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**EGYPT YOUTH EMPLOYMENT
(EYE): JOBS AND PRIVATE SECTOR
DEVELOPMENT IN RURAL EGYPT “RAWABET”**

SECTOR SELECTION

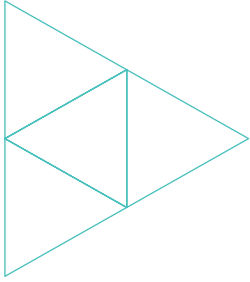




International
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روابطة
RAWABET



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Title: Egypt Youth Employment (EYE) jobs and private sector development in rural Egypt: Sector selection

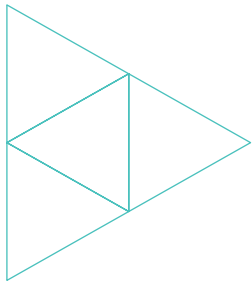
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Sector Selection/ Rapid Market Assessment

Foreword:

One of the key approaches that the International Labour Organization (ILO) has developed to guide its value-chain-focused interventions to promote decent work opportunities is the “market system” approach. The market system approach to value chain development brings into perspective all relevant market actors in economic sectors/subsectors holding high growth and employment potentials, with an aim to identify and address major obstacles and market inefficiencies, while capitalizing on imminent opportunities and establishing necessary linkages and partnerships, towards enhancing the performance of target sectors/subsectors, and, therefore, increasing their capacity to generate decent employment opportunities.

Against this backdrop, the ILO Cairo project “Egypt’s Youth Employment: Jobs and Private Sector Development in Rural Egypt (EYE RAWABET)”, implemented in cooperation with the Ministry of International Cooperation and funded by Norway, has been looking to identify its target subsector/ value chain in the manufacturing sector. Towards that end, the project team reinitiated a series of technical consultation meeting with project partners and stakeholders, during which several subsectors have been discussed, including ready-made garments, furniture, and white goods. While the white goods sector has emerged as a more plausible choice to pursue taking into consideration Egypt’s economic situation during the period of 2020-2021, it was, however, necessary to verify and confirm the eligibility and relevance of the subsector to the project’s scope, timeframe and design by running a sector selection exercise. Through the exercise the white goods subsector underwent several quantitative and qualitative assessments, generally and in comparison with other identified subsectors, including the furniture and the ready-made garments subsectors.

The report, at hand, summarizes the outcomes of the sector selection exercise, which goes in line with the guidelines of the ILO’s value-chain development methodology. This effort has been the result of long hours of interviews and technical consultations, and on-site visits to lead firms and suppliers, in addition to rigorous desk research 2020 - 2021. The assignment was indeed orchestrated by the Dcode Economic & Financial Consulting, along with the contribution of a number of ILO’s national partners, on top of which was the Engineering Export Council of Egypt and the Federation of Egyptian Industries.

I wish that this report will serve as a reference document that can guide future interventions within the white goods, as well as for the two subsectors covered in the analysis. I would, also, be delighted to see the methodology used in the exercise, at hand, picked up along the implementation of similar sector-specific developmental initiatives.

Eric Oechslin

Director

ILO Decent Work Team for North Africa/Cairo



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ABBREVIATIONS

AECE	Apparel Export Council of Egypt
AUFSD	The Association for Upgrading the Furniture Sector in Damietta
B2B	Business to Business
BCG	Business to Government
Bn	Billion
BOM	Bill of Materials
BTM	Bishara Textile and Garment Manufacturing Co.
CAPMAS	Central Agency of Public Mobilization and Statistics
CBE	Central Bank of Egypt
CEI	The Chamber of Engineering Industries
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CKD	Completely Knocked Down
CNC	Computer Numerical Control
CSR	Corporate Social Responsibility
CWWFI	Chamber of Wood Working and Furniture Industries
EBRD	European Bank for Reconstruction and Development
ECAHT	Egyptian Chamber of Apparel and Home Textiles
EFEC	Egyptian Furniture Export Council
EEC-EG	The Engineering Export Council of Egypt
EGP	Egyptian Pound
EEPI	Egyptian Exports through Technology Transfer Driven Product Innovation
ELTC	Engineering Industries Technology Center
EOS	Egyptian Organization For Standardization & Quality
EU	European Union
EYE	Egypt Youth Employment
F&B	Food & Beverage
FDI	Foreign Direct Investment
FEI	Federation Of Egyptian Industries
FTC	The Furniture Technology Centre
FY	Fiscal Year
GAFI	General Authority For Investments
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit - German Development Agency
GoE	Government of Egypt
Gov./ Gov't	Government
GTEX	Global Textiles and Clothing Programme
GUC	German University in Cairo
HQ	Headquarters
HR	Human Resources
HS Codes	Harmonized System Codes
ICTI	Industrial Council for Technology and Innovation
IDA	Industrial Development Authority
IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
IMC	Industrial Modernization Centre
IMF	International Monetary Fund

ITC	Industrial Training Council
IZMF	Industrial Zone Management Framework
MPC	Monetary Policy Committee
MSA	October University for Modern Sciences & Arts
MSMEDA	Micro, Small, and Medium Enterprises Development Agency
MSMEs	Micro, Small and Medium Enterprises
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MTI	Ministry of Trade & Industry
NBE	National Bank of Egypt
NILP	National Industrial Localization Program
NGO	Non-Governmental Organisation
NX	Net Exports
ODM	Original Design Manufacturer
OEM	Original Equipment Manufacturer
PCI	Product Complexity Index
PPT	Percentage Points
PSME	Egyptian-German Promotion of Small and Medium Enterprises
QIZ	Qualifying Industrial Zones
Qual.	Qualitative
Quant.	Quantitative
R&D	Research & Development
RCA	Revealed Comparative Advantage
RFI	Request for Information
RMA	Rapid Market Assessment
RMG	Ready Made Garments
SBA	Stand By Arrangement
SEED	Strengthening Entrepreneurship and Enterprise Development
SIYB	Start and Improve Your Business Programme
SME	Small and Medium Enterprises
SQM	Square Meters
SUSTEXNET	Sustainable Textile Mediterranean Network
T-Bills	Treasury Bill
TDMEP	Trade and Domestic Market Enhancement Programme
TEC	Textile Export Council
TOT	Training of Trainers
TVET	Technical and Vocational Education and Training System
UAE	United Arab Emirates
UELDP	Upper Egypt Local Development Program
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
US	United States
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WISE	Workforce Improvement and Skills Enhancement project
Y-o-Y	Year over Year
YTD	Year to Date



EXECUTIVE SUMMARY

The “Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt” project is a 5-year collaborative effort of the International Labour Organization (ILO) and Norwegian Ministry of Foreign Affairs. A core component of the project is on value chain and enterprise development, through which the project aims to promote decent private-sector employment in rural Egypt, making rural areas more attractive to Egyptian youth. The project has identified in its early year of operation the dairy value chain to support. Following COVID-19, the second value-chain of choice was decided, building on consultation meeting with stakeholders and development partners, to be one of three: Furniture, Ready Made Garments (RMG), and/or White Goods. In order to select the potential sector, the ILO commissioned the consultant to conduct a rapid market assessment (RMA). The sub-sector selection was decided based on value addition and the capacity to contribute to sustainable inclusive growth, poverty alleviation and feasibility of stimulating systemic change.

The methodology for the selection of criteria and decision on weights was developed according to the ILO methodology. Quantitative data on the three subsectors performance were collected from official secondary sources and analysed according to the set of pre-identified criteria and weights. Basing the analysis according to the ILO’s Value Chain Development for Decent Work Guide¹, the criteria for selection fell under:

1. Relevance to the target group: potential for the target group in the sector, and the nature of the decent work challenges they are facing.
2. Opportunity for inclusive growth: opportunities to create more and better jobs in the core value chain.
3. Feasibility to intervene: the extent to which a project will be able to facilitate change given the sector and country context.

Within each of these main categories, specific sub-criteria were developed to make a comparison between the three sectors. The choice for the sub-criteria was done according to certain rationale, but more importantly, it was influenced by two main factors: 1) The experience of the project with the implementation of the first targeted value-chain (the dairy sector), 2) The scarcity of accurate aggregate quantitative data on the sectors. Thus, one area “Feasibility to intervene” was a major criterion to investigate against the three sectors, which necessitated to conduct around 21 interviews across the three sectors, and more towards the one sector that held the highest potential in that regard.

Despite having RMG with the highest overall score, it was apparent that compared to White Goods, the feasibility is less. After discussion with the ILO’s project management, it was agreed to put a higher weight on feasibility. This was a decision that was based on experience and lessons learned from the early years of implementation of the project, thus rendering White Goods the sector of choice.

The report starts with a brief introduction on the project and the aim of the study, followed by a section on the Egyptian economy performance after COVID-19 and effect on the different economic sectors. Section 3 presents the selection process, followed by a complete market assessment to the three value chains, and ends with a set of recommendations on each.

1. INTRODUCTION

1.1 Background

The “Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt” project is a 5-year collaborative effort of the International Labour Organization (ILO) and Norwegian Ministry of Foreign Affairs². A core component of the project is on value chain and enterprise development, through which the project aims to promote decent private-sector employment in rural Egypt, making rural areas more attractive to Egyptian youth. This is to be accomplished through both increased opportunities for employment in large private firms, as well as in rural MSMEs and as small-scale producers along value chains.

The project aims to identify value chains/sub-sectors that constitute a significant contributor to Egypt’s rural economy. Project interventions are to stimulate improvement in underlying market systems³. Interventions include capacity development on business management skills and contribution to increasing the value of products with high growth potential. Sub-sector selection is based on value addition and the capacity to contribute to sustainable inclusive growth, poverty alleviation and feasibility of stimulating systemic change.

The specific objectives of the Rapid Market Assessment (RMA) study are to:

- ▶ Provide an in-depth investigation for the shortlisted sectors; potential sub sectors/ value chains and product lines (with an indication of the governorates in which they are active).
- ▶ Develop initial hypotheses of the bottlenecks and constraints in these sectors and value chains that prevent their growth and employment generation, both for business owners and employees

Box 1: EYE RAWABET: PROJECT OBJECTIVES

Increasing private-sector investment rate is key precondition for the development and growth of Egypt’s rural economy. But, as is the case in rural areas of many countries, Egypt’s rural areas are not always viewed as a first choice for investment, not only due to their remoteness and poor infrastructure, but also owing to the lack of awareness among rural communities about their economic potential and capacities. Indeed rural communities in Egypt face serious obstacles in accessing education and training opportunities, as well as credit, by cause of the inadequate provision of public and private services. For that purpose development programmes aimed at enabling an increase in the overall investment rate should encompass and consider those aspects as priorities. The rural economy can be an important source of employment if the right interventions are in place to ensure that these jobs are decent, environmentally sustainable and meet the aspirations of the Egyptian youth.

Against this backdrop, the project “Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt” aims to promote decent private-sector employment in rural Egypt through increased opportunities for employment within large enterprises and also within rural MSMEs along value chains of highest employability and growth potentials. The project is intended to capitalize on ILO’s expertise and experience in the promotion of decent employment in the rural economy and to build on past rural-focused initiatives implemented in Egypt and other countries.

² Project duration: 1 January 2018 - 31 December 2022

³ More information on market systems can be found in Box 2

- ▶ Prioritize the sectors (furniture, ready-made garments, and white goods) for value-chain intervention by applying relevant weighting schemes and prioritization criteria that will ensure that selected sectors have high prospects for stimulating economic growth via value addition, and that they are conducive to systemic change, and consequently are able to create private-sector decent employment and entrepreneurship opportunities in Egypt's rural economy.

Box 2: WHAT IS A MARKET SYSTEM*

“A market system is an inter-connected network of actors and factors that interact to shape the outcomes of an economic exchange. These exchanges are governed by a range of:

- ▶ Supporting functions: The context- and sector-specific functions that inform support and shape the quality of exchange; such as information, skills, infrastructure, finance and access to markets.
- ▶ Rules and Norms. The legislative and regulatory environment, including policies, voluntary standards and social norms that guide day-to-day attitudes and conduct.

Supporting functions and rules are carried out by a wide range of market actors, from businesses to financial institutions, trade associations, regulators and government agencies. When certain rules or functions do not operate well, a market system constraint is created, and, hence, reduces the effectiveness of the system and reduces the value captured by the people and market actors involved in the transaction.

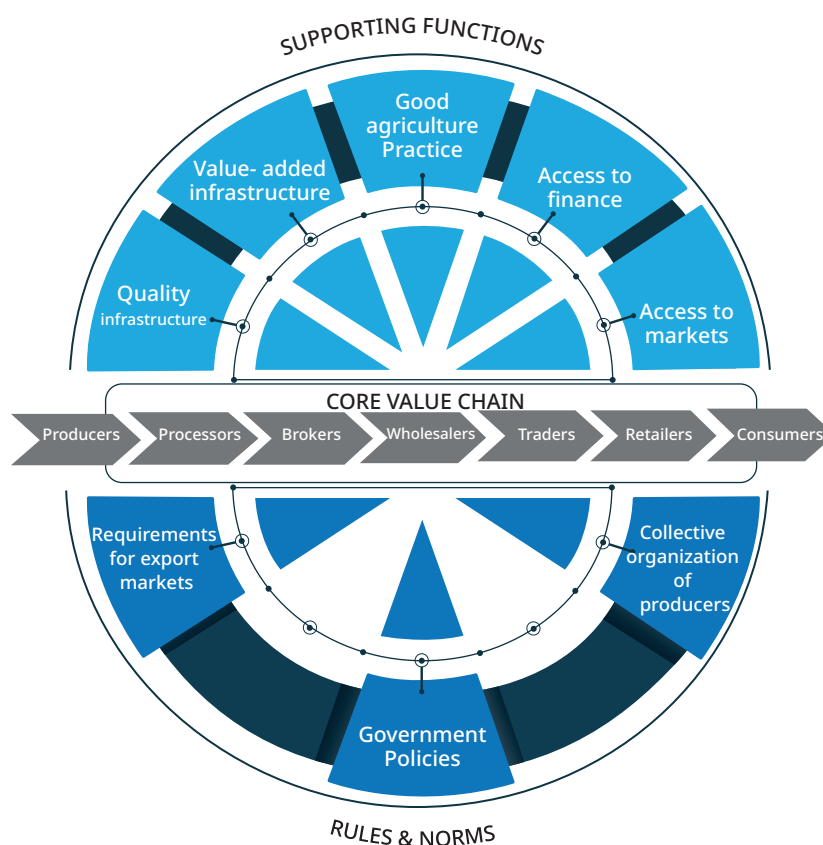


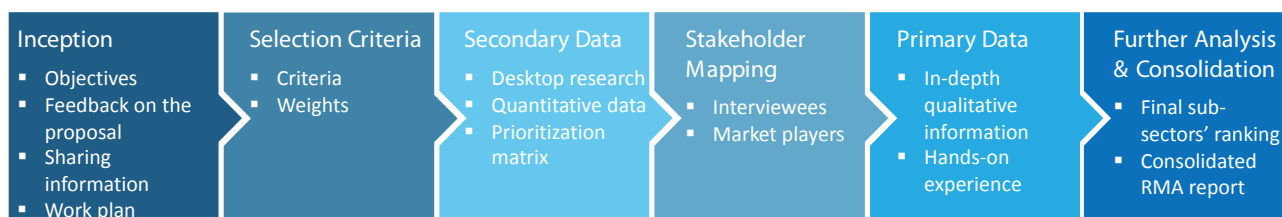
Figure 1: An Illustrative Market System The market systems approach is used by programmes seeking to facilitate systemic change.

Systemic change takes place when there is a lasting and large-scale improvement in one or more market system constraints, which leads to improved outcomes for the target groups of concern. Market systems programmes try to discover why market actors have not addressed such constraints themselves, and then work on improving their incentives and capacity to perform new or improved roles”.

*Source: ILO, 2021. *Taking a Systems Approach to Young Africa Works Ghana: A Rapid Market Assessment of Agricultural Value Chains and Decent Work for Young Women in Northern Ghana.*

1.2 Methodology

The methodology for undertaking the RMA assignment is described in detail, indicating each activity and its results and the figure below depicts an overview of the methodology.



The methodology for the selection of criteria and decision on weights was developed according to the ILO methodology (more information can be found in section 3.1)

1.2.1. Inception

The consultant held an induction meeting with the ILO in order to gain a better understanding of the project background, confirm the objectives of the assignment and agree on the methodology.

1.2.2. Secondary research

Setting selection criteria:

The consultant developed a list of criteria against which sub-sector prioritization will be made, where both quantitative and qualitative criteria are scored and weighted.

Secondary data collection and analysis

A desktop review was conducted on the macroeconomic context and the implications of the COVID-19 pandemic on the Egyptian economy in general and the three short-listed sub-sectors in particular.

