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▶ Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt “RAWABET”

Ready Made Garments in Egypt: Market Systems Analysis

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First published (2023)

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Title: Market System Analysis on the RMG sector in Egypt

ISBN: 978-92-2-038996-6 (web PDF)

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Printed in Egypt

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► List of Acronyms

AECE	Apparel Export Council of Egypt
B2B	Business-to-business
B2C	Business-to-customer
BDS	Business Development Services
CAPMAS	Central Agency for Public Mobilization and Statistics
CBI	Centre for the Promotion of Imports from developing countries
ECAHT	Egyptian Chamber of Apparel and Home Textiles
ECS	Egyptian Commercial Service
EDA	Export Development Authority
EGP	Egyptian Pound
EOS	Egyptian Organization for Standardization and Quality
FDC	Fashion and Design Technology Center
FEI	Federation of Egyptian Industries
GAFI	General Authority for Investment and Free Zones
GDP	Gross Domestic Product
GoE	Government of Egypt
GOEIC	General Organization for Export and Import Control
IDA	Industrial Development Authority
IFC	International Finance Corporation

ILO	International Labour Organization
IMC	Industrial Modernization Centre
ITC	International Trade Center
MSMEs	Micro, Small and Medium Enterprises
MSMEDA	Medium, Small and Micro Enterprises Development Agency
MTI	Ministry of Trade and Industry
PwD	People with Disabilities
RMG	Ready-made Garments
SMEs	Small and Medium Enterprises
T&A sector	Textile and Apparel Sector
USD	United States Dollar

Executive Summary

The Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt (RAWABET) aims to promote decent job creation in the private sector in rural Egypt through value chain and enterprise development. This is to be accomplished through both increased opportunities for direct employment, to be created by large private investors, and for indirect employment in rural MSMEs and as small-scale producers along value chains. The Project consulted the key stakeholders and conducted rapid market assessments and sector selection studies to identify the sectors of focus and ready-made garments (RMG) was one of these sectors. Hence, the purpose of this study is to conduct a Market System Analysis (MSA) with the objective of generating a deeper understanding of the RMG value chain in order to identify the nature and magnitude of decent work deficits based on gender, the root causes of constraints hindering the sector's performance, and to assess the stakeholders' willingness and capacity to address such constraints and identify the opportunities for interventions by the projects.

Adopting the ILO's system approach and methodology, the MSA started with a desktop review of available literature, followed by interviews with key stakeholders and a survey with a sample of 20 RMG manufacturers. The analysis concluded with a set of systemic constraints and opportunities for interventions that were then presented to stakeholders in a validation workshop to seek their insights on the findings and the way forward. The final study is hereby consolidated and is ready for implementation.

This MSA is conducted at a point of time where global and local economies are facing unprecedented consecutive events that are constraining growth at different fronts in 2022. Nonetheless, the study revealed the systemic constraints that limit the sector's performance and the current factors that exacerbate them along the value chain stages, from design to input supply, yarn, and textile supply/manufacture, to RMG manufacture and distribution. These systemic constraints include failure in the business development services (BDS) revealed as lack of trainers and lack of quality training providers, hence lack of a skilled workforce, in addition to limited access to information, as in market needs, local suppliers, recent technologies, among others. Another significant constraint threatening Egyptian RMG exports

is lack of enforced regulations on sustainability and social responsibility standards, hence lack of compliance and the inability to conform to the aware consumers' preferences and importing countries regulations as such.

On the other hand, the light at the end of the tunnel is considered mainly in the growing prevalence and usage of e-commerce, applied technology and dual education schools, the government's plan to develop the spinning and weaving sector, the devaluation of the Egyptian Pound as a price competitiveness factor for exports, the prime inter-continental location and the post-covid nearshoring policies, and most importantly, stakeholders' willingness to cooperate.

The constraints faced by factories with regards to Labour, are mainly related to the absence or weak delivery of support services that are sustainable. Challenges such as low productivity is attributed to several reasons, but taking for example one reason like poor working conditions is a result of factories not adhering to quality standards. This in turn is attributed to lack of knowledge of the importance of having export quality certification for working conditions, and also not having means (financial and non-financial) to instill such health and safety conditions. There are two types of failures that were identified from the analysis. 1) Failure in BDS Services: The current support function of BDS in its general definition (including but not limited to: management consulting services, technical consulting services, financial, information services, certifications, audit...etc.) are found in the market either through free of charge services (thus affecting their sustainability and quality), or through big consulting firms (Thus not affordable to SMEs). Raising the capacity of public or quasi governmental BDS providers to have the means to hiring private sector consulting firms to offer collective services for members, could reduce the offerings price and quality. Interventions are suggested to be targeting those entities that has a mandate of supporting SMEs and at the same time have the ability to receive funds. In that respect there are two potential entities, one to focus on technical services: The Technology Centers under MTI, and export information services through the Apparel Export Council.

2) Failure in Vocational Education and Training: The current mismatch between skills offered by education and training and skills required by employers is significant. As indicated by ETF in their report, "Egypt is facing two types of skills mismatches; quantitative mismatch, is indicated by the short supply of VET graduates to sectors in need of labour force; qualitative mismatch, where the "level of available skills is lower than the required level

to perform the job (often associated with changing economic context or changes in technology)”¹. One of the interventions suggested in that regard is to support existing support functions’ entities, mainly The Chamber, to create a public-private partnership and policy dialogue platform with the aim of developing skills-gap analysis, skills development strategies, qualification frameworks and occupational skills standards for the RMG sector.

It is to be noted that as result of the validation workshop, there was a request to provide a general recommendation section where most of the systemic constraints identified can be addressed. This is presented as a section in the report.

¹ ETF, April 2020. Torino Process 2018-2020: Egypt National Report

1. Introduction

1.1. Project introduction

The “Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt (RAWABET)” Project is a 5-year Norway funded project running from 2017 to 2022. 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 direct employment to be created by large private investors and for indirect employment in rural MSMEs and as small-scale producers along value chains. The project also includes the provision of business management and skills development training for the target group in the selected sectors to contribute to increasing the value of products with high growth potential.

The project conducted earlier discussions with key actors who cited the relevance of the ready-made garments, furniture and white goods sectors to the project’s target group i.e. business owners and workers, opportunity for growth and employment creation as well as the feasibility for the project to intervene and stimulate market systems change. Subsequently, the project conducted a rapid market analysis for sector selection, and the ready-made garment (RMG) sector was one of the three shortlisted sectors in terms of relevance to the project’s target groups. Following on from the sector selection study, a market systems analysis (MSA) is hereby performed.

1.2. Study purpose and scope

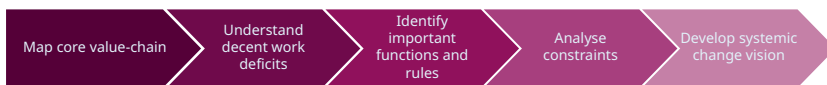
The MSA study aims to generate a deeper understanding of the RMG’s value chain actors, constraints, gaps, and hence identify the potential areas of intervention to address the gaps. The MSA four key objectives are:

- To identify the root causes, constraints and bottlenecks causing the underperformance of the RMG sector.
- Identify the nature, diversity and magnitude of possible decent-work deficits based on gender within the market system and identify which have the most potential for the project to address.

- ▶ To identify and understand the root causes that indicate why the RMG market systems do not support decent work.
- ▶ To complete an initial evaluation of key stakeholders and their willingness and capacity to address the root causes to constraints for decent work in the RMG sector; and
- ▶ To identify opportunities for implementation which could lead to sustainable and scalable impact which address decent work deficits in RMG sector.

1.3. Methodology

The methodology adopted for undertaking the MSA was based on the ILO's methodology depicted in the following diagram. The approach undertaken to achieve the objective of the MSA depended on secondary and primary research.



Box 1: 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 that reduces the effectiveness of the system and reduces the value captured by the people and market actors involved in the transaction.

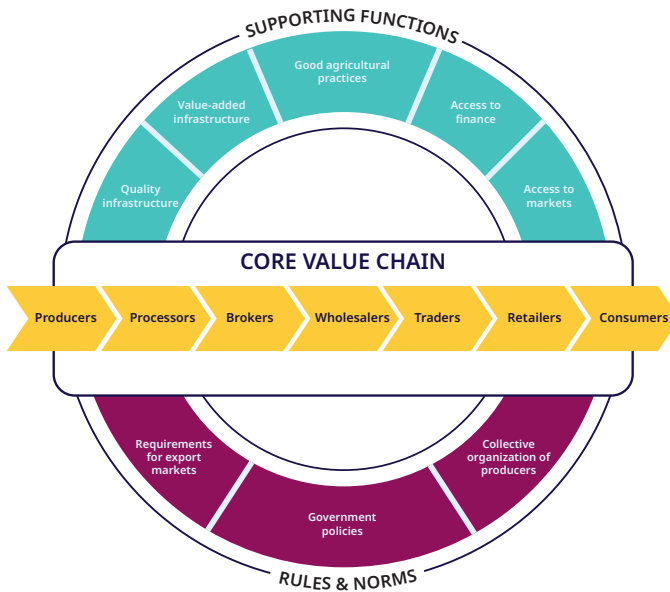


Figure 1: An Illustrative Market System The market systems approach is used by programmes seeking to facilitate systemic change.

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, in this case young women with limited economic and entrepreneurship opportunities. 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.



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1.3.1 Secondary Research:

The desktop review was conducted on the RMG and Textiles sectors, where all relevant updated reports, studies, data, and information were reviewed, analyzed, and utilized in developing the recommendations. All references are made in due format, and can be found in the footnotes.

1.3.2 Primary research

A survey/interviews was designed and conducted with **20 RMG companies** in the rural areas to generate better understanding of the challenges during the current period, such as devaluation, and import restrictions, the number of formal jobs created or lost, the percentage increase or decrease of the production for these companies, as well as identify which new opportunities could arise to address DW Gaps including Job creation and highlighting the gaps in the RMG sector. A survey was conducted with a selected number of factories. Furthermore, 9A total of 9 in-depth interviews were conducted with experts in the sectors. The validation workshop included over 10 participants from various stakeholders, including factories.

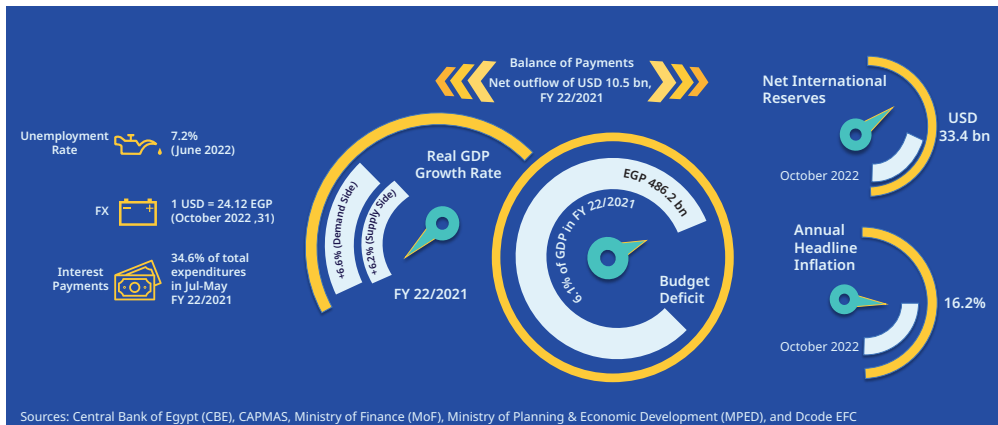
During the interviews, the consultant sought to thoroughly understand the market system dynamics; supply and demand trends; actual impactful activities undertaken by stakeholders; the implications of the macro-economic environment; extent of value chain integration especially in rural areas and the role lead firms could play; underlying systemic challenges; untapped opportunities; stakeholders' readiness to cooperate; and entry points for the ILO's interventions.

2. THE RMG MARKET OVERVIEW

2.1. Egypt's Macro-economic Context²

Following the COVID-19 economic recovery, the year 2022 was full of a multitude of economic and political developments globally and locally that have directly affected the Egyptian economy; soaring inflation rates, monetary tightening, supply-chain bottlenecks, high commodity prices, to name a few. On a global scale, higher global inflation, tighter monetary policies, the looming energy crisis, supply chain bottlenecks exacerbated by the Russia-Ukraine war and other geopolitical tensions continue to negatively affect the growth outlook on global and regional scales. On a local level, Egypt has witnessed devaluation of the Egyptian Pound twice in a year, increased interest rates, and double-digit inflation. The figure below gives a snapshot of the main macroeconomic indicators.

EGYPT'S ECONOMY DASHBOARD



² The context is updated till December 2022

The impact on the private sector was immediate, with difficulties faced on importing raw materials, increase in prices of utilities, increase in the cost of capital, delays in production, and decrease in consumption. The RMG sector, is no exception, the effects of the economic challenges on the industry is expected to continue with the prevailing uncertainty on the different fronts. Comparing the response at the time of this economic crises with the most recent crisis of COVID-19, the interviews and the survey conducted with the industry show that when the pandemic hit back in 2020, some factories had to lay off employees, while others stopped operations. When they could operate again, the supply chain was disrupted and the demand was high, so prices rose. This was compensated, however, by directing the production to the export market which rose in 2021 and the first three quarters of 2022, but this is not expected to continue in Q4 2022.³

The current crisis shows similar effects. The impact so far is significant as demand went very low, warehouses are stagnant, and businesses need to reforecast and change their plans. Expected alternatives would be laying off workers, shifting the direction to the local market, or closure. Around 90% of the sample explained that they were affected by the recent economic stability through:

- ▶ **Overall lower demand especially from Europe and the US.** Businesses suggested that there should be support for manufacturers to access different markets, and the need to activate local demand with the help of the commercial chambers and export councils. The validation workshop also showed that the impact of the global crises on Egyptian exporters is relatively higher than on Asian countries due to the volume and the extent of product sophistication differences.
- ▶ **The inflation and unstable exchange rate** have hiked up the prices of raw material and caused high volatility in prices and availability, making it difficult to keep rates of production, secure the needed raw material, or plan properly. Some attempt to stock up on raw material to be able to plan and fix prices at least in the short-term period.
- ▶ **25% of the companies were forced to lay off workers** in smaller rates (1%, 10%) to larger rates (25%, 80% in microenterprises) and laying off workers who refuse social insurance and lack discipline/commitment. One microenterprise also had to close for 1 month beside letting go

³ According to an interview with the Textile Export Council.

80% of its workers. Other companies may not lay off workers but will not replace the ones who leave or alternatively allow workers to take days off.

When asked about their expectations about the future, the results show that:

- ▶ **30% of respondents were pessimistic about future.** One microenterprise explained that a “miracle” is needed for the situation to improve. Others saw that even though the Egyptian market is full of opportunities, the global crisis and the war make it hard to see the end of the crisis and that it will likely cause the closure of some factories in the coming period.
- ▶ **The other 70% were more optimistic citing that demand is starting to rebound** (but the high prices are hindering it) and that in the next 5-10 years, the performance and exports will significantly increase as more attention is directed towards Egypt. However, the government’s support to develop the industrial sector is still needed.

2.2. Overview on the sector



In Egypt, the textile and apparel sector is one of the oldest and most important sectors in the Egyptian industry, given its contribution in GDP, employment and exports. What falls under Apparel (according to the Apparel Export council) is determined according to the 2 HS codes, that correspond to knits (e.g. T-Shirts, Sportswear, Trousers, underwear, kids wear...etc.) and

woven (e.g. Blouses, Shirts, Suits, Dresses...etc.)⁴. However, it is impossible to tackle the RMG sector without touching upon the textile industry. The value chains are integrated, and the performance of the textile industry and market trends are indicators for the RMG direction as well, with the exception of home textiles. Hence, in some sections of the report, the data will be referring to the textile and apparel sector (combined) and others will be on the RMG specifically, as indicated in each section. Having said that, the textile, home textile and RMG sector represented 3% of the GDP and 27% of the industrial product in 2018.⁵ It is estimated that the textile and RMG sector account for 20-30% of the industrial employment, or 26% of the total employment⁶, and 10% of total exports⁷.

