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Value Chain Analysis for Apparel from Egypt

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Value Chain Analysis for Apparel from Egypt

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EXECUTIVE SUMMARY

Structural transformation and export diversification into higher value-added products, away from primary commodities remain major development objectives for low and middle-income countries (LMICs). The textile and apparel (T&A) sector has traditionally been a gateway to export diversification for LMICs, so entry into these industries is generally regarded as a first step for developing countries embarking on an export-oriented industrialisation process. Given the rather low entry barriers (low fixed costs and relatively simple technology) and labour-intensive nature, this sector can absorb large numbers of unskilled workers and provide upgrading opportunities into higher value-added activities within and across sectors. However, the defining characteristics of the T&A sector also mean that it is a very competitive sector, leaving many suppliers with limited leverage and facing challenges in ensuring social and environmental sustainability, as well as longer-term development benefits.

In Egypt, the objective to develop the T&A sector is an important pillar of the country's Vision 2035 strategy, which is why the sector is promoted by a comprehensive set of policies and institutions. The overall goal is to improve the vertical integration of the sector, modernise the industry, increase exports, and create employment.

The T&A global value chain (GVC) represents a classic example of a buyer-driven value chain that is characterised by decentralised, globally dispersed production networks, coordinated by leading businesses that control the activities that add value to products, such as design and branding, but often outsource all or most of the manufacturing process to a global network of suppliers. The shifting T&A GVC dynamics — including China's decreasing global supply of apparel products and the growing trend towards nearshoring — open a window of opportunity for low-cost countries like Egypt to increase exports. Exporting to the large markets of the EU or the US is highly demanding and — depending on the specific value chain — margins are often very low. Integration with the EU and US value chains can nonetheless provide important learning opportunities and support manufacturers in exporting to markets with higher margins. Egypt has, in addition, not only market opportunities in these key consumption markets, but also in regional markets with high growth potential and in the relatively large local market.

This report highlights that the Egyptian T&A sector has many strengths and the potential to increase exports as a regional and global supplier of apparel products. The major competitive advantages of the Egyptian T&A sector include:

- (i) the local availability of high-quality extra-long staple (ELS) cotton as an input for high-value apparel products;
- (ii) an almost vertically integrated value chain with a large textile and apparel sector;
- (iii) well-developed transport and logistical infrastructure;
- (iv) flexible production lines accommodating large as well as small orders;
- (v) duty-free and quota-free market access to key consumption markets (US and EU);
- (vi) an institutional environment that is committed to support the sector and improve its performance through a variety of policies.

In order to improve the sectoral export performance and take advantage of opportunities, key bottlenecks in the T&A sector need to be mitigated. Some constraints are structural in nature and will take time to solve on a large scale, but reducing these obstacles step by

step will nonetheless suffice to gradually increase exports. The key obstacles and challenges include:

- (i) limited vertical integration of the T&A sector, in particular bottlenecks in the textile segment;
- (ii) lack of modernisation and limited workers' capabilities;
- (iii) limited access to finance, in particular for small to medium-sized enterprises (SMEs);
- (iv) limited capacities and capabilities of many SMEs to meet global buyer requirements;
- (v) the partially negative reputation of Egypt as a supplier country;
- (vi) difficulty in harnessing Egypt's unique selling point (USP), Egyptian cotton;
- (vii) environmental and social sustainability challenges in the cotton, textile and apparel sub-sectors.

In particular, the lack of capacities and capabilities of locally owned SMEs to link to GVCs and meet buyers' requirements highlights the importance and potential of supporting measures such as the ones CBI offers.

The industrial policy focus and strategic orientation of the Egyptian government could leverage CBI's mandate to work on sustainable economic development with a focus on improving sector competitiveness through the promotion of BSOs as well as locally owned SMEs in their 'last step' towards exporting to the EU market, to create an integrated approach that could play an important complementary role in facilitating private sector development in general, and export growth to the EU in particular.

Taking into account the CBI's focus on supporting SMEs, EU market and trend developments, and Egypt's apparel sector structure, we have identified the following product-market combinations (PMCs) as mid- to high-potential targets for a CBI programme:

- Egyptian cotton womenswear niche market
- Mid to high end Egyptian cotton menswear, particularly woven shirts
- Egyptian cotton underwear
- Islamic wear
- Men's, women's and children's low to mid-end casual wear (incl. denim products)
- Men's and women's low to mid-end suits

The first three product groups, which are based on Egyptian cotton, are particularly aligned with the Egyptian government's sector strategy to promote the textile sector's vertical integration aiming at leveraging Egypt's competitive advantages. The latter three product groups on their turn can also adopt high levels of vertical integration, while using other types of raw materials. If CBI implements a project in support of locally owned apparel SMEs in Egypt, it will be also important to ensure its sustainability and maximise its impact. Linking up with key government institutions and, depending on the project, key relevant donors will be crucial to avoid redundancies, identify complementarities and maximise the impact of CBI's programme.

Achieving the SDGs is a pressing global concern, so it is crucial for a CBI project to incorporate improved production sustainability. Across the identified PMCs, this can happen, for instance, by stimulating the adoption of production processes that reduce

environmental impact and support the creation of decent work opportunities. Key opportunities include supporting the use of environmentally friendly raw materials, such as organic cotton, BCI cotton and recycled fibres. SMEs directly involved in CBI programmes can receive training on ways to setting up their facilities (such as planning processes, payment structures, and management styles) to help ensure the creation of good jobs. A successful expansion of Egypt's textile industry would also create new job opportunities in the future.

1. INTRODUCTION

Structural transformation and export diversification into higher value-added products, away from primary commodities remain major development objectives for low- and middle-income countries (LMICs). The textile and apparel (T&A) sector has traditionally been a gateway to export diversification for LMICs, generally regarded as the first few steps for developing countries starting out an export-oriented industrialisation process. Given the rather low entry barriers (low fixed costs and relatively simple technology) and labour-intensive nature, the T&A sector can absorb large numbers of unskilled workers and provide upgrading opportunities into higher value-added activities within and across sectors (Staritz 2012). However, the defining characteristics of the T&A sector also mean that it is a very competitive sector. It is easy to enter and relatively footloose as production and trade patterns can be adjusted quickly to changing market conditions. In addition to occupational health and safety (OHS) issues, production sustainability, low wages, excessive overtime, high work intensity and flexible working arrangements are all pressing issues in the global T&A sector, which are related to cost pressures, the often short lead times and the flexible orders from global buyers. The T&A sector often also faces challenges related to workers' rights to organise and engage in collective bargaining (see Plank et al. 2014).

The Netherlands' Centre for the Promotion of Imports from Developing Countries (CBI) has commissioned this value chain analysis (VCA) study to assess the existence of market opportunities in Europe for the Egyptian apparel sector and to identify potential links to other T&A sub-sectors, such as home textiles. This VCA is based on field research in Egypt and the EU, company audits, and data analysis.

This report is structured as follows: Chapter 2 analyses the EU market for apparel to assess market developments and opportunities for Egyptian apparel products. Chapter 3 analyses the structure, governance, and sustainability of the Egyptian T&A sector and related value chains. Chapter 4 analyses the key opportunities and obstacles for exporting Egyptian apparel products to the EU, and presents the key findings in terms of potential product-market combinations (PMCs) for CBI to support. Chapter 5 discusses potential policy interventions and support activities related to these PMCs and value chains. Chapter 6 concludes the report.

2. THE EU MARKET FOR APPAREL

2.1. The apparel global value chain

The T&A sector is a prime example of a sector fragmented into global value chains (GVCs) both geographically and in terms of organisation; the production of components and their assembly into final products is carried out via inter-company networks on a global scale. The apparel GVC can be divided into four main parts:

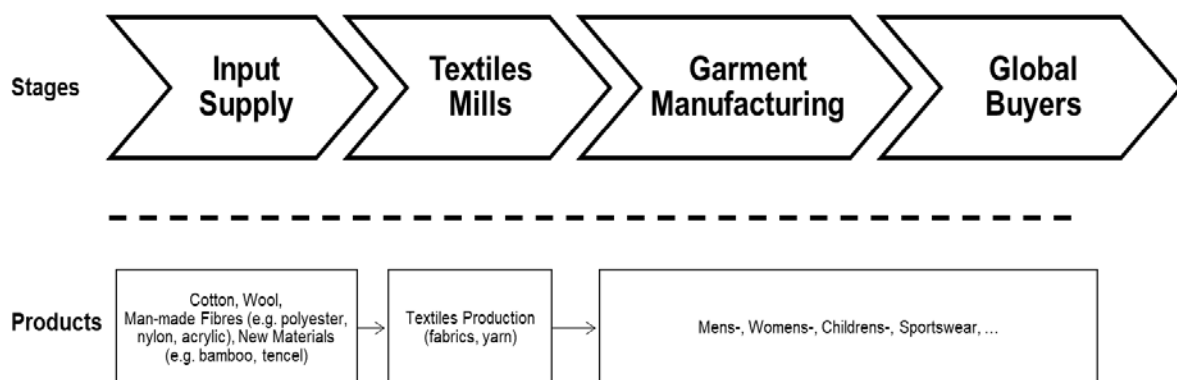
- (i) raw material supply, which can include natural or synthetic elements;
- (ii) yarn and fabric production;
- (iii) garment manufacturing;
- (iv) distribution through wholesale or retail channels.

This is an example of a classic buyer-driven industry (Gereffi 1994, 1995, 1999), which involves large brands and retailers in prominent roles shaping activities within the chain. Major criteria in buyers' sourcing decisions include:

- (i) in terms of time, rapidly declining lead times and increasing flexibility requiring reorganisation of production processes;
- (ii) non-manufacturing capabilities, such as input sourcing, product development, inventory management and stock holding, logistics and financing;
- (iii) compliance with safety, labour and environmental standards, which has become a minimum criterion for entering and remaining in many GVCs.

On the supplier side, garment production is a very competitive industry with many countries using the garment industry as a stepping stone in their industrialisation strategies. Supplier countries are thus in constant competition for foreign direct investment (FDI) and contracts with leading businesses and buyers, leaving many suppliers with little leverage in the chain. Wages, tariffs and productivity are key competitive factors. Location can also be important in relation to availability of inputs and lead times for order delivery.

