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INDUSTRIAL DEVELOPMENT ORGANIZATION



Impact of COVID-19 on Manufacturing Sector in Egypt: Industrial Performance Index





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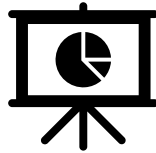
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Introduction

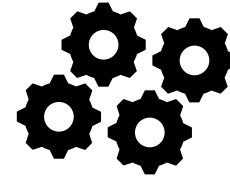
The main objective of this intervention is



To develop The Industrial Performance Index which measures the effects of Covid-19 on the manufacturing sector in Egypt



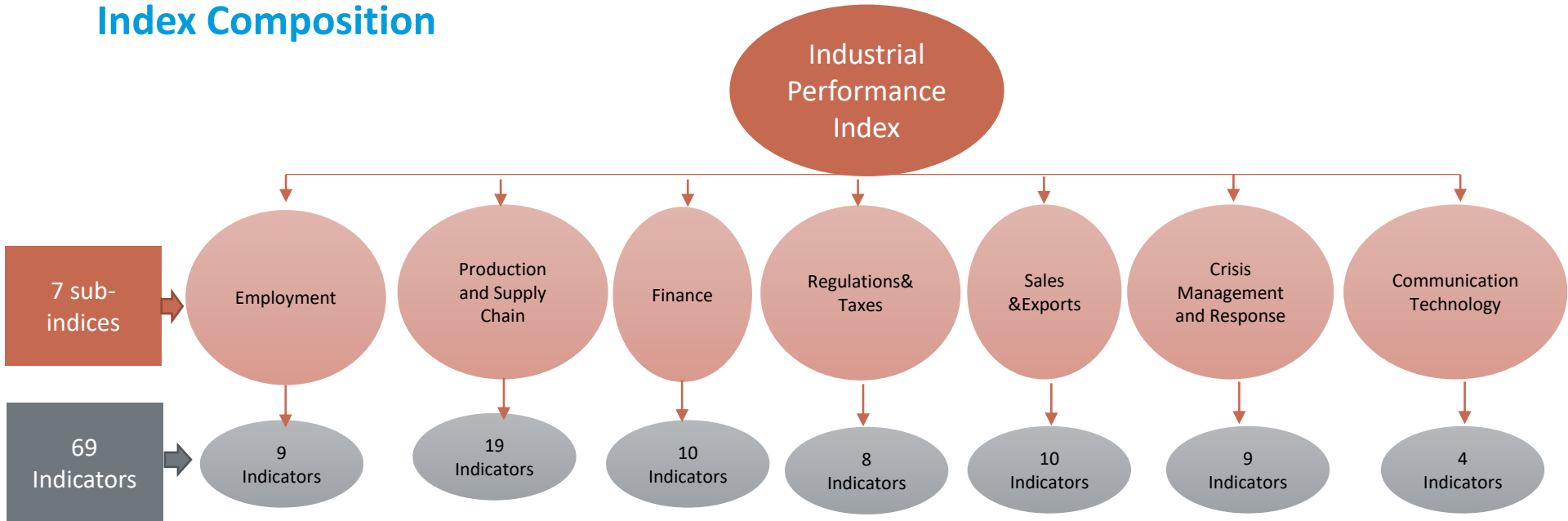
To measure the perception of industrial firms about government-adopted actions since the outbreak of pandemic.



To derive recommended policy and non-policy actions raised by the manufacturing firms.