1.2.3. Primary research

Stakeholder Mapping

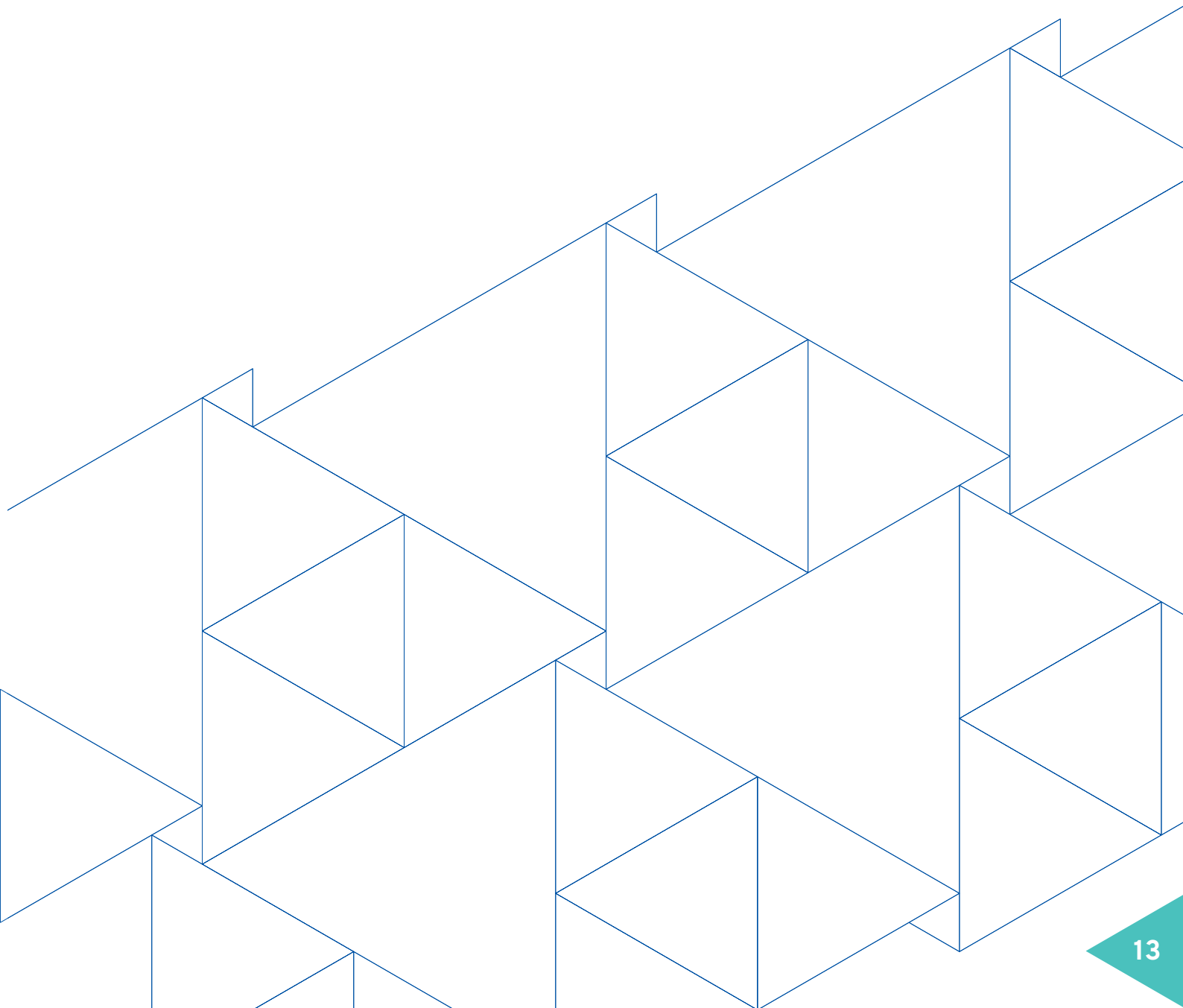
A preliminary stakeholder mapping was conducted, based on the expert's knowledge and network, ILO's recommendations, and results of the desktop research. This step served two purposes; a) identifying interviewees to collect primary data from, and b) mapping the market players and identifying where the ILO's interventions can be and in cooperation with which organizations.

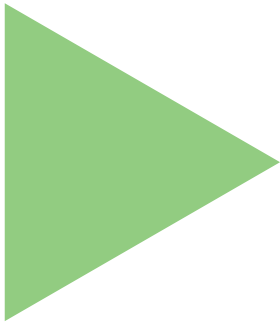
In-depth Interviews

A total of 21 in-depth interviews were conducted with experts in the three subsectors. During the interviews, the consultant sought to thoroughly understand the market system dynamics; supply and demand trends; actual impactful activities undertaken by stakeholders; the implications of the pandemic; extent of value chain integration especially in rural areas and the role lead firms could play; underlying systemic challenges; untapped opportunities; stakeholders' readiness to cooperate; and entry points for the ILO's interventions.

1.2.4. Further analysis and findings consolidation

Building on the insights gained from the interviews and the prioritization of sub-sectors based on the weighted criteria, the consultant concluded the ranking of the subsectors and the recommended areas of interventions that would yield sustainable results in terms of realization of impact, inclusive growth, decent job creation and the possibility of introducing systemic change to the market systems.





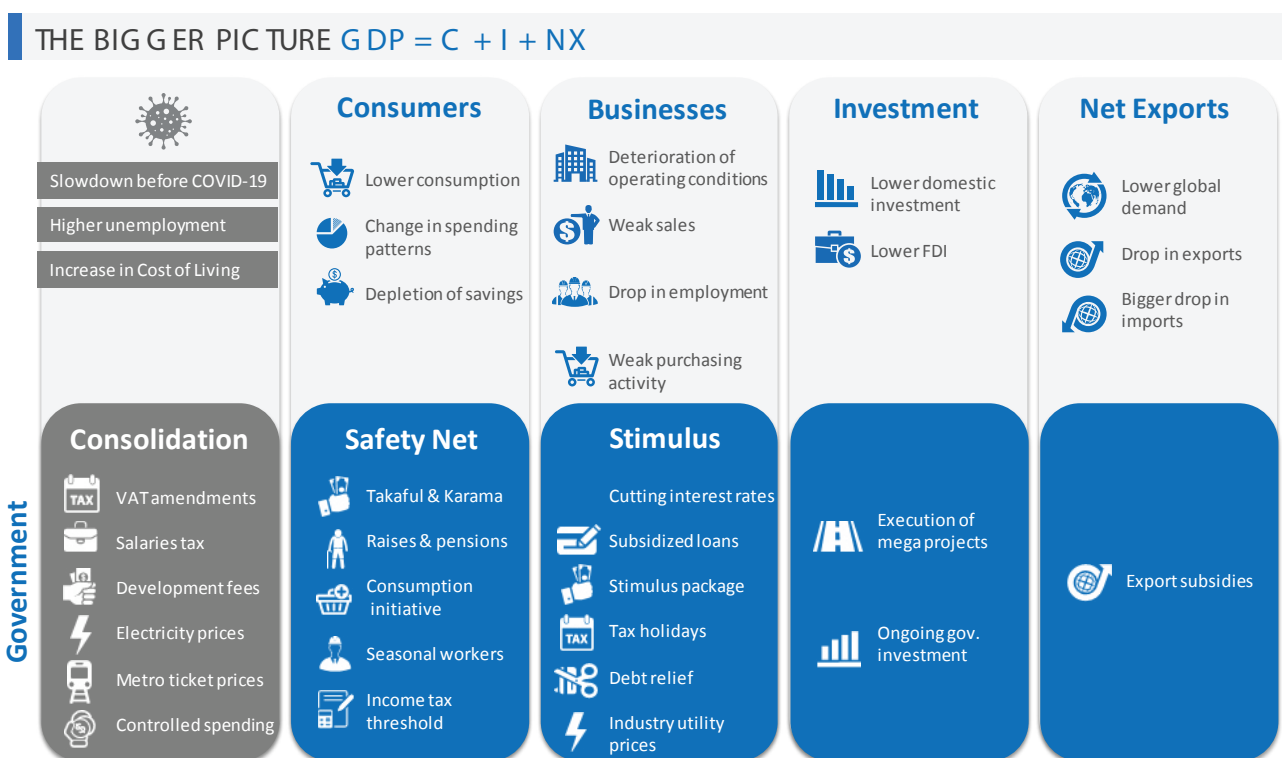
2. ECONOMIC OVERVIEW

2.1. Brief Economic Overview

Prior to the COVID-19 outbreak, the economic reform measures implemented by the Government of Egypt (GoE) have led to a significant improvement in Egypt's macroeconomic situation as indicated by:

- ▶ Narrower current account deficit by 13.0% during July-Dec. 2019 to record USD 4.6 bn down from USD 5.3 bn a year earlier.
- ▶ The EGP had reached a year-to-date (YTD) -low of EGP 15.56 per USD on February 22nd 2020.
- ▶ Headline inflation slowed down to 5.3% in February 2020 driven by lower F&B prices (base effect).
- ▶ Contained budget deficit & record-high international reserves, which have given the Central Bank of Egypt (CBE) and Ministry of Finance (MoF) space for manoeuvre.

The COVID-19 crisis, since March 2020, is taking its toll on economic activity. We believe that this hit is unprecedented in type and magnitude in at least 20 years, given that it has struck the global and domestic economies simultaneously, across most of economic activities. Moreover, the domestic economy did see neither such a complete halt of travel and tourist arrivals, nor such a wide scale closure of dining and entertainment facilities, that its ripple effects are still touching on economic activities until now.



2.2. Growth Performance: COVID-19 Effect

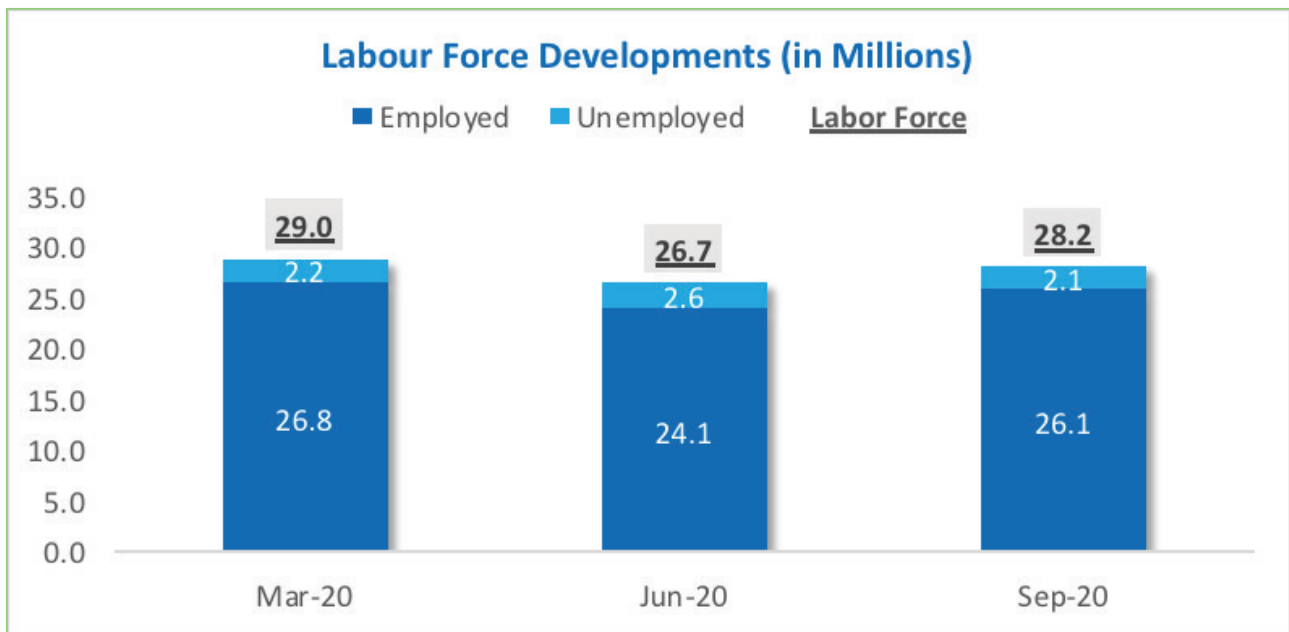
Based on Dcode Economic and Financial Consulting (EFC) outlook and assessment to growth as shown below, although overall growth in consumption has increased post pandemic, investments have expectedly plummeted, and net exports improved supported by lower import demand and global oil prices. From a sectoral perspective, growth was mainly supported by positive contributions of Wholesale & Retail Trade, Communications, Agriculture and Real Estate sectors, which cushioned a contraction in other major sectors on top of which are Tourism, Extractions and Manufacturing Industries.

	Growth before COVID-19 (H1 2019/20)	Growth after COVID-19 (H2 2019/20)
OVERALL GROWTH (DEMAND SIDE)	<p>↑ 5.6% mainly supported by private consumption (4 PPT contribution to growth), net exports (1 PPT), public consumption (0.4 PPT) and investment (0.2 PPT)</p>	<p>↑ 1.6% mainly supported by private consumption (7.6 PPT), public consumption (0.9 PPT) and net exports (0.6 PPT) Negative contribution of investments (-7.4 PPT)</p>
CONSUMPTION	<p>↑ Private consumption growth accelerated to 5% up from a two-year average of 1% as consumption started to recover from the EGP floatation and fiscal reform measures over the past years. Public consumption grew by 4.3%</p>	<p>↑ Further acceleration in private consumption growth to 9.4% Further acceleration in public consumption growth to 8.9%</p>
INVESTMENT	<p>↑ Real growth in investment slowed to a mere 1.1%. Nominal investment figures reveal a 35.7% nominal increase in private investments compared to only 5.1% nominal increase in public investments (figure 3)</p>	<p>↓ Expectedly, total investments plummeted by 38.4% (mostly private) due to high uncertainty and weaker cash flows</p>
NET EXPORTS	<p>↑ Net exports improved by 14.9% whereby almost all current account components were performing positively including remittances, non-oil exports, tourism, Suez Canal and lower imports</p>	<p>↑ Net exports improved by 5.9% benefiting from lower import demand and global oil prices despite the decline in almost all current account receipts</p>
SUPPLY SIDE	<ul style="list-style-type: none"> • Growth from supply side slowed to 4.7% • Normalization of growth in Tourism and Gas sectors, following two consecutive years of exceptionally high expansion • Robust performance of Manufacturing, Wholesale & Retail Trade, Construction & Building, Agriculture and Real Estate sectors helped economic activity keep its momentum. 	<ul style="list-style-type: none"> • Growth from supply side slowed to 0.5% • Negative contribution by Tourism, Extractions and Manufacturing Industries • Growth was mainly supported by positive contributions of Wholesale & Retail Trade, Communications, Agriculture and Real Estate.

Source: CBE, Ministry of Planning & Dcode EFC Analysis

According to data published by the Central Bank of Egypt (CBE), annual real GDP growth rate recorded 5.0% from the demand side in **Q3 2019/20 (Jan-March 2020)** compared to 5.6% a year earlier. After having been growing by a sheer 1% on average for nine consecutive quarters, consumption growth accelerated to 3.1% in Q2 2019/20 and 5.0% in Q3 2019/20, rendering consumption the highest contributor to economic growth, during these quarters, for the first time since Q1 2017/18. From the supply side, the manufacturing sector recorded the highest expansion among all sectors during Q3 2019/20 (16.3%) followed by Communications sector (15.0%). Tourism and extractive Industries sectors have contracted during that quarter due to the effect of the pandemic, coupled with strong base effect. Meanwhile, during **Q4 2019/20 (Apr-June 2020)**, annual real GDP contracted by 1.7% from the demand side compared to 5.7% growth a year earlier, largely cushioned by Consumption which contributed to real GDP growth by 10.6 PPT, growing in real terms by 11.8%. On the other hand, investment contributed negatively to real GDP growth by -10.8 PPT, deteriorating by 56.2% on annual basis, and net exports contributed by -1.6 PPT, worsening by 16.6%.

The official unemployment rate increased from 7.7% in March 2020 to 9.6% in June due to the COVID-19 pandemic and the containment measures thereof before declining to 7.3% in September due to the resumption of economic activity with the gradual phase-out of lockdown measures, according to the Central Agency of Public Mobilization and Statistics (CAPMAS).



Source: CAPMAS

- ▶ Inflation has continued to crawl towards low single-digit levels mainly supported by muted food and beverage prices **until October**, a favourable base effect as well as lower aggregate demand. On a cumulative basis, the consumer price index has increased by 5.9% between December 2019 and November 2020⁴. Three main categories have contributed to inflation during that period, namely: Food & Beverages, Education and Housing & Utilities. While Food & Beverage prices have been dropping four consecutive months from July till October, reining in the overall inflation rate, F&B inflation recorded a 15-month high of 3.6% in November mainly driven by 23.3% y-o-y increase in vegetable prices, coming from a low base.
- ▶ In a pre-emptive move to stimulate economic activity, Egypt's Monetary Policy Committee (MPC) lowered the main policy rates by 300 basis points in March a further 100 basis points (on two phases) in September and November, reducing the overnight lending and deposit rates to 9.25% and 8.25%, respectively. In our view, the latest rate cut was supported by cooling inflation. Meanwhile, the move was needed to give a boost to investment, which declined by 20.0% and 56.2% on annual basis in Q3 and Q4 2019/20, respectively, for the first time in 19 quarters, and help support consumption that was hit by the COVID-19 outbreak and the execution of some economic reform measures taken in recent months.
- ▶ The Egyptian Pound has remained broadly stable, appreciating on average by 0.1 piasters per month from July till October to stabilize around EGP 15.7 per USD till mid-December after having witnessed a slight currency depreciation to reach EGP 16.1 per USD by the end of June. On one hand, the COVID-19 outbreak took its toll on almost all sources of foreign currency receipts in H2 2019/20 (table 1), resulting in downward pressure on the EGP. On the other hand, a decline in imports, in addition to other inflows including the IMF's RFI loan (USD 2.8 bn) approved in May, the USD 2 bn tranche of the IMF's

⁴ Source: CAPMAS

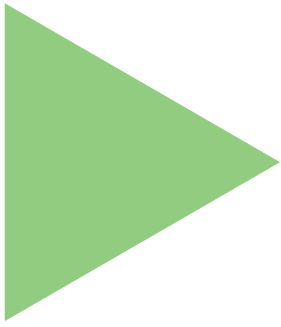
SBA loan approved in June, USD 5 bn Eurobond issuance in May, USD 2 bn financing package from UAE banks secured in August and USD 750 mn Green Bond issuance in September have all helped release pressure off the currency. It is also worth noting that capital outflows witnessed at the beginning of the outbreak⁵ have reversed, with foreign holdings of T-bills and Bonds reaching USD 23 bn in November, up from 10.6 bn in June, according to a statement by the Ministry of Finance.

Table (1): Balance of Payments Performance: H1 vs H2 2019/20

<ul style="list-style-type: none"> • Green = favorable performance • Orange = unfavorable performance 	Performance in H1	Performance in H2
Current Account Deficit	-13.0%	17.0%
Oil Exports	-16.0%	-38.1%
Non-Oil Exports	11.4%	0.2%
Oil Imports	-1.4%	-45.1%
Non-Oil Imports	-1.8%	-2.0%
Overall Trade Deficit	-2.8%	-5.4%
Tourism Receipts	6.8%	-54.9%
Suez Canal	3.5%	-1.0%
Private Remittances	14.5%	7.6%
FDI	18.5%	-38.4%

Source: CBE

- ▶ Regarding government finances, despite a 17% drop in revenue in FY 2019/20 compared to budget figures, the government has managed to meet the deficit target, with a very minor slippage, thanks to expenditure savings. Overall budget deficit recorded 7.9% of GDP, compared to 7.8% in the approved budget and 8.2% in the preceding fiscal year. We believe the government was able to absorb fiscal costs of measures in response to COVID-19 from budget savings.
- ▶ On the Private Sector front, the pandemic and the containment measures have had a negative impact on MSME operations. Most enterprises suffered a decline in their operations, and the situation was most challenging for those enterprises working in the tourism, manufacturing and wholesale and retail, especially in the early days of the pandemic.
- ▶ Because of the high level of concentration of economic activity in the governorates of Cairo, Giza, and Alexandria (about 30% of private sector firms⁶), these were the most affected governorates during the pandemic.



