



Impact of COVID-19 on the manufacturing sector in Egypt

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I. COVID-19 impact on the manufacturing sector

Despite the consistent growth achieved in the last two years, GDP growth in Egypt will suffer the consequences of the COVID-19 crisis. The expected impact might be driven mainly by a reduction of household consumption, which was the main growth driver of the GDP in 2019, sharing 82.9% of total GDP¹. Patterns of household consumption will change dramatically following government’s decision to close shopping centers and restaurants at 5:00 pm and imposing night curfew. At the same time, private sector investment, which was the second largest contributor to the GDP growth with 17.7%, will fall significantly. The private sector will not inject new investments during this uncertainty status.

Unemployment rate might be particularly affected due to negative effects of COVID-19 on major economic sectors. Manufacturing, construction, wholesale & retail and transportation sectors represent 46.6% of employment in Egypt. Activities of these sectors might decline dramatically, leading to harmful consequences on employees as well as on their families and dependents, especially those under informal employment including seasonal, temporary and uninsured workers. A realistic picture of this upcoming landscape predicts thousands of workers of the informal economy losing their jobs and particularly affected socio-economically by a recession.

UNIDO’s data on world manufacturing production indicates an overall slowdown in industrial production already before the outbreak of the COVID-19 crisis. Manufacturing output growth fell below the landmark of 1% and remained at 0.7% in the fourth quarter of 2019.

Mitigation policies introduced globally will result in a global slowdown in aggregate demand. Global supply chains have fundamentally changed how supply shocks propagate. As industrial components are increasingly traded, a supply shock in a globally integrated economy is likely to create “supply chain contagion”, via trade in intermediate goods.

COVID-19 is expected to have a severe impact on the manufacturing sector in Egypt. The crisis obliged all manufacturing sectors to slow down their production, with some exceptions of specific food and medical industries. This will negatively influence manufacturing value added growth rate and its contribution to the GDP, which were 4.7% and 16.2% in 2018, respectively. The expected recession in the global economy, resulting from the decline in international trade patterns and the travel restrictions that are currently applied in more than 100 countries, will negatively impact Egyptian exports. Current expectations provide a landscape in which Egypt might not be able to maintain its high growth rate in exports, which reached 10% at USD 24.9 billion in 2018. In this landscape, exporting firms could respond to the global crisis by cutting working hours, laying workers on temporary rather than permanent jobs, and might consider cutting staff and non-essential jobs.

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¹ Source: Egyptian Ministry of Planning & Economic Development

2. COVID-19 accelerating digitalization of Industry

To cope with the negative implications of COVID-19 on economy and disruption in manufacturing, a set of opportunities are foreseen with digital applications of Industry 4.0 solutions in support of rethinking a new industrial paradigm for Egypt, as shown below:

- **Industrial IoT:** Due to social distancing, factories demand on IoT in Egypt have potential to grow to make actuators and sensors functioning and communicating separately with every other element in the production process;
- **Augmented reality:** Augmented reality and simulation could facilitate remote technical assistance and training for technicians in industry;
- **3D printing:** 3D printing to be used in delivering oxygen valves for patients in record time;
- **E-commerce:** It enhances opportunities for Egyptian manufacturers to expand the demand and reach markets and promote their products, under the current and future restricted movement circumstances;
- **Big data analytics:** Big data analytics could allow companies to better plan their marketing efforts and to understand and adapt their production to customers' needs;
- **Cloud computing:** Remote systems to be accessed from anywhere using internet have strong potential in Workload displacement and mobility;
- **Digitalized supply chain:** It will support factories to be fully integrated to customers and suppliers and foster blockchain technology.

“A new post-crisis paradigm for industry:

Resistance, Resilience, Rethinking”

3. Policy recommendations and proposed actions to cope with impact of COVID-19

The Government of Egypt is adopting solid industrial policy measures aiming at mitigating the impacts of COVID-19 on the manufacturing sector. In support to the efforts of the Government of Egypt, the note outlines a set of complementary measures for potential consideration:

Short Term (three months):

- Continue assessing the impact of COVID-19 on the economy, including sustainability of economic growth, fiscal pressures, trade, monetary and exchange rate challenges;
- Pursue fiscal stimulus measures for the private sector, such as the Export Burdens Reimbursement Program, wage subsidies and tax deferrals;
- Adopt supportive monetary measures aiming at lessening burden on defaulted industrial companies as well as offering credit lines with preferential interest rate geared towards industrial investment;
- Provide unemployment allowances through direct cash transfers to people, who lost their jobs including self-employed;
- Raise awareness of business owners and workers about safety and health measures at working places;
- Coordinate between the Ministry of Trade and Industry and the Ministry of Information and Communication Technology to promote digital platforms, virtual market places and ERP applications with special focus on SMEs;
- Map & assess imported raw material and identify either local alternatives or new sourcing countries to avoid any shortage in the supply chain.