Industrial Performance Index Composition





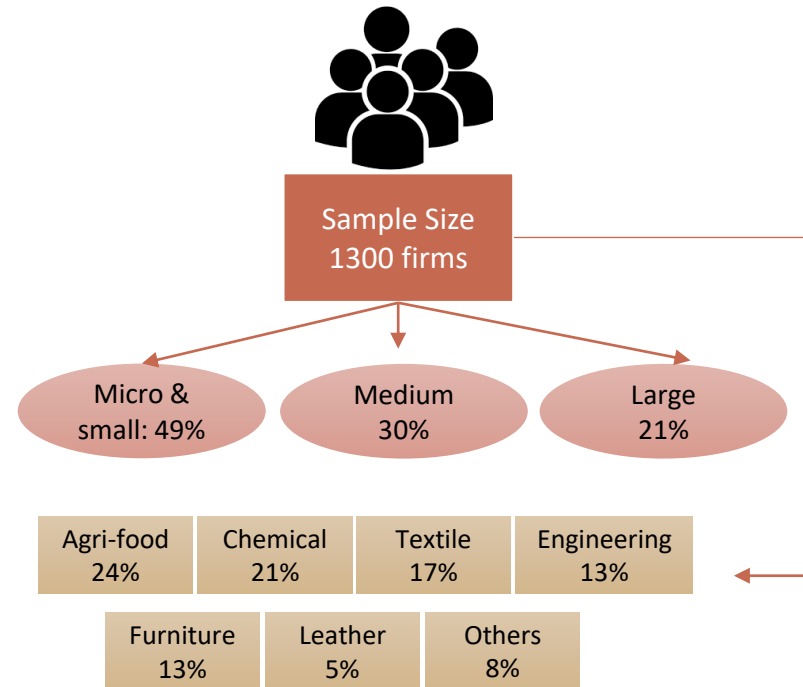
Government Measures

The study focused on measuring the perception of private sector on 12 government-adopted measures as follows:

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 digital services by the Egyptian Organization for Standards & Quality (EOS).
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.

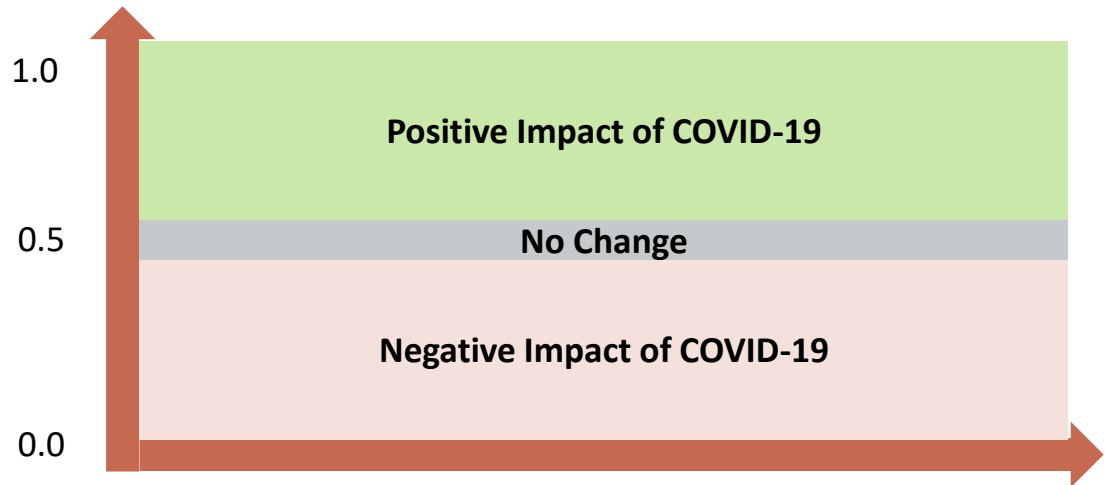
Methodology

- Quantitative method has been used through conducting a survey with industrial firms.
- The Questionnaire of survey has been developed and reviewed in close collaboration with industrial chambers and export councils.
- Sample Selection Criteria:
 - Employment
 - Investment
 - Number of establishments
 - Exports