3.

VALUE CHAINS MARKET OVERVIEW

3.1. Furniture

3.1.1. Introduction

The furniture manufacturing subsector has historical roots in the Egyptian economy. Family businesses have been operating across generations. According to CAPMAS, there are 136,430 private enterprises in the manufacture of furniture, one of the highest sub-sectors in terms of number of enterprises (3.65% of private sector enterprises), employing 352,390 workers (2.6% of private sector employees)⁷.

Subsector Strategy

The Ministry of Trade and Industry (MTI), through the Industrial Modernization Center (IMC) and in cooperation with the export council commissioned a subsector development strategy in 2010, which was updated in 2018. The 2018 strategy formulation and update process included an analysis of the legal and regulatory framework, the value chain, market and trade potentiality, economic impact, and benchmarking and identification of potential investment opportunities. It highlights the key challenges and competitive advantages of the subsector and lays out a detailed action plan⁸. Moreover, the strategy highlights the lessons learned from the international benchmarking exercise undertaken, which are consistent with the findings of this study. These include the need for government support, streamlining the regulatory environment, R&D support, design, technology adoption, cluster support, quality and branding.

The strategy recommendations and action plan cover short-term actions for import substitution (in 2 years), medium-term actions for growth (3-5 years) and long-term sustainability actions (5+ years). The strategy's three pillars are: a) the institutional and regulatory framework; b) sustainable development (tackling capacity development, innovation, strengthening the value chain and data sharing); and c) promoting the industry internationally (tackling investment promotion, branding, and market access⁹).

It is worth noting that during the primary research of this study, interviewees emphasized their satisfaction with the subsector strategy, the need to not waste and duplicate efforts, to put the strategy into action and that development partners seeking to support the subsector ought to coordinate the implementation of its action plan.

Geographical distribution

Furniture manufacturing is widespread across governorates, from small workshops in residential areas to larger manufacturers. Thus, the link with rural areas is primarily in the form of workers from rural areas of the same governorate as is the case in Tahta, Sohag and Tanta, but in general terms, links with rural areas are not strong. Damietta remains the centre of the furniture industry in Egypt, followed by Cairo, Sharkeya and Alexandria¹⁰. Despite the dispersion of furniture businesses geographically, organic clusters exist in Damietta, Kalyoubeia (Tenan), Gharbeya (Katama), Sohag (Tahta), where the most famous organic cluster in Egypt is the Damietta furniture cluster¹¹.

Market access

The main channels for the local market are showrooms and exhibitions. The main annual and semi-annual exhibitions such as Le Marché, Furnex and La Casa, are a very effective means and are crucial for many manufacturers. However, participation in such exhibitions is very costly due to the space required to show the products and other requirements such as an attractive design of the booth, lighting, styling and decoration, transportation and logistics, etc. Moving local exhibitions from the old Nasr City venue to the new one in New Cairo provided larger space but a higher cost to participate.

Challenges to access local markets include low sales and marketing capabilities, lack of knowledge of demand and tastes in an industry that is becoming more related to trends and fashion, severe competition with imported goods from China and East Asia especially in low to medium price range, and the high bargaining power of traders¹², quality issues and the poor transportation and logistical infrastructure.

Access to international markets is constrained by the unmatched preferences in design, quality, absence of branding and identity, standards and certification problems and unawareness of intellectual property rights, missed opportunities due to unawareness of trade agreements, environmental and social rules¹³, low competitiveness, long lead time and malpractices of some exporters who export different or low-quality products, hence ruining the reputation of Egyptian furniture exporters. Generally, the international demand is on modern furniture, which is not what Egyptian manufacturer primarily produce, and the demand on classic designs is basically from Arab countries, which are also shifting part of the demand to modern styles that would fit in the new business parks and modern buildings.

3.1.2. The value chain integration and linkages

The figure below maps the value chain¹⁴, across which this study will tackle challenges and opportunities.

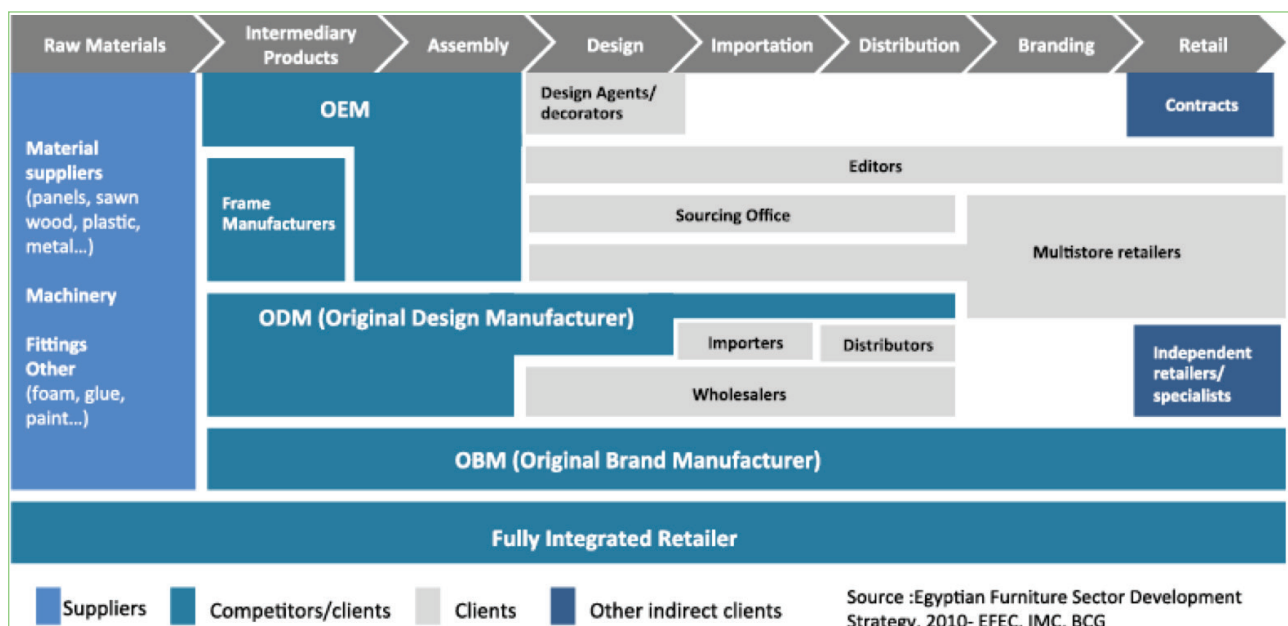


Figure 1: General Furniture Value Chain. Source: USAID-SEED, Value Chain Assessment Study, 2016.

The value chain of manufacturing furniture is cross-linked to other value chains. This is due to the diversity of input material from different feeding industries including wood, textiles and upholstery material, metals, chemicals, plastic, glass, etc. (backward linkages), as well as the diversity of market segments, domestic (accounting for 55% of the demand)¹⁵, business, industrial, schools and universities, hospitals and contract furniture (forward linkages).

Nevertheless, the findings of the secondary and primary research conducted indicate weak to moderate inter-firm linkages. The industry relies on imported input material, hence weak backward linkages with local businesses. Linkages exist between exporters and workshops, larger manufacturers and small workshops supplying them with finished and semi-finished products, and showrooms and producers, yet linkages seem to be weak, the subsector is fragmented and the lead firm model is not evident (limited number of large firms). In certain clusters, firms do not prefer to cooperate and can hardly reach an agreement.

In Damietta for example, large firms are responsible for the main production process internally, for quality reasons, and outsource the rest from MSMEs. On the other hand, MSMEs resort to large enterprises and export services offices to export their products with commission based on exports volume, resulting in erosion of their profit margin. Moreover, MSMEs are flexible and capable of producing small series of orders in short periods but are unable to accept large orders due to their limited capacity and the need to finance working capital. Accordingly, their forward linkages are not strong enough¹⁶.

¹⁵ HLB Egypt Makary Consulting and IMC, 2018, Furniture Industry Development and Export Strategy: Executive Summary.

¹⁶ USAID-SEED, 2016, Value Chain Assessment Study.

Institutional Support

The figure below (excerpted from the Furniture Industry Development and Export Strategy) maps the key stakeholders directly supporting the furniture subsector in Egypt. A brief description of some of the key stakeholders follow.

Figure 15: Key Stakeholders' Map of Egyptian Furniture Sector

	Technical Intervention						Market Intervention									
	Technical support			Technology	Design	Quality and Standards	Consumer Protection/Regulation	Investment Facilitations	Manufacturer Support	Export Promotion	Exhibitions		Marketing	Industrial Development		Finance
	Trainings/Workshops	Calibration and Testing	Certification								Local	Global		Land Allocation	Sector Information	
Governance and Planning		EOS		IMC		EOS	CPA	IDA	IMC		MSMEDA, EFEC, CWWFI, EECA, EEA, Chamber of Commerce in Damietta	EDA, EFEC	MSMEDA, EFEC	IDA	MTI, EFEC, CWWFI	MSMEDA, Banks
Regulation and Inspection		EOS, FTC			NQC	Tax Authority			Custom Authority							
Management and Development	IMC			FTC	FTC	FTC		CWWFI, EFEC	FTC		EFEC	MSMEDA, EFEC				
Supply and Development	FTC													EFEC		
Distribution			FTC				GAFI						GAFI	IMC		

Secondary Stakeholders
Primary Stakeholders

Source: HLB-MC Analysis

Figure 2: Source: HLB Egypt Makary Consulting and IMC, 2018, Furniture Industry Development and Export Strategy

- ▶ The Chamber of Wood Working and Furniture Industries (CWWFI): established as one of 16 chambers of the Federation of Egyptian Industries (FEI), with the mandate to represent manufacturers of wood and furniture, to support the resolution of constraints facing the industry in cooperation with various organizations, and to review relevant legislations. The chamber has four branches, serving 4500 members through services such as support in tax compliance and financing (credit line to finance imported machinery)¹⁷.
- ▶ The Egyptian Furniture Export Council (EFEC): an independent entity established by Ministerial decree of the Minister of Trade and Industry. EFEC acts as an advisory board that proposes strategies and development plans to be implemented by the ministry to achieve the development of the industry and increase exports. It aims to enhance the competitiveness of the Egyptian furniture industry through services such as offering business strategy consultancy, export opportunities, matchmaking services, updates on export-related regulations and trade agreements, assistance in locating and joining international exhibitions, in addition to organizing conferences, training seminars and workshops in collaboration with different local and international experts¹⁸.
- ▶ The Furniture Technology Centre (FTC): one of 14 centres of the Industrial Council for Technology and Innovation (ICTI) under the Ministry of Trade and Industry. It aims to enhance competitiveness of the Egyptian furniture industry.

- ▶▶ Industrial Modernization Centre (IMC): established in 2000 and started delivering services in 2002. It and falls under the Ministry of Trade and Industry and aims to support industrial enterprises, create an enabling business environment for the industrial sector, through its 19 branches, in demand driven basis¹⁹.
- ▶▶ The Association for Upgrading the Furniture Sector in Damietta (AUFSD): established in 2003 by a group of manufacturers with the aim of developing the industry and business environment in Damietta through enhancing education, training and marketing²⁰. AUFSD also represents the private sector in the Dual System schools²¹.

The two main organizations representing and supporting the furniture subsector are the Chamber of Wood Working and Furniture Industries (CWWFI) and the Egyptian Furniture Export Council (EFEC). Both have deep knowledge of the industry and a strong network of members and with other relevant stakeholders across governorates and are considered key partners to collaborate with in studying, designing, planning and implementing programs targeting enhancement of the furniture subsector.

On the technical service provision side, despite existence of some support service providers, the quantity and quality of services required to improve the subsector performance are either absent (e.g. R&D services) or lack resources. Organizations such as the IMC and the Technology Centre could play a significant role if sufficient funding is provided. However, it is important to note than reliance on donor funding will not be sustainable with the absence of effective self-financing and revenue generating models.

3.1.3 . Implications of the Pandemic

Like many of economic sectors and subsectors all over the world, the furniture subsector has been negatively impacted by the COVID-19 pandemic. The implications primarily include:

- ▶▶ Constrained access to local market as domestic buyers showed lower demand, exacerbated by the 2020 curfew measures and cancellation of exhibitions, which are a main channel. However, with the relaxed measures, this decrease in demand is not expected to continue on the long term.
- ▶▶ International demand was further reduced with the travel bans, cancellation of international events and disrupted movement of goods, but this too is a short-term impact.
- ▶▶ The turnover of workers at Q2 of 2020 left enterprises with having to hire and train new workers, bearing the direct cost of these activities and the indirect cost of lower productivity.
- ▶▶ Unlike other products, furniture is very hard to market electronically. The trend towards e-commerce is not applicable to such goods where buyers would want to physically examine the products. Only small inexpensive items such as tables have a higher chance of being marketed electronically. The EFEC is working on an initiative in cooperation with the Commercial Representation Offices (commercial attachés under the Ministry of Trade and Industry) in order to support businesses in electronic matchmaking with foreign buyers.

3.1.4. Opportunities and Challenges

Opportunities

Real estate and construction sectors growth

The expansion and construction of new cities during the past years is a significant opportunity for accessing local markets if the subsector proves able to match the buyers' preferences, quality and prices and to compete with imported products. This opens up opportunities for various segments, not only domestic demand, but also schools, universities, hospitals, hotels, business offices, restaurants, outdoor furniture, among others.

Woodworking know-how

Workers are skilled in the traditional handmade woodwork. It is a vocation that runs through families and generations and the labour cost is still competitive with foreign exports²². Accordingly, for buyers who prefer classic and handmade furniture or customized production, the Egyptian manufacturers would have an opportunity to satisfy the demand of this market segment (e.g. Saudi Arabia).

Existence of clusters

Existence of clusters makes geographically targeted interventions one solution based on integration of value chains. A well-developed cluster like Damietta would facilitate partnership with stakeholders such as the large businesses, Damietta University, the Association for Upgrading the Furniture Sector in Damietta and the Furniture Technology Centre. On the other hand, a less developed cluster in Upper Egypt like the one in Tahta (Sohag) would help improve the support services available to MSMEs willing to grow and to create decent jobs in a governorate with one of the highest poverty levels²³.

New MSME law

Issuance of the new MSME Development Law No. 152 of 2020 gives hope to the business community on different fronts. First and foremost is improving the regulatory environment governing business establishment, licensing and most importantly, taxation. For the first time, the preferential treatment for MSMEs is stated in the law and is allowing a simple revenue-based regime that would keep the burden of bookkeeping and tax audit to minimal. The law also addresses the informal sector explicitly and facilitates the process for existing enterprises to formalize with amnesty from retroactive application of taxes and putting previous lawsuits on hold and²⁴. The law also provides incentives to businesses and some of the support service providers such as incubators, accelerators and certain non-banking financial institutions, thus playing the role of the facilitator in the MSME ecosystem. The awaited executive regulations and enforcement and implementation remain the key determinant of success of this major regulatory change.

Challenges

The regulatory environment and informality

The heavy burden of laws regulations and the implementation malpractices are challenging to the business community at large and to MSMEs specifically. During the past few years, new business laws and regulations were issued but enforcement remains the real challenge. Due to the high prevalence of MSMEs among the subsector, the burden is aggravated, leading to extremely high informality, even in larger businesses in Damietta. The size distribution is even skewed towards micro enterprises, where 94% of the furniture subsector employs less than five workers, compared to an average of 78% in the manufacturing sector²⁵.

The provisions of the new MSME Development Law No. 152 of 2020 are considered an opportunity to make such a change but it is not until implementation takes place that the business community would trust the change process and that the intended results would be achieved and impactful.

The majority of businesses in this subsector are unregistered. As aforementioned, unregistered enterprises account for 65.4% of the furniture subsector, the highest rate among the entire manufacturing sector and one of the highest rates among all economic subsectors²⁶. This essentially limits their access to financial and non-financial support services and constrains their growth opportunities. Moreover, the informality results in lack of data about the subsector, thus impeding the design of well-informed policies and support programmes as well as the assessment of their impact, exacerbating the challenges even more.

Reliance on imported inputs

Although the quantitative analysis from official data sources indicates that around 64% of input material are sourced locally, some experts estimate this rate to be in fact less and that it could reach 40% only. In all cases, the industry relies heavily on imported input material including the core input; raw wood and other material as well (glue, paint, fittings, stains, foam, etc.), which are not necessarily of high quality. This not only results in fluctuations of costs in a price-sensitive industry, but also is a barrier to participation in national programs incentivizing industrial localization adopted by the government, due to failing to satisfy local input thresholds. Furthermore, reliance on imports further weakens the backward linkages in the value chain.

Design

Design is one of the core challenges in the furniture subsector. This includes both appearance aspects and the functions. Manufacturers are more likely to use classic designs and to copy from other suppliers, indicating lack of awareness of intellectual copyrights. Almost all MSMEs do not have internal design²⁷. Designers lack talent, identity, innovation, use of computer-aided design, knowledge of the market needs and trends and knowledge of the technical aspects affecting functionality. Even when modern designs are made, they may not be stable, comfortable or commercial. There is a gap between design on one hand and manufacturing and marketing on the other hand. Professional service providers are lacking too. For example, there are no furniture production-engineering experts who would support designers in producing goods that look unique in appearance without compromising the functions.

Quality

Various factors lead to the low quality of furniture. The low quality of imported material including raw wood (e.g. knots, insects and moisture) affects the manufacturing process and functionality causing problems such as cracks and failed glue joints²⁸. Other factors are related to workers' skills, poor material and finishing, reliance on manual work, lack of standardization and certification.

Lack of R&D and technology

The machinery used in the furniture industry in Egypt is less developed and so are production mechanization and computerization. Entrepreneurs and workers are reluctant to technology adoption (e.g. CNC). One reason is that they are used to the traditional techniques and because workshops usually are established in residential areas and many workshops are inside residential buildings, so it is hard to invest in machinery in such an environment. Reluctance is accordingly due to both cultural reasons and financial reasons, resulting in low productivity. As for R&D, they are considered non-existent and the industry tends to be stagnant in terms of manufacturing processes and design.