Medium Term (six months to one year):

- Coordinate between the Ministry of Trade and Industry and the Ministry of Higher Education and Scientific Research to invest more in R&D of the medical and healthcare sector;
- Embark on the public procurement as a key opportunity for the manufacturing sector. Priorities should be given to SMEs in public tenders. New cities and urban communities under construction would play a vital role in overcoming the divide between local and international markets;
- Promote domestic production and find innovative solutions to maximize and optimize it;
- Promote sustainability and resilience of private sector through coupling economic recovery efforts with continuous interventions to greening the industry;
- Support MSMEs to increase their resilience and leverage their ability to innovate and adapt to changing market dynamics;
- Identify alternative marketing segments for companies supplying the tourism sector, especially for domestic producers of food, textiles, detergence, and personal care products;
- Connect financial services offered by the government and banks with technical assistance programs for the industrial sector in order to curb the expected losses of the outbreak;
- Establish short food supply chains for promoting local food to local market;
- Sustain and continue investment in Mega Industrial Projects supported by the government and in partnership with the private sector. These projects should cover strategic commodities production and overcome value chains gaps;
- Implement strong country export promotion plans to facilitate and accelerate Egyptian firms in accessing foreign markets and expanding their international market share, following the end of the pandemic, with specific focus on countries that already started recovery.

“United Nations call to jointly tackle COVID-19 impacts and with a multidisciplinary approach counteract its pandemic's effects”

4. UNIDO coordination with UNCT and other development partners engaged to alleviate impact of COVID -19

Since COVID-19 outbreak, UNIDO Regional Hub in Egypt has been strongly engaged with the Resident Coordinator Office and UNCT in the preparation and the development of COVID-19 Response Plan (CRP) and Socio-Economic Response Plan (SERP).

Regarding CRP UNIDO is contributing to the pillar of operational support and logistics, by proposing TC interventions aimed at enhancing and upgrading the quality and production capacities of national producers of PPEs.

SERP is a joint response plan to address the socio-economic impacts of COVID-19. The plan is designed according to the UNPDF pillars as follows:

- **Prosperity:** Mitigate the economic impact of the COVID-19 pandemic on industries, MSMEs and entrepreneurs;
- **People:** Ensure the continuity of inclusive access to public services;
- **Planet:** Alleviate the impact of the COVID-19 pandemic on agriculture and food security and safety;
- **Women:** Support women and girls' access to economic opportunities and protection services.

The Regional Hub in Egypt is contributing to the development of UN plan with specific attention to the prosperity, planet, and prosperity pillars.

UNIDO RH is getting involved in discussions with the Government of Egypt about the plan, as well as in resource mobilization efforts with donors and development partners. Furthermore, in the context of “Delivering as One”, UNIDO RH contributed to the “Leave No One Behind” (LNOB) analysis with specific focus on manufacturing.

5. UNIDO technical cooperation in the framework of PCP and TC projects reducing impact of COVID-19 on Egyptian industry

a) Potential areas for UNIDO support in the framework of PCP and ongoing TC projects in the short term, in consultation with national stakeholders and donors:

- Study impact of COVID-19 on the Egyptian manufacturing sector with specific focus on priority sectors;
- Assess impact of COVID-19 on sustainable agriculture and food production, waste management, sustainable energy in terms of business creation/growth and job creation/retention; and develop plan of actions to strengthen resilience of local economy;
- Assess current food handling and hygiene practices along agro-food VCs and devise awareness raising/capacity building interventions to improve them;
- Provide technical support and digitalized support services to build the capacity of specific local institutions on how to ensure business continuity and support key value chains;
- Conduct an analysis for entry points to support health and social care workers affected by the COVID-19 and determine appropriate response mechanisms;
- Identification of required standards and manufacturing technologies for PPE involving textile and plastic materials;
- Study the implications on the industrial sector of the energy re-pricing measures taken by the Egyptian Government.

b) Potential areas for UNIDO technical support in the medium and longer term

- Development of PPE producers in accordance to quality and production optimization, as well as raising awareness about related standards and products' specifications;
- Support to the food processing sector with focus on food security and safety;
- Promotion of clusters of local food producers and enhance their access to the local market;
- Overall support in the digitalization of industry.

“UNIDO supporting a holistic coordinated response to COVID-19 with the UN development system, Member States, international and development financial institutions, the business sector and other relevant stakeholders”