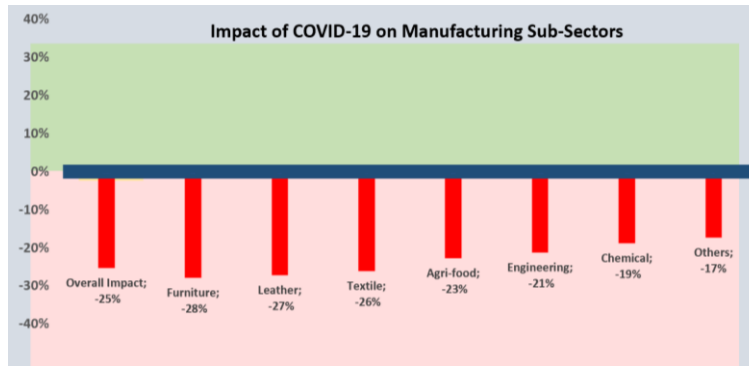
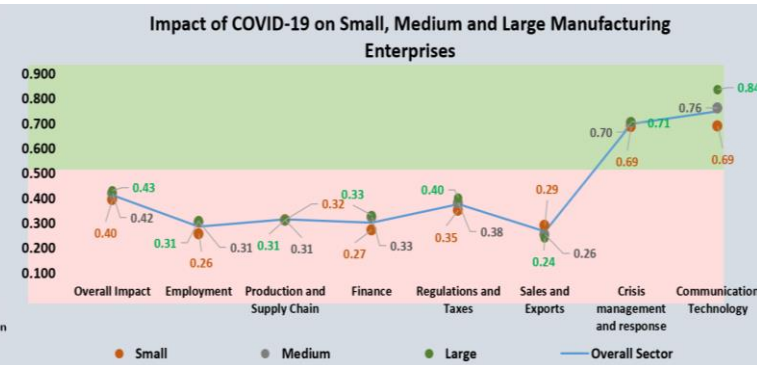
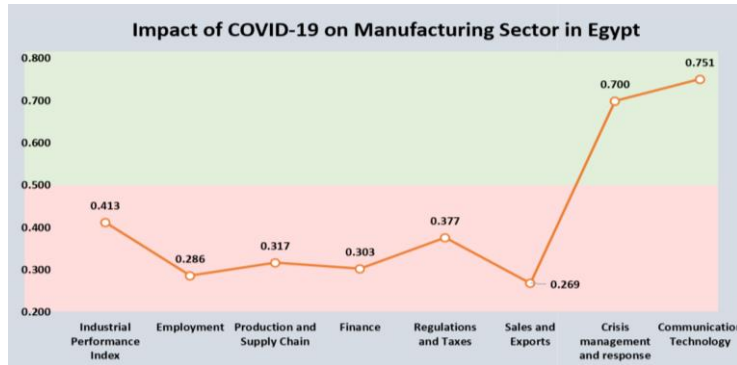
How to read the Industrial Performance Index

- The index values range from zero to one
- Below than 0.5 means a negative impact of the pandemic (The lower the value, the higher negative impact).
- 0.5 means no change happened by the crisis.
- Above 0.5 refers to a positive impact of COVID-19 (The higher the value, the higher positive impact).



