strategy

Practice Leader: **Zeus Kerravala**, Enterprise Research Senior Vice President, [zkerravala@yankeegroup.com](mailto:zkerravala@yankeegroup.com), 617-598-7235

## Executive Summary

Practice Leader: **Zeus Kerravala**, Enterprise Research Senior Vice President, [zkerravala@yankeegroup.com](mailto:zkerravala@yankeegroup.com), 617-598-7235

Despite an economic slowdown in the United States, global expansion continues at a relentless pace. Anywhere Enterprises™, those companies using connectivity technology and business savvy to operate anywhere at any time, continue to regard IT outsourcing (ITO) and business process outsourcing (BPO) as key tools to help spread their people and operations around the world.

### Exhibit 1.

#### Quality Is King

Source: Yankee Group Anywhere Enterprise—Large: 2007 European Managed IT and Communications Services Survey



The outsourcing market continues to grow. With some estimates placing the value of the total worldwide outsourcing market, including ITO and BPO, at almost \$300 billion at the end of 2007—an increase of about 19% over the previous year—service providers and their enterprise customers are seeking new regions where low-cost, high-quality work can be done (see Exhibit 1). This pursuit has picked up steam in the past couple of years as prices and wages in established regions, including India and Eastern Europe, have risen.

The countries of the Middle East are pushing for entrance into the outsourcing market. As Western companies grow their presence in these countries, the need for ITO and BPO services (such as human resources [HR] outsourcing or finance and accounting [F&A]) increases. To meet this growing need, some service providers expanded their operations into the Middle East, opening delivery centers or, at the very least, establishing marketing and sales offices.

Can the Middle East compete with India or other regions such as Latin America, China and Eastern Europe, as it seeks to gain a foothold in the outsourcing market? Here are some of the factors at play as the Middle East attempts to raise its profile on the global outsourcing stage:

- Of all the countries in the Middle East, Egypt has the strongest position in the outsourcing market. It possesses a well-educated workforce with strong multilingual capabilities, which makes it very attractive to European companies. However, Egypt faces some hurdles, including outdated communications and transportation infrastructure, and the perception—especially in the United States—that it is a risky place to do work.
- Some other countries in the Middle East, including Abu Dhabi and Oman, are coming on strong in the outsourcing space. But others, such as Jordan and Dubai, face longer odds in competing for a piece of the outsourcing pie.
- All the countries in the Middle East face challenges to varying degrees in terms of network communications bandwidth, talent pool concerns, transportation infrastructure and the educational pipeline.
- The Middle East also needs to fight pervasive perceptions—particularly in the West—that personal, property and data security are at high risk in that region.

Although the Middle East faces many hurdles in gaining some traction in the global outsourcing market, this region offers some distinct advantages as it makes its play. India is the dominant outsourcing market and is likely to remain so for the foreseeable future. However, the cost of doing business in India has increased significantly during the past couple of years. In addition, a war for talent in that country has led to high attrition (as high as 50% turnover in some oversubscribed Indian cities) and infrastructure woes continue to plague the country. This has opened the door for other low-cost regions in the world to attempt to grab some market share from India. Compared to manufacturing outsourcing, ITO and BPO work is highly desirable to many countries and regions because these sectors tend to create good jobs with good pay. Countries seen as prime outsourcing spots can draw in multinationals such as IBM, Accenture and EDS.

In this Yankee Group Report, we examine the strengths and weaknesses of the Middle Eastern region as various countries in that part of the world attempt to attract outsourcing to their shores. We assess which countries are best equipped to become established outsourcing centers and we detail what needs to be done for the Middle East to become an outsourcing leader.

(Note: Unless otherwise indicated, all monetary figures in this Report are in US dollars.)

## Table of Contents

---

I.	<b>Petrodollars Speak Loudly, but Can the Middle East Buy Success?</b> .....	3
II.	<b>Comparison with India and China</b> .....	4
III.	<b>Foreign Direct Investment</b> .....	7
IV.	<b>The Environment</b> .....	8
V.	<b>Current Outsourcing Activity</b> .....	10
	Case Study: Injazat Data Systems .....	10
VI.	<b>What Needs to Be Done</b> .....	11
VII.	<b>The Winners and Losers</b> .....	12
	Egypt: Winner .....	12
	Abu Dhabi: Winner .....	13
	Oman: Potential Winner .....	13
	Bahrain: Potential Long-Term Winner .....	13
	Jordan: Short-Term Loser .....	14
	Dubai: Loser .....	14
	Kingdom of Saudi Arabia: Long Shot .....	14
VIII.	<b>Conclusions and Recommendations</b> .....	14
	Recommendations for Middle Eastern Governments .....	14
	Recommendations for Service Providers .....	15
IX.	<b>Further Reading</b> .....	15

---

### I. Petrodollars Speak Loudly, but Can the Middle East Buy Success?

With the relentless rise in oil prices and increased economic prosperity through market liberalization, it's boom time in many Middle Eastern countries. Key to the region's future economic prosperity is the diversification from being focused almost solely on oil-related activities toward the building of robust service industries. The countries of the Middle East are putting the rising petrodollar revenue to work in building new infrastructure and in developing knowledge-based economies. To this end, countries such as Egypt, Jordan and the United Arab Emirates (UAE) are jumping into the outsourcing market, exploiting the need enterprises increasingly have to simultaneously reduce operational costs while concentrating on core business activities as they seek to globalize their operations.