Labour

The furniture industry is highly labour-intensive, thus it is crucial to have the skilled labour. The educational level of workers is primarily intermediate and below intermediate (43% and 20% of workers, respectively)²⁹. They rely on manual skills, are reluctant to change, have high turnover rates due to the informality, and tend to produce low quality and with low productivity. The technical and vocational education and training available does not match the needs in various aspects, curricula, equipment and technology, experts, etc. For instance, there is lack of furniture production engineering specialization in Egypt. Cooperation programs are done with the Faculty of Engineering in Damietta University but they have yielded results yet. This would be specifically relevant to furniture with technical specifications such as in hospitals.

The services provided by organizations such as the Industrial Modernization Centre (IMC) and the Industrial Training Council (ITC), which is now merged under MSMEDA -were highly valued by the business community but are no longer available due to lack of funding. Dual education systems, where collaboration between vocational schools and manufacturers allow apprenticeship and benefit both parties, and the former Mubarak Kohl Initiative model are also considered effective. Similar initiatives are being coordinated with universities in Beni Suef, Damietta, Helwan, 6 October as well as MSA University. GIZ is also currently implementing such programs. The subsector stakeholders emphasized the importance of replication and/or collaboration with such a model.

The role of women is absent. Women account for 0.8% only of workers in the subsector. Of this, 43% are working employers (compared to 40% in men), 22% are operating employees (compared to 44% in men), and 12% have administrative jobs (compared to 0.6% in men)³⁰.

3.2. Readymade Garments

3.2.1 Introduction

The readymade garments (RMG) is a sub-sector of the textile value chain. The Egyptian textile chain is an ancient industry that has witnessed several developments throughout its history, most relevantly, during the past century with nationalization being a milestone in shaping the subsector³¹. Public enterprises still have strong presence in the upstream stages (e.g. ginning, spinning and weaving), while private enterprises are well established downstream (e.g. ready-made garments)³². The RMG industry is the largest employer in the textile value chain, and accounts for 43% of the facilities established in from 2007 to 2017³³. Compared to other manufacturing subsectors, RMG is the second largest employer (12%) after food production (23%³⁴)

Subsector Strategy³⁵

Egypt Textile Strategy 2025 has been developed as a sub-sectoral strategy for one of the prioritized subsectors in the National Trade and Industry Strategy, in cooperation with the EU-funded TDMEP Project, and in line with the path towards the achievement of the Sustainable Development Strategy: Egypt Vision 2030. "The strategic aim of Egypt Textile Strategy is building 'Egypt Textile Industry 4.0 - Vision 2030', that will establish a strong position for Egypt's textile value chain in the domestic and international markets through becoming a transparent, traceable and sustainable world class competitive textile value chain."

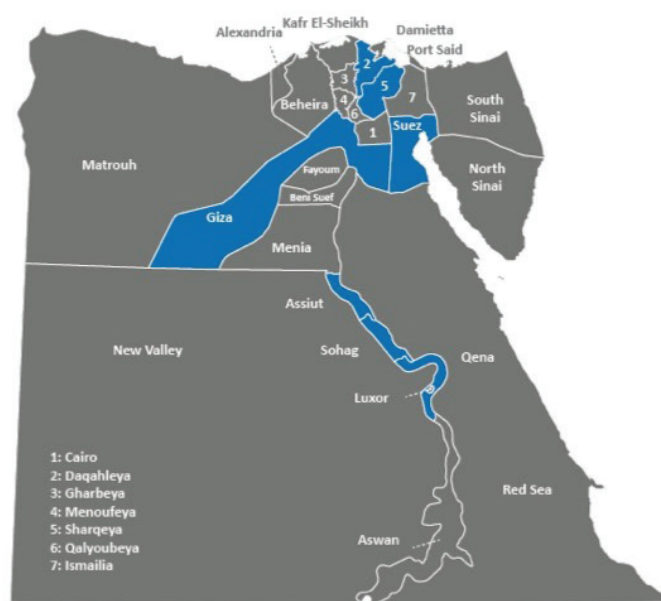
The strategy's strategic objectives are:

- ▶ Increasing productivity and quality of Egyptian cotton.
- ▶ Developing management & labor skills, quality and productivity.
- ▶ Enhancing Egypt textile value chain growth and industrial development, including commitment of USD 5 bn investments in downstream and upstream sub-sectors, as well as development of 20 mn sqm of textile industrial parks.
- ▶ Strengthening SMEs' contribution to the industry value chain.
- ▶ Egypt textile value chain integration and export growth.
- ▶ Development of innovation and research and development.
- ▶ Developing institutional support, monitoring, and policy reform (enabling environment).

Geographical distribution

Since a large proportion of enterprises in the RMG subsector is informal, they are mainly operating in scattered areas across Egypt's governorates and in population dense areas (in search for labour), away from industrial zones³⁶.

According to the cluster mapping conducted by the Social Fund for Development in 2015, out of the various 145 mapped clusters, RMG clusters are categorized under two sectors; the industrial and handicrafts sectors. The industrial clusters are the Naqada silk cluster in Qena, knitting in Dakahleia (Tanamel and Salamon), while the handicrafts are Tule (Tally) in Assiut and Sohag (Shandaweel), RMG and knitting in Sharkeya, 'abaya' in Kerdasa in Giza, and knitting and crochet in Suez³⁷.



Information gained from the interview conducted with Executive Director of the Egyptian Chamber of Apparel and Home Textiles (ECAHT), the link to rural areas is strong in areas such as El Khanka in Kalyoubeya governorate, where linkages between large manufacturers and suppliers of materials are stronger. From the interview, it was recommended that interventions could yield quick results in the governorates with an existing cluster, for example: Sharkeya, Mahalla (Gharbeya), Menia, Beni Suef and Fayoum. Women's participation in rural areas reaches 70%, thanks to programs like the "Your Job Next Door" which locates the production where cheap labour exist (30-50% less than industrial zones)³⁸.

On the other hand, one of the interviewees does not consider the links to rural areas as strong enough, except for when there is a relation to the handicrafts where rural women specialize in traditional embroidery for example, however, economies of scale will not be applicable. The "Your Job Next Door" initiative targeted women from rural areas who expressed interest in working in the sub-sector but faced the inability to travel.

³⁸ FEI's response to a questionnaire developed by the ILO, 2020.

Market access

Local market channels are mainly retail stores, producers' outlets and stores, wholesalers and e-commerce³⁹. Thanks to the huge market size, ECAHT generally perceives local market access as non-challenging, especially in garments where the Egyptian industry is more competitive compared to Turkish competitors for example. This includes home wear, underwear, men's casual wear, and women's evenings wear.

International market channels are mainly through export offices, B2B e-commerce, international fairs, and direct B2B exporting. Promising foreign markets are African, GCC and emerging markets⁴⁰. Nonetheless, Egypt is not benefiting from its comparative advantages and relatively cheap labour cost. Egypt's exports of RMG are basically on low-end domestic and export market segments (EU, US and Turkey are Egypt main RMG export markets, Egypt represent less than 1% of EU and US imports). Around 90% of the export value comes from 100 exporters (20 of which account for half of the export value), without a significant presence for SMEs⁴¹.

One of the challenges facing international market access is quality standards, such as the newly adopted standard in the Gulf region and the European Green to Wear standard.⁴²

3.2.2. The value chain integration and linkages

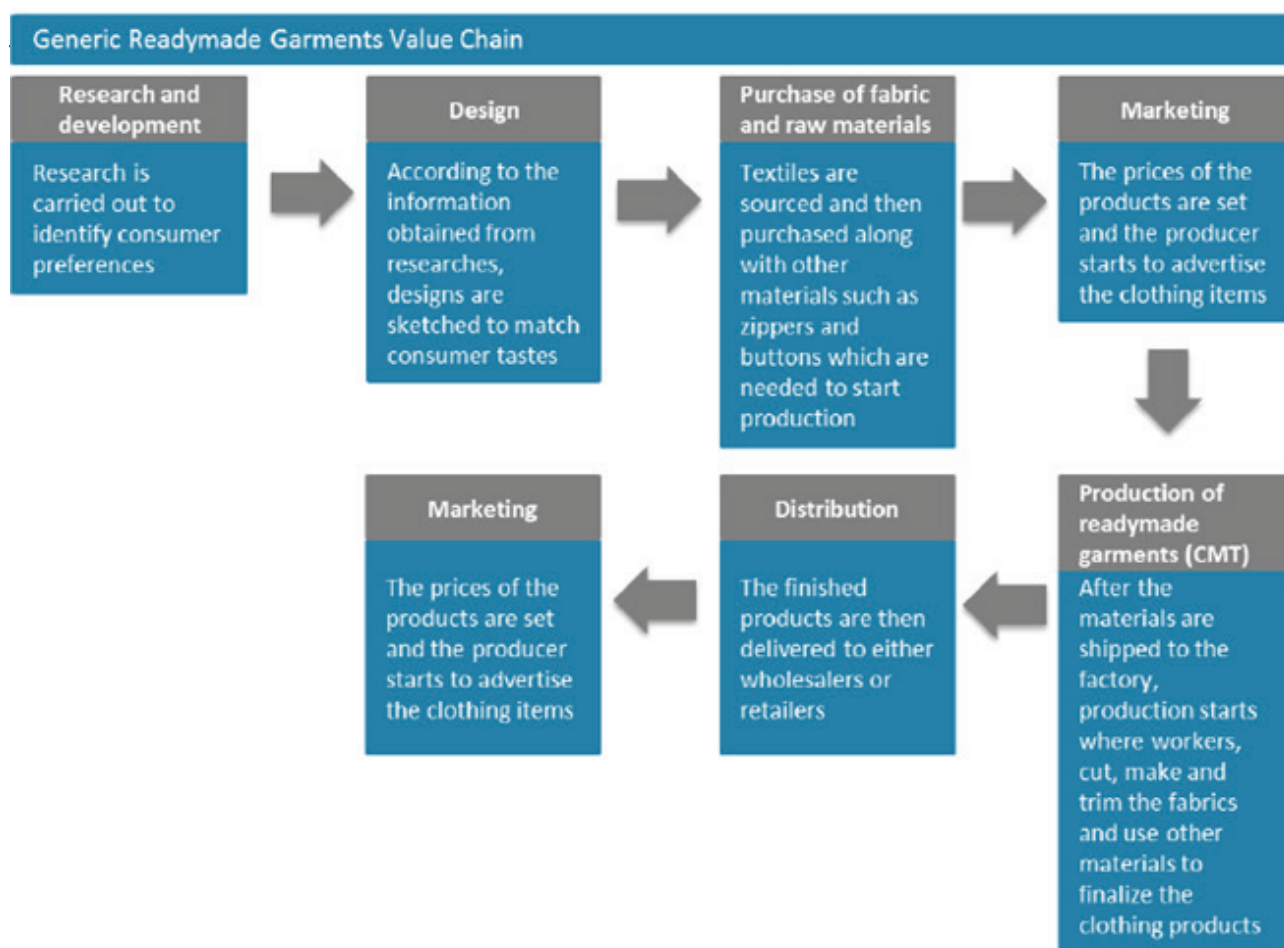


Figure 1: Generic RMG Value Chain. Source: USAID-SEED, Value Chain Assessment Study, 2016.

43 USAID-SEED, 2016, Value Chain Assessment Study.

Egypt's textile industry is the only fully vertically integrated value chain in the Mediterranean and Middle East region, from cultivation of cotton down to readymade garments and other end products like home textiles and technical textiles. Nevertheless, the potential of this value chain is not fully exploited due to the several underlying constraints⁴⁴. There is a strong role for private sector in the RMG subsector (90% of the garmenting capacity), and where RMG accounts for the majority of exports from the textiles and clothing⁴⁵.

The potential feeding industries for the sector lie in the areas of embroidery, accessories, and packaging, in addition to certain fabrics. The companies procure around 40% of their materials from the local market, mainly; threads, accessories, chemicals, local fabrics, and packing, in addition to using third party facilities when the orders permit.

As far as local markets are concerned, linkages with small firms are weak. In supplying accessories for instance, the potentiality of small business in providing input material to bigger lead firms is hindered by the problems related to the design and prices of the raw materials. Thus, it is better to collaborate in the textile-based inputs, which come from local material. On the other hand, knitting is a segment that is fully integrated in the companies. If the lead firm model is to be adopted, ECAHT suggests Arafa Group, BTM, Concrete or Teeba, depending on the strategy and intervention.

Linkages with large retailers are considered weak too⁴⁶ and transaction along the value chain are mainly informal, as contracts represent 40-60% only of local transactions⁴⁷.

As for exporting companies, they depend in their competitiveness on scale of production and lead time, and that would make them refrain from using local suppliers, in addition to quality-related issues since they have to abide by foreign market standards.

Institutional Support

- ▶ The Ministry of Industry and Trade has around ten affiliates and institutions that are dedicated only to the textile sector development. The Lack of coordination, communication, sharing of information and a common objective within all the governmental institutions has hindered the development of the sector despite their primary objective of facilitating its growth and competitiveness⁴⁸.
- ▶ Industrial Modernization Centre (IMC): it provides training courses on sewing, pattern making, branding, social and environmental compliance certification and support for import substitution⁴⁹. The assistance offered by the IMC is generally perceived as being of high value to the beneficiaries. However, smaller firms who need this kind of support more than larger exporting companies, had relatively less access to the services due to lack of awareness and outreach of such support programs⁵⁰.

▶▶ **The Egyptian Chamber of Apparel and Home Textiles (ECAHT):** established as one of 16 chambers of the Federation of Egyptian Industries (FEI). The services it provides include⁵¹:

- ▶▶ Provision of information and studies on the subsector.
- ▶▶ Studying subsector constraints and playing an advocacy role.
- ▶▶ Introducing business owners to investment and commercial opportunities.
- ▶▶ Provision of training, especially for middle management (production, quality and maintenance managers).
- ▶▶ Raising business owners' awareness on the importance of training and the development of human resources.
- ▶▶ Providing professional legal and technical advice.
- ▶▶ Marketing services and support in organizing local and international exhibitions.
- ▶▶ Solving customs-related problems and providing relevant advisory services.

▶▶ **Export Councils:** the Textile Export Council of Egypt (TEC) and the Apparel Export Council of Egypt (AECE): non-profits established by Ministerial decrees to be responsible for the development and promotion of exports. They are recognized for commitment to provide services for the export community to drive the growth of Egypt's exports in the subsector. They help Egyptian policymakers prepare strategies and take actions to increase both the quality and quantity of textile exports⁵².

▶▶ **The Fashion and Design technology Centre:** of the technology centers under the Industrial Council for Technology and Innovation (ICTI) affiliated to the MTI. It provides training, technical support, and has been a source of new designers to the RMG industry. Leather and jewelry design and technical support were also added to its mandate⁵³. As per ECAHT, the centre signed a protocol with the designer Hany El Beheiry to train 20 designers. If provided with financial resources, it can contribute to the development of the subsector technology adoption.

▶▶ **Egyptian Association for Research and Training Services for Garment and Textile Sector (TRAINTEX):** the implementation arm of the national reform of the Technical and Vocational Education and Training System (TVET). It is in an NGO owned by the private sector and co-funded by the European Commission and the Government of Egypt. TRAINTEX is linked with many of the relevant actors, training providers and international projects to enhance Egypt's human resources for international competitiveness of Egyptian industries⁵⁴. It provides training to workers, middle and higher management and has accredited training programs designed by local and international industry experts⁵⁵. TRAINTEX was the entity assisting in the "Your Job Next Door" initiative.

Other relevant programs and initiatives:

- ▶ The UNIDO Programme for Partnership is implemented with the Ministry of Trade and Industry to coordinate the efforts towards the development of the industrial sector in Egypt. Under the programme diagnostic studies were conducted and potential sectors were identified, including textiles, leather and handicrafts. For textiles and ready-made garments, the project worked closely with the ILO, especially with regards to decent jobs and child labour in the cotton project.
- ▶ An initiative from Marie Louis to invest in the form of CSR, and in coordination with the National Council of Women and MTI, directed towards assisting women in the textiles and RMG value chains.
- ▶ ECAHT indicated that the chamber is cooperating with the IMC on creating an e-commerce portal that will start for B2B only, then expand to B2C. Beta version is expected to be launched in March, 2021.
- ▶ According to the handicrafts expert Mr. Hisham El-Gazzar, ILO's SIYB program is an example of impactful interventions, as well as the GET Ahead program that is suitable for the less educated women in the sector, both in terms of providing the trainees with the skills needed to expand their businesses.
- ▶ Curriculum development in cooperation with the German - Arab Chamber of Industry & Commerce, there is an initiative for curriculum development for RMG.
- ▶ Global Textiles and Clothing Programme (GTEX): "GTEX and its related work in the Middle East and North Africa (MENATEX) promotes Textile and Clothing (T&C) exports from countries in Central Asia, the Middle East and North Africa. The aim is to stimulate employment and income generation along the value chain. In its initial phase, the project targets Egypt, Jordan, Morocco, Tunisia, Kyrgyzstan and Tajikistan. The GTEX programme is funded by the Government of Switzerland and the MENATEX is funded by the Government of Sweden for the MENA region. ITC, in close collaboration with the Swiss State Secretariat of Economics Affairs (SECO) and the Swedish International Development Cooperation Agency (Sida), will implement the programme. The programmes runs until December 2021"⁵⁶.

According to the FEI, despite the numerous international development programs, not enough quality services are provided in the form of technical and technological assistance, managerial and marketing support, which are largely needed by SMEs in particular⁵⁷.

3.2.3. Implications of the Pandemic

Like many of economic sectors and subsectors all over the world, the subsector has been impacted by the COVID-19 pandemic, with varying degrees, in large enterprises versus SMEs. According to Euromonitor, the apparel industry was the second most impacted industry by the pandemic and some Egyptian companies expect that the industry would not recover until July 2021⁵⁸. The implications primarily include:

- ▶ The temporary closure of factories and reduction in shifts in Q2 2020 had its negative impact on the industry, but this was only a short-term impact.
- ▶ Demand decreased locally and internationally, including cancelled orders. This caused problems in the cash flow and delayed payments (including foreign importers), and many companies had to downsize or cut salaries. For example, one company mentioned

that Walmart extended the payment terms of a certain item from 1 week to 45 days⁵⁹.

