

UN EGYPT COVID-19 INSIGHTS SERIES

INDUSTRIAL PERFORMANCE INDEX DURING COVID-19

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1. Overview

The Industrial Performance Index aims at monitoring the performance of manufacturing sector in Egypt during COVID-19 and recommending evidence-based policies and solutions to mitigate the negative impact of crisis. The index has been developed through a survey with 1,300 manufacturing firms assessing seven indices: labour force, production and supply chain, finance, taxes and regulations, sales and exports, crisis management and response, and communications technology. The Index measures the performance of manufacturing sector from March till July 2020.

2. Key vulnerable groups or sectors in focus

Manufacturing Sector is the focus of this intervention. The manufacturing value added in Egypt is estimated at 16.2% in 2018 (World Bank, 2018). This sector employs 3.3 million, of which 90% is male and 10% is female (ILO, 2018). The total non-petroleum exports reached USD 24.9 billion (GOEIC, 2018).

3. Key insights from the knowledge product

- Egypt manufacturing sector experienced a severe shock due to COVID-19. The Industrial Performance Index¹ has recorded 0.413 since the outbreak of the crisis. Almost all industrial firms suffered significant reductions in terms of sales and export at 0.26, labour force at 0.28, finance and liquidity at 0.30, production and supply chain at 0.31, and taxes payment capability at 0.37.
- COVID-19 hit manufacturing small firms the hardest as their Industrial Performance Index indicated a drop of 0.39, followed by medium firms (0.42), large corporations (0.43), and micro enterprises (0.45).
- From March 2020, onwards, the economic activities came to a halt in Egypt to contain the virus, which resulted in a decline in the performance of major manufacturing sub-sectors: Chemical by -18.8%, Engineering by -21.1%, Food by -22.8%, Textile by -26.1%, Furniture by -28%, and Leather by -27.2%.
- However, a dramatic increase in the application of communication technologies has been observed due to the crisis. The Communication Technology Sub-Index has recorded 0.75. The majority of industrial firms used technology tools in managing their businesses and customer retention as an alternative solution to be able to survive during the crisis.

¹ Industrial Performance Index values: from 0 to 0.5 means a reduction in the performance; above 0.5 till 1 means an increase in the performance.

- Additionally, the Crisis Management and Response Sub-Index stood at 0.70, indicating that majority of manufacturing firms adopted the guidelines and measures of containing the spread of COVID-19 inside their production facilities. This included social distancing, wearing face masks, working from home, screening of staff and cleaning and sanitation measures.

4. Policy Implications

Key actions taken already by the Government:

1. Central Bank of Egypt (CBE) decision to postpone credit entitlements and to cancel delay fines.
2. CBE decision to allocate LE 100 billion through banks, at an interest rate of 8%, to finance the private sector.
3. Reducing interest rates by 3%, setting maximum limit for daily withdrawals and deposits, and cancelling blacklists for institutional clients and negative lists for clients who already obtain loans.
4. Allocate LE 1 billion for exporters dues before June 2020 in the framework of the Export Rebate Program.
5. Postponing and installment of real estate tax.
6. Lifting administrative penalties on all taxpayers who have payable tax.
7. Offering additional finance for small enterprises.
8. Issuing a decree to extend work permits of expired industrial licenses.
9. Offering a number of electronic services by the Egyptian Organization for Standards & Quality.
10. Designing development programs for small enterprises recovery.
11. Reducing the price of natural gas to USD 4.5 per million thermal units.
12. Reducing electricity prices by 10 piasters for electricity intensive industries and fixing electricity prices for the rest of industries for a period of 3-5 years.

The policy implication of the Industrial Performance Index:

- **Production:** Develop control and penal mechanisms to combat cases of monopoly of domestic and imported raw materials and to ensure that prices are not manipulated during the crisis; Pursue import substitution policy and produce locally the imported raw materials to avoid the distortion of local supply chains. This could be implemented through activating the role of investment promotion institutions to attract local and foreign investments to pre-defined opportunities; Reform the Industrial Development Authority (IDA) to foster licensing processes.
- **Employment:** Establish an insurance fund to serve seasonal and temporary workers during the period of crisis; Facilitate mass transportation services to serve the movement of workers in all industrial zones;
- **Finance:** Scale up the Central Bank's initiative of financing SMEs to include the largest number of manufacturing firms; Consider postponing or rescheduling the loans of manufacturing firms at low interest rates; Raise awareness of electronic banking to reduce crowding at banks premises; Consider tax deferrals of the manufacturing firms during the crisis; Disburse all export support dues and foster reimbursement processes.

- **Sales and Export:** Enforce the regulations of preferring domestic goods in public procurement to increase sales of local companies; Strengthen the role of Egyptian embassies and commercial service abroad in promoting the Egyptian products, especially in African and emerging markets; Continue the economy reopening policy with strict precautionary rules.

5. Programmatic relevance

The Industrial Performance Index could guide the COVID-19 response of development partners. The analysis shows the technical assistance needed to help manufacturing firms overcoming the crisis. The report highlights urgent interventions in seven areas (i.e. labour force, production and supply chain, finance, taxes and regulations, sales and exports, crisis management and response, and communications technology). Some examples of these interventions are:

- Facilitating access to local and exports markets including participation in international, local and virtual exhibitions, focusing on promising markets such as Africa and Eastern European countries.
- Strengthening ongoing matchmaking initiatives between large companies (buyers) and SMEs, leveraging UNIDO Programme entitled Subcontracting and Partnership Exchange (SPX)², where buyers' needs are identified and SMEs are profiled against those needs in terms of their capacities and supply capabilities. The dual goal of the SPX is to facilitate subcontracts/outsourcing between buyers and SMEs in order to reduce imports of goods that could be sourced in Egypt, as well as to identify and address gaps in SMEs so that they can win contracts of large companies and become competitive in the global market.
- Provide technical support to SMEs in the area of e-commerce, new industrial skills, and upgrading technologies.
- Raising awareness of preventative measures in response to COVID-19, which aims at keeping workers (human capital) safe, avoiding contamination of produced goods and maintaining work flow.

6. Partners and Donors

The Industrial Sector Index is developed within the scope of UNIDO technical assistance to mitigate the negative impact of COVID-19 on manufacturing sector, under the Programme for Country Partnership (PCP) in Egypt which funded by China. This work would not have been realized without the valuable support of the Industrial Modernization Center (IMC) of the Ministry of Trade and Industry (MoTI).

7. Link to the full knowledge product:

Final report will be published by last week of September.

8. Name and email address of a focal point for the knowledge product

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² More information on the SPX available here: <http://spx.unido.org/spx/default2.aspx>; Notable success of the SPX methodology has been demonstrated in e.g. Cameroon, where the SPX recently reported that it had facilitated contracts between large buyers and SMEs to the value of US\$ 84 million. Similar positive results have been demonstrated in South Africa and Turkey.



**COVID-19
RESPONSE**



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