However, enterprises do not see low cost as the only criterion when making the outsourcing decision (see Exhibit 1). Enterprises now seek to “smartshore” or “rightshore” their processes, deciding whether to outsource work to a nearshore, onshore or offshore location based on many factors, not just cost. In many cases, enterprises are choosing a mix of onshore and offshore delivery of BPO and ITO services, contracting with service providers that have a global delivery model including locations that meet a number of prerequisites such as political stability, a labor force that has highly developed skill sets as well as one that can grow as the offshoring industry grows. Exhibit 1 emphasizes this point, placing quality as the primary requirement above price. Enterprises also prize locations that have strong multilingual skills. In contrast, government incentives assisting in profit and capital repatriation, tax breaks and other incentives are a relatively low priority.

Although the Middle East has been slower to capitalize on IT outsourcing than other developing countries such as Eastern Europe and Latin America, according to A.T. Kearney, Egypt, Jordan and the United Arab Emirates are all in the top 20 most attractive destinations for offshoring IT or business processes. Recently, Oman and Bahrain have thrown their hats into the ring, making strong bids to attract outsourcing to their countries. Saudi Arabia, which has the largest domestic IT market in the region, is also well positioned to potentially become an outsourcing hub for the entire region. In general, in the Middle East, the IT skill sets are largely untapped and available at competitive prices.

Although the Saudi Arabian economy dominates the region, Egypt is the most advanced country in terms of the outsourcing industry. The Egyptian pitch offers an appealing blend of a skilled and relatively cheap workforce with abundant foreign language skills. This resonates well with enterprises looking to outsource non-critical, transactional tasks. It speaks to service providers looking to establish regional delivery centers as part of their global smartshore offers, aligning closely with the requirements of enterprises when outsourcing (see Exhibit 1).

This Yankee Group Report examines the viability of Egypt and the other Middle Eastern countries (including Bahrain, Jordan, Oman and the UAE) as potential locations for business development, including ITO and BPO. This Report also looks at how the smaller Middle Eastern countries need to differentiate their offers, and their potential to succeed in the growing global outsourcing space.

## II. Comparison with India and China

For enterprises today, the decision to use offshore locations is one of the most challenging choices to weigh when entering an outsourcing engagement. This can be particularly true for BPO transactions such as human resources or finance and accounting outsourcing because these processes are at the heart of any organization. With this increasing pressure on enterprises to make smart offshore location decisions, there are market opportunities for low-cost countries and regions with the communications and transportation infrastructure, talent pool and government policies needed to attract enterprises and IT service providers. Currently, Europe-based companies prefer Eastern Europe as a nearshore outsourcing prospect. But they are also sending work to India and China. At the same time, interest is growing in the emerging Middle Eastern outsourcing market due, in part, to the region’s geographical position between Europe and Asia. The region’s relative economic stability is also a plus. However, only Egypt and Jordan have established themselves as outsourcing locations because both countries are acknowledged to have a workforce with strong IT skills. The largest Emirate, Abu Dhabi, has also entered the domestic and regional outsourcing market through its joint venture with EDS.

In examining the more established outsourcing markets in the Middle East, how do the newer outsourcing locations such as Bahrain, Egypt, Oman, Saudi Arabia and the UAE line up?

Exhibit 2 compares a number of fundamental factors (both population and economic based) to discern where the similarities and the differences between India and China exist. It also looks at the pipeline of potential technical graduates, an important measurement toward creating a sustainable outsourcing industry once the country catches hold with service providers.