Results

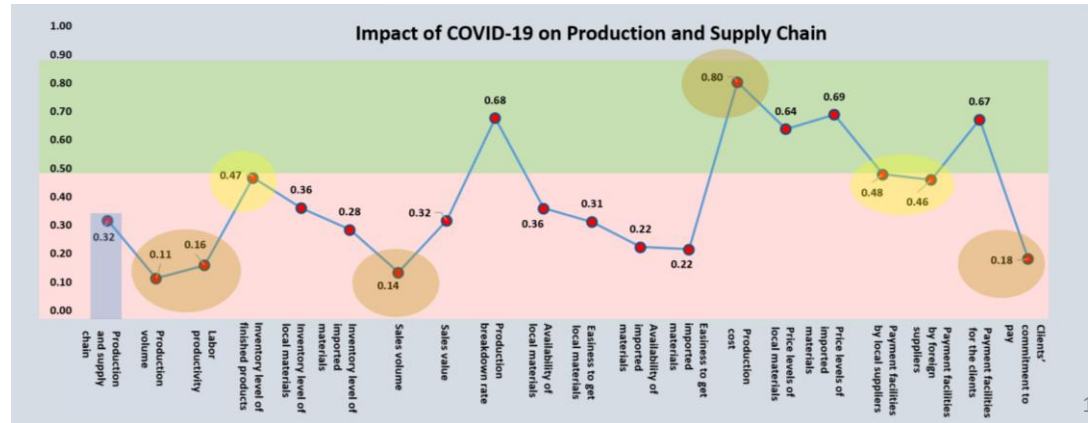
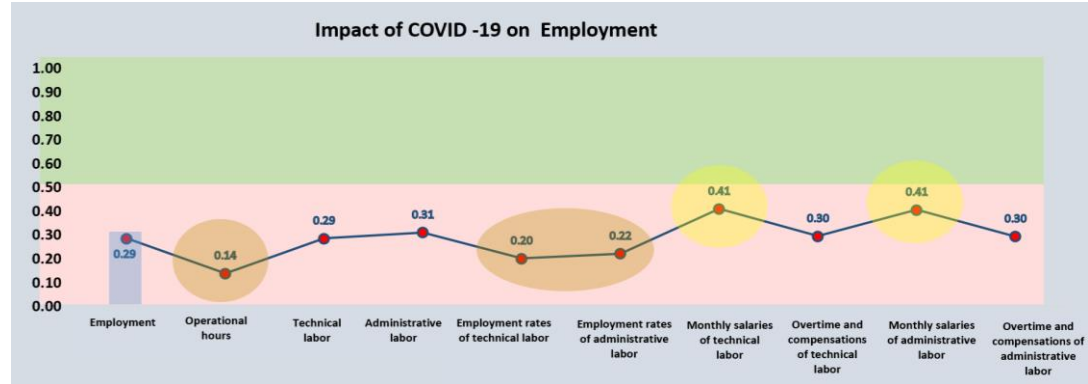
- The **Industrial Performance Index** recorded 0.41 which means the negative impact of Covid-19 on the manufacturing sector.
- The highest diminished sub-indices are Sales and Exports at 0.26 and Employment at 0.286.
- The grown sub-indices are Communication Technology at 0.75 and Crisis Management and response at 0.70



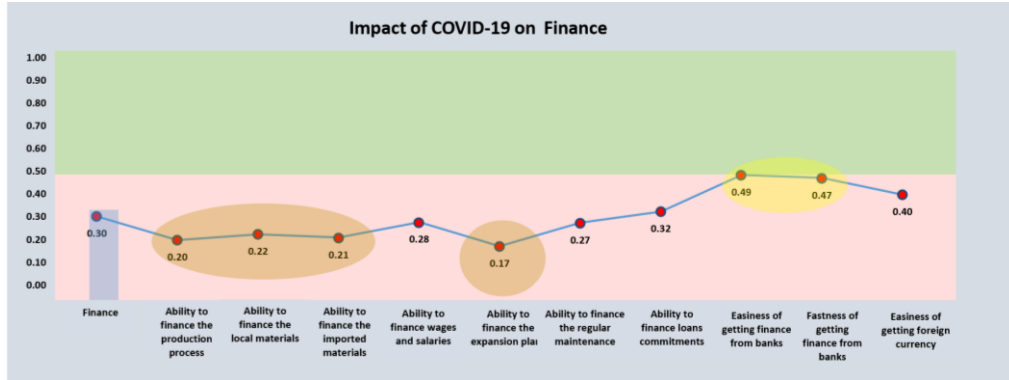
COVID-19 has negative effects on observed manufacturing sub-sectors: The furniture industry (-28.0%), leather industries (-27.2%) and textile industries (-26.1%), food industries (-22.8%), engineering industries (-21.3%), chemical industries (-18.8%), and then the rest of the sectors (-17.3%).