- ▶ Change in the type of apparel demanded. The demand on traditional suits and formal wear is on the decline, thus companies are shifting towards the needed items; like technical wear (medical wear), and masks (woven, knitted and non-woven). According to a survey of 32 enterprises in the textile and RMG subsectors, at least half of the companies shifted to medical textile products⁶⁰. The problem here for the Egyptian companies is to conform to the specifications. Moreover, global demand is shifting more towards certain segments; home wear, casual and sportswear, due to the lockdown, work-from-home policies and customers' readiness to buy these kinds of garments without the physical experience, unlike formal or luxurious items. This is considered an opportunity for competitive Egyptian exporters⁶¹.
- ▶ The sector's exports decreased by around 20% following COVID-19. Many export orders were cancelled, and that had an effect on the suppliers as well. However, the situation began to be better starting from June 2020. The USA market is improving, but on the European market, the situation is not back to normal yet. There is an expectation that by the second half of 2021, the situation would return to normal in terms of RMG exports.
- ▶ Increased raw material supply lead-time, especially exported items that are sometimes impossible to substitute with locally manufactured material⁶².
- ▶ Some Asian companies are relocating their production to closer to their markets, and this is where an opportunity for Egypt lies, yet with Turkey being a strong competitor as such⁶³. One Pakistani factory is already locating to Egypt⁶⁴.

3.2.4. Opportunities and Challenges

Opportunities

Investment and labour cost

- ▶ Relatively low investment cost: According to the Executive Director of ECAHT, the investment cost to establish a small RMG factory is the lowest (EGP 45,000). This is why many current small business owners used to be workers in large enterprises, and made the decision to start their own business after gaining the main knowledge and skills required. However, this has its negative implications since some entrepreneurs establish their RMG business without having the necessary experience, thus ending up losing and closing the business.
- ▶ The creation of a job opportunity (in terms of investment) in the sector is low. In addition, training requirements for skills needed are not highly expensive⁶⁵.

59 International Trade Centre, 2020, The Impact of COVID-19 on the Global Market and Local Industry of Textile – Egypt.

60 International Trade Centre, 2020, The Impact of COVID-19 on the Global Market and Local Industry of Textile – Egypt.

61 International Trade Centre, 2020, The Impact of COVID-19 on the Global Market and Local Industry of Textile – Egypt.

62 International Trade Centre, 2020, The Impact of COVID-19 on the Global Market and Local Industry of Textile – Egypt.

63 International Trade Centre, 2020, The Impact of COVID-19 on the Global Market and Local Industry of Textile – Egypt.

64 ECAHT interview.

65 FEI's response to a questionnaire developed by the ILO, 2020.

Strong Integration of the value chain

The textile and RMG subsectors are strongly related and cannot be tackled separately. Fortunately, this is one rare example where the value chain is vertically integrated and all stages are existing in the local market, with varying strength. Another relevant segment of the subsector is handicrafts; one of the main employers in the Egyptian economy according to the export council and the chamber of handicrafts, accounting for an estimate of two million jobs in 2018⁶⁶. It is also an area where links to rural areas is strong.

E-commerce

The trend of reliance on e-commerce is compatible with the nature of the products. Unlike the case of furniture, there is an increasing demand on RMG through e-commerce channels as opposed to stores, especially post COVID-19, which the Egyptian industry can seize. Coupled with the financial inclusion initiatives and the adoption of technology including e-payments, this represents a significant opportunity for the subsector. Out of Egypt's e-commerce sales, fashion & beauty ranks third, with a 42% year-on-year growth in 2019⁶⁷.

Qualified Industrial Zones

Qualifying Industrial Zones (QIZ) are designated geographic areas within Egypt that enjoy a conditional duty free status with the United States. The industry benefiting the most of QIZs in the textile and apparel⁶⁸. As of December 2019, out of all companies enjoying the benefits of the QIZ in Egypt, 80.4% were in the textile and textile articles industry⁶⁹, accounting for 97.3% of QIZ exports in the same year⁷⁰. US imports include well-known international brands such as Aeropostale, Calvin Klein, Disney, Gap, Hanes brands, J.C. Penney, Macy's, Nautica, Timberland and Zara⁷¹.

Segments with higher potential⁷²

- ▶ Knitted garments have a higher potential due to several reasons such as including several apparel categories (school uniform, men's, women's and kids wear, etc.), reliance on local input material (95%), non-seasonality of products and possible storage at times of recession.
- ▶ Denim and gabardine pants, which are non-seasonal too, are used by all customers segments regardless of sex or age, and are technically used in schools, workshops and factories uniform.

Challenges

Fierce competition with imports

Despite the large local market size, Egyptian RMG has its challenges in overcoming its lower competitiveness compared to Asian and Turkish exporters that provide better designs, good quality and competitively priced products. Furthermore, illegal and legal imports (e.g. from China and Turkey) are serious constraints to local manufacturers, due to the lower prices, competitive quality and designs.

Sourcing quality input material

This subsector is price sensitive and relocates to where cost is lower⁷³. The input material to this subsector is challenging, given the cotton-related problems as well as imports of textile and accessories, which are much cheaper than locally produced items. As in the example of denim, it is difficult to find the same quality of local textiles and with a competitive price, as the prices locally are not economically viable compared to imports. According to a value chain analysis, domestic cotton products are more expensive than that imported, accounting for 15% of the manufacturing cost; hence the lower competitiveness of Egyptian products compared to Asian exporters⁷⁴. On the other hand, the high cost of some imported inputs especially dyes and poly-viscose⁷⁵ is a challenge but should also be an opportunity for local suppliers and value chain integration if quality standards are fulfilled.

Delivery / Lead-time

The lead-time is key for exporting companies, and that is considered one of the main problems faced with local suppliers. The same issues apply to accessories as well. That is why retailers are emphasizing proximity of suppliers to the market and their flexibility and faster delivery time.

The regulatory environment

Custom-related regulations constrain the industry through increasing the prices of input material significantly, thus increasing the cost and the final selling price of apparel. In addition, this has caused manufacturers to source their input material from local suppliers who do not necessarily meet the quality and price requirements.

Labour, technical skills and productivity

The subsector lacks having a pool of highly qualified experts. For example, graduates of TVET, WISE and GIZ programs are around 45 experts. There is lack of training and advisory services, especially in relation to metal accessories, buttons, zippers and rubber bands⁷⁶. Other areas are middle management; supervision on production, quality, packaging, cutting and maintenance⁷⁷. Maintenance training is non-existent, and the industry needs on-the-job trainers (production trainers on the production line). As an effective solution, the dual education system is considered one of the most successful models for technical education.

Accordingly, the subsector suffers from lack of skilled labour, especially in Delta governorates⁷⁸. This is exacerbated in SMEs, where the capabilities are lower. Compared to global producers, Egypt's productivity is much lower (e.g. a production of a basic shirt in Egypt would take 50%-70% more time than in some Asian countries)⁷⁹.

Furthermore, this industry is challenged by the high workers turnover rate, reaching 8-15% monthly, resulting in lower skills, quality and productivity as well as the recurring need for technical training and education. Even existing workers, have high absenteeism rates, ranging from 10% in normal days up to 18% in pre-seasonal days, which aggravates the lower productivity problem. This means that Egyptian manufacturers are in fact paying wages that are 25-40% higher than other countries, jeopardizing their competitiveness even more⁸⁰.

As indicated in the quantitative data, women employment is high in this subsector, accounting for 34% of all employees, which is one of the highest rates of women employment in all economic subsectors and the highest among the manufacturing sector⁸¹. However, providing attractive working conditions for women is challenging, as they require proximity to their homes and availability of day-care services. For example, women from rural areas are willing to work, proven by the "Your Job Next Door" project, but they were restrained by not being able to travel. Besides, provision of day care services in factories encourage women employment in the RMG subsector. The Ministry of Social Solidarity offered supporting in building day-care centres, which could be a complementary intervention to support women employment. Manufacturing jobs cannot be adapted to be home-based to be convenient to women but other jobs across the value chain could, and this is where e-commerce opens up opportunities for heavier women involvement.

In relation to decent jobs and work conditions, formal enterprises are more apt to comply with laws and regulations, while informal enterprises do not necessarily provide health and safety measures, insurance, formal contracts, equal pay, child labor, etc⁸².

Access to finance

Access to finance is a constraint in general but is specifically relevant to this subsector, as it is considered as risky business by most banks. Despite national initiatives, it is up to the bank to make the credit decision, which is perceived as risky given the average loan size and the industry risk.

78 FEI's response to a questionnaire developed by the ILO, 2020.

3.3. White Goods

3.3.1. Introduction

The white goods industry in Egypt dates back to the 1960s when publicly owned enterprises played a key role, before private enterprises were able to play a role in the 1970s with the market policy change. Today, private local manufacturers, not only are able to cater to the local demand, but also have a growing export potential⁸³.

Egypt's local manufacturing industry for home appliances is growing⁸⁴. Home appliances include white goods (air conditioners, refrigerators, ovens, water heaters, washing machines, fans) and brown goods (LCDs and notepads)⁸⁵.

Subsector Strategy

There is no national strategy for the development of the white goods subsector per se. The National Sustainable Development Strategy includes home appliances as a target subsectors as part of a project to establish 25 industrial complexes⁸⁶. However, there is no explicit mention of home appliances as a sectoral focus of MTI's 13 industrial complexes⁸⁷. The only available relevant strategy is the export strategy for engineering industries developed by the Engineering Export Council in 2014⁸⁸.

Geographical distribution

Since the industry is relatively new to the Egyptian economy due its sophisticated engineering and technological nature, compared to the furniture and RMG industries, there is no organic clusters that are well-established in certain geographical locations. However, there are recent developments in this area. Samsung's plant (total area of 366,000 sqm)⁸⁹ established in Beni Suef⁹⁰ designated adjacent land for its potential suppliers, which represents an opportunity for workers from rural areas to take part in the subsector.

In addition, El Araby has several industrial complexes. The Benha (Kalyoubeia) complex, established in 1982, includes three factories and one subsidized manufacturing plant. The larger Quesna (Menoufeia) complex, established in 2001, includes nine factories and three subsidized manufacturing plants⁹¹. The recent complex in the industrial zone in Beni Suef includes 12 factories and produces refrigerators, washing machines, fans and air conditioners as well as engines and components of these products⁹². It was also announced that it will open another complex in Assiut⁹³.

Market access

Appliance specialist retailers lead distribution channels while boosting results for internet retailers. However, they are losing share to modern hypermarkets. The key market players focus on showrooms to increase consumer awareness and make use of their offerings through qualified sales teams. Internet retailers are also increasing their share⁹⁴.

As for foreign markets, it is perceived that there is an export potential for the subsector. The Engineering Export Council is currently focusing the export market towards East and West Africa and there have been efforts to connect the companies with those markets.

94 <https://www.businesswire.com/news/home/20200124005415/en/Egypt-Consumer-Appliances-Market---2020---ResearchAndMarkets.com>

3.3.2. The value chain integration and linkages

This subsector has the potential of linking the large enterprises to the small suppliers in several feeding industries. There are three types of suppliers; those working with technical specifications, those manufacturing similar products (so they have the know-how but do not have the tools), and those that are new to the field and are looking for calibres to manufacture components. Generally, there is always the problems with all suppliers of quality and quantity primarily, followed by access to finance. If these three problems can be tackled this will help the development of the industry.

Accordingly, the specific constraint hindering the utilization of the promising suppliers and connecting them with the large manufacturers is mainly in the know-how. SMEs have access to the specifications but applying them remains a challenge. That is where technical assistance through the lead firms would be of value added, and some companies are expected to cooperate when they perceive an opportunity in the initiative.

The companies that would have a potential to be in the programme that the ILO is planning are Samsung, LG, and El Araby, Fresh, Unionaire, and Universal. El Araby in particular had a similar programme and it conducts an annual event to show the input parts that are imported to the potential suppliers in order to get their feedback on the practicality of manufacturing these parts locally. This has resulted in sourcing engines for washing machines from local suppliers. Moreover, El Araby has its testing labs and are available to be utilized in delivery of training. Samsung as well has designated an adjacent land to their factories to host potential suppliers, and since they work in Beni Suef, and that would be another edge for linking to rural areas. In addition, in localization programs, lead firms perform site audits on suppliers to guarantee delivery of products.

Institutional Support

- ▶ The Chamber of Engineering Industries (CEI): one of FEI's chambers. It has more than 4000 members and includes 10 subsectors including home appliances and other relevant industries. The Chamber's services include⁹⁵:
 - ▶ Representing the interests of its members to key business stakeholders (government authorities and other entities).
 - ▶ Informing members with exporting opportunities.
 - ▶ Informing members for local and international exhibitions.
 - ▶ Providing all information related to manufacturing, and production operations, technology, equipment and the knowledge sources.
 - ▶ Making available database for all engineering industrial capabilities.
- ▶ The Engineering Export Council of Egypt (EEC-EG): it was founded in 2005 with the aim to grow engineering exports by offering services targeted at improving the product quality and competitive advantage of its member companies. The council acts as a one-stop shop for its members by linking them with governmental agencies and export service providers. It focuses on supporting engineering exporters by helping them to benefit from the government's export strategy and the incentive programs tied to it⁹⁶.

95 Chamber of Engineering Industries Brochure.

96 Engineering Export Council of Egypt, Home Appliances Companies, Export Directory.

- ▶ Engineering Industries Technology Center – ELTC: one of the ICTI centres affiliated to MTI. Its services include⁹⁷:
 - ▶ Technical assistance (productivity, quality improvement, resource efficiency, etc.).
 - ▶ Product development.
 - ▶ Product design and prototyping.
 - ▶ On the-job training for technology transfer.
 - ▶ Qualifying Egyptian companies for International Certification (e. g. REACH, WEE...).
 - ▶ Incubation services and coaching for young entrepreneurs.
 - ▶ Facilitating access to business planning support and marketing assistance.
 - ▶ Product quality testing.
 - ▶ Product development testing.

Other potential partners include:

- ▶ El Araby School for Applied Technology: The school is located in Quesna, Menoufia Governorate. It contains 18 classrooms and a number of laboratories, in addition to 2 workshop buildings. The school specializes in the field of refrigeration and air-conditioning, electricity and mechanics⁹⁸. It is an Applied Technology School operated in cooperation of MOETE. It is noteworthy that ELARABY School for Applied Technology achieved success during its first academic year, and its students were able to compete in local and international competitions and obtain advanced positions such as the golden diploma in the field of mathematics⁹⁹.
- ▶ European Bank for Reconstruction and development (EBRD), since it offers such assistance to companies, especially if the upgrades would have an environmental impact.
- ▶ Nile University through their NilePreneurs program works with factories, especially when it comes to developing molds.
- ▶ Enabling Egyptian Exports through Technology Transfer Driven Product Innovation – EEPI Project: an EU project where one of the components was concerned with qualifying Egyptian exporters, focusing on home appliances and electronics, because they need high quality specifications.
- ▶ There are ongoing efforts by the IMC to have a supplier rating system.

⁹⁷ Chamber of Engineering Industries Brochure.

⁹⁸ <https://www.presidency.eg/en/%D8%A7%D9%84%D9%85%D8%B4%D8%A7%D8%B1%D9%8A%D8%B9-%D8%A7%D9%84%D9%82%D9%88%D9%85%D9%8A%D8%A9/%D9%85%D8%AF%D8%B1%D8%B3%D8%A9-%D8%A7%D9%84%D8%B9-D8%B1%D8%A8%D9%8A-%D9%84%D9%84%D8%AA%D9%83%D9%86%D9%88%D9%84%D9%88%D8%AC%D9%8A%D8%A7-%D8%A7%D9%84%D8%AA%D8%B7%D8%A8%D9%8A%D9%82%D9%8A%D8%A9/>

⁹⁹ <https://www.elarabygroup.com/en/blog/elaraby-technology-school-announces-acceptance-new-students-2019-2020-en>

3.3.3. Implications of the Pandemic

Other than the temporary closure or reduced working hours that affected all economic sectors during the lockdown, the most significant impact on this subsector was the short-term supply chain disruptions. These created an opportunity for home appliances for export to nearby countries. Currently, some investors are considering relocation to closer markets as a result.

3.3.4. Opportunities and Challenges

Opportunities

Relatively strong Integration of the value chain

The white goods subsector is one where industry localization through supporting local manufacturing of components is possible. For example, since some goods' components can all be sourced locally, El Araby has specialized factories like having stove factories. Other products that have the potential for local components manufacturing include washing machines (such as rubber and the tub), refrigerators and air conditions have.

E-commerce

The subsector compatibility with e-commerce is high. It is acceptable for consumers to buy white goods electronically since they can easily find the specifications and will have a warranty. Channels are also numerous, including specialized e-commerce portals (e.g. souq), appliances stores (e.g. B.Tech), and producers (e.g. Samsung Egypt online shop).

Increasing demand

In 2019, consumers' busy lifestyles and the increasing need for convenience and timesaving resulted in strong growth for consumer appliances in Egypt. Besides, a rise in healthy lifestyles increased the volume sales of food preparation appliances¹⁰⁰. Continuously advancing technology is also another demand driver for this specific subsector.

Customs on imported goods

Customs tariffs on imported goods increase the price competitiveness of locally manufactured products and it is forecasted that this opportunity continues to exist¹⁰¹.

¹⁰⁰ <https://www.businesswire.com/news/home/20200124005415/en/Egypt-Consumer-Appliances-Market---2020---ResearchAndMarkets.com>

¹⁰¹ <https://www.businesswire.com/news/home/20200124005415/en/Egypt-Consumer-Appliances-Market---2020---ResearchAndMarkets.com>

Challenges

Supply chain problems

There is a general problem in the supply chain in Egyptian industries. For example, El Araby faced a problem in procuring packaging boxes from the local markets and that is why it built its own in-house capacity and established the needed factories for the supplies needed. The two key challenges are the capacity of small suppliers to produce the components with the specifications required, and with the capacity to produce enough quantities to meet the large enterprises demand in a timely manner.

Financing working capital

Generally, there is a problem with regards to working capital for the small firms in order for them to have a capacity to maintain the quality required by the lead firms. This could be solved by having a cooperation between the small firms to get their input material in a collective form.

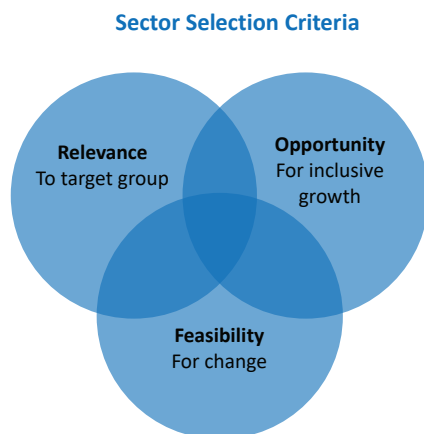
4. VALUE CHAIN SELECTION

The study is focusing on the three sectors that were chosen from the ILO: Furniture, White Goods, and Ready-Made Garments (RMG). Having established a shortlist of promising value chains, the next step was to outline the selection criteria across which to compare them in order to have an objective assessment of their relative alignment with the project's objectives.