**Exhibit 2.**  
**Only Egypt Has Strong Similarities with India and China**

Source: United Nations Statistics Division, World Bank and Yankee Group

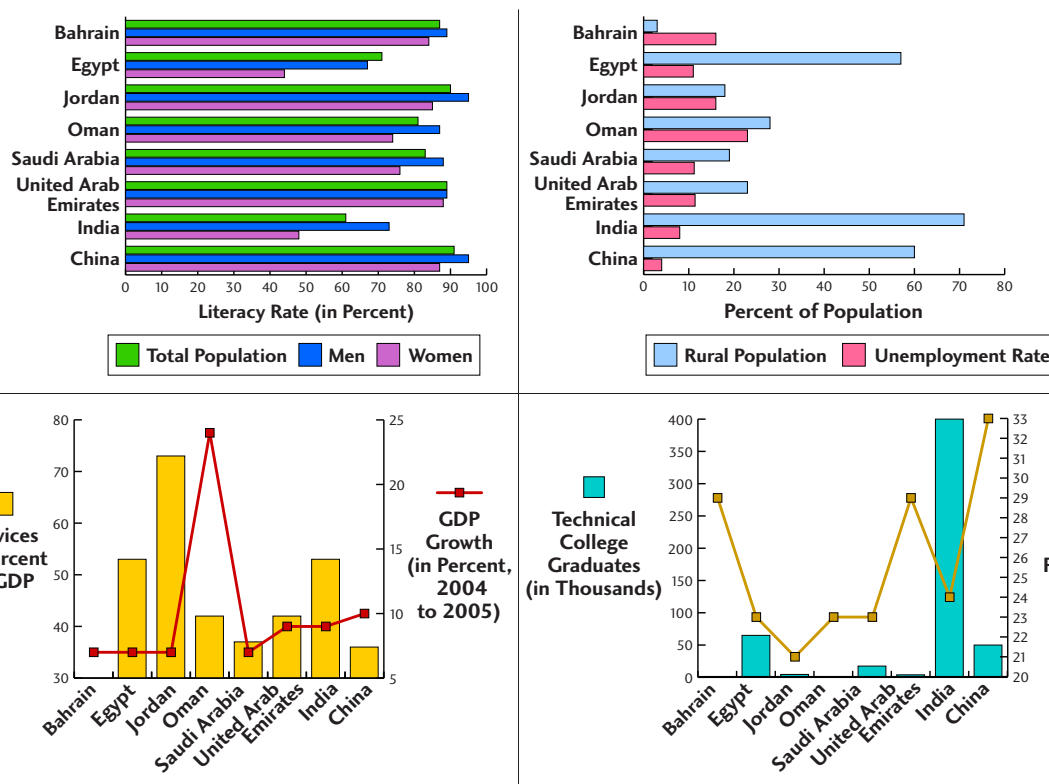


Exhibit 2 indicates that only Egypt has a similar profile to India and China as well as a similar profile that includes a large rural population, similar levels of poverty and official unemployment rate. What is striking about the other Middle Eastern countries is that their gross national income (GNI) per capita is extremely high (40 times the Indian GNI per capita). Also, the local population makes up only a small portion (for example, 10% in the UAE) of the total workforce. This leads to imbalances in wealth distribution among the local population, leading to high levels of unemployment. For example, in Bahrain, Jordan and Oman, the official unemployment rates among the locals are at least double or triple that in India. In these countries, low-cost immigrants from the Indian subcontinent and other Arab states have bolstered the workforce. Middle Eastern countries (in particular, the Gulf Cooperation Council [GCC] states) are now undertaking localization programs (e.g., Bahrainization, Saudiization) that offer locals jobs and preferential training, setting quotas for each industry. For example, in Bahrain, there is a mandatory 15% Bahrainization rate within the construction industry. The UAE takes a different approach, with a threshold level of 2% Emiratis and an annual increase (e.g., the banking sector must increase the number of Emirati employees by 4% per annum). Jordan is the only country analyzed that appears not to impose quotas.

Exhibit 2 contrasts the size of the technical graduate pipelines. Compared to India, only Egypt appears to generate significant numbers of technical graduates. However, it appears that although small, Oman and the UAE have programs in place to generate a high percentage (~50%) of technical graduates. According to literacy statistics from the UN 2007 Human Development Index (HDI), when tracking tertiary students in science, engineering, manufacturing and construction, countries in the Middle East do relatively well in terms of a long and healthy life, knowledge and a decent standard of living. The rankings among 177 countries are as follows: Kuwait, 33; Qatar, 35; UAE, 39; Bahrain, 41; Oman, 58; Saudi Arabia, 61; Jordan, 86; and Egypt, 112 (compared to India, 128 and China, 81).

Another measure of a country's ability to compete against India and other established locations is the state of its information and communications technology (ICT) infrastructure. Internet penetration is a good proxy for this. The good news for Middle Eastern countries is that all of the countries in the region have superior internet penetration compared to India. The UAE has the highest internet penetration, followed by Bahrain and Oman. The Emirates' internet penetration is nine times that of India and four times that of Egypt.

In contrast to India, the UAE suffers from high international bandwidth prices. Yankee Group research indicates that the cost of international connectivity there can be up to 27 times higher at the STM-1 level than connectivity into competitors such as Egypt, which is more than four times the cost to India.

In addition to the factors already cited, there are several other characteristics to weigh as well when looking at these different regions. These can include government support, cost, the political and economic pictures, data security, privacy and intellectual property protections, language capabilities and cultural compatibility.

In comparing the Middle East to India and China on some of these issues, the countries in this region possess some advantages as well as some distinct disadvantages:

- **Cultural compatibility and linguistic abilities:** Egypt enjoys particular advantages in this arena, when compared to China and, to a lesser extent, India. European tourists frequently visit Egypt and the country's multilingual capabilities make Egypt attractive to Europe-based countries. By contrast, China does not have the same level of comfort with Western culture and traditions as Egypt. India's bailiwick is its strong English-speaking workforce, which works well for US-based and UK-based companies (although there are complaints about the accent); but the lack of other languages is a disadvantage in India when it comes to EU-based companies. China's lack of English-speaking and other language skills is a major concern for service providers expanding into that country.
- **Low cost:** To reiterate, the cost of doing business in India has been increasing in recent years. By contrast, China has extremely low real-estate, land and power costs. Costs in the Middle East are not as low as in China.
- **Government policies:** The authoritarian and totalitarian Chinese government has made attracting outsourcing work to the country a major initiative. Many enterprises that have expanded their work into that country have pushed service providers (SPs) to enlarge their operations in China, providing BPO and ITO to branch offices in China. Although the Egyptian government has made growing its outsourcing market a priority, it cannot move as definitively as China when it comes to such issues as improving roads and airports. India, a democracy with several regional governments, is also phlegmatic with respect to removing roadblocks and making improvements to infrastructure. Some Middle Eastern governments, such as Abu Dhabi, Oman and Bahrain, are aggressively putting policies and resources in place to attract outsourcing work. So although China probably enjoys advantages over India as well as most of the Middle Eastern countries when examining this factor, many Middle Eastern countries' governments understand that they need to work in concert with service providers and educational institutions to make their locations attractive for outsourcers. However, one drawback of doing business in the Middle East is that many of the countries require that SPs work with local partners. Multinationals are not allowed to directly execute business deals and contracts. This creates a level of bureaucracy not present in India.

- Geopolitical forces:** This is an important factor for both outsourcing service providers and enterprises to examine before committing to sending work to a particular region. In an examination of the geopolitical atmosphere in India, China and the Middle East, India would probably come out on top, China would come in second and the Middle East would be a distant third. The poor showing of the Middle East on this factor stems from perception, if not from reality, as many enterprises—particularly in North America—view the entire region as a hotbed of strife and instability. This is probably less true for Egypt; but nonetheless, the entire region has a long way to go in terms of convincing Western enterprises it is a safe and stable place from which to conduct business.

### III. Foreign Direct Investment

In 2006, according to the United Nations Conference on Trade and Development (UNCTAD), the countries of the Middle East attracted approximately \$60 billion of foreign direct investment (FDI). By adding FDI into Egypt, the figure rises to \$70 billion. In the 5 years between 2001 and 2006, FDI in the Middle East grew at an average of 53% (55% including Egypt) per annum as illustrated in Exhibit 3. FDI is growing fastest in Oman at a breakneck pace of 183% per annum. This is more than double the rate of FDI attracted to Egypt, although Oman only attracted 1% of regional FDI.