Regularly updated and accurate data on the sector from official sources is not present. However, the latest number of establishments under the manufacture of wearing apparel sub-sector as per the 2017/2018 CAPMAS Economic Census is more than 65,000 establishments employing around 376,000 workers. This is inconsistent with the numbers in literature, reports, and from the sector Experts' interviews. According to the Chamber head, the RMG sector includes around 4,000 manufacturers and employs 1.7 mn workers. Consistent data according to the export council, the RMG sector includes **4,500 factories, employing around 1.5 mn workers in the formal sector**.⁸ It is also worth noting that the estimation given through the validation workshop, that include "informal" companies was around 8,000.

Accordingly, the analysis of CAPMAS data was limited to the percentages to give an understanding of the main sector indicators, assuming that they are common between the CAPMAS census and current actual sector data. Adopting this approach, the sector's employment is mainly in operations at 61%, while 7% are specialists, 3% in administration and 2% in sales, in addition to 18% working employers and 2% are managers. As for education, 43% of workers have intermediate education, 18% are below intermediate, and 16% can read and write, while those with upper intermediate and

4 The full lists are under the export section in a table format.

5 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

6 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

7 ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

8 AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

university education represent only 7% and 8% respectively.⁹ According to the sector experts, the average number of workers per enterprise is at least 330 workers.

The apparel sector in Egypt is a labor-intensive sector, employing 1.5 million (in the formal sector)¹⁰. The average number of workers in the sample of 20 manufacturers survey was 336 workers (92% full-time, 80% formal). Due to its capacity to absorb low-skilled labour in large numbers, countries enter the sector with the primary objective of employment creation. However, as the manufacturers develop through the years, the industry upgrades and expands and starts to integrate in the global value chain and forms the basis for the country's industrialization. However, for this to happen there is the need for conducive policies as well the private sector capacity to invest, innovate and benefit from these policies.¹¹ From a gender perspective, this is a significant sector since the percentage of women workers in the sector is estimated at 70%¹², which is consistent with the survey results, which showed a ratio of 63% women workers in the sample.

In terms of geographical concentration, most of the RMG factories are in Obour (Qalyubia governorate), Borg el Arab (Alexandria), 10th of Ramadan (Sharkeya governorate) and Sadat City (Menofia governorate). The link to rural areas is stronger in areas such as El Khanka in Qalyubia governorate, where linkages between lead firms and smaller suppliers are stronger.¹³ Other clusters exist and include a knitting cluster in Dakahleya, RMG and knitting in Sharkeya, and "Abaya" in Kerdasa, Giza, in addition to a knitting and crochet cluster in Suez.¹⁴

The industry has witnessed several changes in the last decades with a growing focus on export markets¹⁵. This in turn has driven the market towards

9 CAPMAS, 2017/2018. Economic Census.

10 <https://businessmonthlyeg.com/egypts-apparel-industry-a-promising-trajectory/#:~:text=Egypt's%20RMG%20industry%20includes%20400,sector%2C%20according%20to%20the%20AECE.>

11 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today's Textile and Apparel Value Chain.

12 ILO, 2020. RMG Survey, unpublished.

13 ILO, 2021. Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt: Sector Selection Report.

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

15 ENID, (n.d.), The Ready-Made Garments Industry in Egypt: There is a Way to Save it!. Policy Brief.

high volume, low margin products, as a natural result to the comparative advantage that Egypt has compared to other countries (i.e. Location, labour wages, labour skills, trade agreements, energy prices, availability of land and incentives). At the same time, this transformation and link to the global value-chain has made the industry vulnerable to external and internal shocks that affect any variable in the existing comparative advantage, especially that the industry depends also heavily on imported raw materials (e.g. short staple cotton, finished fabrics, accessories...etc.). For example, after the COVID-19 pandemic, the shipping fees drastically increased by approximately three times; thus, resulting in making imported raw materials more expensive and accordingly leading to the increase in the final product's price, affecting both the local and the global markets. After a brief recovery, the same situation is currently at play, for different reasons that are associated with Egypt's macro-economic situation (as explained earlier), with the shortages of FX and the effect it has on imported material. The industry currently is at a cross-road, and the lack of a national vision, whether on the part of the government or support institutions (e.g. The chamber and export council) is required to put the industry back on track. There are actions being taken to address few of the root causes, by focusing on problems in the early stages of value-chain (i.e. cultivation of cotton and enhancing the produce, and re-structuring and machinery investments in the big publicly owned textiles companies), but the macro-economic situation is moving faster than the areas of reform, putting many medium and small companies out of business and laying off workers.

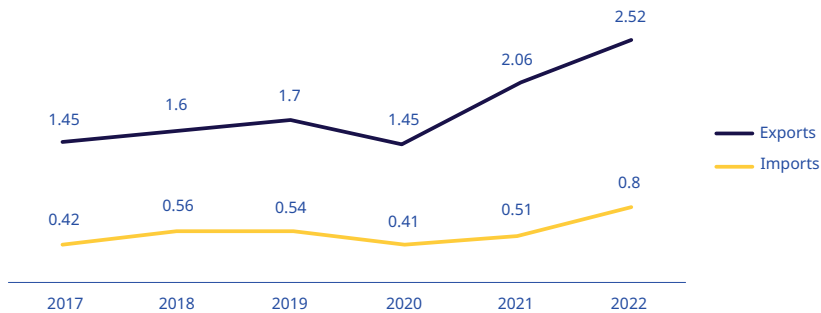
2.2.1 Egypt's Apparel Exports

In 2022, Egypt's total non-oil exports amounted to USD 35.6 bn, the highest value ever within the state's current direction towards increasing exports to USD 100 bn by 2025. In the same year, the apparel industry showed a considerable increase of 22%, recording USD 2.52 bn, compared to USD 2.1 bn in 2021. The sector represented 7% of total non-oil exports in 2022, according to the Apparel Export Council of Egypt (AECE). Egypt's main importing markets of apparel were the USA, the EU, and Arab countries, showing the highest exported amounts and growth rates of USD 1.32 bn (11%), USD 0.5 bn (31%), and USD 0.35 bn (30%) respectively¹⁶. Egypt has several competitive advantages for its top importing markets. For instance, Egypt is part of several international trade agreements such as the Egyptian

¹⁶ Apparel Export Council of Egypt (AECE), 2023.

Qualified Industrial (QIZ) Zone which makes Egypt enjoys duty-free market to the USA. Egypt also enjoys duty-free market access to the EU with a double transformation rule of origin.

Egypt's Apparel Exports & Imports (USD bn)



Source: GOEIC, 2022¹⁷, & AECE, 2023¹⁸

Egypt's apparel formal sector is mainly composed of 400 exporters, (from the 4500 factories estimate). It is worth noting that, the top exported apparel products in 2022 were pants, polo T-shirts, blouses, and shirts, representing about 70% of total sector's exports. Knits exports represent around 33.4% of Egypt's total apparel exports in this year. While woven exports represent about 67% of Egypt's total apparel exports. The exports' growth from 2021 to 2022 for both knit and woven were close to each other, increasing by 21% and 22% respectively. Main exported apparel products in the last year are displayed in a table below in this document¹⁹.

According to the global context, in 2021, Egypt is ranked as the 35th largest apparel exporting country, with a share of 1.7% among other apparel global exporters. While 65% of the global textile trade is in synthetics, mainly polyester (50% of which), Egypt's main exports are in synthetic fibers, cotton yarn, non-woven, synthetic yarn and thread, and denim²⁰, competing with Turkey, Tunisia, Morocco in MENA, and China, India, Pakistan in Asia.²¹

17 General Organization for Exports and Imports Control (GOEIC), 2022.

18 Apparel Export Council of Egypt (AECE), 2023.

19 Apparel Export Council of Egypt (AECE), 2023.

20 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

21 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

Egyptian exports markets are in 65 countries, mainly, Turkey, Italy, Algeria, Germany, Tunisia, and Arab countries (28%), the EU (24%) and Africa (5%),²² and the exporting surveyed businesses showed consistent results in terms of foreign markets.

Egypt's Apparel Exports by Product for 2021, & 2022				
HS Codes	Products	Exports (USD mn)		Rate of Change
		2021	2022	
'61 (Knits)	T-shirts/Polo shirts	502 (Equivalent to USD 0.5 bn)	593 (Equivalent to USD 0.59 bn)	18%
	Sportswear	26	18	-30%
	Trousers	55	92	66%
	Underwear	36	39	7%
	Kids wear	27	44	59%
	Socks/Gloves	7	12	67%
	Blouses/Shirts	3	4	9%
	Suits, Ensembles, Jackets & Blazers	28	22	-23%
	Overcoats, Car-Coats, Capes, Cloaks, Anoraks, including ski-jackets	4	6	57%
	Pullover, Cardigans	3	11	248%
	Dresses, Skirts	2	0.76	-61%
Total Knits		693 (Equivalent to USD 0.69 bn)	840 (Equivalent to USD 0.84 bn)	21%

²² IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

Egypt's Apparel Exports by Product for 2021, & 2022				
HS Codes	Products	Exports (USD mn)		Rate of Change
		2021	2022	
'62 (Woven) Total Woven	Trousers	605 (Equivalent to USD 0.61 bn)	849 (Equivalent to USD 0.85 bn)	40%
	Blouses, Shirts	220	321	46%
	Sportswear	184	164	-11%
	Other made-up clothing accessories; parts of garments or of clothing accessories, other than those of heading 6212	53	151	184%
	Suits, Ensembles, Jackets & Blazers	188	103	-45%
	Underwear	37	45	21%
	Shawls, Scarves, Veils, Brassieres	25	21	-17%
	Dresses, Skirts	6	5	-16%
	Overcoats, Car-Coats, Capes, Cloaks, Anoraks, including ski-jackets	2.1	1.6	-23%
	Headgear	0.113	0.732	548%
Total Woven		1,370 (Equivalent to USD 1.37 bn)	1,676 (Equivalent to USD 1.68 bn)	22%
Total Knits & Woven		2,063 (Equivalent to USD 2.06 bn)	2,516 (Equivalent to USD 2.52 bn)	22%

Source: AECE,2023²³

23 Apparel Export Council of Egypt (AECE),2023.

2.2.2 Global market trends

How Egypt performs in the export market is directly linked to how the industry operates in the global market, thus there is a direct connection between the global trends and how fast the industry reacts to it in Egypt (provided there are means of awareness). The global value-chain is **characterised by two business models vertical integration and outsourcing and the variation in between (House branded model)**, as shown below. The choice of business model in the RMG sector is typically determined by labour costs, technology, price of goods sold, market responsiveness, and involvement in the supply chain, and in dealing with the global value-chain, Egypt's exporting companies lie in middle and towards the fully outsourced model.

An Outsourcing Model for Fast Fashion



2.2.2.1. Markets and products

While the global textile industry is expected to grow in the coming five years by a CAGR of 4%²⁴, Egypt's RMG market is expected to grow at a CAGR rate of 7.9%, with the largest segment being in women apparel, and with non-luxury items having significantly the largest market share.²⁵

The textile and apparel global value chain is highly market-driven and is fragmented across countries, where main lead firm are controlling the value-adding stages (design and branding) and are outsourcing the other stages. Its four main stages are input supply (natural or synthetic), yarn and fabric production (mills), garment manufacturing and distribution (global

²⁴ Modor Intelligence, (n.d.), retrieved November 2022, from <https://www.modorintelligence.com/industry-reports/egypt-textile-manufacturing-industry-study-market>

²⁵ Statista, (n.d.), retrieved November 2022, from <https://www.statista.com/outlook/cmo/apparel/egypt>

buyers).²⁶ Sourcing decisions are mainly based on minimal lead time, non-manufacturing capabilities such as product development and logistics, and compliance with labour and environmental standards.²⁷

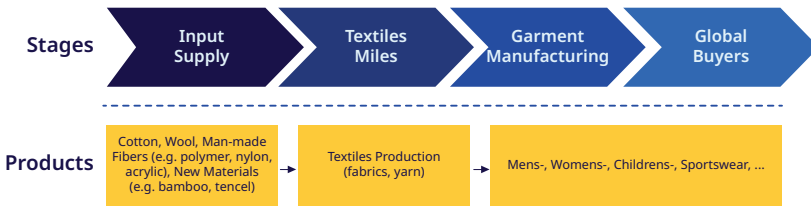


Figure 1: The Global RMG Value Chain. Source: Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020)

According to the Textile National Strategy: Vision 2025, the future demand for finished goods is mainly in North America, western Europe, Arab countries, Asia (Russia, China, India, Japan) and Australia. Of these, free trade agreements are with the USA, EU, and Arab countries.²⁸ In addition, experts see a market opportunity in exporting to Africa, GCC countries and emerging markets.²⁹ Moreover, it is noteworthy that some European importers are going to focus on stronger relationships with a limited number of suppliers, specifically in the fast-fashion segment.³⁰

Up until the corona hit, the global market demand was high, and more consumers were buying high-end garments and fast fashion; an opportunity for Egyptian cotton (extra-long staple). The growth of emerging markets on the other hand created a segment of young consumers who earn and spend more. **The demand is high on complex, unique, sophisticated products manufactured using high technology and safely and marketed digitally.**³¹

26 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable up-grading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna.

27 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

28 IMC, (n.d.), Egypt Textile National strategy - Vision 2025: Expansion and Employment.

29 ILO, 2020. RMG Survey, unpublished.

30 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

31 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today's Textile and Apparel Value Chain.

However, the demand on luxury products may not continue to be the case after the global events and crises over the past two years.

Demand on yarn and fabric is increasing in synthetics, denim and technical textiles. There is a global and local demand on technical textiles that is yet to be matched from the supply side which lacks horizontal integration in Egypt, especially with the availability of resources to provide raw material.^{32 33}

It is worth noting that some product lines are seasonal while others are not. Fortunately, the promising products where Egyptian factories have an advantage are mostly non-seasonal, such as underwear, casual wear, and denim. Nevertheless, one survey showed that manufacturers who target the local market have seasonal differences, where it peaks in Ramadan and Eid seasons, while others see winter as a low season due to its short duration.³⁴ This study's survey also shows December, January, and February as the low demand months, during which they try to cut costs and raise revenue.

2.2.2.2. Sustainability

As far as sustainability is concerned, the textile and RMG sector is one of the most harmful in terms of GHG emissions and water consumption.³⁵ It is the third polluting industry worldwide.³⁶ According to the IFC, the industry's global annual water consumption is equivalent to that of five million people.³⁷ But given the global direction towards climate action, it is important to note the new trends in the global industry towards sustainability and green products.

More consumers across the globe, such as in Britain and Germany, are growing conscious about the products they buy and if they were produced in an environment-friendly and socially responsible manner, applying good

32 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

33 USAID, 2019. Strengthening Entrepreneurship and Enterprise Development, Technical Textiles Value Chain Gap Analysis.

34 ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

35 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today's Textile and Apparel Value Chain.

36 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

37 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today's Textile and Apparel Value Chain.

employment and labour practices.³⁸ In 2020, the EU set a new environmental specification “Green to Wear”.³⁹ International brands, such as Marks & Spencer, Nike and H&M, are laying emphasis on environment- friendly cotton with a target of 100% sustainable production by 2025. This has led to a growing global trade in organic cotton, Better Cotton Initiative (BCI), Cleaner Cotton and Cotton Made in Africa. Capturing these trends necessitates special requirements throughout the value chain from agriculture to production.⁴⁰ As a circular economy model, recycling and upcycling are on the rise as well.⁴¹ Recycling of polyester showed a 55% growth rate within the polyester market share in ten years (from 9% to 14% between 2009 and 2019) and is estimated to grow more in the coming years.⁴²

It will be inevitable for Egyptian exporters to ensure their sourcing, production and distribution is green and socially responsible; a challenge for manufacturers at the environmental level and the social level given the status of jobs in the sector and prevalence of child labour in cotton.

2.2.2.3. Technology

Technological advancement and R&D are essential for the industry to cope with the global market. Nevertheless, the fear of losing job opportunities as a result of applying new technologies and robotics, worldwide, the value of experienced, low-wage workers is still unmatched and is an edge to build on.⁴³

2.2.2.4 Digitalization

Telecom advancement and e-commerce have made the consumers’ purchase decision a fast one and on the upper side of the value chain, it

38 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today’s Textile and Apparel Value Chain.

39 ILO, 2020. RMG Survey, unpublished.

40 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector’s Economic Growth.

41 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable up- grading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

42 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector’s Economic Growth.