Figure 1: The Apparel GVC



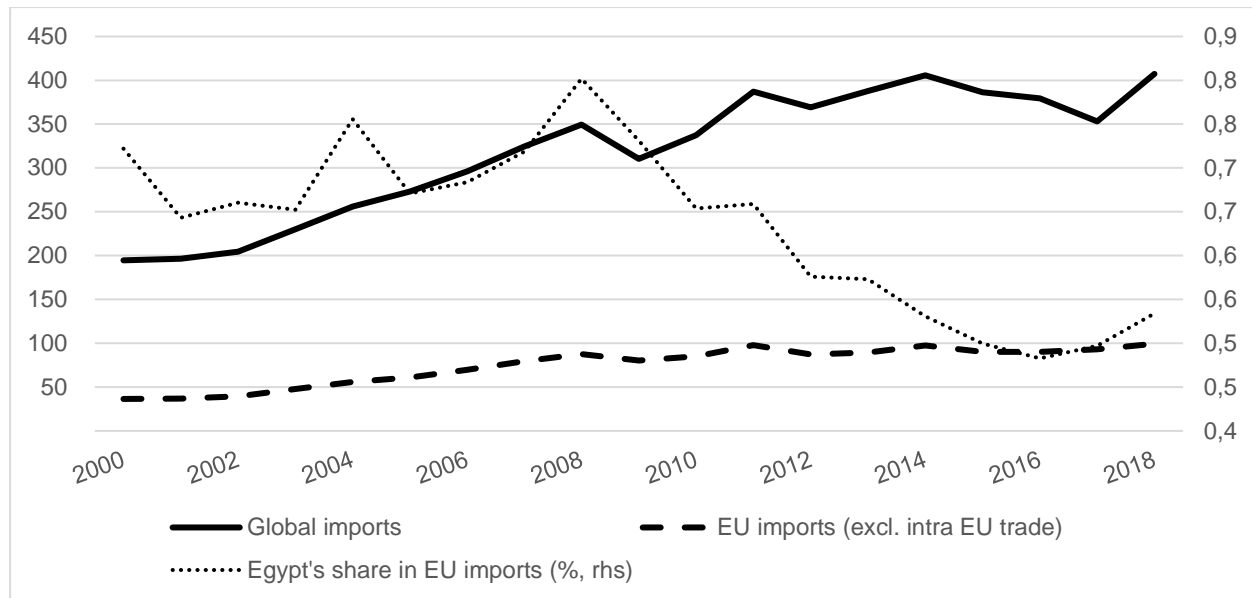
2.2. EU market and import development

Two distinct T&A value chains serve the European market. The first can be thought of as the regional supplier network, in which apparel production is relocated to nearby countries, but still a substantial share of the textiles and accessories used in production come from EU countries. The exporting countries in this network enjoy secure and predictable preferential access to the European market through free-trade agreements (FTAs). The other global network is more geographically distant and generally does not use European textiles and accessories. While regional suppliers in North Africa, Eastern Europe, and Turkey, enjoyed substantial market share in the 1980s and 1990s, the Multi-Fibre Arrangement (MFA) at the end of 2004 and the resulting liberalisation of trade in apparel are reflected in the growing share of Asian producers in recent years. Even though China is the most important supplier of apparel to the EU, there is currently a shift towards other South and South East Asian suppliers. The increasing role of nearshoring is also an important development, particularly benefiting Turkey, Romania, Portugal and Northern African countries (CBI 2019a). In 2018, the largest supplier countries of apparel to the EU apparel were China (32%), Bangladesh (19%), India (6%), Cambodia (5%), and Vietnam (4%) in Asia. In the Middle East and North Africa, Turkey (12%), Morocco (3%), and Tunisia (2%) has the largest market shares (Figure 4, see Annex for a more detailed analysis of key Egyptian products). Egypt's share increased to 0.8% of all EU apparel imports by 2008, before continuously dropping to 0.5% in the late 2010s (Figure 2) — mostly due to domestic factors, as will be discussed in Chapter 3.

The global apparel trade has been growing in recent decades: from US\$195 billion in 2000 to US\$407 billion in 2018 (Figure 2). However, EU demand for apparel has remained relatively steady over the last 10 years (Figure 2), growing slightly in Eastern European markets (see Figure 19 and Figure 20 in the Annex). The picture is more diverse when exploring the trends for individual apparel items, with some imports growing faster than others (Figure 3). The top-5 quickest growing imports into the EU are:

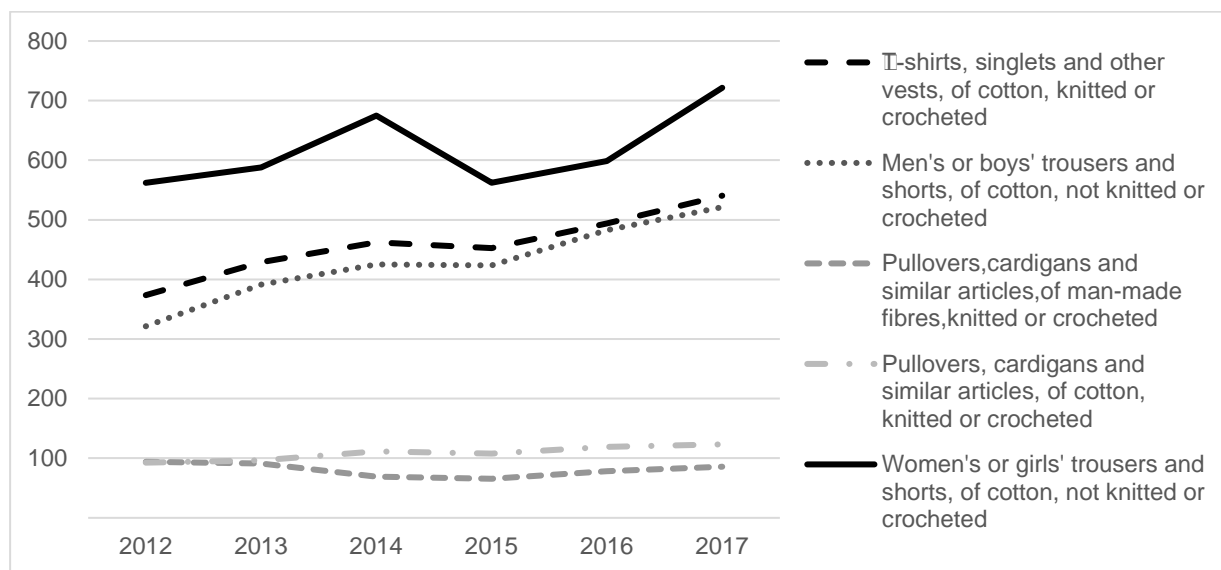
- i) men's or boys' overcoat, anorak, etc. made of man-made fibres, knitted or crocheted (54% annual growth);
- ii) women's or girls' trousers and shorts made of synthetic fibres, not knitted nor crocheted (24% annual growth);
- iii) gloves and mittens impregnated, coated or covered with plastics or rubber, knitted or crocheted (23% annual growth);
- iv) men's or boys' jackets and blazers made of other textile materials, not knitted nor crocheted (21% annual growth);
- v) women's or girls' suits made of other textile materials, knitted or crocheted, not elsewhere specified (20% annual growth).

Figure 2: Global and EU apparel imports 2000–2018, in US\$ billion



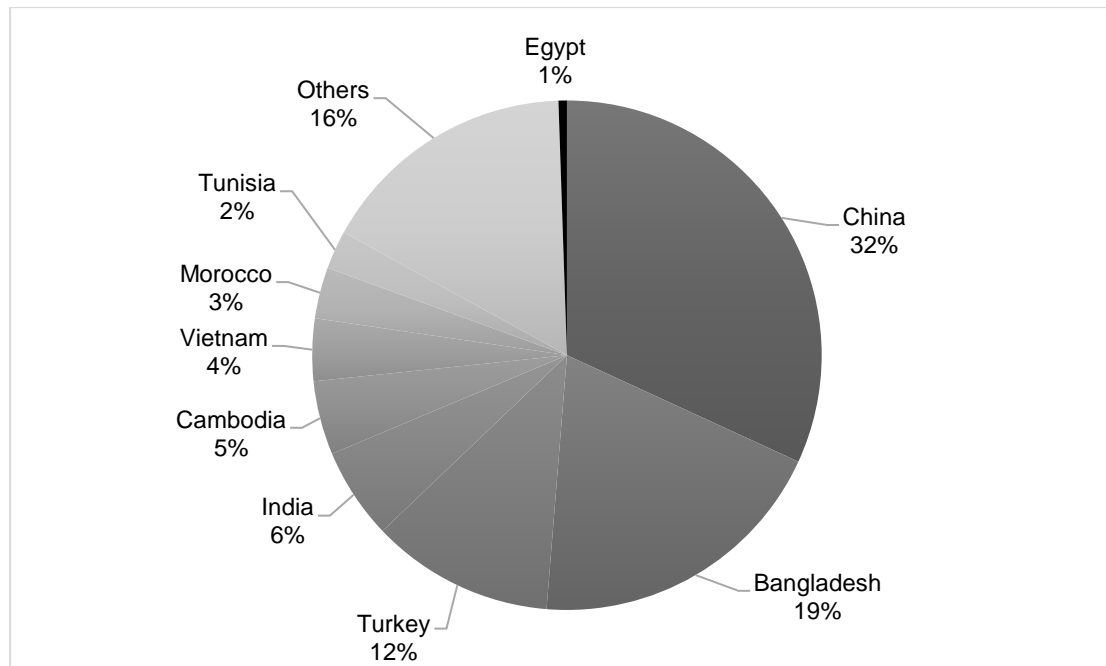
Note: Data represents global imports.
Source: UN Comtrade 2019 (WITS)

Figure 3: TOP-5 EU apparel imports 2012–2017, excl. intra-EU trade, in US\$ million



Source: UN Comtrade 2019 (WITS)

Figure 4: Key apparel suppliers to the EU (2018)



Source: UN Comtrade 2019 (WITS)

2.3. EU market segments

The EU apparel market can be categorised into various market segments, according to products or price, quality and quantity levels (Figure 5). In the high-end segment (haute couture and prêt-à-porter) consumers can spend hundreds or thousands of euros on just one item (CBI 2018a). Prices in the low-end market segment, on the other hand, are extremely competitive, ranging from €2 to €20 per unit. Between these two extremes, markets can be classified into middle-low, middle and upper-middle segments. In the middle-low segment, prices range from €20 to €120; in the middle segment, from €50 to €200, and finally in the upper-middle segment, from €100 to €500. These market segments also differ in terms of quality and order sizes. High prices tend to correlate with high quality and low order volumes — and vice versa. In the low and middle-low segments, order volumes start from 5,000, reaching up to 30,000 pieces or more. In the middle segment, volumes range from 1,000 to 10,000; in the upper-middle segment, from 1,500 to 4,500. Low volume orders dominate the high-end segment. In the prêt-à-porter segment, volume orders start at 500 and normally do not exceed 1,500 pieces. In the haute couture segment, volume orders generally do not exceed 300 pieces (ibid.).¹ Regarding products, more than half of European clothing sales are womenswear (57%), menswear is second-most popular (30%) with the remaining sales going to children's wear (MarketLine 2018).

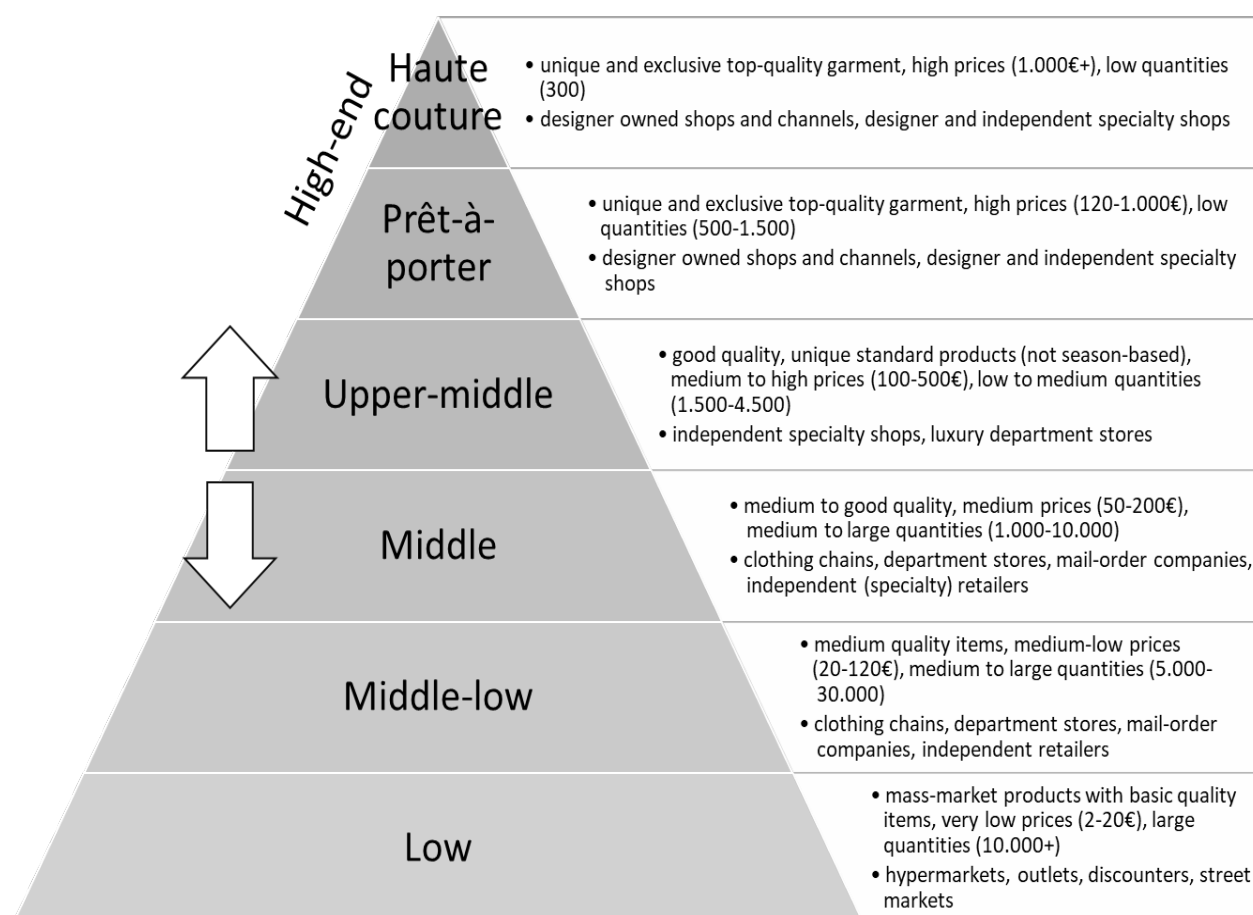
Market segments are also linked to different distribution channels. Hypermarkets, outlets, discounters and street markets dominate the low-end segment. The middle-low and middle segment share the distribution channels of clothing chains, department stores, mail-order companies and independent retailers. Some independent speciality shops also serve the middle segment, and these types of shops gain importance in the upper-middle segment,