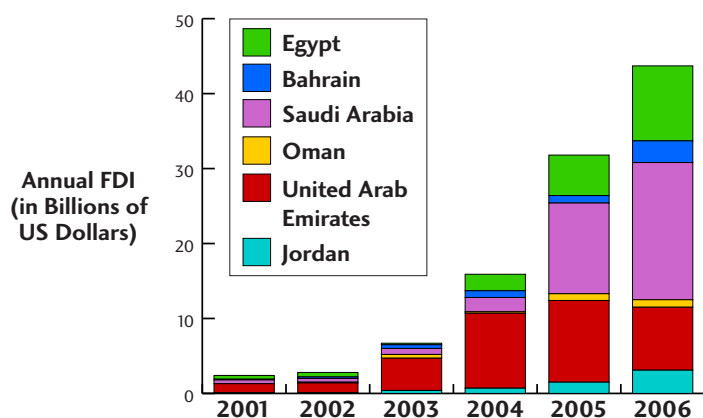
Saudi Arabia dominates FDI inflows into the Middle Eastern region, attracting more than \$18 billion or 22% of inflows in 2006. The most attractive countries to investors were Saudi Arabia, Egypt and the UAE, which attracted a combined \$37 billion of FDI, or 53% of the total 2006 FDI inflows.

Saudi Arabia and other oil-rich countries are making strides to reduce their dependence on oil-related FDI. For example, the 15 trade zones of the UAE attracted the majority of FDI into the country, but particularly within the Gulf States, oil-related FDI remains significant. For example, in 2006, 44% of Saudi Arabian FDI was oil-related, whereas in Egypt only 25% was oil-related. The other 75% was associated with expansion of current or new non-oil-related FDI. This indicates the Saudi and other oil-rich countries still have quite a distance to go to refocus and expand the scope of their economies.

#### Exhibit 3.

##### Saudi Arabia Dominates FDI

Source: World Bank, UNCTAD and Yankee Group, 2008



The increases in oil revenue have led to significant FDI outflows from Middle Eastern countries, with investors from the Gulf States spending \$70 billion overall in overseas investments in 2007. Significant amounts are invested in other Middle Eastern countries. For example, UAE and Saudi companies announced investments in Jordan amounting to \$1 billion. In the same period, UAE companies announced investments in Egypt totaling \$7 billion. The UAE is now the largest foreign investor in Egypt, with expenditures in communications, banking, real estate and tourism. Egypt is now receiving increased levels of financing from China, India and Turkey—an indication of a strong diversity of FDI sources.

The continuing boom in oil revenue has led to huge windfalls for the GCC states including Bahrain, Oman and the UAE, giving these countries the opportunity to make significant investments in financial and industrial company shares via their sovereign wealth funds (SWFs). The GCC SWFs have assets in excess of \$2,000 billion. These huge pools of wealth give the GCC countries the ability to change the complexion of foreign investment by making strategic purchases and then exerting their financial muscle. But so far, these countries have not taken advantage of their wealth in this way. According to a strategic research briefing paper published by Thomson Financial in January 2008, investments during the last 2 years amounted to less than 10% of the available funds.

#### **IV. The Environment**

Because of its booming petroleum industry, many Middle Eastern countries have long dealt with North American and European companies. Therefore, countries such as Egypt and Saudi Arabia feel comfortable with Western business styles. However, the comfort doesn't always extend in the opposite direction, especially for North America-based companies that perceive the Middle East as a region rife with geopolitical unrest. Fears persist that relying on this region for offshoring, especially of potentially sensitive BPO work, is a dicey proposition.

Adding fuel to these fears was a disruption in communications at the end of January 2008 that apparently began in Egypt and rippled outward, causing outages and slowdowns in networks throughout the Middle East and India. The problem—which came just a couple of days after an earlier critical break in cable communications—began when underwater cables just north of Alexandria, Egypt were somehow cut, leading to a disruption of reportedly 70% of the internet network in Egypt and 60% in India. This meant that the communications ability—for instance, of call centers in India—was effectively cut in half. Following this incident—which may have been caused by a ship's anchor dragging along the ocean floor—FLAG Telecom, the owner of the cable, has begun laying a new, stronger fiber-optic cable in the sea between Egypt and France.

Although unusual, such incidents and slowdowns are not unheard of and they are the kinds of occurrences that can give enterprises pause when considering offshoring their outsourcing. Global companies affected by the disruption switched to contingency and back-up plans. For instance, a report on CIO.com stated that telecom provider Nortel had to route traffic through Hong Kong and through the satellite operations it has in several Indian cities to bypass the cable breaks.

Because many MNCs functioning in India long ago put in place back-up systems, their businesses could continue with relatively few slowdowns. However, according to reports in the Khaleej Times, the impact was much greater in the Middle East, where the communications links are much less robust. For example, the cable breaks caused the alternative operator in the UAE to suspend all international voice calls after the third cable break.

It should be noted that as most MNCs and India-based service providers now operate global delivery models with outsourcing centers based in several different countries, the risks of being severely affected by a disruption in any one country are greatly alleviated. But the type of disruption that took place in Egypt shook up the outsourcing industry and gave many enterprises pause. At the very least, it created doubts about the viability of doing business in this region—and in such matters, perceptions can be as important as reality.

One global trend that has taken hold in Egypt—and to some extent in a couple of other Middle Eastern countries and China—is building business parks called Smart Villages. Satyam now operates in the Smart Village Cairo, as do companies such as Dell and Alcatel. These villages go well beyond the typical Western office park because they include housing and other amenities and services such as event management and meeting rooms that can be the size of convention centers.