Small firms were impacted the hardest as their Industrial Performance Index indicated a drop of 0.40, followed by medium-sized at (0.42) and large enterprises (0.43)

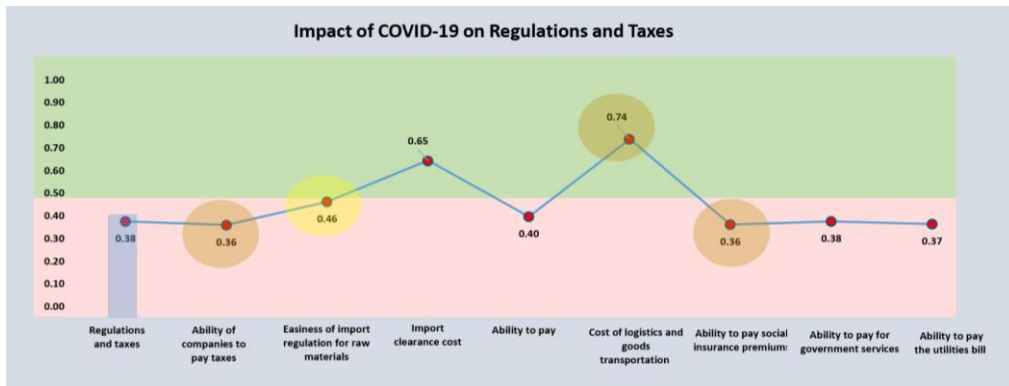
- **Employment Sub-Index** recorded 0.29 indicating the negative impact of Covid-19 on employment of industrial sector. There was a sharp decline in operational hours due to the curfew, as well as number of shifts that led to drop in employment rates for both operational and administrative activities.
- **Production and Supply Chain Sub-Index** recorded 0.32 which means the negative impact of Covid-19. The main reason is the sharp decline in sales volumes.
- The drop in labor productivity indicator and the increasing rate of production breakdown during the pandemic led to increasing the production costs for the majority of enterprises.
- Industrial enterprises faced a severe problem in collecting their payments from clients as clients' commitments to pay indicator stood at 0.18. Besides, getting payment facility for raw material was very difficult.



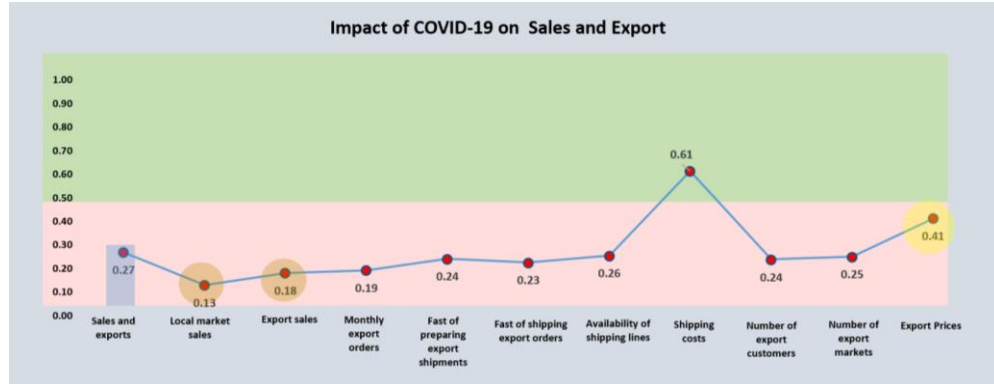
- **Finance Sub-Index** recorded 0.30 indicating the negative impact of COVID-19 on industrial enterprises to secure finance and liquidity to operate. Majority of firms were unable to finance production activities and raw materials. At the same time, it was neither easy nor fast to get finance from banks to cover their needs.



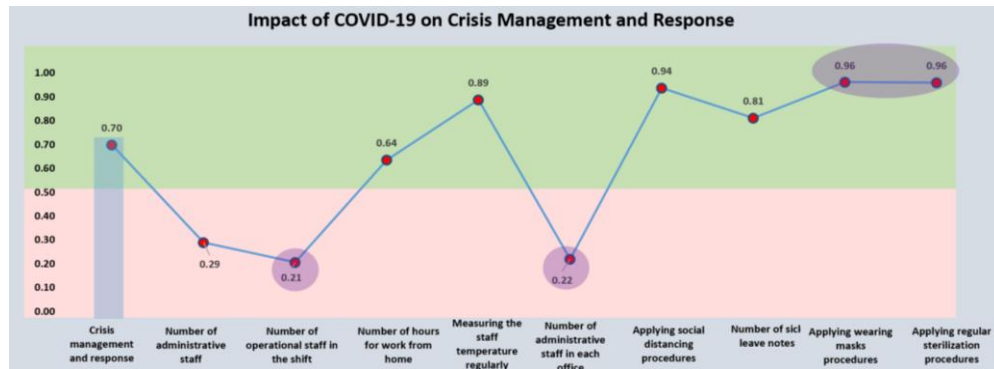
- **Regulation and Taxes Sub-Index** recorded 0.38 which means the negative impact of COVID-19 on the ability of industrial enterprises to cover their commitments and payments against the government. This included taxes and social insurance premiums, as well as the bill of utilities. In addition, the majority of companies faced difficulties to finance the clearance of imported goods.