¹ In Eastern European markets, low- to mid-market segments tend to have a large market share, and some market segments may also offer products at slightly lower prices than in Western European countries, which is due to lower overhead costs, average incomes, etc.

alongside luxury department stores. Prêt-à-porter and haute couture products are sold through designer's own shops and channels or through designer and independent speciality shops (ibid.).

The majority of clothing sales in Europe take place through clothing specialist retailers (62%). However, online retail is growing. In 2018, online sales made up 10% of apparel retail in Eastern Europe and 17% in Western Europe (Euromonitor International 2019a). The increasing share of internet retailing is a particular challenge for department stores, which still rank second (12%) among retail channels (footwear included) in 2018, however their share is continuously declining. To counteract this trend, store-based retailing has to focus on merging online and offline environments and enhance consumer experiences in stores (Euromonitor International 2019b). Store-based retailing also takes place in hyper- and supermarkets, which mainly benefit from the convenience factor and low prices (ibid.), accounting for roughly 10% of European sales (CBI 2018a).

Figure 5: Apparel market segments



Source: CBI (2018a)

Europe is also home to two of the largest global apparel retailers: H&M (Sweden) and Inditex (Spain), while a number of high-end designer brands are based in Italy. The top-five European retail markets are (in descending order): Germany, UK, Italy, France and Spain. The markets in these countries are characterised by different buyer categories. France's, for example, is dominated by hypermarkets. Speciality shops are stronger in

Southern European countries compared to most northern countries. In Germany and the Netherlands, department stores are relatively more important, even though their position is under pressure (CBI 2018a). Low-priced retailers, in addition, are putting pressure on mid-priced retailers. In the face of these trends, many traditional department stores have been closing, particularly in the UK.

2.4. Key recent value chain developments and market trends

2.4.1. Key value chain and industry developments

Two key developments are currently changing the structure of the apparel industry and related value chains. First, increasing production in China and other emerging or low-income countries initially intensified competition. However, the declining dominance of China in apparel manufacturing has opened a **window of opportunity** for other supplier countries. On the one hand, increasing production costs in China and India have initiated ongoing sourcing shifts to other countries in South and South East Asia, such as Bangladesh, Cambodia, and Vietnam (CBI 2019a; Fibre2Fashion n.d.). The increasing role of nearshoring, on the other hand, is also an important development, particularly benefiting countries like Turkey, Romania, Portugal and Northern African countries (CBI 2019a). Market projections, in addition, highlight that the main opportunity in the short to middle term lies with price-sensitive consumers and volume business. Strong demand in high-end textiles is currently not projected. Eastern European markets such as Poland and Czech Republic, in addition, are developing into interesting target countries given their higher growth rates, albeit from smaller thresholds, in comparison with Western European markets (CBI 2018b; see Figure 19, Figure 20 in the Annex). Given the challenging political situation in Turkey, some EU buyers are also looking for alternative sourcing locations with similar lead times, which could be another window of opportunity for supplier countries in particular in the Middle East and Northern Africa region (MENA), such as Egypt.

Second, the **growing importance of alternative distribution channels** is a major development on the marketing side. MarketLine (2018) predicts a 63% growth of **online retailing** across Europe by 2022. Companies therefore need to get familiar with the use of social media and big data (CBI 2018c). A unified commerce strategy combining e-commerce and online activities with offline commerce is likely to be of crucial importance for a variety of different companies (ibid.). Online and offline shopping can complement each other rather than necessarily compete. Online retailing appears to be more convenient and time saving, but still more than 50% of consumers still want to physically see or try on a fashion item before purchasing it (Euromonitor International 2019b). Consumers are switching between different channels, expecting the same level of ease, access to inventory and service across all of them. Retail stores are feeling the pressure from an increasingly connected environment and reacting by redefining their physical selling places, for example, by creating standout areas and memorable in-store experiences, or by including eye-catching features and innovative payment technologies, as well as strengthening their online presence. At the same time, digital native players are opening up physical stores or cooperating with established players (ibid.).

Blockchain technology could be a particularly important innovation with future implications for transparency in the T&A GVC (CBI 2019b). Blockchains record and encrypt transactional information in a decentralised peer-to-peer network, making it difficult to manipulate or corrupt information, since one party alone cannot alter the information. These characteristics are the reasons why blockchains are considered to be a suitable tool to enhance transparency in T&A supply chains. Companies and other actors could use blockchain to record information about their products and processes along the supply

chain, then have it stored and accessed in a decentralised way, for example, through product tags containing information accessible by scanning (ibid.). However, blockchains require an infrastructure along the chain that is often not available yet and may also contain false information, such as wrong or fraudulent scanning. The main benefit of blockchains is found in situations where there is a lack of a trustworthy and centralised unit storing relevant data (cf. King et al. 2018).

2.4.2. Key consumer trends

We have identified a variety of ongoing consumer trends. A major trend in the apparel market is the increasing awareness of European consumers, especially in Western Europe, and thus producers, concerning the **social and environmental sustainability aspects of production** in the apparel supply chain. The trend offers new business opportunities, but is also a challenge for suppliers, because consumers and buyers in low-priced market segments are not necessarily willing to pay for sustainability (CBI 2018c). Niche markets, on the other hand, are characterised by different dynamics, where consumers care more about product-related storytelling (CBI 2019a). In these contexts, stories associated with social and environmental sustainability are major marketing advantages that are also reflected in higher prices. The sustainability trend, in addition, is *interrelated with the shift towards digitalisation*, because the stories reach the consumers regardless of the physical distance. Direct-to-consumer (D2C) sales therefore increasingly grow in importance and potentially connect manufacturers and consumers on a global scale (CBI 2018b).

In parallel, many companies, governments and organisations shape their purchasing processes according to environmental and social objectives. This also includes strategies to reduce waste. With the help of new recycling technologies, secondary raw materials are produced from textile waste and reused in the production process. These circular models, however, are not restricted to recycling, but also find their ways into sales concepts, including clothing rental, resale and upcycling (CBI 2018d). The European Union, in addition, has an action plan for the circular economy and promotes the circularity concept through the European Circular Economy Stakeholder Platform (EU n.d.). At the national level, the Dutch Ministry of Infrastructure and Environment co-initiated a project to use post-consumer recycled cotton in the denim industry (House of Denim 2019). Global brands like IKEA, Adidas and H&M have announced plans to increase circularity in their businesses until 2030.² Apart from governments, philanthropic organisations increasingly fund circular economy projects, like the Ellen MacArthur Foundation, which has initiated the Circular Design Programme with the objective of persuading 20 million designers to adopt circular design in their work until 2025.³

Generational shifts accompany these developments. The Generation Z cohort (those born between 1997 and 2012) is entering the workforce, while millennials (born between 1980 and 1999) are theoretically settling down and the wealthy baby boomer generation (born between 1946 and 1964) is finally starting to retire. All three involve important consumer groups. In the case of millennials and Generation Z, both their increased spending power and profound digital adeptness amplify the pressure on retailers to undergo strategical shifts to accommodate the high expectations and the growing demand of these consumer groups (Euromonitor International 2019b). From a lifestyle perspective, consumers' identities nowadays are more fluid, therefore quickly changing, which is why it is important for businesses to know their consumers even better and engage with them (Euromonitor

² See <https://www.dezeen.com/2019/09/04/lena-pripp-kovac-ikea-circular-interview/>

³ See <https://www.ellenmacarthurfoundation.org/circular-economy/what-is-the-circular-economy>

International 2018a). At present, ethical and foremost environmental concerns seem to be key. According to a Euromonitor International global survey, 65% of respondents stated that they try to have a positive impact on the environment through their everyday actions and 61% are worried about climate change (Euromonitor International 2018b). The current Fridays for Future movement can be seen as a further indicator of this trend. In this regard, technology can act as a burden or an enabler, since digitally connected consumers represent an increased reputational risk for brands, through reviews, for example (ibid.). But technology also holds the potential to enable fashion to achieve greater transparency, for example, by tracking value chains (Euromonitor International 2019b) and circularity.

The digitalisation and technology processes also intersect with the **fast-fashion trend**, *in contrast with the sustainability trend*. Fast fashion is particularly strong in womenswear. While some consumers claim they will pay more for sustainable fashion, most consumers still seek out trendy, low-priced clothing (Euromonitor 2019b). Technology is pushing the demand for faster production and delivery (CBI 2018b). Some indicators show that European buyers in the fast-fashion segment will shift from having many different suppliers to investing in stronger relationships with few suppliers (ibid.; see also CBI 2019a).

There are also many **product specific trends**, some of which may be of particular importance for Egyptian exporters. Regarding **womenswear**, fast fashion still dominates the market in Western Europe, which is why this market segment continues to be characterised by intense price competition among retailers. Price competition has become even stronger in the context of online retailers. Internet retailing grew to 17% of womenswear sales in 2018. Even though awareness of the environmental impact of fast fashion is rising, and consumers claim to be willing to pay more for sustainable fashion, on-trend shopping of low-priced clothing still dominates this market segment (Euromonitor International 2019c). Similar observations also apply to men's and children's wear.

Overall, growth by value of the womenswear segment has been sluggish since 2013. This is especially true for Italy and France, but also for Germany. Growth has picked up in the Southern European countries Spain and Portugal thanks to their recovering economies (ibid.). Increasingly warm temperatures in Europe in the last few years negatively affected the sales of jackets and coats, but that provides opportunities in the swimwear category (ibid.). Germany is the largest market for womenswear in Western Europe (24% of sales in 2018) followed by the UK (20%).

Concerning **menswear**, interest in fashion trends among men is growing. However, this does not translate into growth due to increasingly price-sensitive consumers and the decline of high-value formal apparel. Menswear styles are moving towards more casual looks for both leisure and professional uses. Germany, the UK, France and Italy accounted for 63% of Western Europe's total sales of menswear in 2017 (Euromonitor International 2018c).

The overall trends in the apparel sector also apply to children's wear, but one particular trend in this category is the decreased demand caused by low birth rates. Digital innovations also have a category-specific effect in children's wear. More and more used children's apparel is resold via the internet (Euromonitor International 2017). The UK (23%) and Italy (15%) were the biggest markets for children's wear in 2016. On the upside, numbers for girls' and boys' apparel, as well as baby and toddler clothing show that parents in Western Europe are slightly more inclined to spend more on quality and new apparel for newborns, counteracting the low birth rates in terms of market size (ibid.).