4.1. Selection Criteria

As mentioned in the methodology section, quantitative data on the three subsectors performance were collected from official secondary sources and analysed according to the set of pre-identified criteria and weights laid out in the table below. Basing the analysis according to the ILO's Value Chain Development for Decent Work Guide¹⁰², the criteria for selection fall under:

1. Relevance to the target group: potential for the target group in the sector, and the nature of the decent work challenges they are facing.
2. Opportunity for inclusive growth: opportunities to create more and better jobs in the core value chain.
3. Feasibility to intervene: the extent to which a project will be able to facilitate change given the sector and country context.



“The criteria for selecting value chains should flow directly from the definition of the target group and goal, as the sector should be relevant to the former and have potential to achieve the latter”.

Within each of these main categories, specific sub-criteria were developed to make a comparison between the three sectors. Quantitative and qualitative data were used to validate the criteria. The choice for the sub-criteria was done according to certain rationale (listed in the table), but more importantly, it was influenced by two main factors: 1) the experience of the project with the previous implementation of value-chain development interventions (within the dairy sector), 2) the scarcity of accurate aggregate quantitative data on the sectors. There were challenges in EYE RAWABET project in the implementation phase with the dairy sector, pertaining mainly to the willingness of the different actors to cooperate. Thus, one area “Feasibility to intervene” was a major criterion to investigate against the three sector, which necessitated to conduct around 21 interviews across the sectors, and more towards the one sector that held the highest potential in that regard.

¹⁰² ILO (2015). Value Chain Development for Decent Work: How to Create Employment and Improve Working Conditions in Targeted Sectors (Second edition). Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/instructionalmaterial/wcms_434363.pdf

Main Categories	Selection Criteria	Quantitative vs. Qualitative	Rationale/Explanation
Relevance to the target group	Current employment (% of total)	Quantitative	The bigger impact would be in the sector that employs most
	Future employment needs	Quantitative	Based on CAPMAS survey, this indicates the future needs, thus the sector with the most employment needs
	Links to rural areas	Qualitative	The sector having value-chain players in the rural areas, which is a target for the project
Opportunity for inclusive growth	Percentage of local inputs	Quantitative	The higher the percentage the higher the local impact
	Female employment	Quantitative	The higher the percentage, the more the inclusiveness
	Exports	Quantitative	In order to export, companies would need to comply with strict regulations (Labour rights is one).
	Revealed comparative advantage (RCA)	Quantitative	It is important to support a sector that has an increasing demand globally, rather than one that is fading, and Egypt does not have a competitive advantage at
	Product complexity index (PCI)	Quantitative	This gives an indication on the potentiality of helping a sector that would have a spill over effect on a more sophisticated sector
	Change in production index (2019 vs 2014)	Quantitative	To measure the growth of the sector over the years
	SME concentration (% of establishments with less than 100 workers)	Quantitative	Having more SMEs in the sector would mean a greater opportunity for inclusiveness
	Perceived opportunities for growth	Qualitative	How players are perceiving their respective sector is an indicator to opportunity for growth in general
Feasibility to intervene	Formality: % of registered establishments	Quantitative	Informality is one factor that would hinder connecting suppliers to lead firms
	COVID-19 impact on the industrial production index	Quantitative	The higher the volatility and impact of COVID-19 on the sector, the harder to work with the sector for a short period of time
	Existence of clusters	Qualitative	Having a cluster would facilitate in connecting suppliers with lead firms
	Existence /readiness of lead firms	Qualitative	Having a sector with high number of lead firms that worked in similar development programmes, would facilitate implementing interventions on the short-term
	Reliability of existing support institutions and initiatives	Qualitative	Having active service providers and support institutions would increase the feasibility to intervene
	Government priority	Qualitative	Being a sector that the government focus on, would assist in having interventions that would complement their efforts and have a greater impact
	Perceived opportunities for ILO impactful interventions	Qualitative	Based on the offering of the project, the sector with the highest needs in those areas would be of priority
	Extent of value chain integration	Qualitative	How much the value-chain is integrated is an indicator to how well different players are connected together

4.2. Scoring

The table below briefly provides the key insights and data collected for the three shortlisted value chains across the different selection criteria. Each value chain receives a score of 1, 2 or 3 against each criterion, corresponding to low, medium, or high alignment respectively, based on the data collected by the consultant. In order to explore how the data are reflected in real terms, a desktop review of the available relevant information on the three subsectors in Egypt was undertaken. In addition, 21 in-depth interviews with key stakeholders were conducted to complement the desktop review findings with primary research. For each subsector, the findings of the secondary and primary research are integrated in the analysis below briefly, and more in the following section (including the quantitative comparison between the three sectors).

FURNITURE		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
RELEVANCE	Current employment (% of total employment) 2.6% <i>Source: CAPMAS, Economic Census 2017/18</i>	2
	Future employment needs until 2023 1,662 employees <i>Source: CAPMAS, Economic Census 2017/18</i>	1
	Links to rural areas Furniture manufacturing is widespread across governorates, from small workshops in residential areas to larger manufacturers. Thus, the link with rural areas is primarily in the form of workers from rural areas of the same governorate as is the case in Tahta, Sohag and Tanta, but in general terms, links with rural areas are not strong. Damietta remains the centre of the furniture industry in Egypt, followed by Cairo, Sharkeya and Alexandria ¹⁰³	1
OPPORTUNITY	Percentage of local inputs 63.6% <i>Source: CAPMAS, Economic Census 2017/18</i>	2
	Female employment 0.8% of total workers in the sector <i>Source: CAPMAS, Economic Census 2017/18</i>	1
	Exports 22.1% of total output is directed towards exports <i>Source: CAPMAS, Egypt's Input-Output Table of 2014/15 (latest available)</i>	1
OPPORTUNITY	Revealed comparative advantage (RCA) According to Harvard University's Atlas of Economic Complexity data, the revealed comparative advantage of furniture (an index used for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows, which is calculated as the proportion of the country's exports of a certain category divided by the proportion of the world's exports of the same category) is equal to 1.27 ¹⁰⁴ <i>Source: Harvard's Atlas of Economic Complexity; 2018 Data (latest)</i>	2

¹⁰³ USAID-SEED, 2016, Value Chain Assessment Study.

¹⁰⁴ A comparative advantage is «revealed» if $RCA > 1$. If RCA is less than 1, the country is said to have a comparative disadvantage in the commodity or industry.

FURNITURE		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
OPPORTUNITY	<p>Product complexity index (PCI) According to Harvard University's Atlas of Economic Complexity data, manufacture of furniture in Egypt is 0.35. It is worth noting that the PCI ranks the diversity and sophistication of the productive know-how required to produce a product. It is calculated based on how many other countries can produce the product and the economic complexity of those countries. <i>Source: Harvard's Atlas of Economic Complexity; 2018 Data (latest)</i></p>	2
	<p>Change in production index (2019 vs 2014) Between 2014 and 2019, the seasonally adjusted industrial production index of furniture decreased by 22.2% <i>Source: UNIDO's Industrial Production Index</i></p>	1
	<p>SME concentration (% of establishments with less than 100 workers) =100% <i>Source: CAPMAS, Economic Census 2017/18</i></p>	3
	<p>Perceived opportunities for growth The expansion and construction of new cities during the past years is a significant opportunity for accessing local markets if the subsector proves able to match the buyers' preferences, quality and prices and to compete with imported products. This opens up opportunities for various segments, not only domestic demand, but also schools, universities, hospitals, hotels, business offices, restaurants, outdoor furniture, among others.</p>	1
FEASIBILITY	<p>Formality: % of registered establishments 34.6% of enterprises are formal <i>Source: CAPMAS, Economic Census 2017/18</i></p>	1
	<p>COVID-19 impact on the industrial production index (Q3 2020 vs Q4 2019), seasonally adjusted Compared to pre-COVID levels, the seasonally adjusted industrial production index of furniture increased by 2.6% <i>Source: UNIDO's Industrial Production Index</i></p>	3
	<p>Existence of clusters Despite the dispersion of furniture businesses geographically, organic clusters exist in Damietta, Kalyoubeia (Tenan), Gharbeya (Katama), Sohag (Tahta), where the most famous organic cluster in Egypt is the Damietta furniture cluster¹⁰⁵.</p>	3
	<p>Existence /readiness of lead firms The findings of the secondary and primary research conducted indicate weak to moderate inter-firm linkages. The industry relies on imported input material, hence weak backward linkages with local businesses. Linkages exists between exporters and workshops, larger manufacturers and small workshops supplying them with finished and semi-finished products, showrooms and producers, yet linkages seem to be weak, the subsector is fragmented, and the lead firm model is not evident (limited number of large firms). In certain clusters, firms do not prefer to cooperate and can hardly reach an agreement.</p>	1

105 IFPRI, 2018, Clusters as drivers of local industrial development in Egypt.

FURNITURE		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
FEASIBILITY	<p>Reliability of existing support institutions and initiatives</p> <p>The two main organizations representing and supporting the furniture subsector are the Chamber of Wood Working and Furniture Industries (CWWFI) and the Egyptian Furniture Export Council (EFEC). Both have deep knowledge of the industry and a strong network of members and with other relevant stakeholders across governorates and are considered key partners to collaborate with in studying, designing, planning and implementing programs targeting enhancement of the furniture subsector.</p> <p>On the technical service-provision side, despite existence of some support service providers, the quantity and quality of services required to improve the subsector performance are either absent (e.g. R&D services) or lack resources.</p>	2
	<p>Government priority</p> <p>The Ministry of Trade and Industry, through the Industrial Modernization Center and in cooperation with the export council commissioned a subsector development strategy in 2010, which was updated in 2018. The 2018 strategy formulation and update process included an analysis of the legal and regulatory framework, the value chain, market and trade potentiality, economic impact, and benchmarking and identification of potential investment opportunities.</p>	2
	<p>Perceived opportunities for ILO impactful interventions</p> <p>The furniture industry is highly labour-intensive, thus it is crucial to have the skilled labour. The educational level of workers is primarily intermediate and below intermediate (43% and 20% of workers, respectively)¹⁰⁶. They rely on manual skills, are reluctant to change, have high turnover rates due to the informality, and tend to produce low quality and with low productivity. The technical and vocational education and training available does not match the needs in various aspects, curricula, equipment and technology, experts, etc.</p>	1
	<p>Extent of value chain integration</p> <p>The value chain of manufacturing furniture is cross-linked to other value chains. This is due to the diversity of input material from different feeding industries including wood, textiles and upholstery material, metals, chemicals, plastic, glass, etc. (backward linkages), as well as the diversity of market segments, domestic (accounting for 55% of the demand¹⁰⁷), business, industrial, schools and universities, hospitals and contract furniture (forward linkages).</p>	2

¹⁰⁶ CAPMAS, Economic Census 2017/2018.

¹⁰⁷ HLB Egypt Makary Consulting and IMC, 2018, Furniture Industry Development and Export Strategy: Executive Summary.

RMG		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
RELEVANCE	Current employment (% of total) Manufacture of wearing apparel employs the highest percentage among the 3 subsectors (2.8% of total Egyptian workers) <i>Source: CAPMAS, Economic Census 2017/18</i>	3
	Future employment needs until 2023 14,764 employees <i>Source: CAPMAS, Economic Census 2017/18</i>	3
	Links to rural areas Since a large proportion of enterprises in the RMG subsector is informal, they are mainly operating in scattered areas across Egypt's governorates and in population dense areas (in search for labour), away from industrial zones. ¹⁰⁸	2
OPPORTUNITY	Percentage of local inputs 72.1% <i>Source: CAPMAS, Economic Census 2017/18</i>	3
	Female employment 34.3% of total workers in the sector <i>Source: CAPMAS, Economic Census 2017/18</i>	3
	Exports 57.5% of total output is directed towards exports <i>Source: CAPMAS, Egypt's Input-Output Table of 2014/15 (latest available)</i>	3
	Revealed comparative advantage (RCA) 1.9 <i>Source: Harvard's Atlas of Economic Complexity; 2018 Data (latest)</i>	3
	Product complexity index (PCI) According to Harvard University's Atlas of Economic Complexity data, manufacture of RMG is -1.40. <i>Source: Harvard's Atlas of Economic Complexity; 2018 Data (latest)</i>	1
	Change in production index (2019 vs 2014) Between 2014 and 2019, the seasonally adjusted industrial production index of wearing apparel increased by 171% <i>Source: UNIDO's Industrial Production Index</i>	3
	SME concentration (% of establishments with less than 100 workers) 99.5 <i>Source: CAPMAS, Economic Census 2017/18</i>	2

108 FEI's response to a questionnaire developed by the ILO, 2020.

RMG		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
OPPORTUNITY	<p>Perceived opportunities for growth</p> <p>The trend of reliance on e-commerce is compatible with the nature of the products. Unlike the case of furniture, there is an increasing demand on RMG through e-commerce channels as opposed to stores, especially post COVID-19, which the Egyptian industry can seize. Coupled with the financial inclusion initiatives and the adoption of technology including e-payments, this represents a significant opportunity for the subsector. Out of Egypt's e-commerce sales, fashion & beauty ranks third, with a 42% year-on-year growth in 2019¹⁰⁹.</p> <p>Knitted garments have a higher potential due to several reasons such as including several apparel categories (school uniform, men's, women's and kids wear, etc.), reliance on local input material (95%), non-seasonality of products and possible storage at times of recession.</p> <p>Denim and gabardine pants, which are non-seasonal too, are used by all customers segments regardless of sex or age, and are technically used in schools, workshops and factories uniform.</p>	2
	<p>Formality: % of registered establishments</p> <p>35.4% of enterprises are formal <i>Source: CAPMAS, Economic Census 2017/18</i></p>	2
FEASIBILITY	<p>COVID-19 impact on the industrial production index Q3 2020 vs Q4 2019), seasonally adjusted</p> <p>Compared to pre-COVID levels, the seasonally adjusted industrial production index of wearing apparel deteriorated by 66.9% <i>Source: UNIDO's Industrial Production Index</i></p>	1
	<p>Existence of clusters</p> <p>According to the cluster mapping conducted by the Social Fund for Development in 2015, out of the various 145 mapped clusters, RMG clusters are categorized under two sectors: the industrial and handicrafts sectors. The industrial clusters are the Naqada silk cluster in Qena, knitting in Dakahleia (Tanamel and Salamon), while the handicrafts are Tule (Tally) in Assiut and Sohag (Shandaweel), RMG and knitting in Sharkeya, 'abaya' in Kerdasa in Giza, and knitting and crochet in Suez.¹¹⁰</p>	2
	<p>Existence /readiness of lead firms</p> <p>The potential feeding industries for the sector lie in the areas of embroidery, accessories, and packaging, in addition to certain fabrics. The companies procure around 40% of their materials from the local market, mainly; threads, accessories, chemicals, local fabrics, and packing, in addition to using third party facilities when the orders permit.</p> <p>As far as local markets are concerned, linkages with small firms are weak. In supplying accessories for instance, the potentiality of small business in providing input material to bigger lead firms is hindered by the problems related to the design and prices of the raw materials.</p>	1

109 Hootsuite, Digital 2020 Report.

110 IFPRI, 2018, Clusters as drivers of local industrial development in Egypt.

RMG		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
FEASIBILITY	<p>Reliability of existing support institutions and initiatives</p> <p>The Ministry of Industry and Trade has around ten affiliates and institutions that are dedicated only to the textile sector development. The Lack of coordination, communication, sharing of information and a common objective within all the governmental institutions has hindered the development of the sector despite their primary objective of facilitating its growth and competitiveness.¹¹¹</p>	2
	<p>Government priority</p> <p>Egypt Textile Strategy 2025 has been developed as a sub-sectoral strategy for one of the prioritized subsectors in the National Trade and Industry Strategy, in cooperation with the EU-funded TDMEP Project, and in line with the path towards the achievement of the Sustainable Development Strategy: Egypt Vision 2030.</p> <p>“The strategic aim of Egypt Textile Strategy is building ‘Egypt Textile Industry 4.0 – Vision 2030’, that will establish a strong position for Egypt’s textile value chain in the domestic and international markets through becoming a transparent, traceable and sustainable world class competitive textile value chain.”</p>	3
	<p>Perceived opportunities for ILO impactful interventions</p> <p>According to the FEI, despite the numerous international development programs, not enough quality services are provided in the form of technical and technological assistance, managerial and marketing support, which are largely needed by SMEs in particular.¹¹²</p>	1
	<p>Extent of value chain integration</p> <p>Egypt’s textile industry is the only fully vertically integrated value chain in the Mediterranean and Middle East region, from cultivation of cotton down to readymade garments and other end products like home textiles and technical textiles. Nevertheless, the potential of this value chain is not fully exploited due to the several underlying constraints¹¹³. There is a strong role for private sector in the RMG subsector (90% of the garmenting capacity), and where RMG accounts for the majority of exports from the textiles and clothing¹¹⁴.</p>	2

111 Draft Egypt Textile Strategy 2025.

112 FEI’s response to a questionnaire developed by the ILO, 2020.

113 Draft Egypt Textile Strategy 2025.

114 Textile Research Institute and SUSTEXNET, 2014, Comparative Report of the 4 Countries Involved (Spain, Italy, Tunisia and Egypt): Analysis of current situation of textile sub-sectors and competitive models adopted in involved regions.