But making sure that those office parks are full of qualified workers is a continuing challenge for all outsourcing regions. Egypt in particular is redoubling efforts to focus on the quality of IT education, not just on graduating high numbers of workers with basic IT or commerce skills. For instance, Egypt is instituting a graduation requirement whereby students must have some ICT or computer training in their fourth year even if they are getting a business degree, to make sure workers have some knowledge of IT.

In its bid to take on such outsourcing markets as India's, Egypt is also well aware of the need to fix some issues that are impeding its business development efforts. These challenges include:

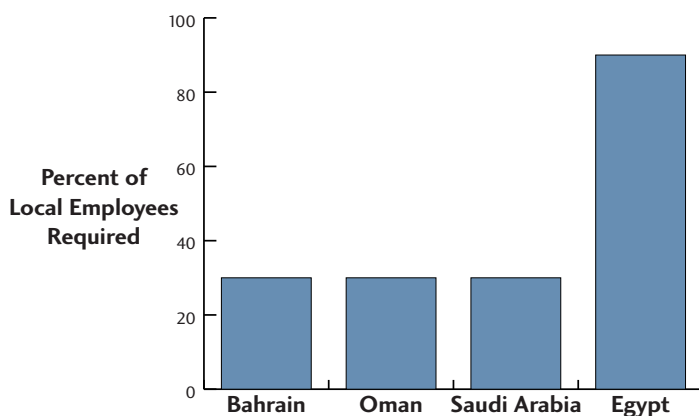
- Fixing the fact that gaining access to land is extremely complicated and difficult
- Improving access to finance and micro-financing for small and medium enterprises
- Cutting back on the red tape and bureaucracy involved in getting businesses up to speed
- Continuing to work on the skills gap in the workforce

All of the countries vying for a slice of the outsourcing market have a workforce localization policy that covers all sectors of the economy, including the IT and communications markets. This policy makes it extremely difficult for a country or company to ramp up the IT skills rapidly as the demand grows. A case in point is Injazat Data Systems (a joint venture between the Abu Dhabi Government and EDS), which has had to rely on non-Emiratis to fill posts as the demand for its outsourcing services took off. Exhibit 4 compares the quotas required by Bahrain, Egypt, Oman and Saudi Arabia. The localization policies will have a greater negative effect in the countries with the lowest IT skills base. From Exhibit 4, it is clear that the norm in other countries is a 30% local workforce quota, whereas Egypt imposes a 90% local workforce quota. The 10% non-Egyptian workforce can only be breached in exceptional circumstances, and then only if permission is given. To date, the high quota level has not hurt the development of Egypt's outsourcing industry.

#### Exhibit 4.

#### Egypt Has the Strictest Localization Policy

Source: Egyptian Government and Yankee Group, 2008



## V. Current Outsourcing Activity

Currently in the Middle East, much of the outsourcing is due to the BPO or ITO needs of companies involved in the petroleum industry. A growing number of outsourcing service providers are establishing delivery centers in the region, including Wipro Technologies and Satyam Computer Services. Other outsourcers have only sales and marketing offices that establish their presence and handle customer service, while they utilize their delivery centers in India or Asia to do the actual work. Most clients for the bigger service providers operating in this region are MNCs with Middle Eastern operations, rather than Middle East-based companies.

This is true for ADP, the US-based company that does HR administration, payroll and benefits administration for global businesses. ADP has set up a small office in Dubai and is working with clients there as well as in the UAE and Qatar. Its customers tend to be in the financial services as well as in the oil and gas industry. According to ADP executives, some clients have even asked the company to set up operations in Iraq, owing to the growing number of companies starting to do business there. However, ADP says that security concerns are currently holding them back from opening up a beachhead in that country. EDS (apart from its Abu Dhabi joint venture) has customers in Qatar.

Other companies currently doing business in the Middle East include Satyam, the India-based company which has opened up its Global Solutions Center in Smart Village Cairo, where it is providing various IT services for customers. CSC also has an office in Cairo, which is a branch of its India-based operation. This office works with a local airline and some global financial services clients as well as oil and gas companies. The Dubai office has what CSC calls an “enabler support team” as well as sales employees. Because many Middle Eastern countries do not allow Western-based companies to make direct deals, CSC has partners in Qatar, Kuwait, the UAE and Bahrain. CSC currently has no plans for a delivery center in the region, but is leveraging its offshore facilities in India—particularly in Mumbai—to do the work.

Attracting global service providers to set up global delivery centers in the region is only part of the picture, as the same resources can be used to address outsourcing requirements of the domestic markets (and vice versa). Addressing the domestic markets in GCC countries requires setting up a joint venture to tap into the local talent. Wipro’s joint venture in Saudi Arabia (set up in 2006) and Electronic Data Systems’ (EDS’) joint venture in Abu Dhabi exemplify this approach.

### Case Study: Injazat Data Systems

Abu Dhabi-based Injazat Data Systems is a joint venture between Mubadala Development Company (MDC), the project finance and investment agency of the Abu Dhabi Government, and EDS. MDC owns 60%; EDS owns 40%. The company started operations in the first quarter of 2005, after EDS was selected as MDC’s partner to set up a locally based, jointly owned company in April 2004.

In the first quarter of 2004, EDS won a global consulting project tendered by MDC to develop a business case to set up an Abu Dhabi-based company capable of competing in the regional outsourcing market for MDC.

MDC also saw the creation of Injazat as an opportunity to assist in the transformation of the UAE, pulling it away from its almost exclusive reliance on oil and gas revenue while tapping into the burgeoning global IT outsourcing market.

## Injazat Service Portfolio

Injazat offers a full range of BPO services (including HR, F&A and contact center services), ITO services (including application transformation and infrastructure services), along with IT strategy and delivery consulting. To ensure that its service delivery model meets customer requirements, Injazat utilizes a number of best practice frameworks including ITIL, CMMI, ISO 9001, PMI and the EDS standard delivery methodology.