Athleisure is a trend that increasingly blurs the lines between women's, men's and sportswear (Euromonitor International 2019b). Sports-inspired apparel was the largest sportswear category by value sales across the majority of Western European markets,

accounting for 27% of sportswear sales in 2018 (Euromonitor International 2019d). Athleisure makes sportswear the main industry growth driver, however, as competition increases, prices fall. In addition, within this category consumers are increasingly shopping online (Euromonitor International 2019d).

Another trend is the growing market for **Islamic wear** in the EU, given the region's growing Muslim population. This trend includes mass-market items, fast fashion and high-end professional garments (CBI 2019c).

Finally, the European market for **luxury products** is now recovering and expected to achieve moderate growth after fluctuating in recent years, because of its high reliance on tourists, who reduced their travel in view of an uncertain global economy, terrorist attacks and currency instabilities (MarketLine 2019b). Many non-European consumers trying to avoid counterfeits see buying directly from European brands' stores as a safer way to buy original products (MarketLine 2019b).

2.5. Market requirements

Legal and private buyer requirements in the EU are a major challenge for many suppliers. Regarding legal requirements, the EU's General Product Safety Directive applies to all consumer products and ensures that products that enter the EU market are safe and consumers sufficiently informed of any potential risk associated with them. The traceability of products is also an important factor. The Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation further restricts the use of chemicals in products that enter the EU market. Restrictions to the use of specific dyes, such as azo dyes, are particularly important for textile products. Labels that indicate the fibre composition of textiles are also required under the EU's Textile Regulation (CBI 2018c).

In addition to legal requirements, fulfilling specific buyer requirements is of crucial importance. Buyer requirements often vary among companies, market segments, countries, and product lines. Buyer requirements include price-quality ratios, product specifications, lead times, etc., but also a variety of corporate social responsibility commitments that often require specific certifications. European buyers increasingly demand compliance with social and environmental sustainability schemes, such as the Business Social Compliance Initiative (BSCI) Code of Conduct, the Ethical Trading Initiative (ETI) Base Code, and the Fair Wear Foundation (FWF) Code of Labour Practices. Common management standards include ISO 14001 (environment) and SA 8000 (social conditions). The fair trade niche market requires additional certifications, such as the ones issued by the World Fair Trade Organization, Fairtrade International and Fair for Life. With regard to cotton, the Better Cotton Initiative (BCI) has the largest cotton sustainability programme, the Better Cotton Standard System.

There are also a number of textile-specific certificates. The Global Organic Textile Standard (GOTS), for example, is a textile-processing standard for organic fibres. The OEKO-TEX standard guarantees that no hazardous chemicals were used in the production of textiles, including those banned by the REACH regulation. The EU Ecolabel indicates the environmental impact of various products. Finally, the Woolmark certification provides consumers with an assurance of quality (CBI 2018c). Overall, the options available for product certification are diverse and it is not possible to exhaustively outline all of them in this document. Each choice may be appealing to or necessary for different potential buyers.

3. STRUCTURE, GOVERNANCE AND SUSTAINABILITY OF THE EGYPTIAN APPAREL SECTOR

3.1. Overview

Following the 1952 revolution and until the 1990s, the Egyptian T&A sector was highly regulated and dominated by public enterprises. In that period, Egypt exported almost all of its cotton, which is known worldwide for its high-quality, extra-long staples (ELS, or Barbados cotton). The government was the sole buyer of Egyptian cotton and the textile sector was geared towards the local market. Imported T&A products were banned during this period.

Economic reforms and privatisation during the early 1990s changed the structure of the sector and privately owned companies regained importance. After the liberalisation of the cotton and textile sector in 1994, and the lifting of the import ban on textile and clothing imports in 1998, domestic textile companies increasingly shifted towards cheaper imported cotton and textiles, despite the introduction of high tariffs on textile imports. The ban on apparel imports was not lifted until 2002, but high tariffs were introduced in an effort to continue to protect the domestic industry. Tariffs on both products were gradually reduced to comply with WTO rules in the 2000s (El-Haddad 2012).

Since the 1990s, and in particular during the 2000s, Egypt successfully increased the share of higher-value product exports, in particular apparel, carpets, home textiles as well as various yarns and textiles (Figure 6). However, the T&A trade balance turned negative in 2008 due to increasing imports of consumer products and inputs. Increasing imports and stagnating exports during the years 2012–2015, in addition, raised the net trade deficit to US\$1.4 billion in 2015 (Figure 7). In recent years, however, there has been a small recovery, in particular due to the devaluation of the Egyptian pound, reducing the net T&A trade deficit to US\$0.7 billion in 2018. Nevertheless, the overall negative trade balance is in stark contrast to other textile producers in the MENA region, like Tunisia, Morocco, and Turkey, which are clear net exporters of T&A products and thus earn much needed foreign exchange with the industry.

This notwithstanding, Egypt is in an advantageous position, given that it offers a full production chain in the textiles industry, the only country in the region to do so. In addition, Egypt has comparatively low wages (see Annex: Figure 21), preferential access to the EU and the US markets, and close proximity to the EU market — but these advantages are not fully exploited currently (see Table 1 for an overview of Egypt's comparative and competitive position).

The Egyptian T&A sector has been a key sector in the country's industrial development strategies in the last decades (Loewe 2013; ETDS 2015). In recent years, the T&A sector contributed roughly 3% to 4% to Egypt's GDP⁴ and employed more than half a million people in 6,742 enterprises (MOTI 2019).⁵ It is estimated that the sector accounts for roughly 20% to 30% of employment in the country's industrial sector, which in turn accounts for 26% of total employment. In 2018, exports of the T&A sector (excl. raw materials) amounted to almost US\$3 billion, representing roughly 12% of total exports (UN

⁴ According to the World Bank database, Egypt had an average annual growth rate of 4.2% between 2014 and 2019.

⁵ Employment numbers differ by source due to different calculation methods. The numbers used in this report represent more conservative estimates.

Comtrade 2019). The T&A sector is thus one of the most important industrial sectors in terms of value added, employment, and exports.⁶

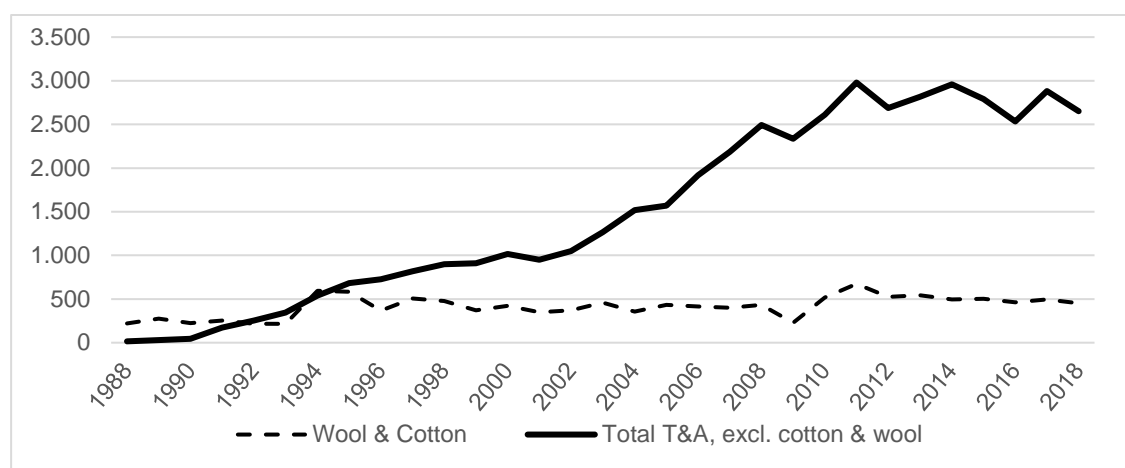
A large share of the high-quality cotton, however, continues to be exported without further processing (UN Comtrade 2019). This is a major problem given that the potential value addition of further processing compared to the export of raw cotton is estimated to range from 50% (fine count yarns) to 471% (fine shirting) (MOTI 2019I). Increasing value addition of Egyptian cotton should thus be a key concern for policymakers promoting the Egyptian T&A sector.

The Egyptian T&A value chain (Figure 8) includes:

- (i) cotton production and ginning, producing long and extra-long staple Egyptian cotton;
- (ii) a large textile sector producing yarn and woven or knitted fabrics that are used as inputs by apparel manufacturers, domestic textile companies (which tend to be vertically integrated) and carpet manufacturers.

Cotton and the manufactured products are either consumed locally or exported. Imported inputs play an important role for the sector, and include different textile fibres and different varieties of cotton or cotton yarn and fabrics that are not locally available, such as short staple cotton.

Figure 6: Egyptian T&A export development 1988–2018, in US\$ million

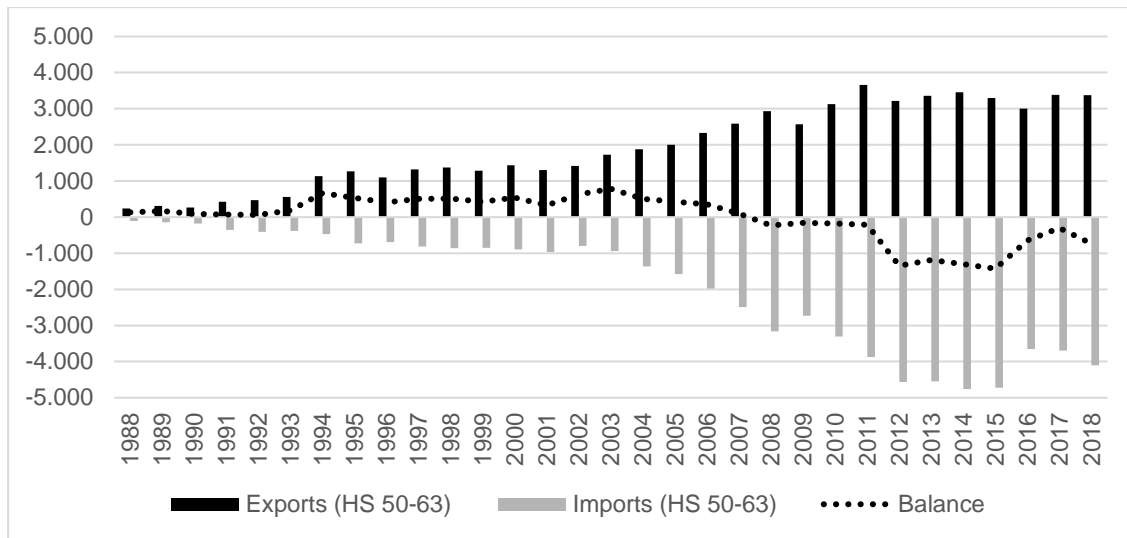


Note: Data represents global imports.