43 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today’s Textile and Apparel Value Chain.

has streamlined operations.⁴⁴ Digitalization and data analytics have led to an increased consumers' access as well as an increasing share of manufacturers' B2C marketing.⁴⁵

44 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today's Textile and Apparel Value Chain.

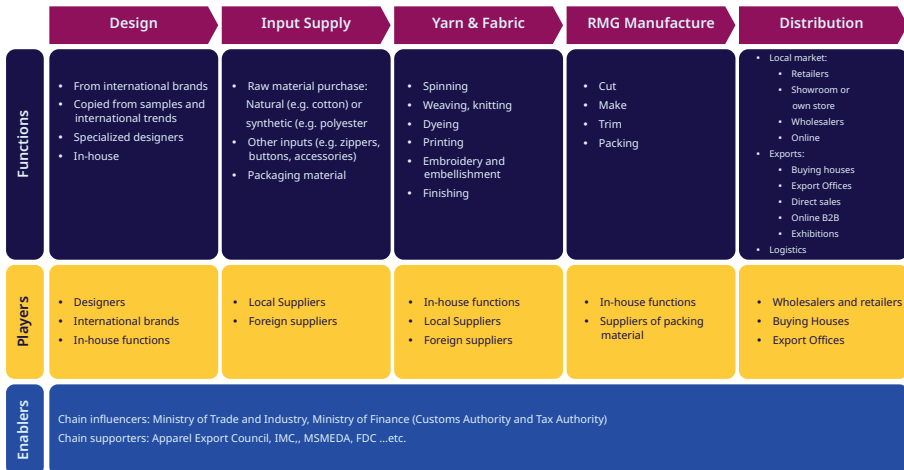
45 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable upgrading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

3. THE MARKET SYSTEM

3.1. Core market

According to literature, Egypt has the only vertically integrated value chain in the region. That is true from a general perspective, as this was attributed to the existence of the chain from agriculture (in the case of cotton) to the final product. However, with further scrutiny and analysis, through other sources and the interviews, this assumption does not hold any more when looking into the changes that took place through the recent years in the industry. As mentioned earlier, the capabilities in the Egyptian RMG industry been transforming towards high volume, low margin products. There are currently important, and high value-added gaps in the chain, that are more apparent, especially with the diversion of the global market towards specialized eco-friendly final products. Maintaining Egypt's current comparative advantage in RMG or moving to a higher value-added activities and products requires addressing the systemic constraints in the value-chain. The five main stages of the generic RMG value chain are:

- ▶ Design
- ▶ Input supply (synthetic and natural)
- ▶ Yarn and fabric manufacture
- ▶ RMG manufacture
- ▶ Distribution (local and export markets)



Design

The design of garments depends on the way the manufacturer works. Those who export to international brands receive the design and apply it as is. Others either do it in-house if they have the function, work with specialized designers, or in most cases copy from the international trends and samples.

This is one of the stages in Egypt, where human resources availability is limited. This relates to the general dynamics of how the industry operates, where reduction of cost is a key determinant factor in a high volume, low margin industry, as it stands today. Thus, there is no strong demand for original designs (i.e. the need for designers), unless the business model of companies is to penetrate local and/or export markets with their own brands. Being a market driven industry, this stage is crucial and requires creativity that has to be combined with the understanding of the technical aspects to guarantee that the design is implementable (Using the right kind of fabric and sewing machines to produce the design). Having said that, according to the Fashion Design Center Head, the center is providing its services in this regard and the number of young Egyptian designers creating their own brands is increasing and the number of bazaars and the products exhibited in them is promising. However, without prevalence of designs that respond to the market trends, as mentioned in Section 2.4 Global market trends above, export opportunities for locally designed garments remains limited to manufactures who have professional in-house or outsourced design functions, that mostly have their own brands, targets niche markets, and

can above all afford incorporating the cost of designers in their final product while remaining competitive (i.e. profitable).

Key constraints:

- ▶ Lack of awareness/vision from the manufacturers part, due to lack of access to information on global and local market dynamics, trends, and opportunities.
- ▶ Lack of a clear, comprehensive (e.g. tackling vocational training and education) , sustainable and consistent national strategy for the industry in general, and textiles and RMG in particular
- ▶ High cost associated with in-house designing and owning brands.
- ▶ Limited human resources due to lack of demand for designers, and information on specialized training centers. Yet there's an increasing potential as a result of "opportunity entrepreneur"⁴⁶ drive.
- ▶ Lack of ample number and awareness on design and product development technical support services.

Input supply

At this stage, the manufacture sources its input material from both international and local markets. Examples of natural input material include cotton, linen, wool, silk, etc. Although Egypt is known for its high-quality long and extra-long staple cotton, the production is exported in raw format, as the factories in Egypt do not have the economies of scale capacities, designs, or machineries to process them into high-end final products (A transformation that took place due to the high demand on low value added short-staple

⁴⁶ Opportunity entrepreneurs are people who start businesses to exploit a potential opportunity. They are likely to grow their business faster, employ more people, and introduce innovation that could help fill important gaps in the market, while boosting productivity in the economy.

cotton garments with low cost-e.g. Jeans from the USA). Egyptian local factories are only focusing on the short and medium staple cotton, which are mostly imported from China, Turkey and Pakistan (as cotton, yarn, or textile), and used to produce mass scale, low-cost final products targeting export markets, taking advantage of trade agreements. As for synthetics, such as polyester and polyamide made from petrochemicals, they are gaining a growing demand⁴⁷ but with concerns about its environmental impact, hence the rising awareness and trends towards their reuse, recycling, and upcycling. Recycling and upcycling of polyester are on the rise, with a 55% growth rate within the polyester market share in ten years (from 9% to 14% between 2009 and 2019) and is estimated to grow more in the coming years.⁴⁸ With the growing concerns about the environment, it is essential that Egyptian manufacturers focus on the recycling and biodegradable material. Other input material sourced include accessories such as buttons, zippers, sewing thread, labels, packaging material, etc. Accessories are an essential part of the final product and are mainly imported. This is the case, as the local manufacturers of accessories are not competitive in comparison to imported ones, especially from China, even with the devaluation. The Quality is another factor, especially when directing the final product to the export market. Thirdly, honoring contracts on delivery times are always a point of weakness with local accessory producers. However, economies of scale in the accessories market is the key factor for the high price, as the industry in total cannot reach or compete on price and quality compared to China for example.

It is important to note that the percentage of imported input supply is estimated at 60%⁴⁹ and this highly impacts the industry by its rising prices due to the global and trade-related local challenges (mainly now the devaluation and restrictions on imports because of the LC directive) but creates an

47 <https://www.businesswire.com/news/home/20220922005495/en/Global-Synthetic-Fiber-Market-Report-2022-Rising-Adoption-of-Polyester-Fiber-Expansion-of-the-Textile-Industry-Drive-Growth---ResearchAndMarkets.com>. "The shifting fashion trends coupled with the rising urban population with modern living standards are expected to provide opportunities for high-end polyester fibers. Synthetic fibers have been extensively used in the textile industry and exhibit superior properties as compared to natural fibers. Thus, the market for synthetic fibers is anticipated to grow with the expansion of the textile industry."

48 IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

49 ILO, 2021. Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt: Sector Selection Report.

opportunity as well for local qualified suppliers to fill the gap. Interestingly, the survey shows that 35% of the manufacturers sourced some of their input material like textiles, from rural areas such as in Kafr El Dawar (Beheira governorate) and Mahalla (Gharbeya governorate). This trend coincides with the noticeable rise of local niche product designers' brands, who build on the authenticity and natural fabrics of Egypt in introducing their products.

Key constraints:

- ▶ High input prices for the type of final garments eventually produced, either sourced locally or imported (due to the global inflation and trade constraints).
- ▶ Lack of information on qualified local input material suppliers.
- ▶ Lack of efficiency, product quality, and enough market demand for economies of scale local accessories producers.
- ▶ Lack of visibility towards future market demand
- ▶ Difficulty of access to credit to transform/acquire new expensive machinery for high-end

Yarn and fabric manufacture

The impact of the value chain disintegration and concentration in low value-adding stages is clear at this stage. For example, despite the quality and competitiveness of the Egyptian long and extra staple cotton and its use in high-end products, it is exported as raw material due to the lack of manufacturers with the suitable requirements, losing a value-added ranging between 50% to 471% depending on the manufacture product to

be exported.⁵⁰ On the other hand, Egyptian exported finished goods come from imported short and medium staple cotton.

In vertically integrated factories, the process of yarn and fabric manufacturing is done in the same factory. The process includes spinning, weaving, or knitting, dyeing, printing, and finishing. Dyeing is considered the most polluting stage in the value chain.⁵¹ Dyeing, printing, and finishing is one area where there is a gap in the value chain. Coupled with the ageing textile industry in Egypt, some factories rely on imported yarn and fabric as well, adding to the complexity of high product cost. Few large manufacturers/exporters who possess a relatively integrated value-chain have their own finishing and dying facility. Given the large investment, environmental hazards of dying, and financial risks, it was mentioned that banks are reluctant to finance such an investment.

Key constraints:

- ▶ An overall gap in independent/separate companies working in dyeing, printing, and finishing, largely because of the large investment size, lack of know-how (mainly quality standards) and lack of access to finance.
- ▶ Lack of competitiveness with imported material, in terms of quality and price.
- ▶ Sustainability and social responsibility issues, such as child labour in the agricultural stage of cotton yarn or fabric.

⁵⁰ MTI, 2019, as cited by CBI, 2020. Value Chain Analysis for Apparel in Egypt.

⁵¹ ILO, 2020. RMG Survey, unpublished.

RMG manufacture

This is the main function that RMG manufacturers perform as this is where the garment is produced. This includes cutting the fabric according to the pattern that is based on the design. The pieces are then assembled by sewing, then trimmed, ironed, and finished. Finishing is considered a quality control stage and is crucial for the end product image. According to one interview, finishing used to be a problematic area in Egyptian RMG products, but manufacturers are improving in this regard. As for waste, most manufacturers sell their waste to recyclers and there is a specialized cluster for this purpose in El Gabal El Asfar, Kalyoubeya.⁵²

Hiring and maintaining workers depends on several factors including seasonality of production. That is why some factories hire temporary workers and some employ children.⁵³ Out of the surveyed sample, 20% used temporary workers in peak production times, or for certain jobs (e.g., delivery, loading, packaging, maintenance, and cleaning). As per the survey, 55% needed training for their workers on technical skills as such as operating machines and maintenance. However, identifying the right training companies, having qualified trainers, having certification for the training, and most importantly guaranteeing the continuation of employees after receiving the training are all reasons making it difficult for employers. Concerning workers from rural areas, 40% of the enterprises relied heavily on rural workers from Samanoud and Belbeis in Sharkeya, Kafr El Dawwar and Abu Humus in Beheira, as well as other villages in Kalyoubeya, Sharkeya and Menoufia.

An important distinction needs to be made between factories, those that are exporting⁵⁴ and those that are focusing on the local market. This distinction was apparent in the validation workshop, as it relates to their mode of operation and how they assess their problems. Within exporting companies, there are two types, local companies that has a mother company abroad, and those that manufacture for known brands, but their HQ is in Egypt. The companies with the least market systems constraints are those that are exporting and has a mother company abroad, as beside the fact that

52 ILO, 2020. RMG Survey, unpublished.

53 ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

54 According to the Apparel Export Council, there are approximately 400 factories in Egypt that export, according to AECE, out of a total of 4,500 formal factories as reported by them.

they have to abide by international standards with regards to their products and their employees' compensation, and they are mostly located in free zones, they are able to overcome the current macro-economic challenges of finding FX for their imported materials. Furthermore, they do not possess any challenge with regards to access to information (especially export markets research), as the mother company provide such access. Locally owned factories that manufacture for international brands for exports on the other hand are facing the challenge of satisfying the lead time as a result of the FX shortage. They, however, deal with other common problems in the industry (e.g. the missing link in dyeing and finishing, the high level of workers' turnover and absenteeism...etc.) by building their own solutions. As an example, they build their own training facility, they have their own childcare facility, they provide transportation, they have their own labs...etc. Given that the percentage of those exporting is around 8.8% (if we use the conservative total number of formal factories in Egypt which is around 4500), the main constraints facing the industry (listed below) relates mostly to the majority of local manufacturers, who produce for local market and informal.

Key constraints (Further analysis is presented under the section "constraints"):

VC and linkages:

In the industry, horizontal linkages are more prevalent and working relatively efficient than vertical. That is the case, as when exporting companies has the need for an extra capacity, they rely on other players in the market.

- ▶ Weak linkages between lead firms and SMEs and in rural areas. In essence this boils down to the lack of quality and commitment to time of delivery from the part of SMEs.
- ▶ Weak vertical integration in the value-chain, attributed to the high cost of input material (e.g. accessories) because of lack of economies of scale, lack of quality, lack of know-how, and lack of information on potential local suppliers in general.
- ▶ High informality rate in the sector especially in SMEs, making it difficult to enter into financial rearrangements with them.

Labour

High turnover and absenteeism coupled with poor recruitment processes. This attributed to several reasons and the intensity varies according to each factory (size, exporting, formality..etc.). However, there are commonalities as follows:

- ▶ High labour cost especially in urban and industrial areas (yet perceived as low wages by workers given the opportunity cost and the cost of living).
- ▶ Low productivity as a result of skill level, commitment, working conditions, and wages.
- ▶ The skill mismatch and the gap between training & education (as individuals and institutions) and the labour market.
- ▶ Lack of trained middle management in supervisory positions.
- ▶ Child labour in informal factories.
- ▶ Challenging working conditions in terms of rights, wages and occupational safety and health

Gender

- ▶ Cultural challenges.
- ▶ Wage inequality.
- ▶ Concentration of women workers in lower occupations.

Others

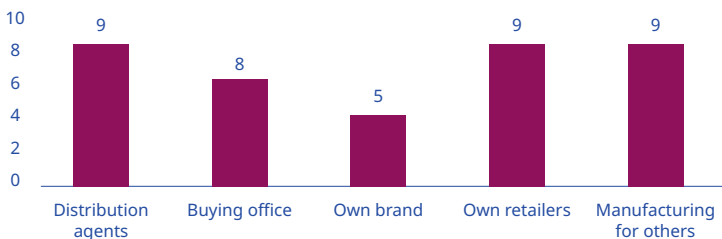
- ▶ Insufficient access to finance, hence limited modernization and value chain integration.
- ▶ Lack of R&D and innovation.
- ▶ Limited knowledge and implementation of sustainability practices.

Distribution

Finished goods are marketed and sold at this stage. According to the validation workshop findings, around 80% of factories manufacture for other sellers. For local markets, manufacturers either distribute through retailers, showrooms or their own stores, and recently, online (B2B or B2C). As for exports, exporting to international brands is done through buying houses, others are done through export offices, direct sales to clients or online as well.

The survey results showed that 70% of the enterprises were exporters, exporting 77% of their products, which is a large number, details show that it was mainly medium and large businesses, while micro had no exporters and small had lower ranges. Besides, 30% of the sample showed no interest in the local market and were exclusively exporters. This highlights the focus on export markets and the potential they hold. As for the channels that exporters used, 79% relied on intermediaries in their exports, and the percentage reached 100% in medium and large exporting companies in specific. The chart below shows the main distribution means used by the sample. When exporting to international brands, compliance to social responsibility is a major concern and they delegate third parties, specialized assessment companies/organizations, to regularly assess the potential exporters' compliance to such standards to guarantee impartiality

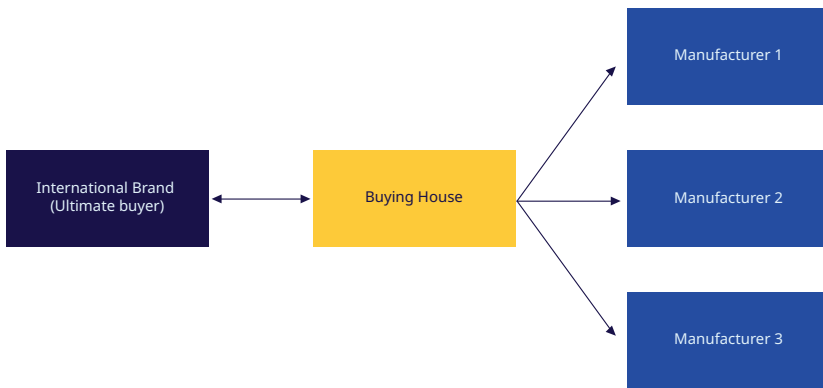
Distribution of Production (out of 20 surveyed enterprises)



Logistics is part of this stage as well. For the local market, the logistics infrastructure has improved in the past few years. For exports, the global supply chain disruption has impacted the industry during the pandemic.