White Goods

CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
RELEVANCE	<p>Current employment (% of total): 0.8% Source: CAPMAS, Economic Census 2017/18</p>	1
	<p>Future employment needs until 2023 2,287 employees Source: CAPMAS, Economic Census 2017/18</p>	2
	<p>Links to rural areas Samsung's plant (total area of 366,000 sqm) is located in Beni Suef, and has a designated adjacent land for its potential suppliers, which represents an opportunity for workers from rural areas to take part in the subsector. In addition, El Araby has several industrial complexes. The Benha (Kalyoubeia) complex, established in 1982, includes three factories and one subsidized manufacturing plant. The larger Quesna (Menoufeia) complex, established in 2001, includes nine factories and three subsidiary manufacturing plants. The recent complex in the industrial zone in Beni Suef includes 12 factories and produces refrigerators, washing machines, fans and air conditioners as well as engines and components of these products. It was also announced that El Araby will open another complex in Assiut.</p>	2
OPPORTUNITY	<p>Percentage of local inputs 61.6% Source: CAPMAS, Economic Census 2017/18</p>	1
	<p>Female employment 11.1% of total workers in the sector Source: CAPMAS, Economic Census 2017/18</p>	2
	<p>Exports 41.6% of total output is directed towards exports Source: CAPMAS, Egypt's Input-Output Table of 2014/15 (latest available)</p>	2
	<p>Revealed comparative advantage (RCA) 0.06 Source: Harvard's Atlas of Economic Complexity; 2018 Data (latest)</p>	1
	<p>Product complexity index (PCI) According to Harvard University's Atlas of Economic Complexity data, manufacture of electromechanical domestic appliances is 0.74. Source: Harvard's Atlas of Economic Complexity; 2018 Data (latest)</p>	3
	<p>Change in production index (2019 vs 2014) Between 2014 and 2019, the seasonally adjusted industrial production index of furniture decreased by 14.2% Source: UNIDO's Industrial Production Index</p>	2

White Goods		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
OPPORTUNITY	SME concentration (% of establishments with less than 100 workers) 93.2% Source: CAPMAS, Economic Census 2017/18	1
	Perceived opportunities for growth In 2019, consumers' busy lifestyles and the increasing need for convenience and timesaving resulted in strong growth for consumer appliances in Egypt. Besides, a rise in healthy lifestyles increased the volume sales of food preparation appliances. ¹¹⁵ Continuously advancing technology is also another demand driver for this specific subsector.	3
FEASIBILITY	Formality: % of registered establishments 67% of the sector is formal Source: CAPMAS, Economic Census 2017/18	3
	COVID-19 impact on the industrial production index Q3 2020 vs Q4 2019), seasonally adjusted Compared to pre-COVID levels, the seasonally adjusted industrial production index of electrical equipment deteriorated by 12.5% Source: UNIDO's Industrial Production Index	2
	Existence of clusters Since the industry is relatively new to the Egyptian economy due its sophisticated engineering and technological nature, compared to the furniture and RMG industries, there is no organic clusters that are well-established in certain geographical locations. However, there are recent developments in this area, with Samsung's expansion and provision of land to suppliers.	2
	Existence /readiness of lead firms This subsector has the potential of linking the large enterprises to the small suppliers in several feeding industries. There are three types of suppliers; those working with technical specifications, those manufacturing similar products (so they have the know-how but do not have the tools), and those that are new to the field and are looking for the calibres to manufacture components. Generally, there is always the problems with all suppliers of quality and quantity primarily, followed by access to finance. If these three problems can be tackled this will help the development of the industry.	3
	Reliability of existing support institutions and initiatives Several institutions are currently supporting the sector, including governmental, quasi-governmental and private sector. For example, IMC has an already existing support programme aiming to localize the industry.	3

115 <https://www.businesswire.com/news/home/20200124005415/en/Egypt-Consumer-Appliances-Market---2020---ResearchAndMarkets.com>

White Goods		
CATEGORY	SUB-CRITERIA ANALYSIS	SCORE
FEASIBILITY	<p>Government priority</p> <p>Although, there is no national strategy for the development of the white goods subsector per se, there is for the Engineering sector as a whole by the IMC. Although the National Sustainable Development Strategy includes home appliances as one of the subsectors to target in a project for establishing 25 industrial complexes¹¹⁶, there is no explicit mention of home appliances as a sectoral focus of the 13 industrial complexes¹¹⁷ that the Ministry of Trade and Industry is establishing¹¹⁸. The only available relevant strategy is the export strategy for engineering industries developed by the Engineering Export Council in 2014¹¹⁹.</p>	3
	<p>Perceived opportunities for ILO impactful interventions</p> <p>The qualitative findings, through meetings with different players, showed that there are high opportunities concerning employment interventions that can assist in raising the quality of suppliers.</p>	3
	<p>Extent of value chain integration</p> <p>The white goods subsector is one where industry localization through supporting local manufacturing of components is possible, given that it is highly integrated.</p>	3

116 Sustainable Development Strategy: Egypt Vision 2030

117 The GoE announced the establishment of new 13 industrial complexes in several governorates with the objective of industrial integration between large manufacturers and small businesses and encouraging investment in feeding, high value added and innovation and technology-based industries, in addition to industrial localization. The complexes will include ready for operation units and are especially targeting SMEs, and some are targeting certain subsectors (e.g. plastic industries in Merghem, Alexandria).

118 http://www.ida.gov.eg/webcenter/portal/IDA/pages_industrial_complexes

119 Engineering Export Council of Egypt, 2014, Developing Export Strategy for Egypt's Engineering Industries: Closure Summary Presentation.

4.2.1 Summary of Scoring

Scoring for the main categories was done using simple average of sub-criteria to arrive to a number between 1 and 3 for each of the three categories.

Value Chain	Relevance	Opportunity	Feasibility	Total
Furniture	1.3	1.6	1.87	4.77
RMG	2.66	2.5	1.75	6.91
White Goods	1.66	1.87	2.75	6.28

Despite having RMG with the highest overall score, it was apparent that compared to White Goods, the feasibility is less. After discussion with the ILO's project management, it was agreed to put a higher weight on feasibility. This was a decision that was based on experience and lessons learned from the early years of implementation of the project. Below is the comparison after assigning a higher weight for feasibility.

Value Chain	Relevance (25%)	Opportunity (25%)	Feasibility (50%)	Total
Furniture	0.3	0.4	0.93	1.63
RMG	0.66	0.62	0.87	2.15
White Goods	0.41	0.46	1.37	2.24

The following are broad recommendation on the interventions that would improve the subsectors performance. The three subsectors are covered in this section, knowing that the ILO would select one subsector or prioritize them for future programming.



5. RECOMMENDATIONS

The following are broad recommendations on the interventions that would improve the subsectors performance. The three subsectors are covered in this section, knowing that the ILO would select one subsector or prioritize them for future programming. White Goods:

- ▶ Interventions should be in the area of raising suppliers' capabilities, and not necessarily capacities, as the problem lies in their lack of knowledge. The qualification of the small enterprises has to be done with a supervision from the lead firm or a mother company.
- ▶ The costs for the assistance could be co-funded, especially when bringing technical foreign expertise.
- ▶ In order to have the model of clustering large manufacturer and small suppliers, one approach would be establishing training facilities to raise the capacities within those suppliers.
- ▶ Building the capacity of small firms on collective bargaining to help them negotiate sourcing input material.

Readymade Garments:

- ▶ Support and advocate the revision of customs regulations to avoid overly priced input material.
- ▶ Building the capacity of small firms on collective bargaining to help them negotiate sourcing input material.
- ▶ Capitalize on the results of the "Your Job Next Door" initiative and collaborate with its companies.
- ▶ Collaboration with the ECAHT and the Ministry of Social Solidarity to provide day-care services at or close to manufacturing facilities (e.g. in clusters) in order to encourage women employment in the subsector.
- ▶ Measures and interventions that facilitate e-commerce such as technology adoption and e-payment, etc.
- ▶ Capacity building for testing facilities.
- ▶ Measures to make use of supply chain finance, such as factoring, to compensate for extended payment terms, including international transactions.
- ▶ Awareness and enhanced utilization of international trade agreements.
- ▶ Adoption of dual education system using large companies to sponsor such interventions.

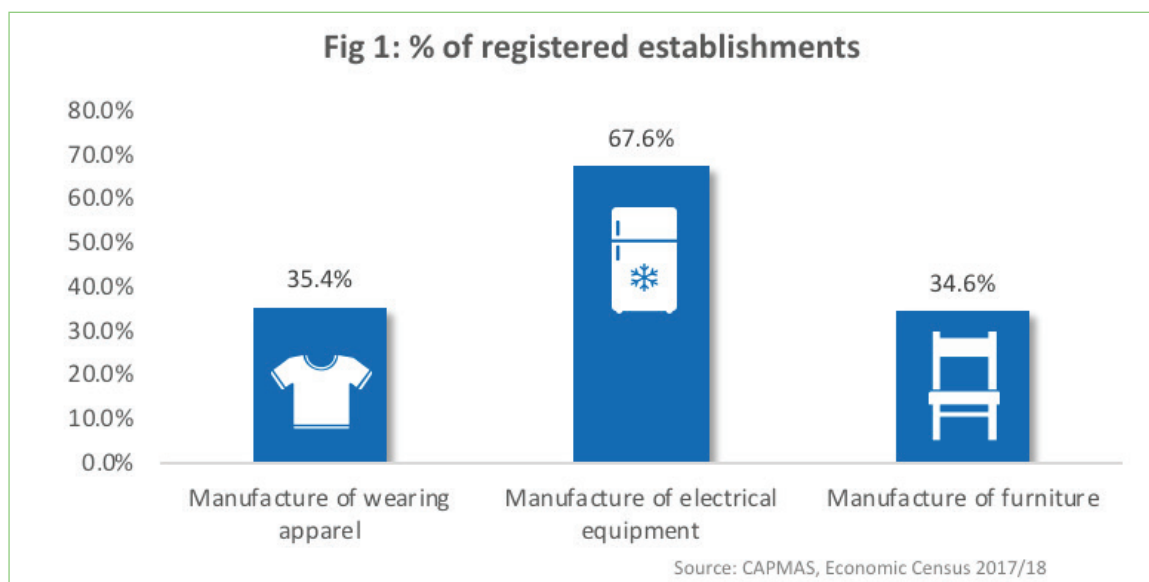
Furniture:

- ▶▶▶ Training of government officials on implementation of new laws and regulations for improved enforcement.
- ▶▶▶ Curriculum development and teachers training for technical education schools under the Ministry of Education.
- ▶▶▶ Curriculum development and ToT for technical and vocational education and training centres.
- ▶▶▶ Adopting the dual education system with schools and universities and large furniture manufacturers.
- ▶▶▶ Developing specialized university diploma programs such as a 6-month furniture design and manufacture diploma.
- ▶▶▶ Bringing the experience of foreign experts, especially in relation to design.
- ▶▶▶ Awareness and training on intellectual property rights significance and procedures for enhanced foreign market access.
- ▶▶▶ Training on design and material selection, market preferences, productivity optimization, advanced manufacturing technology, and e-marketing.
- ▶▶▶ Enhancing technology adoption through:
 - ▶▶▶ Raising entrepreneurs' awareness on the benefits of technology adoption in order to influence the cultural reluctance and resistance to change.
 - ▶▶▶ Facilitating access to finance investment in new machinery and technology.
 - ▶▶▶ Training workers on new machinery, technology and computerized processes (such as computer-aided designs).
- ▶▶▶ Creation of consortia of SMEs sourcing raw material, for a collective bargaining power to reduce to cost of input material.
- ▶▶▶ Supporting the Egyptian Organization for Standardization to improve standards and certification.
- ▶▶▶ Creating a branded identity for Egyptian furniture products.
- ▶▶▶ Supporting input localization programs.
- ▶▶▶ Partnering with the IMC and technology centres to provide specialized technical assistance possibly through supporting twinning programs as well.
- ▶▶▶ Geographically focused interventions: a) in Damietta for enhance value chain integration; b) in Tahta for rural development and improvement of a less developed segment of suppliers.
- ▶▶▶ Organizing furniture design competitions that would encourage innovative designers and help recruit them as well.

ANNEX I: QUANTITATIVE CALCULATIONS & ANALYSIS

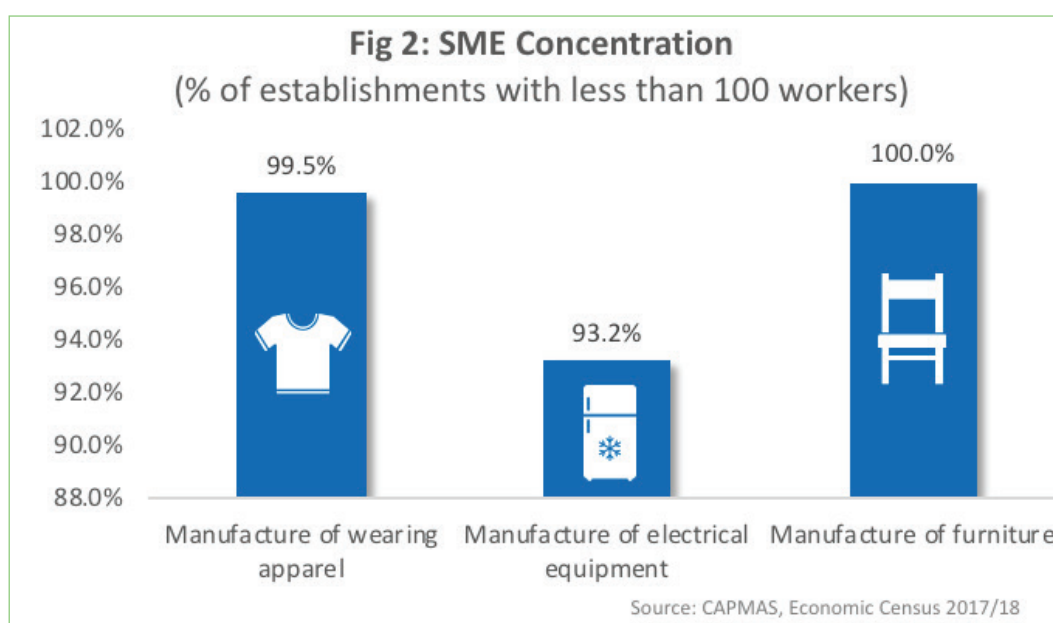
(Sub-sectoral comparison)

Formality (% of registered establishments)



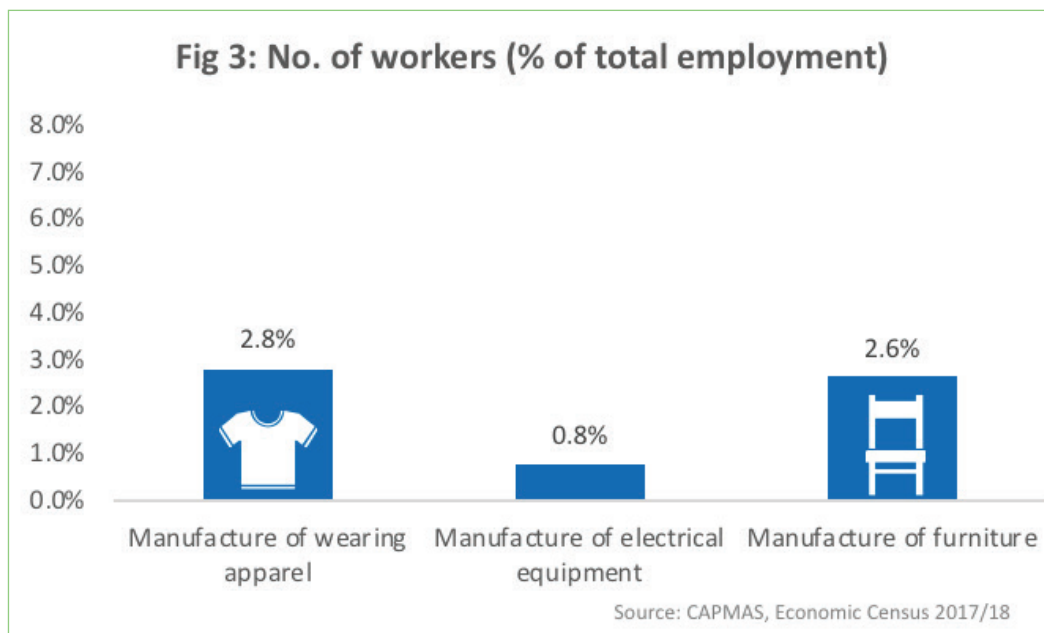
Among the three subsectors, manufacturing of electrical equipment is the least informal (highest percentage of registered establishments from total subsector's establishments) (67.6%). Meanwhile, almost two thirds of furniture establishments are informal (65.4%), followed by wearing apparel (64.6%).

SME Concentration



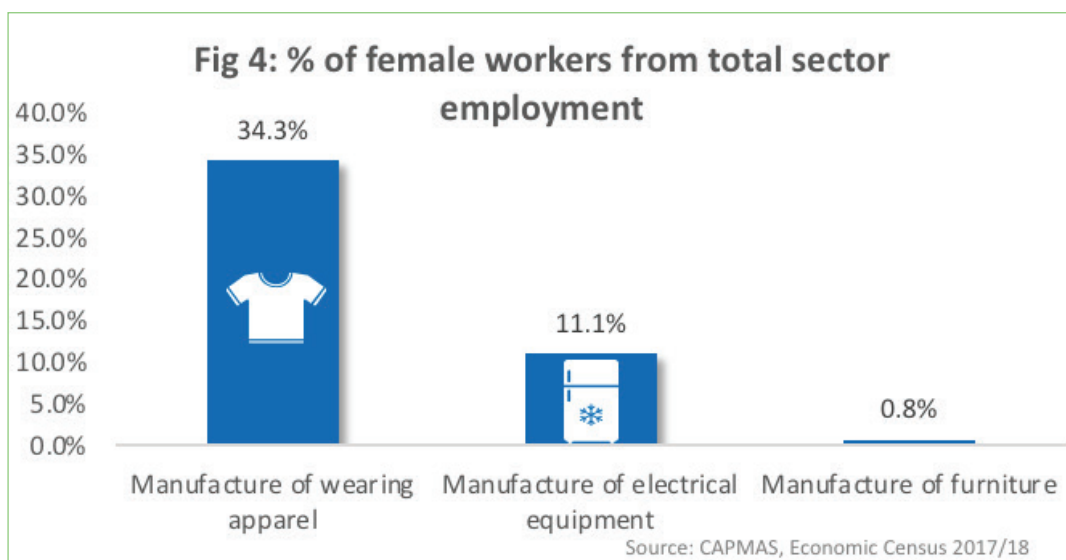
Almost all furniture establishments are SMEs (below 100 workers), followed by wearing apparel (99.5%). Electrical equipment has the relatively lowest concentration of SMEs (93.2%).

