

Egyptian Effort Succeeds at Bringing Home PCs Within Reach of Most Lower-Income Workers

SITUATION

Egypt is a well educated country, but suffers chronic unemployment, especially among young adults. The government believes that broader technology access will boost job growth, make the country more competitive and improve the quality of life for Egyptians.

Providing broad technology access is a challenge. First, poverty is pervasive. Among Egypt's 77 million people, 60 million are considered "working poor," what the government calls "Class C." Those in this group, while largely employed and relatively well-educated, have typical annual incomes of only about 1,100 U.S. dollars. Theirs is a cash-based existence. They have little if any credit history. What few financial services they need they get at a post office. Most have never even been inside a bank. To these masses, the cost of a personal computer as a cash outlay makes at-home technology access beyond their means.

The challenge is how to put owning a PC purchase within reach of individuals who can't pay cash and have no access to credit.

Through its work around the world, Microsoft has found that the single biggest barrier to putting PCs into the homes of the working poor is the dearth of credit available to them. Credit would enable the working poor to make a sizeable investment in their futures. Without credit, though, they have no option. The magnitude of the problem is significant. According to the *Economist*, five of every six people on the planet have no access to institutional credit.

The challenge of fostering greater PC ownership in emerging markets is daunting. Egypt ran into this obstacle in 2000 when it first tried a similar program. The country's IT industry formed a coalition to launch an ambitious venture with a goal to greatly increase PC ownership among Egypt's working poor. A big U.S.-based bank offered a sizeable line of credit. When that program was announced, 30,000 Egyptians rushed to apply for a PC loan. However, when the bank put the applicants through its normal credit process, only 50 people were given loans to buy computers. The program failed miserably.

SOLUTION

In 2002, Microsoft helped create a new public-private partnership (PPP). It included government leaders, led by Dr. Ahmed Nazif, who is now Egypt's prime minister, as well as Microsoft, Bank Misr, Intel, Telecom Egypt, and a handful of other companies and non-governmental organizations. Their charge was to find an answer to the credit challenge.

Microsoft told the group that its success would largely rest on how active the government would be in the program. The PPP understood that the state needed to play a role to help the banks secure the assets in order to lend to an income group traditionally deemed too risky. The group's plan was to enable for Egyptians with no formal credit history a way to buy a home PC through market-rate loans. Launched in November 2002, the *PC for Every Home* initiative was the first part of a broader program entitled "National Initiatives of PC for the Community." More than 250,000 mostly lower-income Egyptians have since bought a PC for their home through the program.

The success of the *PC for Every Home* initiative stems largely from the government's zeal to make it work. Through the direct involvement of senior government leaders, parties that had no compelling reason to take business risks chose to do so. For example, Dr. Nazif, who was head of the then newly formed Ministry of Communications and Information Technology (MCIT), convinced Telecom Egypt to offer an individual's phone line as collateral for a computer loan. If a borrower failed to make loan payments, the family's home telephone line could be cut. Dr. Nazif convinced Telecom Egypt that it was the right thing to do, even if the direct benefits to Telecom Egypt were not immediately evident. Telecom Egypt, which has been partly privatized in recent years, now proudly refers to its role as good corporate social responsibility.

A similar argument was made to Banque Misr. Dr. Nazif lobbied the bank's leadership to take an unusual approach to lending. Normally, a bank cannot justify lending even a small sum to those with no credit history. Egyptian leaders argued, though, that spreading technology access among the working poor was vital to Egypt's economic future. Perhaps their more winning argument, however, was that they would find a way to reduce the risk of the loans. And that's exactly what Dr. Nazif did. He helped create an insurance arrangement in which a non-government organization (NGO) insured all the loans through a small fee added to the purchase. Like Telecom Egypt, Banque Misr chose to support this government initiative largely based on Dr. Nazif's leadership and conviction.