One significant model in exports is the so-called "Buying Houses (BH) model. Buying houses companies/agencies act as intermediaries between international brands and local manufacturers, where the buying house sources all the input material for the international brand from its network

of manufacturers and tackles all the negotiation until shipping is done and ensures the quality of the products sourced. In recent years, at times of crises, experience shows that buying houses have reduced the cost of shifting from one supplier to another and has made the decision much easier and faster. With the nearshoring trends, attracting buying houses to Egypt and facilitating their entry regulations is essential for supporting RMG exports. Currently in Egypt there are few playing that role who are either companies or sometimes individuals/agents.



Key constraints:

- ▶ Low market shares in export markets and concentration in low value-added and low-price products, due to the lack of know-how and technology required for high value-added products.⁵⁵
- ▶ Volatility of the subsector and ease of relocation to where the cost is lower.
- ▶ The post-corona disrupted value chains and buyers' increased attention to agility.⁵⁶
- ▶ Limited marketing skills and access to market information.

⁵⁵ IMC, (n.d.), Egypt Textile National strategy - Vision 2025: Expansion and Employment

⁵⁶ USAID-SEED, 2016. Value Chain Assessment Study.

3.2. Support functions

The value chain-relevant policies and regulations fall under a range of legislations and ministries such as the Ministry of Agriculture and Land Reclamation (for cotton policies), GAFI, the Ministry of Trade and Industry, the Ministry of Finance, and the Ministry of Manpower, among others. The following is a brief about the main relevant institutions and their mandate. It is noteworthy, that if all of these organizations were able to perform their mandates successfully, at least some of the systemic constraints facing the industry would have been solved, especially those related to skills and access to knowledge. However, some may lack funding, technical capacity, or human capacity. The MSA examined the constraints and aimed to assess the role of service providers from the research as a whole market system, not an individual assessment of each organization.

Ministry of Trade and Industry (MTI)

It is the ministry concerned with Egyptian industrial and export development. Its mission is to “provide an adequate environment for sustainable inclusive economy based on enhancing competitiveness, diversity, knowledge, innovation and generating decent and productive job opportunities.” In doing so, it aims to increase exports, the contribution of industrial products and of SMEs to the GDP, and to provide decent productive job opportunities.⁵⁷ The Ministry includes several relevant affiliated organizations such as:

General Organization for Export & Import Control (GOEIC): the organization controlling exports and imports, registration of exporters and importers, issuing certificates of origin, examination of merchandise, and data issuance.⁵⁸

Egyptian Organization for Standardization & Quality (EOS): which issues Egyptian products' standards, provides information on international standards, verification and inspection, confirming products' conformity to standards, training and consultation on quality, standards and

⁵⁷ <http://www.mti.gov.eg/English/aboutus/ministrymissionobjectives/Pages/default.aspx>

⁵⁸ <https://www.goeic.gov.eg/en/pages/default/view/id/52/m/6-6>

measurements, technical in investigations for consumer protection and publishing relevant information.^{59 60}

Industrial Development Authority (IDA): responsible for implementing industrial policies, promoting industrial investments, policy making related to industrial land allocation and infrastructure and issuing industrial permits.⁶¹

Export Development Authority (EDA): a unified entity that includes all MTI export organizations aiming to implement the trade and industry strategy to increase and promote Egyptian exports through electronic marketing, promotional missions, and B2B meetings. It works on building and developing the export capabilities through specialized training and technical support.⁶²

Egyptian Commercial Service (ECS): which is a sector under MTI that aims to promote exports through trade missions, foreign trade development programs, sharing information about trade opportunities, organizing B2B meetings, attracting FDI in coordination with the General Authority for Investment and Free Zones (GAFI).⁶³

The Egyptian Chamber of Apparel and Home Textiles (ECAHT)

ECAHT has been established as one of chambers of the Federation of Egyptian Industries (FEI). The services it provides include⁶⁴:

- ▶ 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

59 <http://www.mti.gov.eg/English/aboutus/Sectorsandentities/Entities1/GeneralOrganizationforExportandImportControl/Pages/default.aspx>

60 <https://www.eos.org/en/page/17>

61 http://www.ida.gov.eg/webcenter/portal/oracle/webcenter/page/scopedMD/s83d58991_1ad6_4dce_99ea_30c57d0e8097/Pagecb089a5d_952c_494a_93be_18b98e91_2a5e.jspx

62 <http://www.expoegypt.gov.eg/about>

63 <http://ecs.gov.eg/English/Pages/About-ECS.aspx>

64 <http://www.fei.org.eg/index.php/ar/garments-chamber-services-ar>

- ▶ 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.

Apparel Export Council of Egypt (AECE)

The Apparel Export Council of Egypt (AECE) is a quasi-governmental organization under the Ministry of Trade and Industry and a group of Egypt's most prominent apparel exporters. The AECE is responsible for the development, marketing and promotion of Egypt's apparel export industry. It acts in an advisory capacity with a policy advocacy role where it lobbies for the welfare of the sector's exporters and, eventually, to assist and promote Egyptian apparel exports.⁶⁵ The AECE has developed through the years to become the hub for exporters in Egypt, and they act as liaison and the connecting entity between interested investors or buyers with the Egyptian exporters. Under the new leadership, they have introduced a set of online services that offer understanding trade performance (Online Quarterly and annual reports, news, global trends...etc.), the list of Egyptian exporting companies (In an easy searchable format), Market studies (yet brief and based on secondary data), trade agreements, guide to exporting, trade missions, seminars, workshops...etc.⁶⁶

Fashion and Design technology Centre (FDC)

The Fashion and Design technology Centre is one 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

⁶⁵ <https://www.aecegy.com/Home/About.asp>

⁶⁶ <https://aecegy.com/>

new designers to the RMG industry. Leather and jewelry design and technical support were also added to its mandate.

Industrial Modernization Centre (IMC)

The Industrial Modernization Centre (IMC) was established in 2000 to give the motive for a sustainable, modernized, vibrant and competitive Egyptian industry. Its mission is “To support industrial targeted enterprises; individually, geographically and sectorally, according to the business development plans through comprehensive programs aiming at green growth and sustainable development”.⁶⁷ The IMC’s services are provided on cost-sharing basis (50%).⁶⁸ In the MRG sector, it provides training courses on sewing, pattern making, branding, social and environmental compliance certification and support for import substitution. 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 programs.⁶⁹

The Medium, Small and Micro Enterprises Development Agency (MSMEDA)

MSMEDA was established in 2017, replacing the Social Fund for Development (SFD) established in 1991. It is the national organization concerned with MSME development in Egypt and reports directly to the Prime Minister. It has a network of 33 regional offices across all governorates⁷⁰ that provide financial and non-financial services to MSMEs, in addition to its policy development role.⁷¹ It has a strong network with local NGOs and reach to local communities.

Strategies and policies

The RMG sector is one of the priority sectors targeted by the National Trade and Industry Strategy and several endeavors aim at improving its performance in the local and the global value chain. Most importantly,

⁶⁷ <https://www.linkedin.com/company/industrial-modernization-centre-imc-egypt/?originalSubdomain=eg>

⁶⁸ ILO, 2020. RMG Survey, unpublished.

⁶⁹ USAID-SEED, 2016. Value Chain Assessment Study.

⁷⁰ <https://www.msmeda.org.eg/MSMEDA/AboutUs>

⁷¹ MSME Law No. 152 of 2020.

the Textile Sector Strategy Vision 2025 focuses on cotton productivity and quality, enhancing the capacity of enterprises and workers on technical and sustainable topics, attracting investments with the purpose of vertical integration; strengthening SMEs in the value chain; export growth; knowledge, R&D and innovation; and institutional and policy reform.⁷² The strategy also laid emphasis on focusing on finished goods exports.⁷³

Furthermore, the GOE has also directed its focus and plans to develop the textile and apparel industry, through the development of the public sector textile companies, as well as establishment of sector cities for textiles and RMG in several governorates. Industrial complexes for the sector in Beheira, Gharbeya and Fayoum should be facilitating SME investments in the sector in these complexes.⁷⁴

Others

- ▶ Interviews show that the GoE's export support programs (namely expediting subsidy payments) have positively impacted the exporters, while some surveyed businesses indicated that it is still not lucrative enough.
- ▶ The Ministry of Finance to which the Tax Authority and the Customs Authority are affiliated.
- ▶ The Ministry of Manpower which is mandated with labour issues and under which there is a training fund.
- ▶ Education and research: vocational education schools, textile engineering departments in some universities such as Alexandria, Mansoura, Helwan (Faculty of Applied Arts) in addition to the National Research Center.⁷⁵
- ▶ The Ministry of Housing, Utilities and Urban Communities for issues related to the utilities infrastructure.
- ▶ Governorates for some of the land allocation and infrastructure.

72 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

73 IMC, (n.d.), Egypt Textile National strategy - Vision 2025: Expansion and Employment

74 ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

75 USAID, 2019. Strengthening Entrepreneurship and Enterprise Development, Technical Textiles Value Chain Gap Analysis.

- ▶ Banking and non-banking financial institutions that provide finance to businesses
- ▶ NGOs that provide services to the local communities including MSMEs.

3.3 Rules and regulations

Several laws and regulations govern the RMG value chain. The main relevant regulations can be classified as follows:

The generic doing business environment

Like other businesses in other sectors, RMG manufacturers fall under the laws regulation business establishment and operation in Egypt. Despite the enhancement in the laws and regulations, the development of the industrial permits law, establishment of GAFI's One Stop Shops and issuance of the MSME law, the primary research shows that the trickle-down effect has not materialized. For example, one company mentions that it still takes 7-8 months to issue the temporary license and an additional year to issue the permanent license.

Trade regulations

Primarily, export laws and regulations are of high significance. The primary research shows that the customs procedures have become more cumbersome and lengthier after the new single window regulations (Nafeza) which was developed to streamline the process by submitting all the documentations needed for import, export & transit of goods in a single point of entry (portal).⁷⁶ This is because the process is complicated, and the employees do not know how to handle it and have to make sure they are following all the steps. That is why customs clearance now takes 17-18 days according to an expert interview, and up to 3-4 weeks according to one company, instead of 4-5 days before the Nafeza was adopted. Input material must go through testing by several entities and employees are not used to the new system.

Other examples include the regulations related to imports. In February 2022, the Central Bank of Egypt made a decision that all importers will have to have

⁷⁶ <https://www.nafeza.gov.eg/en/about-nafeza>

their banks issue Letters of Credit to import goods and that documentary collection will not be possible. This resulted in exacerbating the supply chain problems and increase the costs incurred by businesses.⁷⁷ In October 2022, it was announced that this decree will be abolished on gradual basis during a period of two months, ending in December 2022.

Labour regulations

The Labour Law No. 12 of 2003 regulates the employer-employee relations including, but not limited to, contracts, probation, wages, working hours, vacations and holidays, labour duties, accountability and penalties, women employment, child labour, termination, coaching and training, promotion, collective bargaining, grievance, HSE, and social and health care.⁷⁸

The institutional and regulatory reforms, including the issuance of Law No. 2013 of 2017 which tackles forming of labour unions and syndicates and the establishment of the Supreme Council for Community Dialogue, are believed to have started to yield results on social dialogue during the last few years, according to one study. However, Egypt is still underperforming according to international benchmarking and is challenged by the persistent bureaucratic imperfections and challenges.⁷⁹

Of specific relevance is the Law on the Rights of Persons with Disabilities No. 10 of 2018 which stipulates that any employer that has 20 employees or more, shall hire at least 5% of persons with disabilities.⁸⁰ However, the validation workshop showed that this percentage, if implemented, is usually done on paper only, where manufacturers hire the 5% and pay them salaries while staying at home. Nonetheless, with the economic downturn, employers can no longer afford this and have to find ways to hire persons with disabilities while benefiting from actual work at the company.

As far as child labour is concerned, Egyptian regulations are conflicting. Whereas the Child Law No. 126 of 2008 sets the minimum work age at 15, the Labour Law No. 12 of 2003 sets it at 14. Both are not in line with the ILO standards of having the minimum working age at 18. Moreover, children working in agriculture are not treated as child labour, although more than

⁷⁷ <https://enterprise.press/stories/2022/02/15/importers-get-your-letters-of-credit-asap-64997/>

⁷⁸ Labour Law No. 12 of 2003.

⁷⁹ Danish Trade Union Development Agency, Labour Market Profile: Egypt 2020/2021

⁸⁰ Law No. 10 of 2018.

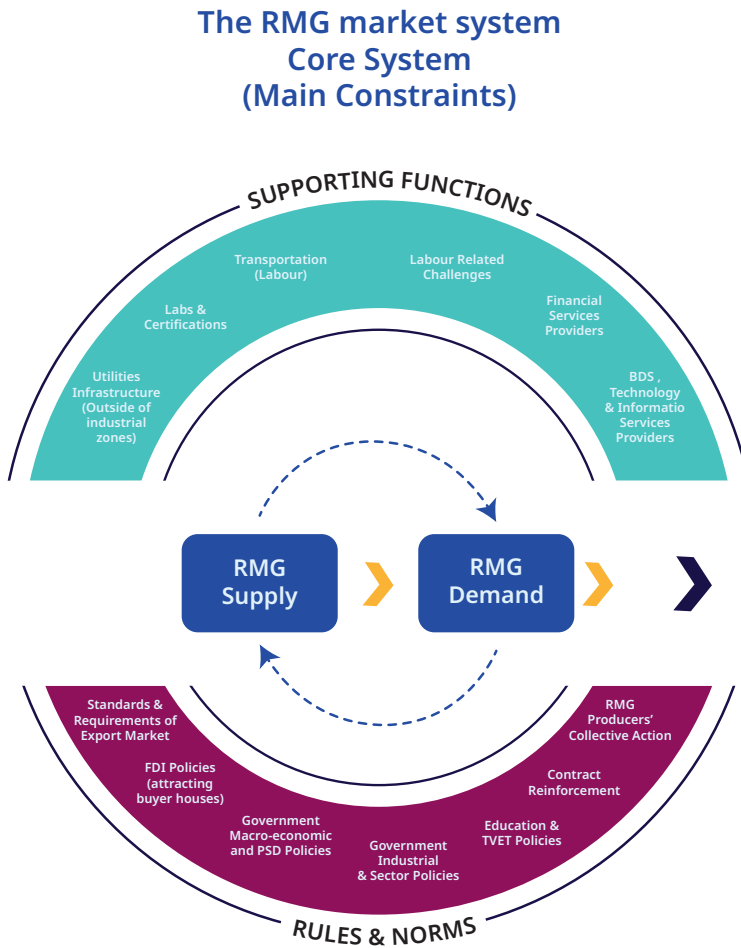
two thirds of working children fall in that sector.⁸¹ This point is of utmost importance for exports with the growing focus on sustainability and social responsibility either from consumers, international companies' compliance requirements, or countries' regulations.

⁸¹ ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

3.4. Systemic Constraints, Opportunities, and Main Failures & Interventions

3.4.1. Systemic Constraints

The key constraints related to each stage of the value chain are summarized in the relevant stage in Section 3.1 Core market above, and is elaborated upon below, followed by a collective analysis .



Value chain and linkages

- ▶ Concentration in low value-adding stages of the value chain. Despite the availability of locally produced textiles, RMG manufacturers still import fabrics, which are more competitive in terms of price and quality. Coupled with the quality, compliance gap and delivery time in the dyeing, printing and finishing stage of the value chain, value adding along the chain needs to be upgraded.
- ▶ Lack of buying houses attraction programs, hence limiting export opportunities.
- ▶ Weak linkages between lead firms and SMEs and in rural areas. Minimizing lead time is a key factor in determining suppliers and is thus a constraint to linkages between large and small enterprises.⁸² SMEs' limited production capacity is another concern. In addition, most transactions with suppliers are informal and are being done without contracts.⁸³
- ▶ SMEs' lack of access to information on markets either for sourcing or marketing their products. They also lack compliance to quality standards, measuring productivity or client satisfaction.⁸⁴ SMEs' inability to meet the buyers' technical requirements and quality standards due to lack of access to financial resources, know-how and technology, hinder their effective linkages to lead firms and integration into global value chains. According to the survey, 75% of the businesses had certifications, but all exporters had at least one certificate, indicating the importance of certification for market penetration.
- ▶ Insufficient private support services such as in design, which is a high-value added stage, due to lack of expertise in the field, since most designs are given through buyer houses, in addition to lack of information on market trends.