Source: UN Comtrade 2019 (WITS)

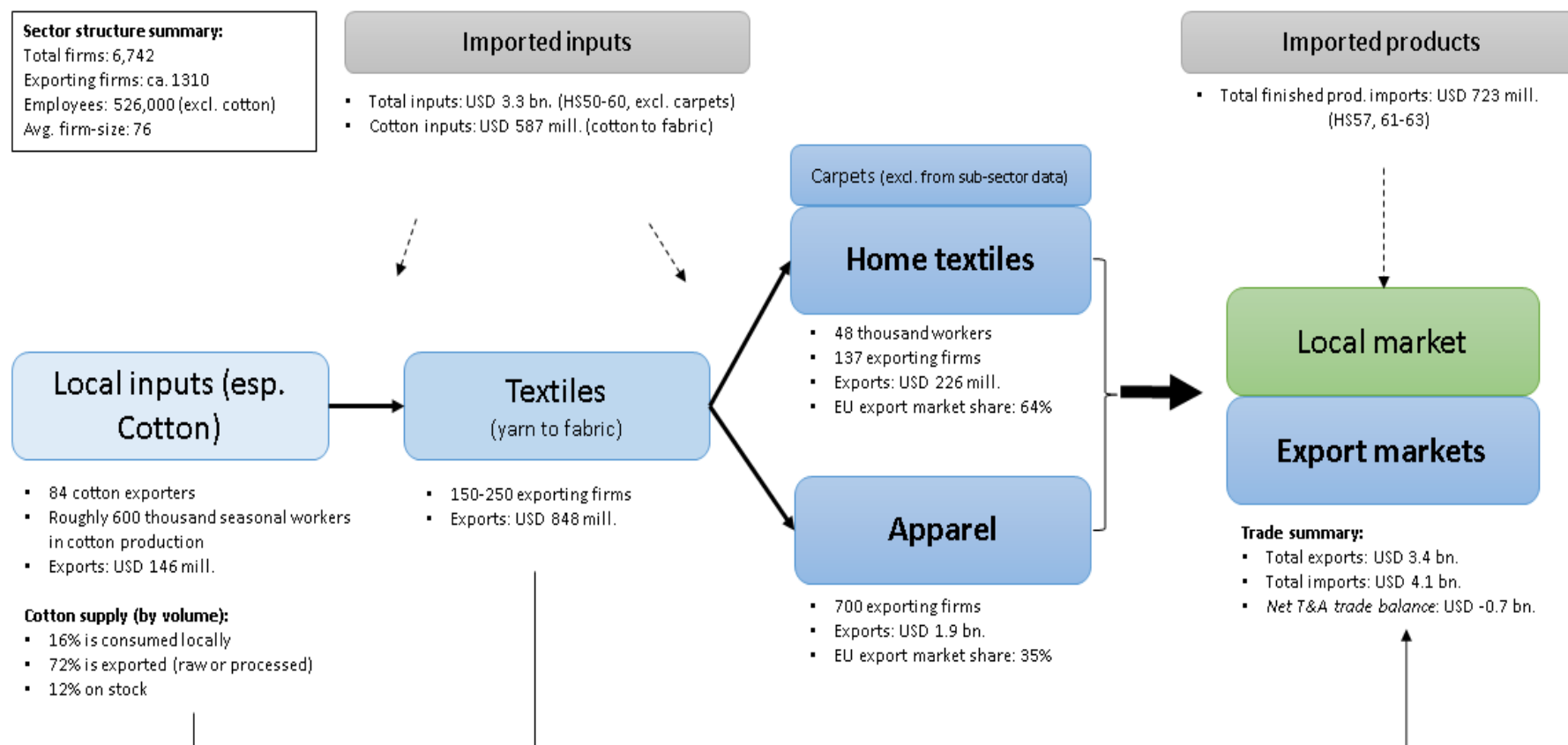
⁶ In terms of value added in the industrial sector, the T&A sector is only surpassed by the oil and minerals, food production, and chemicals industries (MOTI 2019).

Figure 7: Global Egyptian T&A trade balance 1988–2018, in US\$ million



Source: UN Comtrade 2019 (WITS)

Figure 8: Egyptian T&A value chain



Note: Employee numbers differ by source due to different calculation methods. The numbers used in this report represent more conservative estimates.

Source: UN Comtrade 2019, CATGO 2019, interviews, and various documents provided by interviewees

Table 1: Egypt's comparative and competitive position

Overview	
Key competitors	<ul style="list-style-type: none"> • MENA region, particularly Morocco and Tunisia, given their integration into similar regional EU value chains and market segments. Turkey's specialisation in high-quality products makes it more of a current benchmark for sector development than a direct competitor. • Global apparel suppliers from East Asia, such as China, India, Pakistan, among others.
USP	<ul style="list-style-type: none"> • Egyptian cotton is a key USP, however, only few apparel products use Egyptian cotton as an input. • Flexible production: Egyptian companies can produce large as well as small orders, which combined with the country's geographical proximity to Europe and efficient transportation infrastructure give them a competitive edge in the EU market.
Perception of global buyers	<ul style="list-style-type: none"> • EU buyers have indicated having a partially negative reputation of Egypt as a sourcing location, due to challenging communication, delayed deliveries, etc. The price-quality ratios of the products, however, were considered to be comparatively high. Buyers not currently sourcing from Egypt had a more negative view than those that do.
Comparative Position	
Location	<ul style="list-style-type: none"> • Egypt is located close to the EU, facilitating integration with regional EU value chains. Egyptian infrastructure and logistics are well-developed and facilitate this integration, for example, through Cairo Airport and Port Said. Most production is shipped by sea and takes maximum eight days to reach the EU. Air transport is only used for samples or very small orders.
Natural resources	<ul style="list-style-type: none"> • Egypt produces large quantities of ELS cotton, however, only few apparel products use ELS as an input. • A large share of Egyptian cotton is exported raw in cotton bales or as semi-finished products. The sector lacks vertical integration. • Production of short-staple varieties is insignificant.
Labour	<ul style="list-style-type: none"> • Wages in Egypt are low (see Annex: Figure 21), in particular when compared to Egypt's key competitors in the MENA region, Turkey and Morocco. However, some Asian suppliers have even lower wages, which is a threat to the prevailing business model targeting mass export markets, particularly in the US and EU. • Egypt has abundant available labour, however, given the low wages, Egyptians prefer to work in other sectors, forcing the apparel sector to deal with limited availability of skilled workers and high turnover.
Technology	<ul style="list-style-type: none"> • Some Egyptian apparel producers do not use the most up-to-date equipment, which is not the case in Asian and Turkish competitors. • Technological capacities and capabilities are somewhat inferior to competitors in the low to mid market segments. • The level of innovation varies widely among companies, but is generally not very high, with some exceptions.
Infrastructure	<ul style="list-style-type: none"> • Egyptian infrastructure and logistics are well developed, facilitating integration with regional EU value chains. Transportation logistics are well developed (see above: Location).

Business enabling environment	<ul style="list-style-type: none"> Governmental policies and institutions play a crucial role in the Egyptian T&A sector. Key in Egypt's Vision 2030 strategy, T&A is also supported by the sector-specific Vision 2025 strategy. Given the large number of organisations involved, the institutional policy setup is rather comprehensive and targets various bottlenecks in the sector. In general, however, public support institutions (i) lack the requisite financial means and policy space, (ii) suffer from gaps in knowledge and expertise, and (iii) overlap in activities, complicating the distribution of competences and tasks. Private supporting services do exist, for instance in certification, but appear underdeveloped in a number of activities, including design services. Companies thus source these services internationally.
Competitive Position	
Companies (SMEs)	<ul style="list-style-type: none"> Many SMEs have export experience, but face a variety of bottlenecks in: (i) international communication standards; (ii) export marketing; (iii) financial management (pricing and costing); (iv) knowledge about EU legal and buyer requirements, such as certification, technology (e.g. ICT and integrated systems), communication standards, CSR related issues, etc.; (v) design capabilities; (vi) technological standards (e.g. outdated machinery), and (vii) product quality.
Demand conditions	<ul style="list-style-type: none"> Egyptian companies' exports have been decreasing for a variety of internal and external reasons, such as the domestic political environment and the strong competition from abroad. The US is the most important export market for them, taking roughly 50% of Egypt's total apparel exports, followed by the EU with 35%. Egyptian firms have lost market share in the EU in recent years. The large internal market, which also offers slightly higher margins, is key for non-exporting companies, but also important for most exporting firms. Though expanding, given the high population growth, the internal market suffered from the uncertainties related to Egypt's political situation in recent years.
Specific factory conditions	<ul style="list-style-type: none"> Finance is a major bottleneck, in particular for SMEs, but there are also bottlenecks in the textile segment, which limit local sourcing possibilities for (i) man-made fibre; (ii) cotton yarns; (iii) woven fabrics, in particular narrow-width woven fabrics, denim from non-Egyptian cotton and light-weight cotton fabrics used as input in the local apparel sector; (v) knitted fabrics, meaning man-made fibre knitted fabrics and very fine Egyptian cotton fabrics, such as those used for fine underwear or polo shirts; (v) quality supply of dyeing, finishing and printing for woven and knitted fabrics. Skilled labour availability is a challenge, in particular with regard to design. The level of innovation varies widely firms, but is generally not very high, with some exceptions.

3.2. Cotton

Small farms in the Nile Delta produce most of the **cotton** in Egypt. The dual purpose crop — lint and seed — is used for vegetable oil, livestock feed, and natural fibre for textile manufacturing. Producers and consumers worldwide know Egyptian cotton for its long⁷ or extra-long natural fibres⁸, using it in particular in products that benefit from softness and breathability, such as bed sheets, terry products, high-end shirts, socks, and others. Cotton collection in Egypt is entirely manual, relying on seasonal labour. Overall, Egypt's cotton sector employs approximately 600 thousand workers. Egyptian cotton production has been decreasing steadily since the 1970s (Figure 9), due to low prices and farmer incomes, shrinking production areas⁹, decreasing yields, crop-switching and regulatory changes. Liberalisation of the textile sector in 1994 and the lifting of an import ban on textiles in 2000 reduced domestic demand for Egyptian cotton, turning T&A firms increasingly towards cheaper and short-staple imported cotton. Textile manufacturers therefore lack integration with the local cotton sector, increasing the sector's dependence on imports (Figure 10).

Farmers are typically organised in cooperatives to get access to seeds, fertilisers and pesticides. They decide which crop to cultivate, however, they are subject to government regulations on the permissible cotton varieties. The government also regulates the pesticides and fertilisers to be used. The Cotton Research Institute (CRI, chapter 3.6.2.1.4) is in charge of monitoring and supporting farmers, including with extension services.

Until recently, the cotton marketing system used to be regulated by an indicative price system. Indicative prices were based on weight, while quality aspects were not taken into consideration. Traders, ginneries and other buyers purchasing cotton at the indicative prices experienced losses, if quality of the cotton purchased turned out to be inferior. Under the new market price system that will be introduced in 2020, public collection rings collect cotton from farmers on a mandatory basis, then a public tender process sells the cotton. A 70% share of the agreed-upon selling price goes directly to farmers. Then, after ginning, the remaining 30% of the price is paid to farmers after a quality evaluation. The new system aims at rewarding quality with a premium and driving small traders that exploit farmers out of the market.

The production of organic cotton only plays a minor role in Egypt, with 219 ha organically certified land and 19 organic farmers concentrated particularly in the Nile Delta region (OCMR 2019: 35). During the 2017/18 season, only 287 tonnes of organic cotton fibre were produced, representing 0.2% of global organic cotton output. Compared to 2017, organic cotton production has dropped by 34%. Currently, 1,043 ha of land are in transition to organic cotton cultivation (Textile Exchange 2019). This means expanding the land used for organic cotton cultivation by a factor of five.

Organic cotton production has significant environmental advantages. Pesticides and fertilisers containing synthetic and toxic chemicals are replaced by bio- and mineral-based alternatives combined with agricultural solutions, such as crop rotation and mixed cropping systems. The cultivation of organic cotton also requires less resources compared to conventional cotton, especially energy and water (Textile Exchange 2016). According to FAO, depending on climate and length of the total growing period, cotton requires 700 to

⁷ Though conventionally referred to as short staple in the domestic discussion, the cotton of these varieties is in fact characterised by rather long fibres, when compared to what is classified as short staple internationally.

⁸ A small amount of short and medium staple cotton was introduced and grown in Upper Egypt in 2018.

⁹ Production area is at a historical low level with 216,000 feddan in 2017/18, compared to 920,000 feddan in 1996/97.