As part of its ITO offer, Injazat is building a Tier 4 data center at its new headquarters site outside of Abu Dhabi, capable of housing 1,000 employees.

Injazat focuses specifically on the UAE market at present, but is expanding its geographical focus to Dubai (2008), Qatar (2008) and Oman (2009). In these markets, Injazat will offer BPO and ITO services to the government, oil and gas, energy and utilities, financial services, transportation and healthcare verticals.

In January 2008 Injazat also established a new defense subsidiary, Injazat Defence Services (IDS), to tap into both the regional and location defense markets. This approach will enable IDS to leverage EDS' strength and long experience in defense ITO and BPO markets.

During its first 2 years of operation, Injazat was in startup mode, with EDS staff occupying a number of senior and middle management posts. Despite this status, it still attracted \$354 million (AED 1.3 billion) worth of business. Today, Injazat continues to make progress with revenue growing at a healthy 80% per annum, with 90% derived from outsourcing contracts. This rapid growth is also Injazat's Achilles' heel; its rapid success led to it recruiting skilled IT staff directly from countries such as Egypt.

Injazat has more than 600 employees, and currently only 30% of Injazat employees are Emirati. Workers hail from 39 different countries. The company has a policy of giving preferential treatment to local workers, as a way to develop the skills of the local population. Although this is not an official Emiratisation policy, it led to the establishment of the Injazat Institute (Ti<sup>2</sup>) in August 2007. The aim of Ti<sup>2</sup> is to enhance the competency and skill levels of Emirati IT professionals by providing both IT and business courses augmented with activity-based courses and on-the-job training.

As it spreads to other geographies, Injazat will also adopt a similar approach to increase the skills and competency of IT professionals in Qatar and Oman.

## VI. What Needs to Be Done

Although it exhibits some healthy outsourcing activity, especially in Egypt, the Middle East still faces challenges in its bid to become a preferred outsourcing location. However, outsourcing in the region is likely to continue to grow. The global clients of the outsourcing service providers, which are expanding their operations in the Middle East, will compel the SPs to increase their footprints in this region. Whether this growth will include the establishment of more actual outsourcing delivery centers—rather than relatively small customer and sales offices—depends on how the various countries in this region deal with the many challenges that remain in place, including talent pool issues, geopolitical concerns, government policies on land and real estate ownership, and communications and transportation infrastructure.

This section of the Report includes specific information on the challenges in each country, which countries have the best chance of establishing themselves in the outsourcing industry, as well as some recommendations for what needs to be done for this region to attract more outsourcing business.

The more multilingual the country, the more attractive it is to a wider range of potential customers. Yankee Group analyzed the main languages spoken within the BPO and ITO sectors of the seven countries as shown in Exhibit 5. This shows that Egypt is the only truly multilingual country.

If the other Middle Eastern countries want to build substantive offshoring and nearshoring industries, they need to develop a range of language skills (outside of English and Arabic) to ensure that they do not end up competing for a small piece of the same pie as every other offshoring upstart around the world.

**Exhibit 5.**  
**Limited Language Skills Outside of Egypt**

*Source: Yankee Group, 2008*

**Languages Spoken Within Outsourcing Industry**

	United Arab Emirates	Saudi Arabia	Oman	Egypt	Bahrain
English	✓	✓	✓	✓	✓
Arabic	✓	✓	✓	✓	✓
French				✓	
German				✓	
Italian				✓	
Spanish				✓	
Portuguese				✓	

*Note: In the United Arab Emirates, although English is the main foreign language, some call centers claim to support six languages including French, Italian, Hindu and Urdu.*

## VII. The Winners and Losers

Although much of the world views the Middle East as a monolithic region, there are distinct differences among the countries in this part of the world when it comes to assessing their strengths and weaknesses as potential outsourcing markets. The following is a thumbnail assessment of the winners and losers among the Middle Eastern countries vying to compete with the more established outsourcing markets of India, Latin America, Eastern Europe, Asia and China.

### Egypt: Winner

Egypt is by far the Middle Eastern country currently best positioned to take advantage of the boom in outsourcing. It has a relatively young population, a multilingual workforce, a large and burgeoning talent pool and strong government support for outsourcing. The Egyptian government has set an aggressive target as it seeks to grow the country's share of the global outsourcing market. It is projecting that local outsourcing companies will have revenue of more than \$1 billion by 2010, four times the 2005 revenue in this space. In addition, Egypt has been courting outsourcing service providers by working on improving its business

environment, making it friendlier. The government (in the form of the Ministry of Investment and the Ministry of Communications and Information Technology) is launching a new outsourcing business park, called Maadi Investment Park, which is specifically aimed at attracting BPO companies. It will be located in Cairo. In addition, a UK-based company called SpinVox has signed a deal to establish a business center in Alexandria. All of these factors—plus Egypt's time zone advantages with EU-based companies and its equidistance to both Asia and Europe—make it the country most likely to succeed in the Middle East and give India a run for its money.

### **Abu Dhabi: Winner**

The approach taken by the MDC in 2004 was both visionary and innovative. Understanding that Abu Dhabi could not enter the outsourcing market on its own, its leaders reached out to global outsourcing players to tap their expertise and leverage their businesses. Since launching Injazat Data Systems in 2005, the company has exceeded expectations. It is well on its way to establishing itself as a leading outsourcing company in the UAE, as well as a potential leading player in the GCC countries and the wider Middle East. Injazat's success, however, is also its Achilles' heel because the company now needs to accelerate the training of local Emiratis to ensure it can build the pipeline of Emiratis with the necessary IT skill sets, enabling it to reduce its dependency on the Arab diaspora.