82 ILO, 2021. Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt: Sector Selection Report.

83 ILO, 2020. RMG Survey, unpublished.

84 ILO, 2020. RMG Survey, unpublished.

- ▶ Problematic business establishment and operations, especially in licensing procedures and poor utilities infrastructure outside of the industrial zones.
- ▶ Government regulations, including overlapping mandates and redundancies, especially in relation to exports and imports procedures.

Technology and modernization

- ▶ Given the size of investments and technology required in the sector, there is insufficient and inflexible financing for investment expansion, hence the inability to engage in new stages of the value chain and enhancing its integration.
- ▶ Lack of modernization and upgrading of existing machinery. Large family-owned businesses that are well-established are updated with new technologies and invest in upgrading their plants, unlike SMEs that cannot cope with the size of investment needed for machinery renewal for example.
- ▶ Relatively low level of innovation, with some exceptions.
- ▶ Lack of R&D and quality certification and labs.

High production cost

- ▶ The increase in imported raw material prices (almost doubled), due to several price increases including tripling shipping costs post-covid.⁸⁵ This includes machinery spare parts as well. At the local front, the high cost of doing business in general, especially given the current economic situation of high inflation, high interest rate, hence high cost of capital, the devaluation of the Egyptian pound and its impact on imported input material prices, and energy prices have all led to a high cost.⁸⁶ Combined with the technical limitations, the products are mostly uncompetitive, and the business has low profitability.⁸⁷ According to the Chamber Head, the operations cost has increased by 20% due to the rising shipment fees and Egyptian government regulations.⁸⁸

85 According to the Export Council, as cited by AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

86 Hamzawy, O. (2021): Challenges Facing Textile Industry in Egypt: "Barrier for Exporting",

87 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

88 AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

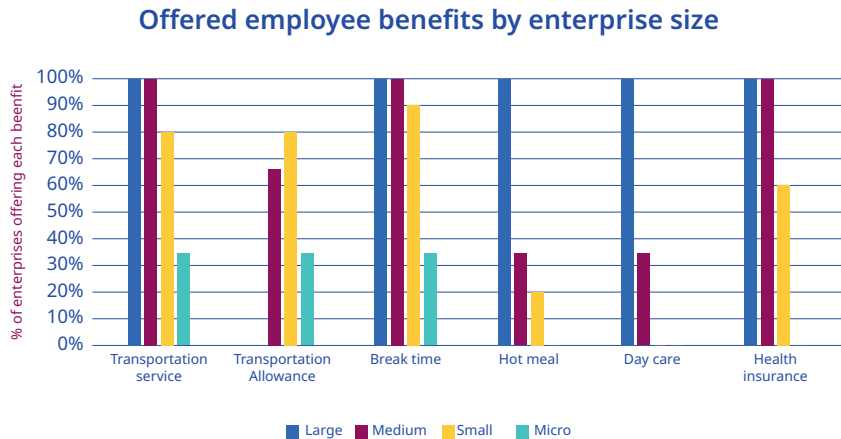
- ▶ Energy prices is another concern with expectations to witness price increase as well.
- ▶ Despite the low wages from the workers' perspective, the government's decision to raise the minimum wage in private sector from EGP 2,000 to EGP 2,400 is an additional cost that the manufacturers are facing as a challenge. It is worth noting that during 2022, the public sector minimum wage was raised several times⁸⁹ to reach EGP 3,000 in October 2022.⁹⁰ Given the current economic situation, it is not unlikely that the private sector minimum wage is raised too in the near future.⁹¹ However, the labour cost of rural areas is around 30-50% lower than those in industrial zones for example.⁹²
- ▶ Part of the labour cost is their transportation cost which is relatively high due to the lack of suitable means of transportation from where the workers reside to the factories' locations.
- ▶ The labour cost in general includes multiple aspects as shown in the graph below, and the larger the enterprise, the more benefits it offers to its workers, thus the higher the cost.

⁸⁹ From EGP 2,400 to EGP 2,700 in July then EGP 3,000 in October 2022, a total of a 25% increase for public sector employees.

⁹⁰ <https://english.ahram.org.eg/News/478549.aspx#:~:text=The%20minimum%20wage%20for%20public%20employees%2C%20who%20numbered%20more%20than,EGP%202%2C400%20earlier%20this%20year.>

⁹¹ <https://www.skynewsarabia.com/business/1523275-%D9%85%D8%B5%D8%B1-%D8%AA%D8%AA%D8%AC%D9%87-%D9%84%D8%B1%D9%81%D8%B9-%D8%A7%D9%84%D8%AD%D8%AF-%D8%A7%D9%84%D8%A7%D9%94%D8%AF%D9%86%D9%89-%D9%84%D8%A7%D9%94%D8%AC%D9%88%D8%B1-%D9%85%D9%88%D8%B8%D9%81%D9%8A-%D8%A7%D9%84%D9%82%D8%B7%D8%A7%D8%B9-%D8%A7%D9%84%D8%AE%D8%A7%D8%B5>

⁹² ILO, 2020. RMG Survey, unpublished.



Limited labour skills and availability

- ▶ Low labour productivity.⁹³ that is estimated to be 25-50% less than workers in Vietnam, India and Bangladesh.⁹⁴ Through the interviews, this was attributed to several reasons, including; poor working conditions, high turnover and absenteeism, skills...etc. (more information under the following points)
- ▶ A high absenteeism and turnover rate among workers that is estimated at 37%⁹⁵ and that reached 18% in the surveyed sample. According to the interviews and the survey, this is attributed to several reasons including:
 - ▶ lack of commitment to the working hours and negative attitude. The survey showed that workers have to work for 6 days a week, an average of 9 hours per day and an average of 2 overtime hours.

⁹³ Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable up-grading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

⁹⁴ Modor Intelligence, (n.d.), retrieved November 2022, from <https://www.modorintelligence.com/industry-reports/egypt-textile-manufacturing-industry-study-market>

⁹⁵ ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

- ▶ low wages and the opportunity cost as workers can earn the same salary in less hectic and time-consuming jobs. Men can go to construction or tuktuk driving and less-educated women workers can opt to domestic household work.
- ▶ The problem is exacerbated for urban areas residents where the living expenses are higher.
- ▶ Difficulty commuting far distances from home to work, especially to industrial zones which are far from residential areas.
- ▶ Unhealthy work environments and the way they are treated, hence the importance of a code of conduct, a grievance system and information about labour rights.
- ▶ Lack of clarity about how the wages are calculated and preference to stay without social insurance as they appreciate a higher net wage without deductions.
- ▶ The skill mismatch and the gap between education and the labour market led to the lack of a skilled workforce and limited workers' capabilities. Out of the surveyed sample, 55% of enterprises think that technical skills are lacking, and 75% think that work ethics and soft skills are needed too. Three quarters of the enterprises provided training to their workers. Although some manufacturers do in-house training and the skills are relatively easy to capture, workers' high turnover becomes a double challenge.
- ▶ Lack of a pool of qualified trainers who can provide both technical and managerial capacity building programs and advisory services including on-the-job training.⁹⁶
- ▶ Training and education are still lacking in the sector. Despite the availability of service providers, some are still perceived as mismatching the skills required by the employers and most manufacturer rely on in-house training programs that they develop for their workers.⁹⁷ According to the survey, this kind of training is more efficient, leads to

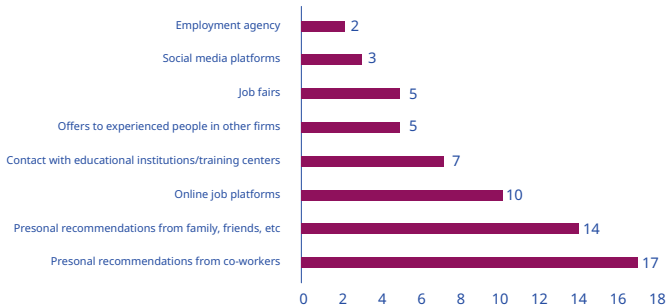
⁹⁶ ILO, 2021. Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt: Sector Selection Report.

⁹⁷ CBI, 2020. Value Chain Analysis for Apparel in Egypt.

higher quality, and is more stable, while still challenging when having to comply with paying insurance for students in dual education. On the other hand, education and training service providers are perceived by 60% of the sample as inefficient, lacking practical knowledge, and outdated.

- ▶ The recruitment process per se is suboptimal. As depicted in the chart below, most of the surveyed enterprises mentioned referrals as the main method for finding workers, and 50% used online platforms, 35% contacted educational and training institutions, 25% made headhunting offers, and job fairs.⁹⁸ Reaching the targeted workers through educational and training institutes could yield better results if these graduates are qualified with the required set of skills that match the market needs.
- ▶ Challenging working conditions in terms of rights, wages and occupational safety and health (OSH).
- ▶ Gender-related cultural challenges such as having to leave work after marriage or having children, in addition to the cultural heritage in some areas related to working in environments perceived as unsafe for women.

Recruitment Methods (out of 20 surveyed enterprises)



- ▶ Gender inequality. According to the ILO, women in the sector earn lower wages compared to their equivalent male workers.⁹⁹

⁹⁸ The total is more than 100% because one enterprise used several methods.

⁹⁹ ILO (2014) as cited by CEEBA, (n.d.). Study of Egyptian Traditional Sectors.

- ▶ Concentration of women workers in lower occupations. CAPMAS data of the RMG sector show that the number of men is seven times the number of women in managerial positions, 12 times in specialist positions and eight times in sales positions, while the proportion is almost equal between men and women in operations.¹⁰⁰

Lack of access to knowledge

- ▶ Lack of design services and product development.¹⁰¹
- ▶ Lack of access to information about buyers' needs, market dynamics, and direct contact with foreign buyers.¹⁰²
- ▶ Limited skills of the management of enterprises in terms of strategic vision, marketing and access to market information and in developing organizational structures that are compatible with export requirements.¹⁰³
- ▶ Because of the low investment cost to start a business in the RMG sector (a workshop), the failure rate of start-ups is relatively high¹⁰⁴ due to the lack of experience and the other constraints facing the sector.
- ▶ Lack of trained HR staff and middle management in supervisory positions.¹⁰⁵

Logistics

- ▶ Weak transportation and logistics, leading to higher labour costs and lead time, hence lower competitiveness.¹⁰⁶ However, the government

100 CAPMAS, 2017/2018. Economic Census.

101 ECES, 2018. Services contribution to value chains: case study of the Egyptian ready-made garments sector.

102 IMC, (n.d.), Egypt Textile National strategy - Vision 2025: Expansion and Employment

103 Hamzawy, O. (2021): Challenges Facing Textile Industry in Egypt: "Barrier for Exporting",

104 ILO, 2020. RMG Survey, unpublished.

105 ILO, 2020. RMG Survey, unpublished.

106 ECES, 2018. Services contribution to value chains: case study of the Egyptian ready-made garments sector.

is investing in infrastructure (e.g., road, energy, and ports) and this is expected to help develop the local logistical aspects.¹⁰⁷

- ▶ The need to develop export-related logistics, especially for shipping to Europe and North Africa.
- ▶ The post-corona disrupted value chains have led manufacturers to diversify their sources and to aim for more agility, which local suppliers may not be able to conform with.¹⁰⁸

Lack of access to finance

- ▶ Lack of access to credit in the industry, hence their limited ability to expand or upgrade their factories. It is up to the bank to make the credit decision and the industry is perceived as risky given the size of finance required.¹⁰⁹
- ▶ With the current economic situation, inflation, the devaluation of the Egyptian pound and the rising interest rates, the problem is expected to be exacerbated.
- ▶ Limited access to foreign currency in the current situation.
- ▶ The high interest rate in microfinance.

Non-compliance

- ▶ High informality rate in the sector especially in SMEs.¹¹⁰ According to CAPMAS, 65% of establishments in the manufacture of wearing apparel sub-sector are unregistered.¹¹¹
- ▶ Lack of decent employment and termination procedures, OSH measures and compensation in SMEs and informal enterprises.¹¹²

107 Sourcing Journal, (2019, April 5). Retrieved November 2022, from <https://sourcing-journal.com/topics/sourcing/egypt-apparel-industry-144897/>

108 IFC, 2020. Innovation, Investment, and Emerging Opportunities in Today's Textile and Apparel Value Chain.

109 ILO, 2021. Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt: Sector Selection Report.

110 ILO, 2020. RMG Survey, unpublished.

111 CAPMAS, 2017/2018. Economic Census.

112 ILO, 2020. RMG Survey, unpublished.

- ▶ Occupational health and safety conditions are non-compliant with regulations and international standards of decent work. Although improving, especially in export-oriented factories, operations may include health risks.¹¹³
- ▶ Limited workers' bargaining power. Despite the existence of syndicates and labour unions, they are not received as supportive enough.
- ▶ SMEs lack having a formal grievance system for workers and rely on direct contact with the management.¹¹⁴
- ▶ Sustainability challenges: limited wastewater treatment in some factories and lack of energy efficiency.^{115 116} Limited knowledge and implementation of sustainability practices, threatening exports especially to the EU. Egyptian suppliers to the EU market will have to respond to demanding requirements in order to comply with EU standards and capture the opportunity of the conscious segment of the global market in general.¹¹⁷
- ▶ Child labour is a major issue in the cotton value chain as it includes the worst forms of child labour in cotton cultivation, harvest and processing.¹¹⁸ Involvement of millions of children in this ethical and legal problem per se is a major issue, in addition to its impact on the hindered export opportunities of any product in this value chain, given the social responsibility consciousness and regulations at the buyer's side.

113 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

114 ILO, 2020. RMG Survey, unpublished.

115 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

116 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable upgrading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

117 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable upgrading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

118 ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

- ▶ Existence of child labour in the value chain,¹¹⁹ specifically in informal enterprises.¹²⁰
- ▶ The negative reputation of Egyptian exporters in global markets, in terms of delivery time and quality-price ratio.

3.4.2. OPPORTUNITIES

Exports

- ▶ The advantageous intercontinental location offers proximity to the EU market as well as the US market compared to Asian exporters.¹²¹
- ▶ Relatively low labour cost especially compared to other countries and after the devaluation of the Egyptian pound.
- ▶ The preferential trade agreements that give access to the US, EU, Arab states and Africa and the export support programs have a positive impact on the sector's exports.
- ▶ Shifting global value chain dynamics and China's decreasing global supply of RMG and nearshoring trends represent an opportunity for MENA countries including Egypt as a low-cost country.^{122 123 124}
- ▶ Availability of extra-long staple cotton and its potential to penetrate export markets in high-value products, coupled with the growing global demand on organic products as a niche market.¹²⁵

119 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

120 ILO, 2020. RMG Survey, unpublished.

121 Sourcing Journal, (2019, April 5). Retrieved November 2022, from <https://sourcing-journal.com/topics/sourcing/egypt-apparel-industry-144897/>

122 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

123 AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

124 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable upgrading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

125 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable upgrading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

- ▶ Growing global demand on Islamic wear including the EU.^{126 127}

Value chain and linkages

- ▶ The increasing number of young and innovative designers who create their own brands.
- ▶ The government plan to develop the public sector spinning and weaving industry¹²⁸ improves the value chain vertical integration and represents a potential for better or diversified sourcing options for RMG manufacturers.
- ▶ Some of the support functions are improving their services. For example, the FDC has upgraded its machinery and software and is expanding its Alexandria branch. ECAHT as well is providing its services (technical and managerial training) through the BDS center and considers it a successful model since there is cost-sharing and proper follow-up with employers.

Local market

- ▶ The large size of the local market. Moreover, the high demand on homewear and casual wear matches the suppliers' edge.
- ▶ The untapped opportunity for technical textiles including recycled and reusable ones.
- ▶ E-commerce and opening up the market for retailers and for manufacturers as well in B2C engagement.