1,300 mm of water from precipitation, irrigation, and soil moisture (FAO n.d.). Keeping the use of irrigation water — and hence blue water — low is vital to save scarce resources and limit the impact on the environment, in particular in Egypt, and organic cotton requires only roughly 10% of blue water compared to conventional cotton: 182 litres/kg organic cotton lint versus 2,120 litres/kg conventional cotton (Textile Exchange 2016).

A few initiatives promote organic cotton production, such as the *Cotton For Life* project, a private sector initiative by FILMAR SpA, supporting a group of contract farmers (ibid.: 40, 44). Social enterprise SEKEM has also been promoting organic cotton cultivation in the country.

A government programme managed by CRI also started to cultivate organic cotton seeds in 2019, making them available starting in 2020. Under the programme set up by a new ministerial decree, contract farmers and private companies grow the seeds on government land. However, an overall government strategy defining targets for organic cotton cultivation is still missing. Local processing of organic cotton is limited and typically does not extend beyond the weaving or knitting stage. Only a few companies manufacture finished organic garments, such as SEKEM.

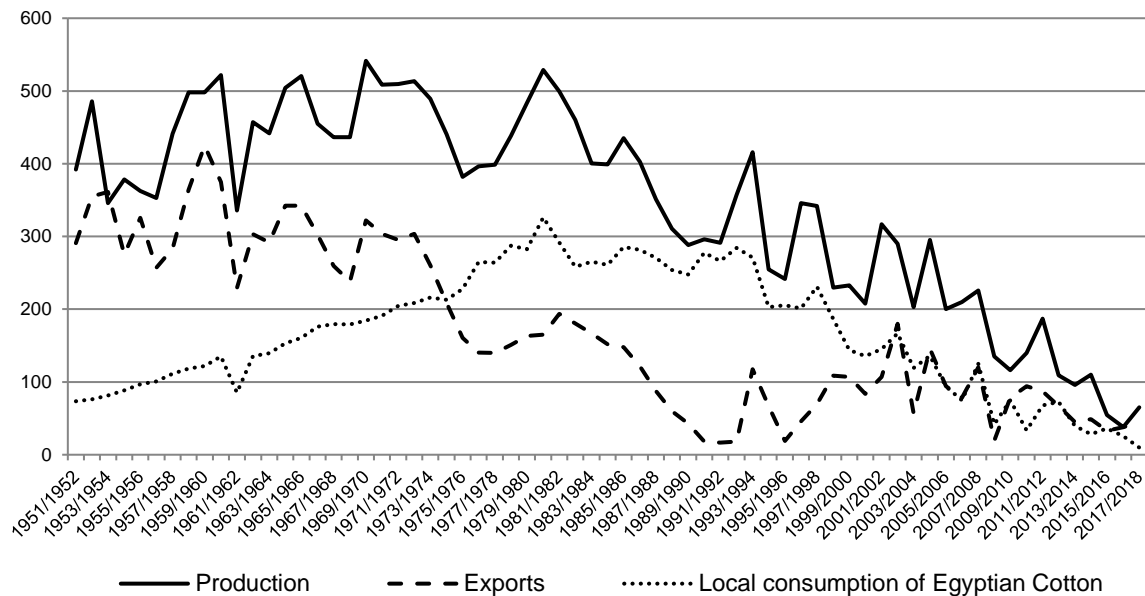
UNIDO promotes sustainable production processes in a new pilot project for the production of conventional Egyptian cotton under the Better Cotton Initiative (BCI) principles (see chapter 3.5.).

Two key factors have added to the declining production of conventionally grown cotton in recent years. First, growing labour costs have limited collection rounds or harvesting. Second, harvested fibres have been contaminated by fibres from cotton strings used in transportation processes. Egypt's share in the global long and extra-long staple cotton production dropped to only 13% in 2017/18, from 40% in 2004/05, due to these factors, plus the increasing competition in long and extra-long staple production, particularly from American Pima cotton from the US, Xinjiang cotton from China, and India (CATGO 2019). False labelling and counterfeiting is also a problem for the Egyptian Cotton brand, which the Cotton Egypt Association oversees. The government has recently intensified efforts to increase areas under cultivation.¹⁰

Despite the high quality of its ELS cotton, Egypt has had trouble selling all of it in some years (Abdel Zaher 2019). However, this trend may be reversing as Egypt's cotton exports grew by 45% in the 2018/2019 season (MarketLine 2019a). India buys more than half (54%) of Egypt's raw cotton exports, the other top-five buyers in 2018 being Pakistan (17%), China (9%), Bangladesh (7%) and the US (2%) (UN Comtrade 2019). In the 2016/2017 season, prices for Egypt's ELS increased, while currency devaluation doubled export value in Egyptian pounds (USDA 2018).

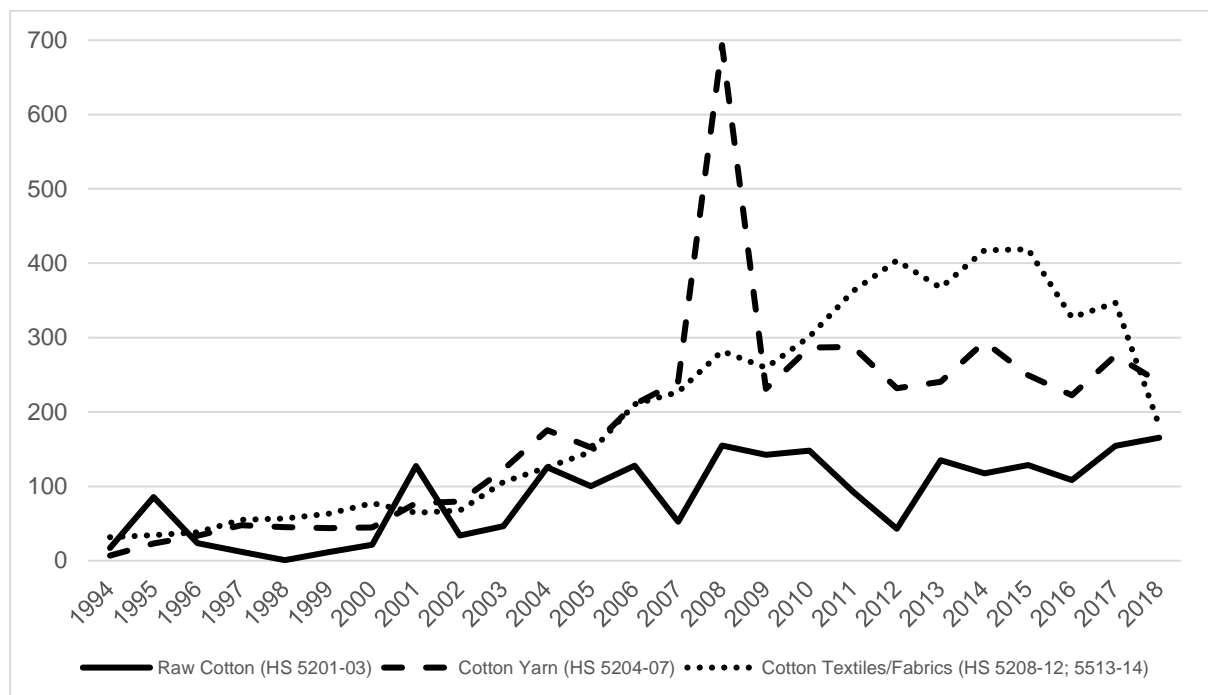
¹⁰ Under certain circumstances, the government also introduced import bans on specific cotton varieties to protect the cotton sector.

Figure 9: Egyptian cotton production by volume 1951/52–2017/18, in 1,000 tonnes



Source: CATGO 2019

Figure 10: Egyptian cotton product exports 1994–2018, in US\$ million



Source: UN Comtrade 2019 (WITS)

3.3. Textiles

Egypt has a large domestic **textile production industry**, which however lacks vertical integration and is highly import dependent. Approximately a third (35%) of Egypt's textile production is from 25 state-owned enterprises, which collectively employ 65 thousand people (USDA 2018). The government is currently modernising and partially privatising these state-owned firms. An additional 2,500–3,500 private companies are responsible for the rest of production, but only an estimated 150 to 250 of all textile companies engage in exporting (Figure 8).

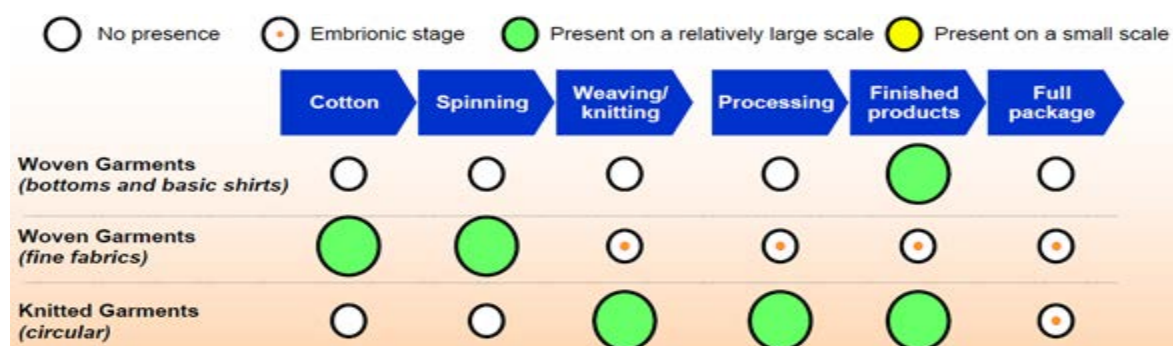
Egypt's T&A industry has been in decline for 30 years, with many businesses, particularly the state-owned ones using outdated equipment. Investments in spinning, weaving, knitting and dyeing has been very limited, which is why the sub-sector is characterised by various bottlenecks and lack of vertical integration (Figure 11). The major upstream bottlenecks in the following areas are:

- (i) man-made fibre;
- (ii) cotton yarns;
- (iii) (woven fabrics, in particular narrow woven fabrics, denim from non-Egyptian cotton, and light-weight cotton fabrics used as input in the local apparel sector);
- (iv) man-made fibre knitted fabrics and very fine Egyptian cotton fabrics, such as those used for fine underwear and polo shirts;
- (v) quality and supply of dyeing, finishing and printing for woven and knitted fabrics (MOTI 2019).

These bottlenecks contribute to the textile sector's high dependency on imports that emerged particularly after the deregulation in the 2000s and the growing export orientation. Most domestic textile production uses imported short and medium-staple cotton varieties, which are often imported at higher costs compared to spinners due to non-tariff barriers and smaller orders. Common Egyptian products using short staple are denim items and T-shirts (USDA 2018). The textile sector also depends on imports of man-made fibres due to the limited local production. ELS cotton is usually used for home textiles and high-end clothing.

In 2016/2017 local spinning mills were the main consumers of Egyptian cotton, accounting for about half of all use (USDA 2018). Demand from local spinners for cotton increased as they have been receiving higher returns on exports since the devaluation of the Egyptian pound and the growing demand for Egyptian cotton. Recent increases in domestic cotton production are expected to lower prices and create more domestic demand from the textile industry. The top-five global buyers of Egypt's high-content cotton yarns (85% cotton or over) are Italy (36%), Turkey (20%), Portugal (6%), Germany (6%) and France (5%), while almost all of Egypt's low cotton-content yarns (below 85% cotton) go to Turkey (96%) (UN Comtrade 2019).

Figure 11: Supply chain integration in the Egyptian apparel industry for export markets



Source: ETDS 2015

3.4. Apparel

In addition to its textiles industry, Egypt is an important apparel producer in the Middle East and North Africa region. The Egyptian apparel industry is relatively diverse in terms of products, export market, size of firms, ownership of companies, and use of inputs. For example, some Egyptian apparel companies focus on exporting premium garments produced from high-quality Egyptian cotton. Other companies produce low-end garments based on cheaper fabric imports. The industry is also divided in terms of final markets. In addition to the domestic market, the other two main markets for Egypt are the European and the United States market (Figure 13). Egypt enjoys preferential access to these two markets through different trade agreements.¹¹ While some companies export to both, it is common for them to specialise in one of those two markets because of different buyer requirements. Exporters to the US tend to focus on large standardised orders while exporters to Europe focus on smaller and more flexible production. These differences tend to be reflected not only in the size of exporting companies but also in the organisation and skills of their workers. Overall, an estimated 700 apparel companies in Egypt do export (Figure 8).