MCIT leaders recognized that a second challenge was the weakness of the nation's IT industry. Greater reliability from products produced inside Egypt was essential for the program to be sustained. At the time, building a computer system in Egypt was mainly a cottage industry. Most home computers were assembled by one-person businesses, many relying on individuals with little formal IT training. Quality and reliability varied widely. It would be like going to a neighborhood auto mechanic and saying, "Build me a car from scratch."

To address this shortcoming, the government formed a company called Centra Technologies, which is owned by both public and private sector companies. When the initiative launched, Centra and a handful of other privately held system builders each offered four PC configurations that had to meet both hardware specifications and price limits. To emphasize quality and reliability, each had to include licensed copies of Microsoft® Windows® XP and Microsoft Office Academic (Select). Each also had to offer a three-year warranty and technical support service.

How it works

Egyptian consumers learn about the initiative through newspaper ads, exhibitions, radio spots or television commercials, most of which were paid for by Microsoft. Consumers call a special telephone number to learn where in their community they can buy a computer from an initiative retail partner, which also often provides on-the-spot access to a banker. The phone operators, though, are specially trained to explain how the credit plan works because most callers have never before bought anything on installments.

To qualify, an Egyptian family need meet only two conditions. First, they must have paid their quarterly Telecom Egypt phone bill on time for the past year. Second, they must present an official identification card on which the address matches the address on the phone bill. If they can meet these two requirements, they qualify for a bank loan of up to nearly 900 U.S. dollars. The applicant pays a relatively small upfront fee and is given a special one-time-use credit card to purchase a computer through any of the approved 23 system builders or their retailers. (The upfront fee covers, among other things, an insurance policy offered by the NGO that limits the bank's losses should a customer default on the loan.) The buyer chooses from four configurations, ranging in price from about 450 to 800 U.S. dollars, including the Microsoft software and a coupon worth about 35 U.S. dollars for software locally developed by Egyptians.

They can take up to 40 months to pay off the loan at a fixed market rate that is typical for credit cards. As a result, they can own an Internet connected PC for as little as 15 U.S. dollars a month. (The government recently launched an expansion of the program to make even lower-cost, but less-powerful PCs running Windows Starter Edition available for monthly payments as low as 8.50 U.S. dollars.)

Every month, the new PC owner must go to the bank to make payment using a special credit card linked to the account. If a payment is missed, the PC owner's home telephone service is disconnected. The line will be turned back on when the payments are brought up-to-date. In the event that three months lapse without payment, the bank declares the loan in default, and the phone company permanently suspends service to the address. The bank then collects the balance due from the third-party insurer. The default rate has been less than 2 percent, which the bank says is comparable to the default rate of its entire loan portfolio.

In late 2004, Dr. Tarek Kamel, who succeeded Dr. Nazif as Minister of Communications and Information Technology, convinced the National Bank of Egypt to join the partnership. The bank committed 200 million U.S. dollars to the initiative. Recently, large-store retailers, known in Egypt as hypermarkets, have streamlined the process even further by allowing potential customers to visit a kiosk where the computers are displayed. If interested, customers walk a few feet to a bank service desk where they can apply to get the one-time-use credit card in a matter of minutes.

To ensure quality control, MCIT established its own customer service monitoring through two formal programs. First, it operates a Mystery Shopper program. Once a year, unknown to the system builder, PCs from each builder are purchased from retailers and put through quality assurance tests at MCIT. Second, MCIT engaged Xceed to take toll-free calls from consumers. While most of the calls to Xceed, an Egyptian company that operates a state-of-the-art call center, are from Egyptians seeking more information about the *PC for Every Home* program, some of the calls report problems with PCs. When Xceed receives a service call, it immediately sends the details to MCIT where staff follow up and resolve the issue. MCIT tracks all service issues by system builder. In addition, Xceed mounts an annual outbound customer satisfaction survey for the initiative.