Labour

- ▶ Growing number of Applied Technology Schools and expansion of the dual education system, bridging the skill mismatch gap. The survey showed that 20% of enterprises used dual training programmes.

126 Grumiller, Jan; Raza, Werner G.; Grohs, Hannes (2020) : Strategies for sustainable upgrading in global value chains: The Egyptian textile and apparel sector, ÖFSE Policy Note, No. 33/2020, Austrian Foundation for Development Research (ÖFSE), Vienna

127 CBI, 2020. Value Chain Analysis for Apparel in Egypt.

128 ILO, 2020. Understanding the labour force demand and supply as the root causes for the use of child labour in the cotton value chain in Egypt. Unpublished report.

- ▶ Growing awareness of and an active role performed by NCW and the prosecution and judicial system concerning sexual harassment, which contributes to women's safety at the workplace.
- ▶ The duration and cost of training for new workers is relatively low compared to other industries.¹²⁹ Moreover, it is a low-skill job, as 42% of the jobs in the surveyed sample did not require special skills.

Product lines with higher potential:

- ▶ Women's cottonwear niche market
- ▶ Homewear for men and women
- ▶ Casual wear for men and women, including denim
- ▶ Cotton underwear
- ▶ Islamic wear (mainly exports to EU countries with a growing Muslim population).

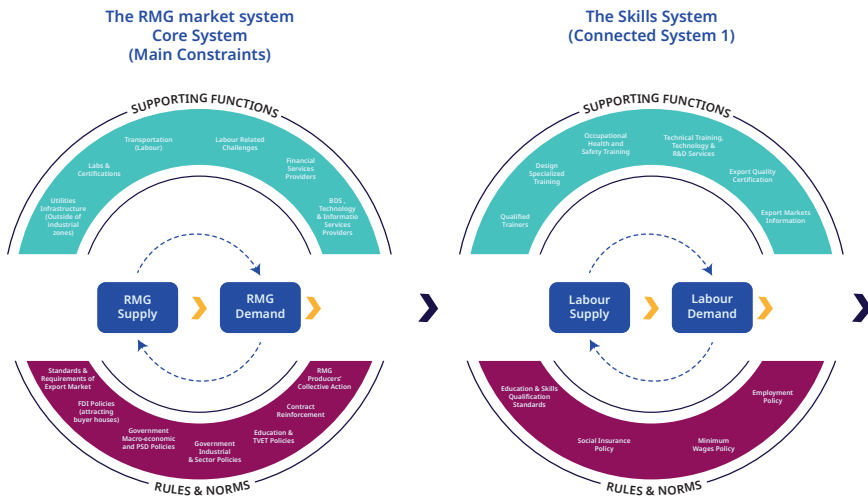
3.4.3. Failures & Main Interventions

The RMG industry in Egypt managed to be part of the Global Value-Chain, however this, as explained, has put it at the crossroad, with the current and frequent global and local macro-economic shocks, between a race to the bottom or a transformation to a high value-added industry. Competing on price is no longer the name of the game, and leaving the industry to market dynamics without transformative interventions is going to enforce a new reality, where unemployment rate is to increase. Although, this realization is present within the government, there are no consolidated vision or strategy that incorporates addressing the constraints of the collective industry. Policy and policy advocacy, require collective action from the part of the industry, however, there is a lack of coordination between the institutions that should and can play that role on behalf of it. The IMC, the Export Councils, and the Chamber, are three core institutions in that domain, however, the current capacities and because of the "firefighting" mode on how they operate does not permit the time or the quality to play the role of the advocate. It is evident, that the industry is currently struggling under the pressure of weak

¹²⁹ ILO, 2020. RMG Survey, unpublished.

and changing global and local demand and high costs, forcing many factories to close and/or lay-off workers.

The current labour constraints in the market were magnified by the macro-economic situation. However, there are systemic constraints that needs to be addressed to allow for a smooth transformation. As shown in the figure below, the root causes for all labour constraints are identified with their root causes.



The constraints faced by factories with regards to Labour, as mentioned earlier, are mainly related to the absence or weak delivery of support services that are sustainable. Challenges such as low productivity is attributed to several reasons, but taking for example one reason like poor working conditions is a result of factories not adhering to quality standards. This in turn is attributed to lack of knowledge of the importance of having export quality certification for working conditions, and also not having means (financial and non-financial) to instill such health and safety conditions. There are two types of failures that were identified from the analysis:

Failure in BDS Services:

The current support function of BDS in its general definition (including but not limited to: management consulting services, technical consulting

services, financial, information services, certifications, audit...etc.) are found in the market either through free of charge services (thus affecting their sustainability and quality), or through big consulting firms (Thus not affordable to SMEs). With few exceptions, the BDS provided publicly has been mostly limited to the fields of training, marketing, and some technology-related areas. Such services often are supply driven, thus most of the cases are badly planned and managed, bureaucratic in nature, lack geographical coverage, and lack coherence and coordination. On the demand side, most companies are un-aware of existing BDS services and lack the understanding of their importance. This perception is even worse when it comes to public BDS, where it is regarded as incompetent, and not addressing the current needs of businesses. In the validation workshop, it was clear there was a need for information services, and there's a willingness to pay for those that prove to be beneficial. For SMEs they still cannot trust and sometimes afford the current offerings from the private sector in the market. **This opens an opportunity for using innovative ways for the offerings. One idea is to use public funds in hiring private sector consulting firms to offer collective services for members, thus reducing the price and offering quality services. Interventions are suggested to be targeting those entities that has a mandate of supporting SMEs and at the same time have the ability to receive funds. In that respect there are two potential entities, one to focus on technical services: The Technology Centers under MTI, and export information services through the Apparel Export Council.**

Failure in Vocational Education and Training:

One of the key challenges of the Egyptian VET system is its governance structure, characterized with a high degree of fragmentation and low coordination among key stakeholders, making it inefficient in addressing the current employment challenges faced by the industry. In addition, the current mismatch between skills offered by education and training and skills required by employers is significant. As indicated by ETF in their report, "Egypt is facing two types of skills mismatches; quantitative mismatch, is indicated by the short supply of VET graduates to sectors in need of labour force; qualitative mismatch, where the "level of available skills is lower than the required level to perform the job (often associated with changing economic context or changes in technology)".¹³⁰ One of the efforts that has been done recently in Egypt was the establishment of the Sector Skills Councils. The

¹³⁰ ETF, April 2020. Torino Process 2018-2020: Egypt National Report.

objective of the councils is to enhance and institutionalize the engagement of employers and employers' organizations in provision of VET and allowing them to play a leading role in skills identification and anticipation. However, there is still a need to coordinate efforts among various stakeholders to reach consensus on a unified institutional model linked to the VET system, thus ensuring the integration of outcomes in the formulation of VET policies and programmes. There are existing development partners programmes like EBRD and USAID who have worked in conjunction with the government to support the efforts in that respect, and further interventions can be built on what was already established, including: raising awareness, creating a coordination mechanism, providing technical support. This could be done directly with the Council and concerned line Ministries, from the other hand interventions could be directed toward existing support functions entities, mainly The Chamber, to create a public-private partnership and policy dialogue platform with the aim of developing skills-gap analysis, skills development strategies, qualification frameworks and occupational skills standards for the RMG sector.

As a result of the validation workshop, the suggestion was to lay general recommendations for interventions in the sector, which are presented in the table in the next section.

4. RECOMMENDATIONS

#	Recommendation	Responsibility		Timeframe	Level	Relevance	Market orientation
		Primary	Secondary				
I. Labour skills and rights							
1	Support Existing Public/Quasi Institutions, by raising their capacities and internalizing a sustainability mechanism in Providing specialized training to workers on: <ul style="list-style-type: none"> ▶ Technical skills ▶ Productivity ▶ Quality assurance ▶ OSH ▶ Soft Skills ▶ Work ethics ▶ Labour law (e.g. employer and employee rights and grievance systems) 	ECAHT BDS Unit	Technology centers, IMC, Labour Union, Private Sector	Short	Micro	EYE RAWABET	Mainly local
2	Introduce and train Service Providers on best practices in providing training to women workers on their rights, and the available channels and support structures for grievance.	ECAHT BDS Unit	NCW, Labour Union	Short	Micro	EYE RAWABET	Both

#	Recommendation	Responsibility		Timeframe	Level	Relevance	Market orientation
		Primary	Secondary				
3	<p>Link SMEs with lead firms, and enhance their capacities to satisfy the lead firms/export standards, this might include involving a training institution to provide:</p> <ul style="list-style-type: none"> ► Provide training for supervisors on: <ul style="list-style-type: none"> ► Their technical role ► Labour rights ► Work ethics ► Gender equality (e.g. harassment at the workplace, wage equality, the glass ceiling) ► Soft skills <p>Provide training to HR departments including labour rights</p> <p>Provide training to middle management on:</p> <ul style="list-style-type: none"> ► Management ► Strategic planning ► Product development ► Operations Management ► Marketing, including e-commerce ► Labour rights and grievance systems ► Gender <p>Existing support functions and regulations</p>	ECAHT BDS Unit	Technology centers, IMC, Private Sector, NCW	Short	Micro	EYE RAWABET	Both
6	Create awareness on design and product development for the RMG sector. This could be done between private sector companies/Rep Institutions/Chamber and Creative Summit	FDC	ECAHT, IMC	Short & medium	Micro	EYE RAWABET	Mainly export
7	Support in the creation of policy forum with the Chamber to introduce a public-private partnership and policy dialogue platform for setting qualification frameworks and occupational skills standards for the RMG sector.	FDC	Labour Union, Ministry of Education, Private Sector	Medium	Micro	EYE RAWABET	Both
8	Build the capacity of existing BDS and TVET providers	MTI	Private sector, Donors	Medium	Meso	Generic	Both
9	Encourage private sector service providers to establish and operate training centers in RMG complexes/industrial zones	MTI	GAFI	Medium to long	Meso	Generic	Both

#	Recommendation	Responsibility		Timeframe	Level	Relevance	Market orientation
		Primary	Secondary				
10	Design and conduct awareness raising activities to lead firms and SMEs on: <ul style="list-style-type: none"> ▶ The impact of promoting women ▶ Linking wages to performance and productivity ▶ Social and fringe benefits to workers ▶ Application of the 5% hiring quota of PwD ▶ Cost-sharing concept 	ECAHT BDS Unit	Labour Union, Private Sector	Medium	Micro	EYE RAWABET	Mainly local
11	Support lead firms and incentivize them to cooperate in the dual education system by providing the practical on-the-job component.	Private Sector	ECAHT, Ministry of Education	Medium to long	Meso	Generic	Both
II. Access to knowledge							
12	Identify existing social media groups and pages, and select or create information hubs as a pilot, with a sustainability plan, that are based on location, specialization or specific purpose (sourcing, recruitment, etc.).	MTI	MSMEDA, Export Councils, ECAHT	Medium	Meso	Generic	Both
13	Map existing electronic platforms for sharing information and select one to build on, update and operate through a private sector partner, for sustainability. The platform would offer a free trial membership for a limited time (e.g. 6 months), then be for a subscription fee.	MTI	MSMEDA, Export Councils, ECAHT	Medium	Meso	Generic	Both
14	Enhance access to market information, including preferential free trade agreements, finding suppliers (sourcing), market trends and untapped opportunities, and marketing. This includes information for vertical and horizontal integration between the RMG industry and other relevant industries.	ECAHT	MTI, EDA, Export Councils, MSMEDA	Medium	-	Generic	Mainly export
15	Identify the requirements for buying houses to operate in Egypt (in cooperation with the Export Councils). Develop a policy paper to be introduced to entities like GAFI and MTI. Identify quick wins, like link potential and existing exporters to buying houses.	Apparel Export Council	Textile Export Council, ECAHT, MSMEDA	Short to medium	Micro	Generic	Export
III. Sustainability & social responsibility							
17	Create awareness on the importance of sustainability and labour rights requirements, their significance and opportunities.	Technology Centers-MTI	ECAHT, Labour Union, Export Councils	Short	Micro	EYE RAWABET	Export

#	Recommendation	Responsibility		Timeframe	Level	Relevance	Market orientation
		Primary	Secondary				
18	Enhance capacity of technology centers to provide training to management and workers on sustainability practices and requirements, through private sector providers	Technology Center	ECAHT, Labour Union, Export Councils	Short	Micro	EYE RAWABET	Export
19	Create Awareness on green and socially responsible sourcing, production and good practices.	Apparel Export Council	ECAHT, Labour Union, Export Councils	Short	Micro	EYE RAWABET	Export
20	Training on workers' rights, including the labour law, international standards, having a grievance system, labour rights, etc.	Labour Union	ECAHT, Export Councils, Private Sector	Short	Micro	EYE RAWABET	Both
IV. Other areas							
21	Streamline business licensing procedures and ensure application of those streamlined regulations	IDA	MTI	Medium to long	Macro	Generic	Both
22	Investigate the reasons behind the opposite effect of Nafeza (single window platform) on customs clearance and implement solutions	Ministry of Finance	MTI	Short to medium	Macro	Generic	Both
23	Communicate with banking and non-banking financial institutions on why their services do not reach RMG companies and put solutions in place	ECAHT	MTI	Short to medium	Meso	Generic	Both
24	Raise businesses awareness on Non-Banking Financial Institutions and how to benefit from their services (e.g. private equity, leasing or factoring)	ECAHT	MTI	Short to medium	Micro	Generic	Both
25	Encourage R&D, innovation and technology adoption, especially in areas where there are VC gaps (e.g. long-staple cotton manufacture, dyeing, printing and finishing)	The Academy of Scientific Research & Technology (ASRT)	MTI, IMC, Technology Centers, Private Sector	Long	Macro	Generic	Both

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6. ANNEXES

6.1. Annex I: List of Interviewees

#	Name	Title	Organization	Interview date
1	Ms. Rasha Fahim	Executive Director	Textile Export Council	31/10/2022
2	Ms. Aida Zayed	Head	Technology Centers, Fashion and Design (FDC), Leather and Jewelry Technology Centers	3/11/2022
3	Eng. Hany Kadah	Executive Director	Egyptian Chamber of Apparel and Home Textile Industries (ECAHT)	6/11/2022
4	Mr. Ahmed Reda & Mohamed Abdel Hamid	Head	the Technology Center for Textiles	6/12/2022
5	Mr. Saad Shabaan	Head	Labour Union- Democratic Egypt	24/11/2022
6	Mr. Mohamed El Hpusieny	-	ILO	20/11/2022
7	Ms. Sherine Hosny	Executive Director	Apparel Export Council	8/12/2022
8	Eng Fadel Marzouk	CEO	Giza Spin	3/12/2022
9	Mr. Sherif Reda	Marketing	Mitcha	4/11/2022

6.2. Annex II: Survey results

Background and Justification

The “Egypt Youth Employment (EYE): Jobs and Private Sector Development in Rural Egypt (RAWABET)” Project is a 5-year Norway funded project running from 2017 to 2022 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. A core component of the project is on value chain and enterprise development, through which the project aims to promote decent jobs among men and women in rural Egypt, MSMEs within the selected value chains, business development and financial services providers, public institutions involved in the implementation of the project in order to make rural areas more attractive to Egyptian youth. This is to be accomplished through both increased opportunities for direct employment to be created by large private investors and for indirect employment in rural MSMEs and as small-scale producers along value chains. The project shall identify value chains/sub-sectors within manufacturing sectors and rural governorates with the potential to generate decent jobs for youth in rural areas.

The project conducted earlier discussions with key actors who cited the relevance of the ready-made garments (RMG), furniture, and white goods sectors to the project’s target group i.e., business owners and workers, opportunity for growth and employment creation as well as the feasibility for the project to intervene and stimulate market systems change. Besides, the project conducted earlier a rapid market analysis for sector selection, and the RMG sector was the one of the three shortlisted sectors in terms of relevance to the project’s target groups.

This survey report is a part of the MSA study on the RMG sector, where the survey consultant worked in coordination with a lead consultant who conducted a Market System analysis during the current period to identify and prioritize the RMG sector in view of its potential for value addition, and capacity to generate opportunities for inclusive growth and to contribute to poverty reduction taking in consideration the current effects of the war on the sector.