- **Sales and Export Sub-Index** recorded 0.27 indicating sharp diminishing in local and export sales. The exporting enterprises faced many challenges related to unavailability of shipping lines, increasing the shipping cost and the long time needed to prepare the consignment due to the limited working hours during the day.

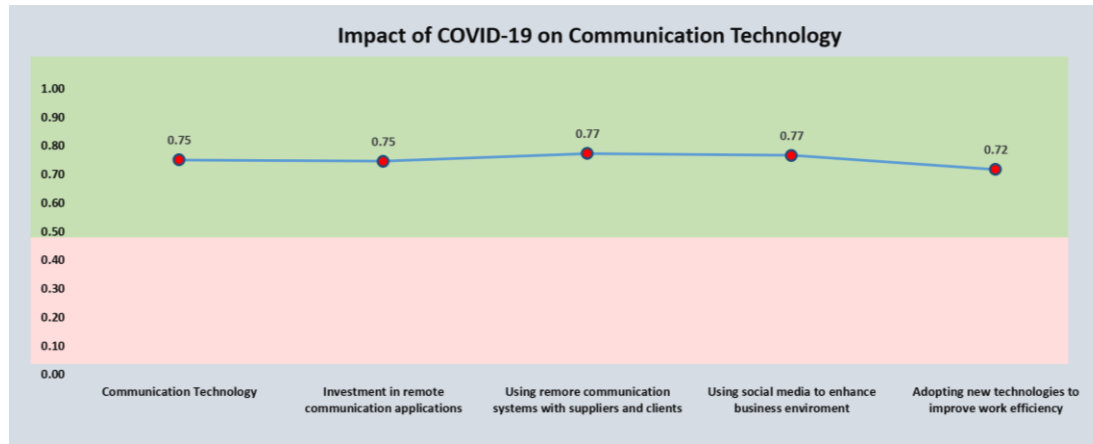


- **Crisis Management and Response Sub-Index** recorded 0.70 which means the positive and quick response of industrial enterprises to adopt the Covid-19 precautionary measures. Firms tried to limit the negative impact mainly through applying the safety procedures including regular temperature check-up of staff, regular sterilization and wearing masks, as well as increasing the number of working from home hours for administrative staff.