Injazat also needs to set up training establishments similar to the Injazat Institute to ensure this is a sustainable business. In addition, the company needs to establish links with local universities and colleges to tap into the skill sets of local graduates.

### **Oman: Potential Winner**

Although Oman only announced its intention to become a regional hub for IT-enabled services at the end of 2007, the Sultanate has already put important basic requirements in place. In September 2003, the Sultanate opened Knowledge Oasis Muscat (KOM) Technology Park. KOM brings together IT companies (including Microsoft and HP) with business incubators and two Omani technical colleges: Middle East College of Information Technology and the Waljat Colleges of Applied Sciences. KOM is also adjacent to the Sultan Qaboos University. Microsoft has established an IT Academy and Innovation Centre within KOM. According to statistics from the Omani Ministry of Education, more than 50% of Omani students in 2005 and 2006 graduated with IT-related or engineering degrees, indicating the growth of the Omani IT skills base. Oman has another advantage: the cost of living in Muscat is lower than in Cairo.

Oman also has an established BPO and contact center provider. The company Infoline is a joint venture between the Omani Government (in the form of Public Establishment for Industrial Estates [PEIE]), Bahwan CyberTek (an Indian IT solutions company) and Omantel (the incumbent telecom operator of the Sultanate). Infoline now employs more than 70% Omanis, and in 2007 it launched the Infoline Knowledge Academy.

### **Bahrain: Potential Long-Term Winner**

Bahrain has the ambition to be a BPO outsourcing hub, focusing on specific and relatively narrow BPO market segments including financial services and banking outsourcing, engineering services outsourcing and knowledge process outsourcing. Following this strategy, Bahrain expects to create 100,000 new jobs in outsourcing during the next decade. However, a drawback is that Bahrain lacks the basic infrastructure; for example, it has no technology parks in operation, although two parks are under development. The pitch is similar to Dubai. However, Manama, the capital of Bahrain, is significantly cheaper to live in than Dubai. Bahrain is only likely to succeed if it can create a skilled graduate pipeline, something similar to the one Oman has created. As with Dubai, focusing on the Arab expat community can only work in the short term. Also, in the short term, the Bahrainization program may hinder the development of the industry.

## Jordan: Short-Term Loser

Jordan is the only Middle Eastern country (other than Egypt) to establish itself as a potential outsourcing location. However, to date, there are only a limited number of contact centers and virtually no BPO activity within Jordan. This is despite the fact that Jordan generates 5,000 IT graduates a year. However, Jordanian companies report that IT graduates require up to 9 months of extra training before they are deemed ready to function in their roles. Jordanian companies also report that after the IT workers are trained, these now skilled workers leave due to the high demand for IT talent across the Middle East, particularly the Gulf region. This talent challenge has led to a high number of skilled Jordanians heading to countries offering higher salaries. The Jordanian Ministry of ICT (MoICT) hopes to stem the flow of skilled IT workers out of Jordan through the creation of its new National ICT Strategy. The new strategy is also looking to put in place policies that will make Jordan an attractive location for BPO. These new policies are unlikely to have an immediate effect, as it takes time to stem the flow of trained IT staff out of the country and reverse the process. The Jordanian Government will also need to overcome some companies' concerns about Jordan's border with Iraq, as they fear an increased security risk.

## Dubai: Loser

Dubai faces major challenges in convincing enterprises and IT service providers that it is a smart shore location of the Middle East. These hurdles include skyrocketing real-estate rental prices that have increased by 65% during the past year and are now on a par with prices in European cities such as Geneva, according to Kershaw Leonard, a global recruitment company. Dubai also suffers from limited public transport. As with the Smart Village in Cairo, the Dubai equivalent, the Dubai Outsource Zone, is located outside the city center and is therefore difficult to reach. The projected 2010 completion of the Dubai Metro will alleviate this problem. The subsidized office and worker accommodations also go some distance in blunting the cost-of-living issue, but the high cost of bandwidth could leave Dubai totally uncompetitive.

## Kingdom of Saudi Arabia: Long Shot

In 2007, the Saudi Arabia Council of Ministers announced plans to develop the telecom and ICT sectors of the Kingdom of Saudi Arabia (KSA). The plans are for the development of a Knowledge Economic City Al Madinah (KEC), including a technology park and technological colleges, while creating 20,000 jobs. The total project cost is \$6.7 billion (25 billion riyals). Although the KSA economy is the largest in the Middle East, Saudi Arabia lacks a domestic workforce with strong IT skills. To mitigate this, the KSA Government has created a partnership with Microsoft to help build basic Saudi IT skills; and as in Oman, Microsoft is establishing an academy there. KEC has also signed a memorandum of understanding (MoU) with Oracle to establish an Oracle Training Academy. With Wipro forming a joint venture with a local Saudi IT company, this will help build an IT skill capacity—but building an adequate talent pool takes time. We believe that KSA will need at least 5 years for these programs to gain momentum. Therefore, the potential for Saudi Arabia as an outsourcing hub is more of a long-term play. In the shorter term, it needs to take advantage of the size of the domestic IT market to build outsourcing expertise as Abu Dhabi is doing.