Current Employment (% of Total)



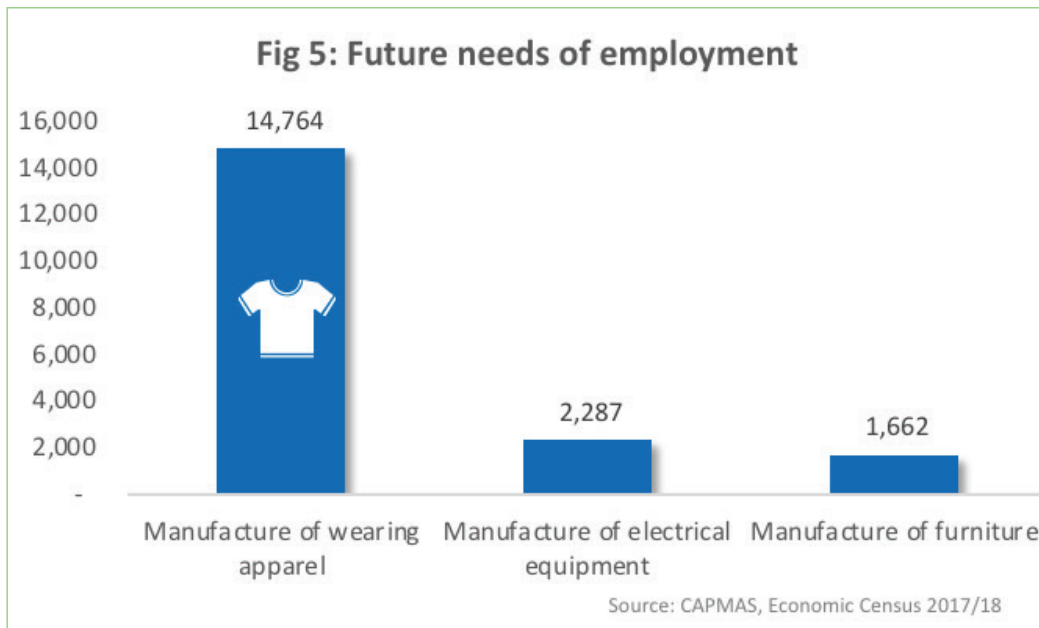
Manufacture of wearing apparel employs the highest percentage among the 3 subsectors (2.8% of total Egyptian workers), followed by furniture (2.6%) and electrical equipment (0.8%).

Female Employment



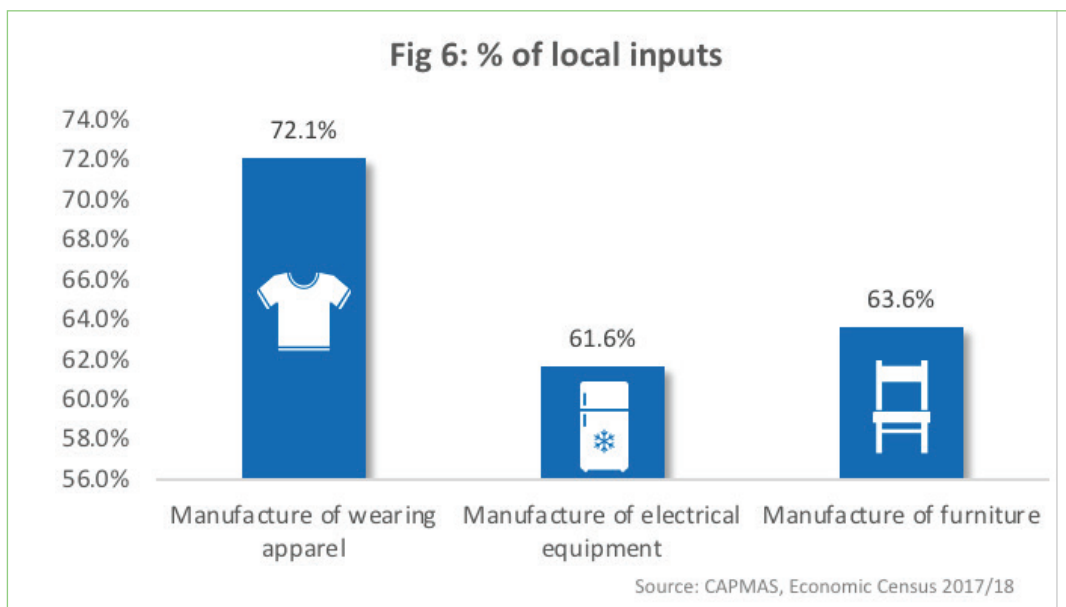
34.3% of wearing apparel workers are females, followed by electrical equipment (11.1%). Meanwhile, only 0.8% of furniture workers are females.

Future Employment Needs



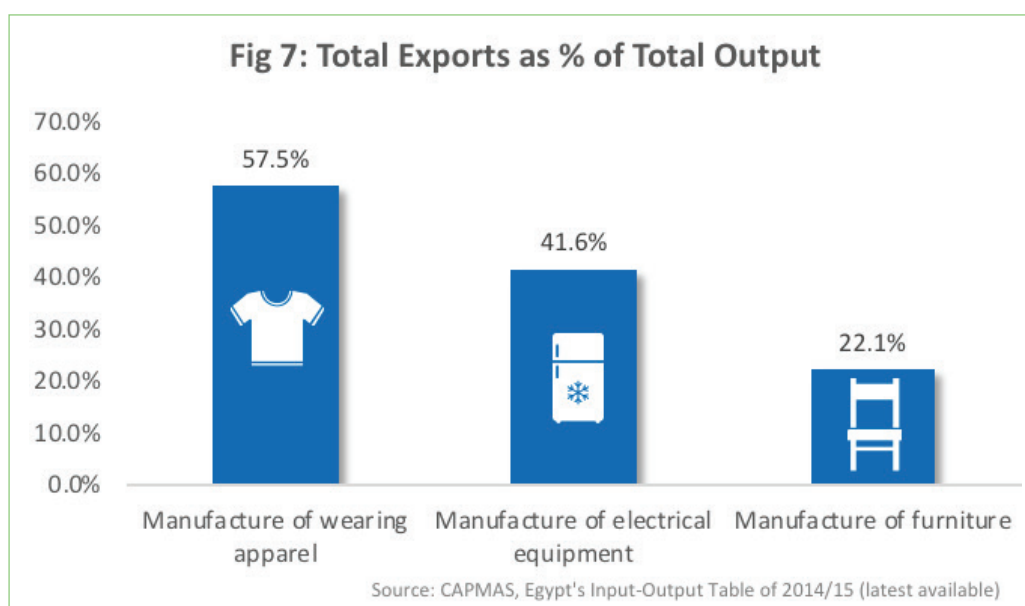
The economic census estimates future employment needs for wearing apparel at 14,764 workers until 2023 (highest among all subsectors), followed by electrical equipment (2,287) and furniture (1,662).

Percentage of Local Inputs



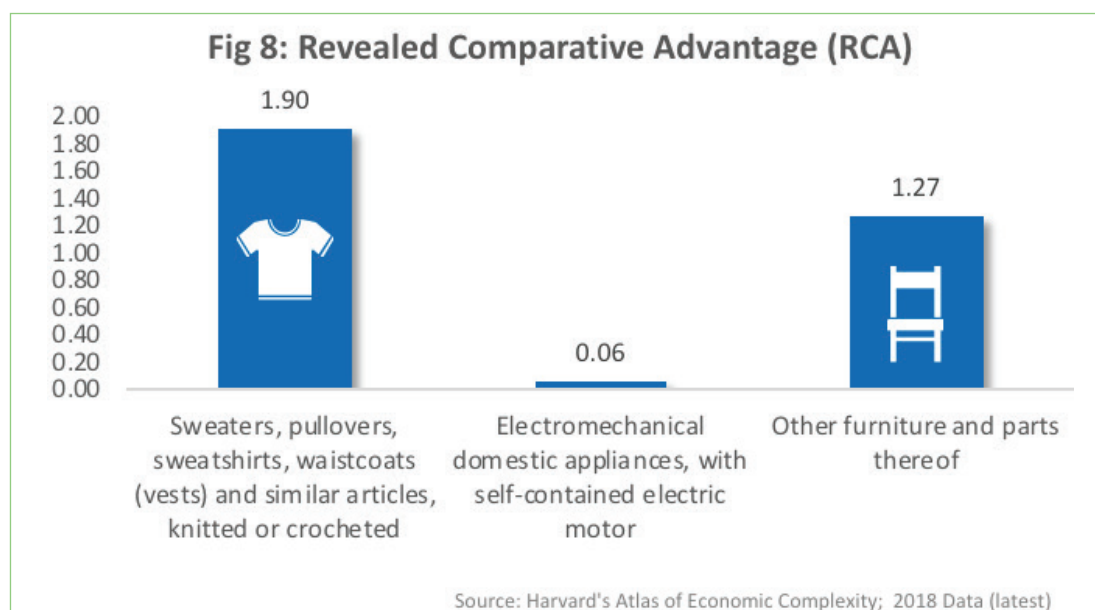
72.1% of wearing apparel raw material depends on local inputs, followed by furniture (63.6%) and electrical equipment (61.6%).

Exports



According to Egypt's latest input-output table published by CAPMAS (FY 2014/15), 57.5% of wearing apparel's total output is directed towards exports, followed by electrical equipment (41.6%) and furniture (22.1%).

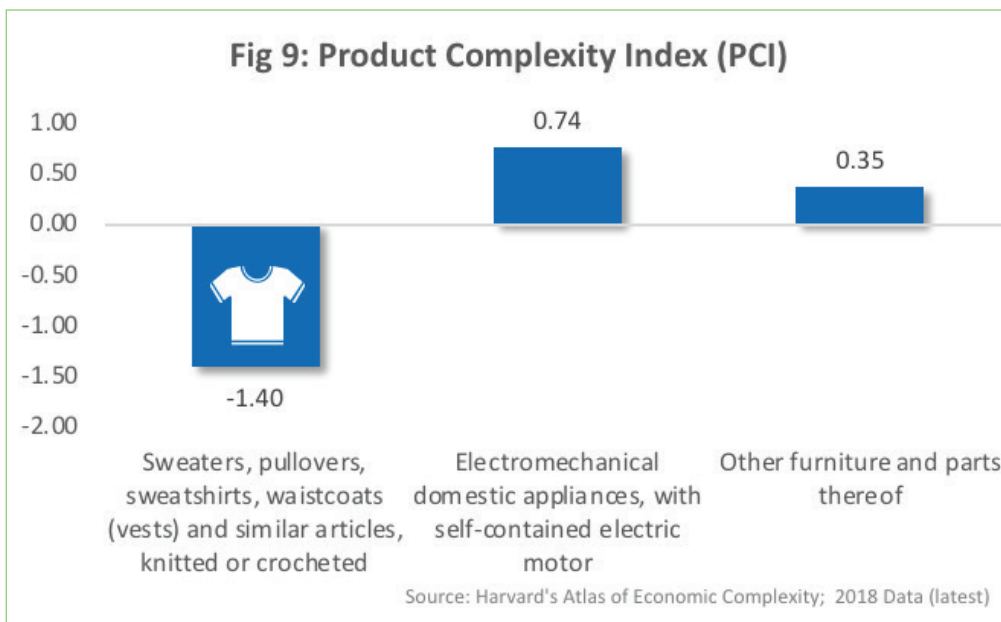
Revealed Comparative Advantage (RCA)



According to Harvard University's Atlas of Economic Complexity data, the revealed comparative advantage of the manufacture of sweaters, pullovers..etc¹²⁰ (an index used for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows, which is calculated as the proportion of the country's exports of a certain category divided by the proportion of the world's exports of the same category) is equal to 1.9, followed by furniture (1.27). Electromechanical domestic appliances have the lowest comparative advantage among the three subsectors (0.06).

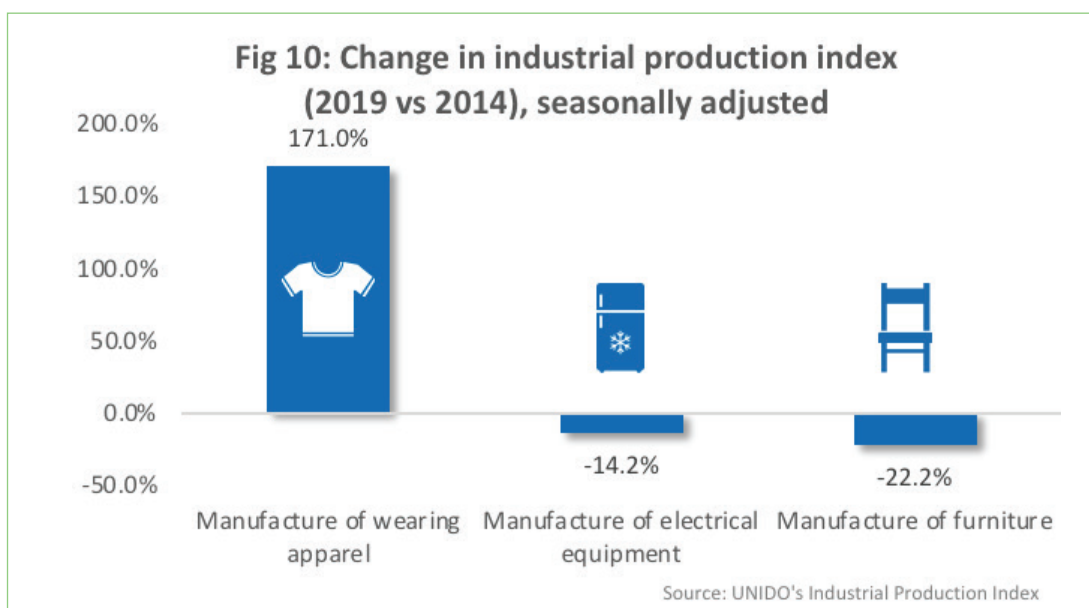
¹²⁰ Used as an example of wearing apparel due to the lack of an all-encompassing category.

Product Complexity Index (PCI)



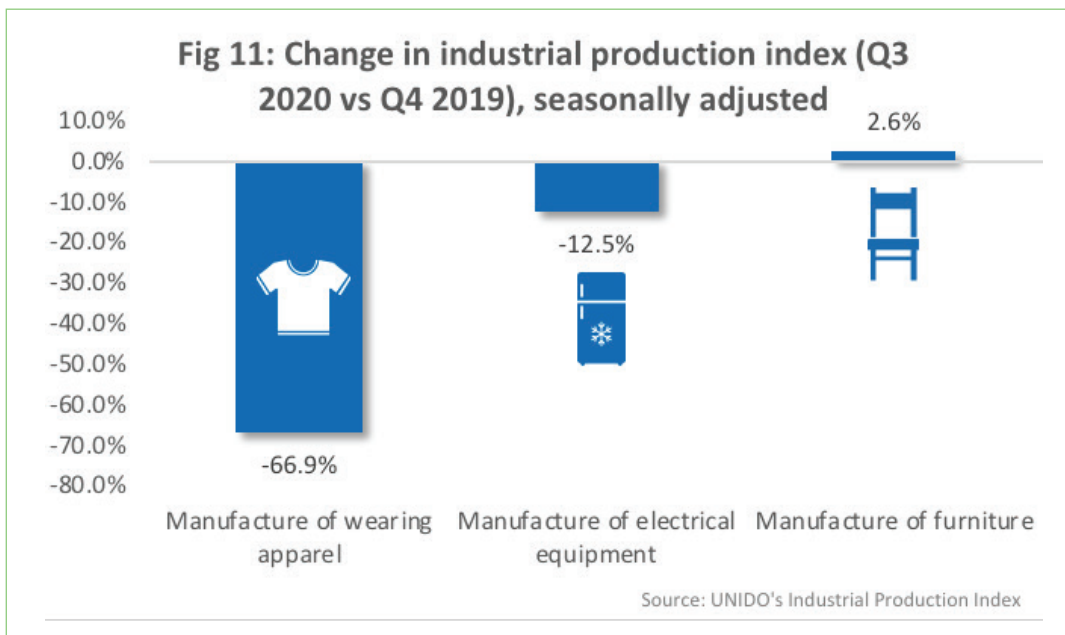
According to Harvard University's Atlas of Economic Complexity data, manufacture of electromechanical domestic appliances is the most complex among the three subsectors (product complexity index = 0.74), followed by furniture (0.35). It is worth noting that the PCI ranks the diversity and sophistication of the productive know-how required to produce a product. It is calculated based on how many other countries can produce the product and the economic complexity of those countries.

Change in Production Index (2019 vs 2014)



Between 2014 and 2019, the seasonally-adjusted industrial production index of wearing apparel has increased by 1.7 folds (171%). Meanwhile, the indices of furniture and electrical equipment decreased by 22.2% and 14.2%, respectively.

COVID-19 Impact on the Industrial Production Index



Compared to pre-COVID levels, the seasonally-adjusted industrial production index of wearing apparel witnessed the biggest deterioration (66.9%) followed by electrical equipment (12.5%). Meanwhile, the furniture production index increased by a modest 2.6%.

ANNEX II: LIST OF INTERVIEWEES¹²¹

#	Name	Title	Organization	Date
1.	Eng. Ahmed Helmy	Chairman	Chamber of Wood Working and Furniture Industries (CWWFI)	13/12/2020
2.	Ms. Leila Adel Omar	Furniture & Jewelry Sector Head	Industrial Modernization Centre (IMC)	14/12/2020
3.	Ms. Noha Nehad	Executive Director	Egyptian Furniture Export Council (EFEC)	15/12/2020
4.	Ms. Marwa Sabbour	Industrial Localization Program Manager	National Industrial Localization Program (NILP), IMC	9/12/2020
5.	Eng. Hany Kadah	Executive Director	Egyptian Chamber of Apparel and Home Textiles (ECAHT)	14/12/2020
6.	Mr. Hisham El Gazzar	Handicrafts Expert, Chairman	Yadawee	20/12/2020
7.	Ms. Rania Gad	Industrial Zones Management, IZMF Implementation Senior Specialist	UELDP, IDA	21/12/2020
8.	Ms. Sherine Hosny	Executive Director	Apparel Export Council of Egypt	1/12/2020
9.	Ms. Sara Berlese	Programme officer	UNIDO	2/12/2020
10.	Ms. May Helmy Mr. Mohamed Samy	Executive Director Head of the International Cooperation Department	Export Engineering Council Export Engineering Council	20/12/2020
11.	Eng. Khaled Abdel Azim	Executive Director	Federation of Egyptian Industries	20/12/2020
12.	Eng. Farouk Shalash	Executive Director	Chamber of Engineering	10/1/2021
13.	Mohamed Moustafa	CFO	Giza Textiles	12/1/2021
14.	Mr. Mohamed Mahmoud El Araby	CEO	El Araby	14/1/2021
	Mr. Medhat El Araby	Board Member		

¹²¹ These were the interviews conducted before the decision on White Goods. Because of an overlap in time of development of the RMA and MSA studies, there were other interviews conducted as part of the MSA study and utilized in the analysis in the RMA.