In terms of ownership, Egyptian-owned companies form a substantial part of the industry, but foreign investment is also common. Asian companies owned by investors from India, China, Taiwan and also Turkish companies that usually use Turkish fabrics to export to Europe, are all present in Egypt. Previous attempts to increase vertical integration in the Egyptian apparel industry have not always been successful as some apparel companies resist using Egyptian fabrics and inputs citing issues related to cost and quality.

In 2018, Egyptian **apparel** exports (HS¹² 61 and 62) amounted to US\$1.9 billion, representing 7.4% of total Egyptian exports (Figure 12). In most years, woven exports are slightly larger than knitted products (UN Comtrade 2019). The key exported products by value include: men's and women's suits, jackets and blazers, trousers and shorts (HS 6203-4) accounting for 35% of Egypt's apparel exports; jerseys and pullovers (HS 6110) at 12%, and T-shirts (HS 6109) with 12% (UN Comtrade 2019). The largest export market

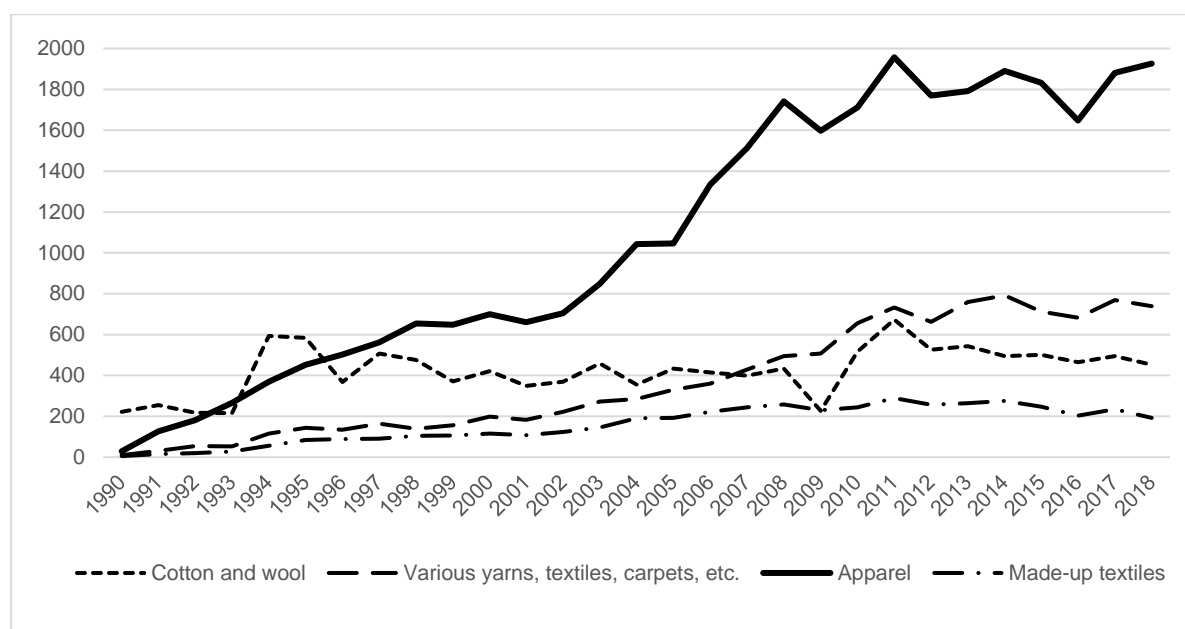
¹¹ The Association Agreement with the EU, which entered into force in 2004, includes preferential market access for apparel products. The agreement allows for duty-free exports to the EU based on the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention). In addition to the double transformation rule, the diagonal cumulation rule within the PEM Convention allows for input sourcing from signatories, such as Turkey. The Qualifying Industrial Zones agreement (QIZ) signed in 2004, allows for duty-free and quota-free exports to the US market under the condition of specific rules of origin, in particular that products must contain a specified Israeli content. Various other free trade agreements allow for a diversified export strategy.

¹² Harmonized system codes.

is by far the United States: 46% of all Egyptian apparel exports go to the US. Spain and Germany take 8%, Turkey 7%, France 6%, the United Kingdom 5% and Italy 4%. Overall, the EU imported 35% of all Egyptian apparel exports in 2018 (Figure 13, Table 2).

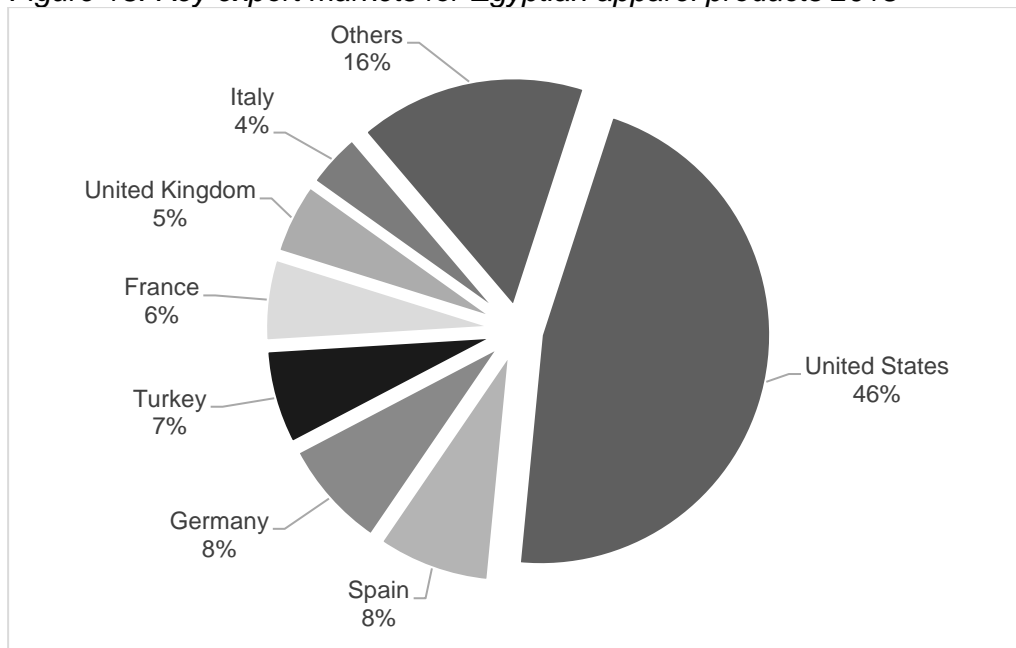
Following a rapid increase in the 2000s, Egyptian exports of apparel have fluctuated in recent years, reflecting a number of internal and external dynamics. Externally, demand from Egypt's key European markets declined as a result of the global economic crisis. Competition in the European market from a number of Asian producers and across market segments and products also increased in recent years. Internally, the political instability in Egypt following the Arab Spring in 2011 contributed to uncertainty and hesitation among some European buyers about sourcing from Egypt. Overall, those dynamics contributed to a substantial decline in Egyptian exports. In 2016, in an attempt to restore competitiveness, Egypt floated its currency resulting in a major devaluation of the Egyptian pound, leading to an increase in exports. This devaluation, however, also increased the cost of imported fabrics and inputs for some apparel companies.

Figure 12: Egypt's T&A exports 1988–2018, in US\$ million



Source: UN Comtrade 2019 (WITS)

Figure 13: Key export markets for Egyptian apparel products 2018

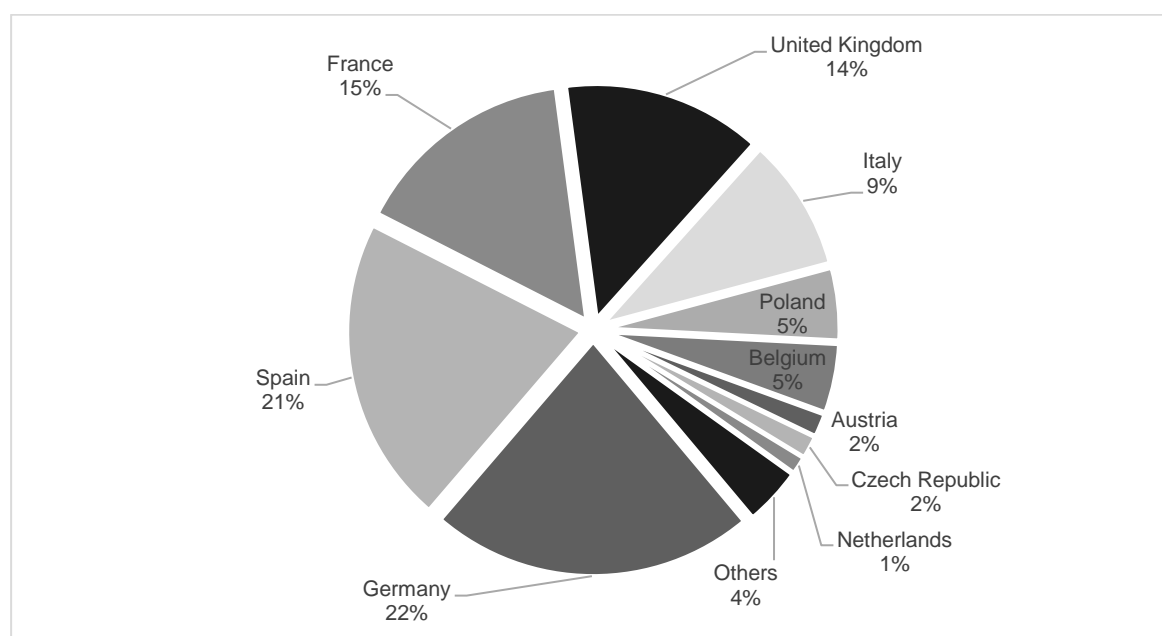


Note: Data includes HS 61 and 62.
Source: UN Comtrade 2019 (WITS)