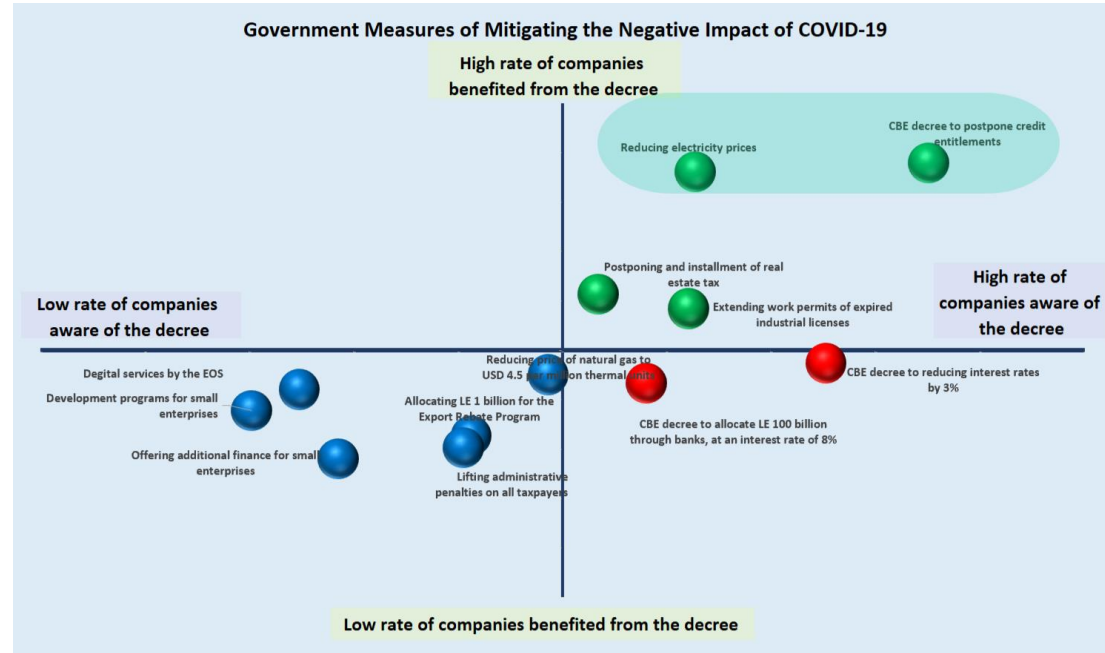


- **Communication Technology Sub-Index** recorded 0.75 indicating the positive impact of COVID-19 on remote communication technology. Majority of companies used remote communication systems and virtual meeting platforms to keep operations running specially during the curfew times.



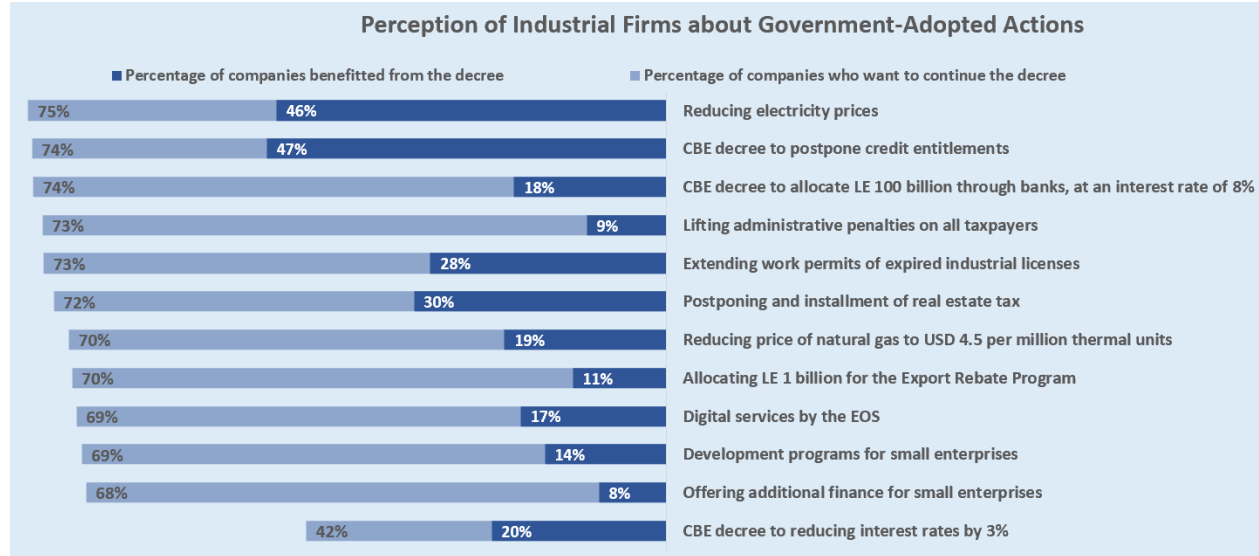
The survey results show that four government measures are perceived effective in terms of level of benefit and rate of awareness among industrial firms; These measures are:

- 1- Central Bank of Egypt (CBE) decision to postpone credit entitlements and to cancel delay fines.
- 2- 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.
- 3- Postponing and installment of real estate tax.
- 4- Issuing a decree to extend work permits of expired industrial licenses.