Survey objective

Within the framework of the ILO EYE RAWABET project, the survey consultant designed and conducted surveys/interviews with 20 RMG companies in the rural areas to generate better understanding of the challenges during the current period, such as devaluation, and import restrictions, the number of formal jobs created or lost, the percentage increase or decrease of the production for these companies, as well as identify which new opportunities could arise to address DW Gaps including Job creation and highlighting the gaps in the RMG sector. These companies were selected based on the below criteria:

- ▶ Operates, and/or have a connection with the rural communities (suppliers, employees...etc.).
- ▶ Includes companies of different sizes (Small-Medium-Large).
- ▶ Scaling-up and declining businesses.
- ▶ Targeting domestic market and/or export markets.
- ▶ Have and have not adopted vocational capacity building programme through (schools or training centers or outsourced).

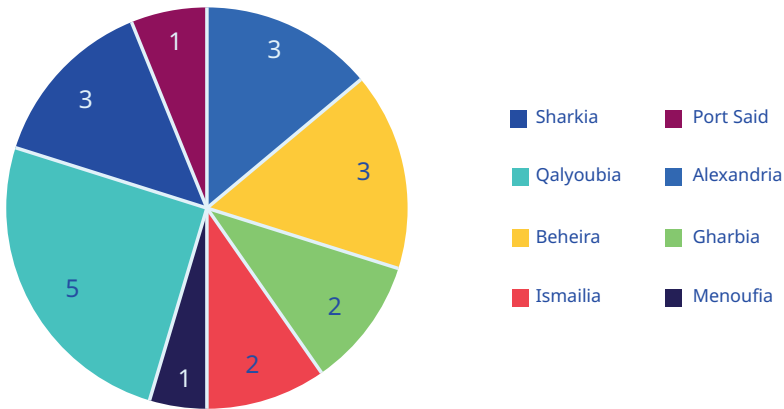
This survey is a part of MSA study that will be delivered by another lead consultant. The Survey was conducted based on the below key objectives:

- ▶ To understand the effect of the current economic situation on 20 RMG companies in the rural areas.
- ▶ To highlight the main challenges during the current period affecting decent work gaps and opportunities in the sector.
- ▶ To identify solutions that could help increase their production and promote youth employment.

Company Profile and Production

- ▶ Total sample: 20 companies
- ▶ Geographical distribution of interviewed companies' sample

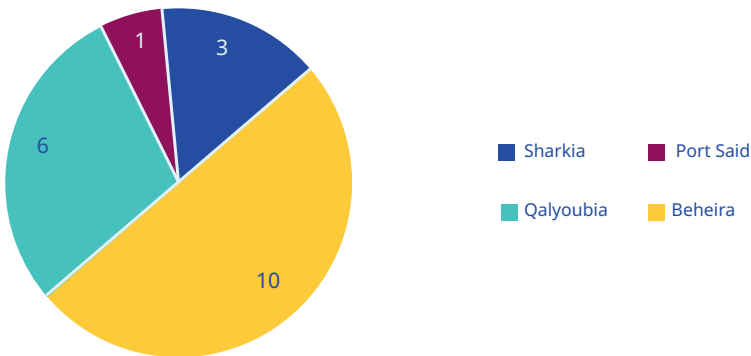
Governorate Distribution of Companies



- ▶ 50% of interviewees were company owners, 45% were high level managers while 5% were mid-level managers. Interviewees had at least 4 years and at most 30 years in the company.
- ▶ 90% of the respondents were male, only 2 respondents were female
- ▶ Average age of the companies is 17 (minimum 3 years, maximum 39 years) showing a large variation.
- ▶ Business of the companies include the production of socks, gloves, knitwear, jeans, underwear, sportswear, uniforms with a few having fabric production, dyeing, and finishing beside the ready-made garments manufacturing.
- ▶ Workers
 - ▶ Average 336 workers (minimum 32, maximum 1500)

- ▶ Female workers comprise an average of 63% of the workforce (minimum 35%, maximum 90%), showing a significant female presence in the interviewed sample.
- ▶ While each company is a case on its own, the age distribution of workers appears to be most concentrated in the ages of 30-above (av. 44%, min 5%, max 80%), followed by 25-29 (av. 36%, min 5%, max 80%), followed by 15-24 years (av. 23%, min 5%, max 50%)
- ▶ Companies' size
 - ▶ Based on the previous year's sales, the included companies are considered
 - ▶ 15% Micro
 - ▶ 50% Small
 - ▶ 30% Medium
 - ▶ 5% Large
 - ▶ The production capacity varied widely depending on size and activity from 4 thousand pcs to 2 million pieces per month. However, this might not be a precise indicator, as production capacity differs according to garment design and level of complicity.

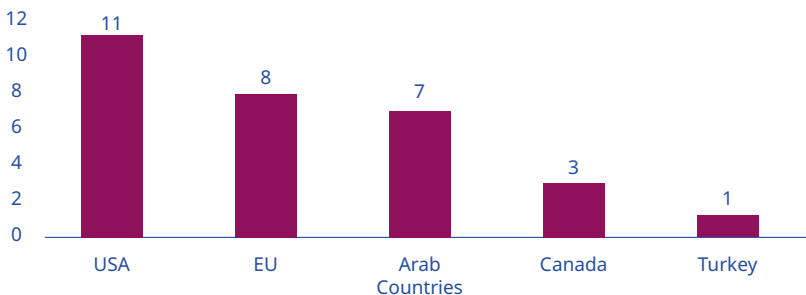
Company Size (based on sales)



Exporting

- ▶ 70% of the companies in the sample engage in exporting with an average of 77% of their annual sales through exports (large variation; min 10%, max 100% among exporting companies)
- ▶ The majority of sales for the large and medium enterprises were through exports while micro enterprises were not engaged in any exporting, small enterprises had a wide-ranging reliance on exports (15% to 100% of sales)
- ▶ 79% of exporting companies target the USA, followed by the EU (57%), Arab Countries (mainly GCC) (50%), Canada (21%) and Turkey (7%)
- ▶ 79% of the exporting companies rely on intermediaries (agencies) to reach markets abroad (including 100% of the large and medium enterprises)
- ▶ Certificates
 - ▶ The majority of the certificates acquired were ISO-related (most frequent is ISO 9001, in addition to ISO 14001, ISO 18001, and ISO 45001). All 14 exporting companies (in addition to one non-exporting) have acquired at least one ISO certificate
 - ▶ Respondents explained that those certifications allow them to enter markets abroad (ex: "Better Work" to work with Disney), one indicated that it allows them to receive export subsidies while another mentioned that some local customers also require them (ISO)

Export Countries



Certification for Exporting Companies		
Certificate	Frequency	Percentage
ISO (9001,14001,45001,18001)	15	100%
WRAP	9	64%
OEKO-TEX	5	36%
Better Work	4	29%
QIZ	2	14%
BSCI	1	7%
SEDEX	1	7%
SASO	1	7%

Local markets

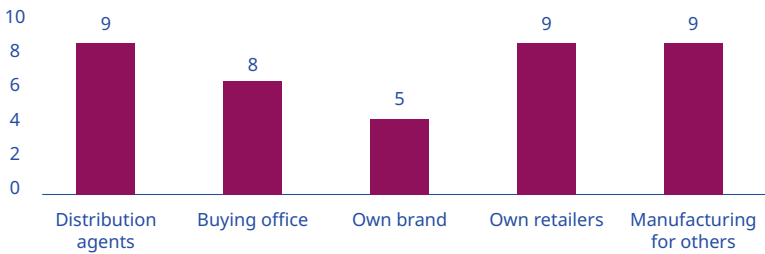
- ▶ 30% of the sample does not engage with the local market (100% targeted export market only)
- ▶ For the ones who engage with the local market, the main channels are retailers, distribution agents and manufacturing for others followed by offices and having their own brand

Company production

- ▶ Some few companies perform 100% of the operations internally (from knitting to dying until manufacturing ready-made garments and packaging).
- ▶ Majority of companies purchase dyed fabrics and continue with cutting and confection operations.
- ▶ Operations performed by the factories include: weaving, knitting, dying, confection, embroidery, and printing.
- ▶ Local and imported sourcing materials
 - ▶ Few respondents explicitly mentioned relying on local sourcing for their material (yarns, fabrics, and accessories) unless there is a local shortage
 - ▶ Most of the respondents relies partially on foreign and local sourcing together;

- ▶ Foreign sourcing (China was most mentioned) includes fabrics, threads, accessories, packaging, dyeing material
 - ▶ Local sourcing includes fabrics, accessories, and plastic bags for packaging
 - ▶ One respondent mentioned the exporting barriers that are forcing the development of local manufacturers, in addition to the involvement in public work to advise on strategic decisions.
- ▶ 35% of respondents mentioned sourcing from rural areas, for example from small factories that perform weaving and/or dyeing of fabrics in areas such as Kafr El Dawwar and Mahalla.

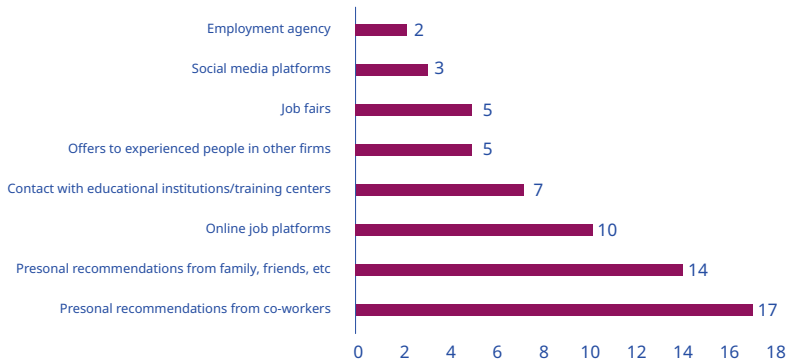
Distribution of Production (out of 20 surveyed enterprises)



Labor, Hiring and Training

- ▶ As shown in the figure, companies mostly rely on personal recommendations to hire employees. In addition to the methods in the

Recruitment Methods (out of 20 surveyed enterprises)



graph, one company mentioned that it posts vacancy announcement on the factory gate.

Labour Turnover

- ▶ On average, companies had around 18% turnover rate in the past year. However, there is a large variance between companies; minimum 1% and maximum 50% with no clear relationship between size of the company and turnovers.
- ▶ Reasons for turnover:
 - ▶ Mainly low salaries and low chances for promotions, male workers look for higher-paid job in other factories or other sectors such as construction
 - ▶ Commitment to certain work hours, as some workers prefer to have more control over their hours thus going for self-employment (ex: tuktuk driving)

- ▶ Unhealthy work environment and way of treating workers
- ▶ Feeling that the job is unstable may make the worker stressed and try to look for a more stable job
- ▶ Marriage for female workers
- ▶ Factories being far from workers' place of living
- ▶ Social insurance in some companies is mandatory (workers don't want the cut in their paycheck and do not see its benefit, especially for women who leave to get married)
- ▶ Worker is unaware of his/her duties and rights; paycheck is unclear for many of them when it comes to tax and insurance cuts. They prefer to move to informal sector.

Contracts and Social Insurance

- ▶ Average of 92% of employment is full-time with low variance among companies
 - ▶ Average of 88% of full-time employees have contracts (min 20%, max 100%), the least values belonged to micro enterprises. Positive correlation between company size and fulltime contracts
 - ▶ Reasons for not offering contracts:
 - ▶ Employees get paid daily (unstable jobs)
 - ▶ Contracts will oblige companies to offer social insurance in addition to government imposing more taxes which is a high cost for some companies
 - ▶ Some employees prefer not to have contracts to not have social insurance and tax cuts from their paycheck
 - ▶ Average of 86% of full-time employees have social insurance (min 20%, max 100%). Positive correlation between company size and offering social insurance
 - ▶ Reasons for not offering social insurance are the same as not offering contracts (see previous point) in addition to the

fact that some employees refuse to have social insurance as they are receiving pension, social insurance will result in pension stoppage.

- ▶ Average of 8% of employment is part-time (0 min-25% max)
- ▶ Average of 11% of employment is seasonal (0 min-50% max)

Training

- ▶ 75% of companies offer training to their employees
- ▶ Training for new employees: 70% of factories
- ▶ Dual training programme: 20% of factories
- ▶ Training school within factory: 15% of factories
 - ▶ Perceived benefits:
 - ▶ More efficiency, less mistakes and waste of material, higher quality assurance
 - ▶ Higher commitment, loyalty of workers and less absenteeism. While this was agreed on by 30% of respondents, the majority explained that training does not make a difference as workers still care more about paychecks, therefore they would leave for better-paying jobs after getting the training
 - ▶ Workers are more stable, hence less disturbance to production
 - ▶ Can control timing and training topics allowing for more complex models for example
 - ▶ Inconveniences mentioned:
 - ▶ Only feasible and needed for large factories
 - ▶ No difference between trained and untrained as the worker still lacks experience, therefore must start from scratch within the factory
 - ▶ Dual training programme stopped due to new tough regulations such as insurance on all students.

- ▶ Trained workers still end up leaving
- ▶ Training facilities
 - ▶ 60% found the current facilities inefficient as they do not offer the needed skills for the market (technical and work ethics), trainers do not have enough practical knowledge, technical schools are weak and some graduates do not even know how machines look like, lack of tuition-free training institutes for graduates, training programmes are not known, and some companies are not able to identify their needs to match it with a service provider. In addition, the ready-made garment industry is fast and may not allow enough time for training.

Company size (n)	Training for New Employees	Dual Training Programme	Training School within Factory
Large (1)	1	-	1
Medium (6)	6	2	2
Small (10)	6	2	-
Micro (3)	1	-	-
Grand Total	14	4	3

Skills

- ▶ Average of 42% of jobs in the companies do not require special skills (low-skilled jobs), with a large variance among companies; minimum 1%, maximum 90%
- ▶ Needed skills
 - ▶ 75% mentioned that soft skills and even more for work ethics are the skills most lacking in workers, especially commitment
 - ▶ 55% agreed that technical skills are also lacking (ex: operating machines and their maintenance)

Working hours

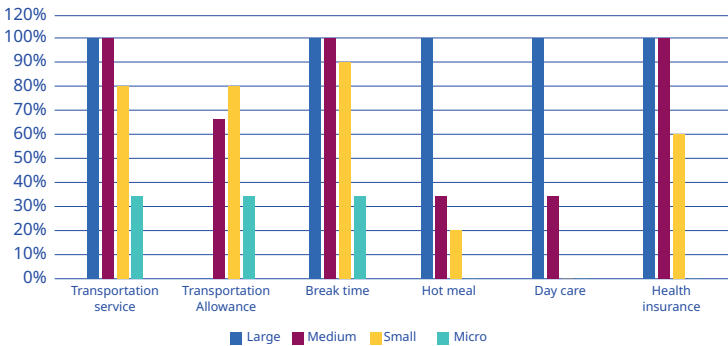
- ▶ All companies have a 6-day work week
- ▶ Hours per day average at 9 (min 7 and max 12 hours)
- ▶ Average of 2 hours overtime (min 0, max 4)

Employee Benefits

- ▶ s shown in the table 85% of the companies offer breaktime, 80% offer transportation service, 65% offer transportation allowance and health insurance, 25% offer hot meals and only 15% offer day care
- ▶ The distribution of services per company size is shown in the table and graph below; it is apparent the company size is positively correlated with employee benefits (although this relationship should be handled carefully due to the small sample size of the study).

Offered Employees Benefits						
Company Size (n)	Transportation service	Transportation Allowance	Break time	Hot meal	Day care	Health Insurance
Large (1)	1	-	1	1	1	1
Medium (6)	6	4	6	2	2	6
Small (10)	8	8	9	2	-	6
Micro (3)	1	1	1	-	-	-
Grand Total	16	13	17	5	3	13

Offered employee benefits



Employee sourcing

- ▶ Temporary workers
 - ▶ 35% of the sample explained that they do not hire temporary workers while one elaborated that it could be harmful to a company
 - ▶ 20% use temporary workers constantly depending on needed work, while the rest use them in peak production times and/or for certain jobs mainly: delivery, loading, packaging, maintenance, cleaning or if extra workers are needed in an extra shift. Others mentioned that they are needed for low-skilled jobs while others mentioned that they are needed for high-skilled jobs for special orders
- ▶ Origin of workers
 - ▶ 40% explicitly mentioned relying on workers from both urban and rural areas, 40% mentioned relying heavily on workers from rural areas such as Samanoud and Belbeis in Sharkia, Kafr El Dawwar and Abu Humus in Beheira beside other villages in Qalyoubia, Sharkia, Menoufia

Possibility for advancement

- ▶ Chances of getting a promotion are generally weak as described by most respondents, ranging between 1% to 20% (mostly around 10%). Only one medium enterprise respondent mentioned a 40% chance. The low chance of advancement is due to several reasons including: the small size of the company (micro), nature of work not allowing promotions beyond worker to supervisor to possibly head of maintenance/production in some companies (administrative staff can advance to head of department) and workers not staying long enough to be promoted.