Broader benefits of the initiative

While the government's goal was to greatly increase PC ownership among the working poor, it had other objectives and has realized other benefits, including:

- A stronger IT infrastructure across several segments of the economy
- Digital-literacy gains
- E-government services to lessen the reliance on in-person transactions
- Assimilation of the PC into everyday life of more and more Egyptians
- Pronounced decline in software piracy

STRONGER IT INFRASTRUCTURE: Since November 2002, the number of Egyptian PC manufacturers/assemblers qualifying to sell their products through the initiative has grown from six to 23, including some, such as Overseas Computers, IBS, and Nordix, that have become substantial companies with more sophisticated product lines and marketing. Centra, which was created specifically to meet the need for a reliable PC source for the initiative, has become a major player in the business computer marketplace. It has begun export operations and plans to build manufacturing facilities in Kuwait to help it meet the demand in the Middle East, and Mozambique, from which it plans to supply PCs throughout southern Africa.

The Egyptian software industry has also benefited from the program. The leading software trade organization in Egypt, known as eLabs, reports that when the initiative began, it offered 400 Egyptian-written, Arabic-language software programs aimed at home users from 12 companies. Today, the eLabs catalog for the initiative boasts 1,200 locally written programs from 30 companies.

MCIT says that the initiative has fostered financial predictability to the young IT industry in Egypt and has been responsible for creating more than 5,000 new jobs.

DIGITAL LITERACY: The bundling of Microsoft Office into every PC purchased in the initiative gives everyday Egyptians the opportunity to learn valuable marketplace skills. New, better-paying job prospects will be within the grasp of those who learn to use Office productivity software. By boosting IT skills and literacy, the Egyptian government hopes to see a corresponding increase in economic productivity and competitiveness.

In addition, there is evidence that home PC users are accessing the Internet more frequently. Internet usage in Egypt has tripled since the program began. Rapid expansion of Internet usage began in 2000. That year, the government established the Free Internet Initiative. It eliminated costly dial-up accounts that had put the Internet financially out of reach for the working poor. The government established a special telephone service for dial-up access so that the only cost for consumers was their normal telephone usage charges. It then also slashed the monthly charge for broadband service in half.

E-GOVERNMENT: The *PC for Every Home* initiative is part of the government's plan to serve its citizens more effectively and efficiently. Government services in Egypt tend to be centralized in Cairo. This produces a temporary migration to Cairo each week of about 1 million persons who need to conduct business with the government. This expense and trouble can be avoided if a person can access what he or she is looking for on the e-government portal.

With 5 million Egyptians now having Internet access, the government has moved selected official transactions to its new national portal (an English-language version can be found at <http://www.egypt.gov.eg/english/>). Microsoft has played an integral role in creating the e-government portal. At least 18 services are now available there, ranging from auto licensing to birth certificates to finding out at which universities a student has been accepted. For those who don't yet have Internet access at home, the government has put computer terminals in post offices throughout the country connected directly to the e-government portal. Recently, it began establishing kiosks in other locations.

GENERATING DEMAND: The government believed that for the program to succeed it had to convince working class Egyptians that a PC was worth the investment for their children's future. With help from Microsoft and Intel, a public education campaign was mounted that included three television commercials and more than two dozen exhibitions around the country. Microsoft also worked individually with various partners to produce joint promotions.

PIRACY ABATED: While government, education, and large businesses in Egypt have long been running legal software, piracy in the home and small business market was rampant when the initiative began. The government recognized that piracy was throttling its young, fragile software industry and was undermining its key goal of bringing its IT industry up to international standards. Through quality controls built into the program and the country's subsequent decision to make piracy a crime, most home PCs today run on licensed software, and piracy in the country is greatly reduced. Unofficial estimates state that piracy has dropped by more than half.

Expanding the initiative

With the success of the *PC for Every Home* program, MCIT is expanding the PC for the Community initiatives. In the planning stages are programs called *Laptop for Every Professional*, *PC for Every University Student*, *PC for Every University Professor*, and a broader business initiative called simply *e-Enterprise*. The *PC for Every Home* initiative itself was expanded in February 2006 with what's being called *The Family PC* line.