Despite the volatility of benefits rate of government measures, high percentage of companies wants to continue almost all these measures to help them overcoming the negative impact of COVID-19. Therefore, the government needs to remove obstacles that hinder firms accessibility to such facility.





Recommendations

Set of recommended policy and non-policy actions were raised by firms participated in the survey.

1. Employment:

Proposed Policy Measures

- Postpone social insurance premiums in order to reduce financial burdens on manufacturers during the crisis.
- Establish an insurance fund to serve seasonal and temporary workers during the crisis.
- Offer permits to workers for their movement during curfew (in case there is a curfew again).
- Facilitate public transportation services to serve the movement of workers to all industrial zones.

Needed Technical Assistance

- Develop guidelines on precautionary and preventive practices for the industrial sector and raising awareness of these guidelines.

2. Production and Supply Chain:

Proposed Policy Measures

- Develop a control and a penal mechanism to combat cases of monopoly of domestic and imported raw materials and to ensure that prices are not manipulated during the crisis.
- Strengthen the role of investment promotion agencies in attracting local and foreign investments and encourage import substitution especially for imported raw.

Needed Technical Assistance

- Provide technical assistance programs (e.g. information sharing and physical and virtual business matchmaking) to facilitate sourcing, subcontracting and partnership activities.



Recommendations

- **Finance:**
 - Consider postponing or rescheduling the loans provided to manufacturing enterprises at low interest rates.
 - Simplify the administrative procedures and the associated costs for granting loans to industrial sector.
 - Scale up the Central Bank's initiative of financing SMEs to include the largest number of manufacturing firms.
 - Abolish the daily withdrawal and deposit ceiling that negatively affects the transactions of individuals, including company owners and entrepreneurs.
 - Raise awareness of the electronic banking services to reduce the burden and crowding inside banks.
- **Taxes, Trade and Regulations:**
 - Consider tax deferrals of the manufacturing firms during the crisis.
 - Reform the drawback system on production supplies and raw materials for industrial activities.
 - Simplify customs procedures and unify them at all customs ports.
 - Modernize and develop the Industrial Development Authority services to facilitate the operation license procedures.
 - Disburse all export support dues and foster reimbursement processes.
 - Postpone the payment of utilities expenses (e.g. electricity, water and gas) without any postponing fees.
 - Periodic review of transportation prices and ensure the availability of containers for products shipping.



Recommendations

- **Sales and Exports:**

- **Proposed Policy Measures**

- Enforce the regulations of preferring domestic goods in public procurement.
 - Continue the reopening policy of commercial and tourism activities in accordance with strict rules instead of completely closing all commercial activities in line with raising awareness of precautionary measures and social distancing.
 - Strengthen the role of Egyptian embassies and commercial service abroad in promoting the Egyptian products especially in African and emerging markets.

- **Needed Technical Assistance**

- Offer development programs aiming at facilitating market access, including participation in international, local and virtual exhibitions, as well as the organization of permanent exhibitions in some promising markets such as Africa and Eastern European countries.
 - Implement technical support programs to rehabilitate small and medium-sized factories and recover from the crisis.
 - Provide studies and reports on foreign markets (competition - importers - market requirements - market conditions after COVID-19).



Recommendations

- **Crisis Management and Response:**

- Agree with medical authorities to facilitate testing of COVID-19 for industrial workers periodically at reduced prices.
- Establish a help desk to promote the adoption of COVID-19 precautionary measures.
- Provide mobile clinics in industrial zones for periodic inspection of workers.
- Provide disinfectants and preventive tools through sales outlets in industrial areas at reasonable prices.

- **Communication Technology:**

Proposed Policy Measures

- Foster digital transformation and automation of public services.
- Continue the government plan to promote the electronic payment in public and private sector.
- Encourage remote working and use of modern technologies during and after the crisis.
- Strengthen the IT infrastructure of the industrial zones.

Needed Technical Assistance

- Provide technical support to encourage industrial SMEs to apply information technologies in managing and promoting their businesses.



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UNIDO Egypt Response to COVID-19

Industrial Performance Index