Challenges, Risks and Mitigation

Recruitment Challenges

- ▶ The unavailability of sufficient trained workers especially during peak times, factories sometimes are forced to hire unskilled labor due to this shortage
- ▶ Unavailability of skilled labor with work ethic willing to be integrated into the work environment
 - ▶ Establish training center around or within factories
 - ▶ Training new workers
 - ▶ Trying to keep the skilled workers already working in the factory
- ▶ Unavailability of portals or training centers that can provide suitable labor to factories
 - ▶ Need such tools that have a database of workers and their skills
- ▶ Industrial zones are usually far from residential areas of workers which makes the commute very difficult for them
 - ▶ Suggesting industrial zones to be closer to residential areas
 - ▶ Offering transportation
 - ▶ Offering “production incentives”
 - ▶ Offering lodging to workers in industrial cities
- ▶ Many workers leave jobs because of social insurance and its pay cuts
 - ▶ Need awareness on social insurance for the worker to have trust in the system
- ▶ Attracting youth to work in the garment industry is difficult
 - ▶ Reaching youth through civil society organizations and spreading awareness
- ▶ Low salaries deter workers, but factories cannot increase them

- ▶ Some factories offer other incentives such as concessional loans
- ▶ Hot meals, insurance as incentives
- ▶ Semi-annual increases and weekly production incentives

Other Business Challenges

- ▶ Imports
 - ▶ Delays due to letter of credit regulations for imports
 - ▶ Importing delays (customs clearance)
 - ▶ Difficult procedures even for small, imported quantities
 - ▶ Getting foreign currency
- ▶ Finance
 - ▶ Credit/ banking facilities to buy raw material
 - ▶ Insufficient finance for micro enterprises
- ▶ Economic situation
 - ▶ Exchange rate unstable
 - ▶ Increase in prices of raw material
- ▶ Government procedures
 - ▶ Tough procedures for oversight, licensing, taxes
 - ▶ Export subsidy not transferred
- ▶ Marketing
 - ▶ No method of commercial exchange with other countries to open new markets
- ▶ Insufficient support to industries in general

COVID Impact

Participant sample answers included a wide range of angles on the impact of COVID-19 Pandemic on their businesses:

- ▶ Shortage to import raw material
- ▶ Sharp decline in demand and therefore decline in production
 - ▶ Started to recover but not fully, especially with the current inflation
 - ▶ Forced company to branch out to e-commerce which was positive for demand
- ▶ High labor absence rates
- ▶ Had to close the factories 3-6 months
- ▶ Almost lost whole business

Economic Instability Impact

90% of the sample explained that they were affected by the recent economic stability through

- ▶ Overall lower demand especially from Europe and the US. Interviewees suggested that there should be support for manufacturers to access different markets, in addition, others saw the need to activate local demand with the help of the commercial chambers and export councils
- ▶ The inflation and unstable exchange rate have hiked up the prices of raw material and caused their instability making it difficult to keep rates of production, secure the needed raw material, plan ahead properly. Some attempt to stock up on raw material to be able to plan and fix prices at least for the short-term period
- ▶ 25% of the companies were forced to lay off workers in smaller rates (1%, 10%) to larger rates (25%, 80% in microenterprises) and laying off workers who refuse social insurance and lack discipline/commitment. One microenterprise also had to close for 1 month beside letting go 80% of its workers. Other companies may not lay off workers but not replace the ones who leave or let workers take days off

Business expectations for the future

- ▶ 30% of respondents were pessimistic about future projections. One microenterprise interviewee explained that a “miracle” is needed for the situation to improve. Others saw that even though the Egyptian market is full of opportunities, the global crisis and the war make it hard to see the end of the crisis and that it will likely cause the closure of some factories in the upcoming period
- ▶ The other 70% were more optimistic citing that demand is starting to rebound (but the high prices are hindering it) and that in the next 5-10 years the performance and exports will significantly increase as more attention is directed towards Egypt. However, the government’s support to develop the industrial sector is still needed.

Low Demand Months

- ▶ All months witness a degree of low demand for the companies, this might be a result of diversity of products within the sample. However, the most frequently reported were December, January and February as shown in the table.
- ▶ In the low-demand months, factories try to manage expenses, spend less, spend from company’s capital to maintain workers, give workers paid vacations and decrease overtime. In addition, some companies do work for others, sell at a cheaper price, try to get advances from merchants and/or get loans from friends and relatives. One company also mentioned focusing more on the EU market and offering lower prices to customers. On the other hand, some companies which are part of a larger group do not face this problem as they explain that work is spread out along the months between the different branches.

Low Demand Months within Sample											
Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
30%	30%	25%	15%	20%	20%	25%	10%	5%	10%	15%	35%

Financing Challenges

- ▶ 30% of the sample find problems with financing while 15% prefer not to deal with banks
- ▶ The problems faced:
 - ▶ Micro enterprises (15%)
 - ▶ Can't access finance to produce seasonal clothing (only focuses on instant orders)
 - ▶ High interest rate (has to deal with it as there are no alternatives)
 - ▶ Unable to obtain necessary finance to buy raw material (have to take the material on deferred payment with higher prices)
 - ▶ Small enterprises (10%)
 - ▶ Insufficient duration and size of offered credit to buy raw material (try to schedule payments for a long duration with suppliers)
 - ▶ Difficult loan conditions
 - ▶ Medium (5%)
 - ▶ Some difficulties in having letters of credit cover 100% for exporting

Government Support

- ▶ 50% receive a form of government support (none from micro enterprises)
- ▶ Forms of support
 - ▶ Tax exemptions (30% of the 10 companies who receive support, free zone companies)
 - ▶ Export subsidies (80% of the 10 companies who receive support)
 - ▶ However, after its restructuring, export subsidies have become decreased in value and are late to be distributed that some companies stopped accounting for them in addition to having tough conditions

- ▶ Training programmes (10% of the 10 companies who receive support)
 - ▶ One company indicated that it receives support in the form of training programmes from the Industrial Modernization Center (IMC)

Suggestion In Comments

Need more finance to improve local manufacturing and develop local product to raise the added value, need to contemplate the formation of industrial alliances to support localization of value chains.

Final thoughts

- ▶ Majority of age group of the labor within interviewed sample is above 30 years old (Average 44%), which gives indicator that companies prefer to hire older labour to guarantee maturity and stability. On the other hand, this indicates the reluctance of younger generations to work in the RMG sector.
- ▶ Most of companies suffer from high labour turnover. The main reasons are that workers leave for better salaries, and due to low opportunity to career development for them in the RMG sector.
- ▶ All interviewed companies suffer from scarcity of skilled workers and expressed lack of service providers that offer high quality trainings to meet companies' needs. They also expressed lack of professional training centers to train individuals for companies. Dual training system was mentioned as relatively the best system offering trained workers, although they also expressed that the outcome trainees are not high level.
- ▶ 30% of interviewed companies expressed the value of having in-house training as it affects labour loyalty and stability. While the majority (70%) of the sample see that training does not make real difference, as workers would leave for better-paying jobs after getting training.
- ▶ It seems that the governmental procedures to formalize the industrial sectors are taking steady steps, many companies expressed that they cannot accept employees who refuse contracting or social insurance

due to strict governmental control. However, this also imposed additional costs on companies especially smaller ones.

- ▶ All companies highlighted the impact of current economical situations on importing and availability of materials in local markets in, addition to the price change that happens on a daily basis.
- ▶ The international economic crisis has affected exporters that they suffer from lower orders. It also affected local market producers as local market needs are also getting lower. This situation made companies unwilling to look for new workers for the first time in many years. Those who leave work are not being replaced due to low demand. Some companies mentioned that some workers now cannot find jobs at factories.

6.3. Annex III: Validation workshop report

Title: Market System Analysis on the RMG sector in Egypt: Validation Workshop

Date: 8 December 2022

Time: 11:30 am – 3 pm

Venue: Flamenco Hotel, Cairo

Key Takeaways

Markets

- ▶ The global economic situation is impacting exporters from different countries with varying magnitude. For example, Indian exporters to the US and the EU are not losing too much of the demand, because of the volume they supply and the sophistication of products, unlike the case in Egypt where the volume is low, and the products are of low value-added. The number of manufacturers as well and those supplying to international brands in a country like Bangladesh, is in multiples of those in Egypt.
- ▶ Focusing on the local market is an opportunity, due to the large market size and the potential in Egyptian designers whose prices are lower than international brands in light of the devaluation that has inflated the imported goods' prices and limited consumers' ability to travel and buy from abroad. However, it may still be challenging due to the competition with imported products with lower prices from China, Bangladesh and Turkey. Consumers do not want to pay for overpriced items.
- ▶ Some of the informal manufacturers are promising.
- ▶ There's promising potential in Egyptian brands producing sportswear such as Magma, Fit Freak and Sigma Fit, who are already exporting.
- ▶ We need to listen to the market needs. The high-quality yarn we have is exported because we cannot produce high-end products.

- ▶ We have a problem in mass production because of the low productivity, and targeting a niche market is also challenging due to the lack of advanced technology or being too costly (e.g. antimicrobial material).
- ▶ There are only two suppliers of acrylic yarn in Egypt and their prices are too high.
- ▶ Concerning having a reputation of poor quality of Egyptian products, one company mentioned that this is perceived as an exaggeration as the importer would not have accepted the goods if they do not match the required standards.

Labour

- ▶ Although wages that reach EGP 3,000 per month is a high cost for the employer, it is not lucrative for the worker and cannot help them provide for their families.
- ▶ Wages should be linked to the workers' performance and productivity.
- ▶ Labour problems include efficiency and productivity and having good supervisors who know how to treat workers.
- ▶ One good practice is to hire a woman supervisor who would be able to better deal with women workers, and be a role model for them, hence encouraging them to stay in hope for a promotion if she proves a high performer.
- ▶ People with disabilities (PwD) need to be addressed in the study. The law stipulates that 5% of the workers be PwD, and a common practice was when employers hired them, paid their salaries to satisfy the legal requirement, but this is not affordable anymore. Employers need to benefit from the hired PwD, so they tend to hire people with minimal disability. Employers should balance the level of disability so that they benefit from the workers and satisfy the law at the same time.
- ▶ Good employment practices and labour rights contribute to workers' loyalty and retention, thus their productivity and product quality.
- ▶ Having training service providers is key for the quality, sustainability and scalability of service provision.

- ▶ One company mentioned that the gender inequality in wages is in some cases due to the high turnover rate which is higher in women. Women usually work until they save for their marriage expenses and leave. Those who stay in the job, get wage raise, while new entry workers stay at the entry level wage. At times, this company offered a good hot meal for its workers (who were mainly from rural areas) and this was highly perceived by the workers and led to positive results in absenteeism, turnover and finding labour. The social aspects and team building trips also have the same effect. However, the company could not sustain offering the meal after facing the challenging economic situation.
- ▶ Another company confirmed the importance of the social aspect and that being in direct contact with the workers is key. She also highlighted the importance of compliance audits and how they reduced the wage gap in her company from 80% to 10%.
- ▶ The transportation cost is a significant cost component for the employers. When applicable, some manufacturers give the supplies to the workers, especially women, for them to work at home and deliver the product when finished. This saves the transportation cost and allows women to work from their homes while tending to their families.

Support functions, BDS and access to knowledge

- ▶ Having an information e-platform for sharing contact details of suppliers, labour (trained and untrained) would help create the linkages. For instance, 7olol company provides was beneficial to one of the participating companies, especially in women hires and it provides training (OSH, supervision, soft skills). This should be supported by governmental organizations, as it will support the industry and create jobs, increase credibility and transparency of market information. The companies stated that having this platform will be very useful, but the problem is in continuity. Previous projects and initiatives worked on platforms and electronic information sharing solutions, but no local organization took ownership to continue collecting and sharing updated information and keeping all the features of the platforms working. One participant mentioned MTI's EDA website, which includes a lot of information and can be capitalized upon and developed further.

- ▶ Better Work has helped its beneficiaries significantly and led to reduced HR problems, saving time and money.
- ▶ The current sources of information for companies are personal networks and connections, in addition to social media platforms. For example, Facebook pages and groups of certain geographical locations are a source to find workers, WhatsApp groups are also used efficiently and are checked more regularly than e-mails. One company mentioned that this the first time they hear of 7ololand that they received a call from MTI asking if they liked a certain initiative, and they did not know of it in the first place. In Ismailia, GAFI has a WhatsApp group for the zone and it is useful.
- ▶ The optimum means to reach out to companies would be direct contact, e-mails and FEI shared information and announcements, Export Councils, Investors Associations, and WhatsApp groups. Institutionalized communication is key.
- ▶ When companies struggle to reach information about suppliers for instance, they keep the knowledge for themselves, but if they get it through an open source, sharing it would be easy. One company was looking for a supplier and did not know it existed right behind its company in the same location. One participant mentioned that the number of suppliers increases as we go down the supply chain.
- ▶ When asked about their willingness to pay to receive the information, companies concluded that they would want to test and receive the information free of charge at the beginning to test it, then pay for it if proven useful.
- ▶ ECAHT has a cooperation protocol with the designer Hany El Beheiry as well as other initiatives to support innovators and MSEs. The chamber's efforts also include the HR Academy that provides its services in governorates on HR, legal and gender topics.
- ▶ Some of ECAHT services can be provided to non-members such as the Faculty of Fine Arts.
- ▶ Dual education in cooperation with companies is an area to focus on.
- ▶ Areas of training required include ethics, soft skills, gender, exports, HR, management, in addition to the technical training. HR training

is of specific relevance to solving labour issues and labour rights aspects, which affect their retention as well as the social responsibility compliance for exporters.

- ▶ Cost sharing is key. If the beneficiaries receive the services for free, they do not commit. The BDS service unit at the FEI's chamber adopts this concept.
- ▶ There should be training center in each industrial zone.

Generic

- ▶ Egypt's products still lack price competitiveness globally and is far from Asian or East Europe's prices. For example, a certain type of yarn (30/1) is priced at USD 2.7-2.8 (FOB) from India but is priced at USD 4.7 from Egypt.
- ▶ Another cost component is the machinery spare parts, which are imported.
- ▶ Around 80% of manufacturers manufacture for others.
- ▶ Adding Sadat City to the geographical locations of the industry, with Chinese Industrial City being there, Turkish companies and 17 Egyptian textile factories.
- ▶ Dyeing and finishing are still a major problem, especially in woven textiles. If the company wants to export, relying on the local suppliers is almost impossible because of the quality, quantity limitations, lead time and shipping time. Delivery time is a significant determinant for importers.
- ▶ In response to another comment on government support for the industry, and given the current economic situation, the government may have several hot topics that a certain sub-sector support that way may not be a priority.
- ▶ One export-focused company mentioned that they are a subsidiary of a foreign company, so they don't have import problems, they pay fixed and variable wages so they have no labour issues (800 workers), and all their orders are presold.

- ▶ Regulatory constraints are still a challenge. Despite the government efforts to streamline the process, it still takes 7-8 months to get the temporary license and around an additional year for a permanent license, while this can be done over the phone apps in other countries. Moreover, the single window (Nafeza) has led to opposite results as it increased the customs clearance time from 3-7 days to 3-4 weeks.
- ▶ One company mentioned that the land is overpriced.
- ▶ Other actors include CGC, ECGE, GIZ, and USAID.
- ▶ The MSA is linked to the time of conducting the study and its solutions match that specific time, as the situation changes rapidly. It is also not a magical solution to the industry's problems and the companies will have to be adaptive to the macroeconomic situation. The recommendations will include those focused on the project as well as other general recommendations (policy and regulations), even if these are not directly tackled through EYE Rawabet.
- ▶ Classify the interventions under two main categories, exporting companies and companies targeting the local market, since their problems, priorities and interventions are different.
- ▶ Have the recommendations in the form of a clear roadmap or action plan specifying responsibilities.