## VIII. Conclusions and Recommendations

### Recommendations for Middle Eastern Governments

The Middle East is making great strides in attracting outsourcing work to the region, particularly as global companies expand their work in the region and seek third-party help with their IT needs or business processes. Outsourcing these services is attractive to many MNCs, which don't want to take the time or spend the money and human resources to do it themselves, or to establish shared services centers that would

function as a sort of internal outsourcing unit (shared services centers are used when a company decides to centralize all of its IT or business process services in one center that then provides these services for a whole region or country). But there are some steps that countries in this region must take to truly raise the region's profile in the outsourcing world, as well as to compete on a more equal footing with the more established outsourcing markets in India and China:

- **Invest heavily in local infrastructure.** Anyone doing business in India has complaints about the roads, airports and telecommunications networks. All of the countries in the Middle East, including Egypt, need to make improving these structures a priority.
- **Focus on the quality of the work and the training of workers.** Enterprises are no longer only interested in getting their work done at the cheapest possible price, with quality a distant second. Instead, companies are much more focused on the quality of the work, and want to ensure that it fits seamlessly into their overall organization and with their corporate mandates. One way to ensure this is to redouble the efforts under way to promote technical education and to gear these programs to the needs of the service providers considering or already doing business in the region.
- **Place particular emphasis on BPO outsourcing.** For MNCs, dealing with the HR and F&A challenges of expanding into a region like the Middle East as well as grappling with compliance and regulations are the major reasons they decide to outsource. These sorts of services are harder to offshore, so having an onshore option for BPO to service their Middle Eastern branch offices is particularly appealing.
- **Remove bureaucracy from the cost and time required to launch a business.** Making it easier for service providers to set up branch offices and delivery centers (including removing roadblocks from owning land and real estate), and making it easier for service providers to strike business deals, will help the region in the long run.

## Recommendations for Service Providers

- **Develop a vertical industry strategy with the needs of doing business in the Middle East in mind.** Many global companies that tend to do business in the region come from the financial services and oil and gas industries. Aiming programs specifically at these groups and their particular needs is a smart way to proceed, especially in this region. Many service providers already do this—but tweaking existing programs with an eye toward the needs specific to operating in the Middle East will meet client desires.
- **Develop relationships with the various governments and educational institutions focusing on education and talent.** In India, some service providers have established programs with the local universities and training centers to ensure that graduates emerge with adequate training and knowledge of both business and IT. This approach should be adopted in the Middle Eastern countries where the governments and institutions are willing to partner.

## IX. Further Reading

### Yankee Group Link Research

[Outsourcing in Africa—Can the Promise Overcome the Hurdles?](#), Report, January 2008

[Is the Future Bright for Outsourcing IT Services to Egypt?](#), Report, May 2007

## Yankee Group

Yankee Group has research and sales staff located in North America, Europe, the Middle East, Africa, Latin America and Asia-Pacific. For more information, please contact one of the sales offices listed below.

### Corporate Headquarters

Prudential Tower  
800 Boylston Street  
27th Floor  
**BOSTON, MASSACHUSETTS 02199**  
617-598-7200 phone  
617-598-7400 fax  
info@yankeegroup.com

### Europe

56 Russell Square  
**LONDON WC1B 4HP**  
**UNITED KINGDOM**  
44-20-7307-1050 phone  
44-20-7323-3747 fax  
euroinfo@yankeegroup.com

### Yankee Group | the global connectivity experts™

A global connectivity revolution is under way, transforming the way that businesses and consumers interact beyond anything we have experienced to date. The stakes are high, and there are new needs to be met while power shifts among traditional and new market entrants. Advice about technology change is everywhere—in the clamor of the media, the boardroom approaches of management consultants and the technology research community. Among these sources, Yankee Group stands out as the original and most respected source of deep insight and counsel for the builders, operators and users of connectivity solutions.

For 37 years, we have conducted primary research on the fundamental questions that chart the pace and nature of technology changes on networks, consumers and enterprises. Coupling professional expertise in communications development and deployment with hundreds of interviews and tens of thousands of data points each year, we provide qualitative and quantitative information to our clients in an insightful, timely, flexible and economic offering.

### Yankee Group Link

As technology connects more people, places and things, players must confront challenging questions to benefit from the changes: which technologies, what economic models, which partners and what offerings? Yankee Group Link™ is the research membership uniquely positioned to bring you the focus, the depth, the history and the flexibility you need to answer these questions.

Yankee Group Link membership connects you to our qualitative analysis of the technologies, services and industries we assess in our research agenda charting global connectivity change. It also connects you to unique quantitative data from the dozens of annual surveys we conduct with thousands of enterprises and consumers, along with market adoption data, comprehensive forecasts and global regulatory dashboards.

### Yankee Group Link Research

As a Link member, you have access to more than 500 research reports and notes that Yankee Group publishes each year. Link Research examines current business issues with a unique combination of knowledge and services. We explore topics in an easy-to-read, solutions-oriented format. With the combination of market-driven research and built-in direct access to Yankee Group analysts, you benefit from the interpretation and application of our research to your individual business requirements.

### Yankee Group Link Interaction

Our analysts are at your further disposal with data, information or advice on a particular topic at the core of a Link membership. We encourage you to have direct interaction with analysts through ongoing conversations, conference calls and briefings.

### Yankee Group Link Data

Yankee Group Link Data modules provide a comprehensive, quantitative perspective of global connectivity markets, technologies and the competitive landscape. Together with Link Research, data modules connect you to the information you need to make the most informed strategic and tactical business decisions.

### Yankee Group Consulting

Who better than Yankee Group to help you define key global connectivity strategies, scope major technology initiatives and determine your organization's readiness to undertake them, differentiate yourself competitively or guide initiatives around connectivity change? Our analysts apply Yankee Group research, methodologies, critical thinking and survey results to your specific needs to produce expert, timely, custom results.

### Yankee Group Signature Events

Yankee Group conferences, webinars and speaking engagements offer our clients new insight, knowledge and expertise to better understand and overcome the obstacles to succeed in this connectivity revolution.

### [www.yankeegroup.com](http://www.yankeegroup.com)

The people of Yankee Group are the global connectivity experts™—the leading source of insight and counsel for builders, operators and users of connectivity solutions. For more than 35 years, Yankee Group has conducted primary research that charts the pace of technology change and its effect on networks, consumers and enterprises. Headquartered in Boston, Yankee Group has a global presence including operations in North America, Europe, the Middle East, Africa, Latin America and Asia-Pacific.