3.4.1. Apparel exports to the EU

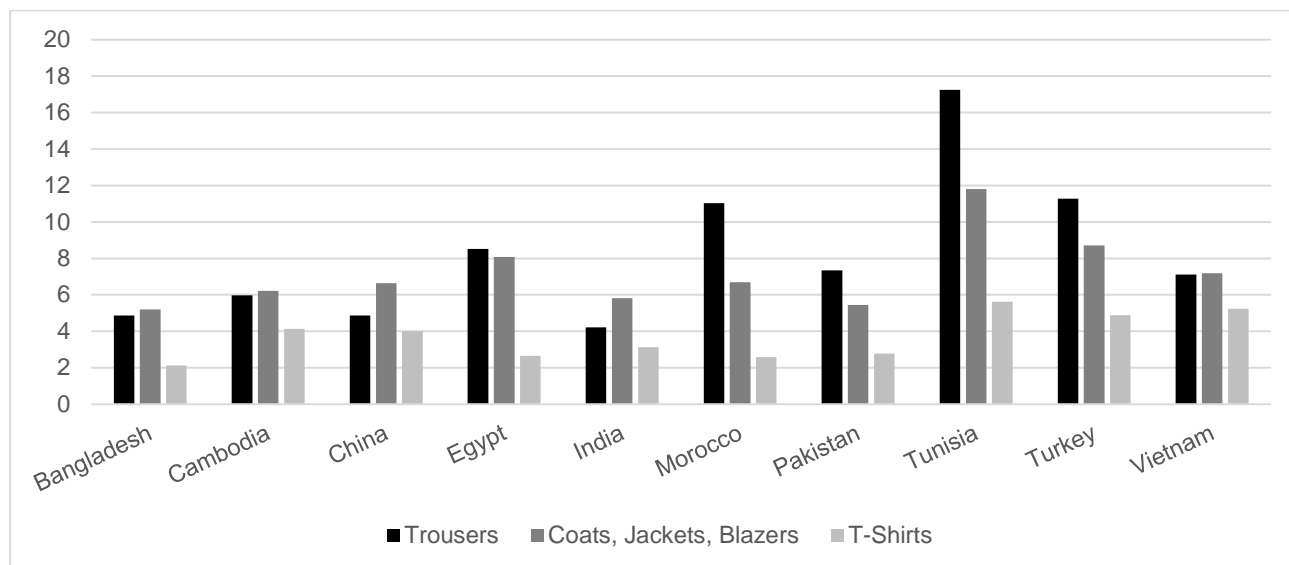
Table 2 presents a more detailed analysis of Egyptian apparel exports to the EU. The value of Egypt's apparel exports to the EU slightly increased during the last decade, growing particularly high in 2018. The share of exports to the EU in total exports has also risen moderately in the same period. The highest-value export products to the EU include various kinds of trousers, T-shirts, men's coats, jackets and blazers particularly geared towards the low-mid, mid, and mid-high market segments. The largest EU markets for these products include Germany (22% of all exports to the EU), Spain (21%), France (15%), and the UK (14%) (Figure 14). For trousers and coats, jackets and blazers, Egypt has slightly higher-than-average unit values compared to South and South East Asian competitors, but lower unit values compared to its key competitors, Tunisia and Morocco, as well as potential future competitors, such as Turkey (Figure 15). Only for T-shirts, unit values are lower in comparison with almost all competitor countries. The recent trade fluctuations reflected a number of internal and external dynamics, as discussed above.

Figure 14: Top-10 EU importers of key Egyptian apparel exports 2018



Note: Countries' share of key Egyptian apparel export products as listed in Table 1
Source: UN Comtrade 2019 (WITS)

Figure 15: Main competitors' unit values of key Egyptian apparel exports to the EU 2018, in US\$



Note: Key Egyptian export products as listed in Table 1. Trousers include HS 610462, 610463, 6204342, 620462; Coats, jackets and blazers HS 611020, 611030, 620331; T-Shirts HS 610910, 610990, 620520.

Source: UN Comtrade 2019 (WITS)

The trade data analysis indicates that the most promising products for Egypt to increase apparel exports to the EU are cotton trousers and T-shirts, both thanks to high export growth rates, but the latter also due to competitive prices. However, other product categories and market segments also present opportunities. Section 4.2 provides a more comprehensive analysis of high potential PMCs for Egypt's exports of apparel to Europe.

Table 2: Egyptian apparel exports to the EU, in US\$ million

	2000	2005	2010	2015	2016	2017	2018	% change 2015–2018
Total Egyptian apparel exports	700.26	1,046.33	1,713.27	1,833.49	1,646.37	1,885.43	1,926.88	5
Exports to the EU	272.74	538.92	664.37	582.69	550.74	578.62	683.78	17
<i>% of total apparel exports</i>	39	52	39	32	33	31	35	
Top apparel exports to the EU by product								
Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted nor crocheted) (HS 620342)	15.08	24.81	91.49	89.42	90.70	102.91	149.02	67
Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted nor crocheted) (HS620462)	1.38	33.37	104.79	98.85	88.35	97.15	104.40	6
T-shirts, singlets and other vests; of cotton, knitted or crocheted (HS610910)	77.96	170.55	124.97	65.82	68.07	74.02	97.33	48
Coats; men's or boys' overcoats, car-coats, capes, anoraks, wind-jackets and similar articles, of cotton, knitted or crocheted (excluding those of heading no. 6103) (HS611020)	9.91	9.13	34.75	32.89	31.32	36.59	40.71	24
T-shirts, singlets and other vests; of textile materials (other than cotton), knitted or crocheted (HS610990)	3.54	7.69	9.83	29.97	33.68	27.39	27.11	-10
Trousers, bib and brace overalls, breeches and shorts; women's or girls', of synthetic fibres, knitted or crocheted (HS610463)	1.45	0.11	5.84	18.43	17.49	24.22	26.29	43
Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton, knitted or crocheted (HS610462)	5.02	3.80	35.97	28.82	21.40	17.80	24.32	-16
Jackets and blazers; men's or boys', of wool or fine animal hair (not knitted nor crocheted) (HS620331)	3.39	12.15	20.07	21.66	25.24	19.28	18.59	-14
Jerseys, pullovers, cardigans, waistcoats and similar articles; of man-made fibres, knitted or crocheted (HS611030)	8.80	7.62	9.37	17.55	14.92	15.94	17.68	1
Shirts; men's or boys', of cotton (not knitted nor crocheted) (HS620520)	7.80	12.19	19.23	13.98	15.40	15.96	15.65	12

Source: UN Comtrade 2019 (WITS)

3.5. Government policies

The T&A sector has been at the core of Egypt's industrial development strategies in the last decades. Since the 1990s, the government has increased efforts to promote private-led development. The current sector-specific strategy is part of Egypt's Vision 2030, which emphasises the government commitment to improve the competitiveness of the knowledge-based economic sectors led by the private sector. The vision for the textiles sector aims at both meeting domestic demand and increasing exports to turn Egypt into a key global T&A supplier.

Egypt's textile sector strategy, Vision 2025, which has yet to be approved, consists of seven policy objectives (Table 3). Major cornerstones of the strategy include: value-chain integration and export growth (Objective 5), the promotion of human capital, the provision of industrial land and infrastructure, improvements in logistics to decrease lead times, the facilitation of raw materials and production inputs, reforming government policy, and the restructuring and modernisation of state-owned companies¹³. Expansion of the industrial base by developing and enhancing the local industry's competitiveness, as well as the establishment of 'textile cities' are also key pillars of the strategy (Table 3). The government has also increased efforts to try to slow and reverse the cotton sector's decline.

The overall goal regarding Objective 5 is to become the leading exporter in the MENA region, focusing on supplying medium and high-value products to the world's largest retailers and manufacturers with reliable and agile delivery through a fully integrated value chain (ETDS 2015). The government identified supplying primary textiles and fabrics to LMICs as the main market opportunities, in addition to a niche market strategy to supply finished products to the US and Europe. The T&A development strategy seeks to tackle a major obstacle of the Egyptian T&A sector: the limited vertical integration of various segments of the value chain. The plan is to improve vertical integration by attracting foreign direct investment into primary textiles and fibre production, including with a special fund to incentivise new investments. The strategy also aims to increase exports of intermediary products, especially products that use Egyptian cotton as an input, but the overall goal is to increase the exports of finished products. The strategic goal is to increase exports to US\$12 billion by 2025, which means a very ambitious quadrupling of the current export value: *US\$3.1 billion in 2018*.¹⁴

The key **product opportunities** we have identified from government sources, documents, and other government-related actors interviewed during field research include (both genders where not specified):

- (i) **knitted garments:** T-shirts, underwear, shirts (especially polo shirts), men suits and women dresses, sportswear;
- (ii) **woven garments:** denim products and trousers, men shirts;
- (iii) **children's wear:** knitted and woven articles, in particular high-end branded babywear using Egyptian cotton;
- (iv) **home textiles:** bed linen, terry towels, carpets.

¹³ In 2015, Egypt contracted U.S.-based Werner International, a management consulting firm focusing on the textile, apparel and fashion industries to restructure the 25 state-owned textile companies.

¹⁴ According to UN Comtrade 2019, including raw materials. Data represents global import data as of 09.07.2019.

Table 3: Textile Strategy Vision 2025 (preliminary version)

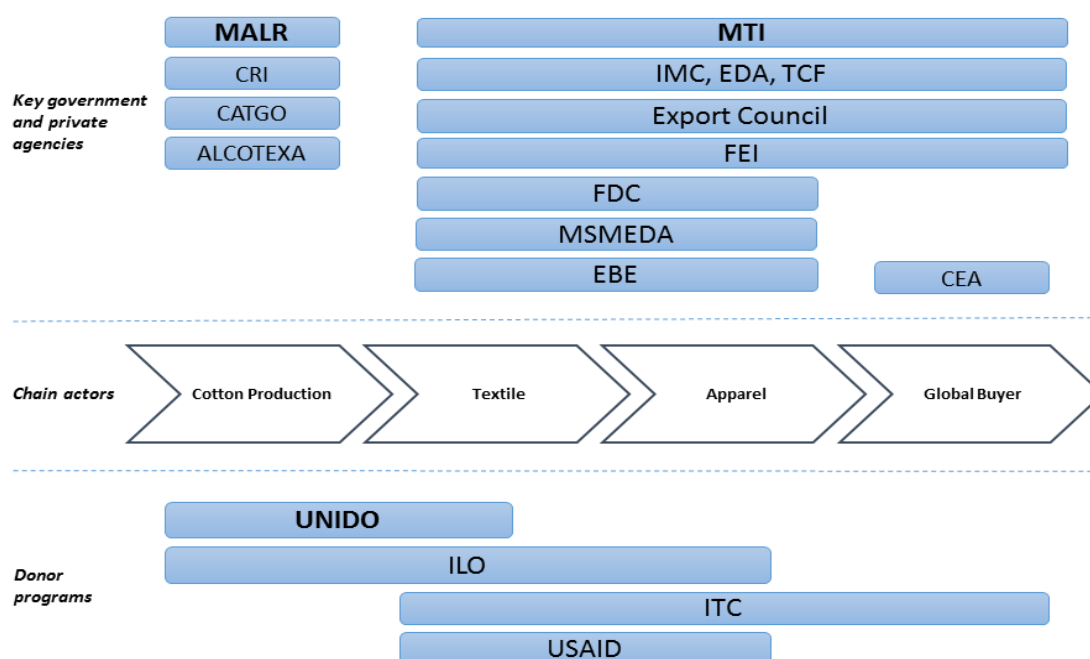
Objective 1: Increase productivity and quality of Egyptian cotton	Objective 5: Egypt textile value chain integration and export growth
a. Egyptian Cotton yield to reach 9–10 kintar per feddan	a. Increase Egypt textile value chain annual exports to US\$12 billion
b. Contamination-free and higher-quality fibre properties	b. Imports not to exceed US\$6 billion
c. Grow production to fulfil domestic and export demand	c. Establishing showrooms and distribution hubs in the EU and US markets
d. Establish high yield dessert mechanical plantation of Egyptian cotton varieties	d. Stimulate export demand for Egyptian cotton products
e. Create a sustainable, traceable, and transparent Egyptian cotton blockchain	
Objective 2: Develop management and labour skills, quality and productivity	Objective 6: Development of innovation and research and development
a. Upgrading all textile higher and technical education, and training curricula	a. Creation of an Arabic textile knowledge hub
b. Educate and train sustainable highly skilled, and productive human resources (around 1 million people)	b. Encourage start-up innovation projects
c. Increase productivity and efficiency of textile manufacturers	c. Create Egyptian cotton cluster retail stores
d. Enable the creation of a social and environment compliance industry	d. Development of Egypt textile industry 4.0
Objective 3: Enhance Egypt textile value chain growth and industrial development	Objective 7: Develop institutional support, monitoring, and policy reform (enabling environment)
a. Create a verified and accurate mapping of the textile sector	a. Implementing the Supreme Council recommendations
b. Commitment of US\$6 billion investments in downstream and upstream sub-sectors	b. Establish a National Fibre Policy
c. Development of 20 million m ² of textile industrial parks ('textile cities') and attraction of FDI	c. Increase textile industry registered Authorized Economic Operator (AEO) – Custom Clearance
Objective 4: Strengthen SMEs	d. Governmental institutions capacity building to support textile strategy implementation
a. Increase textile value chain formal SMEs	
b. Create SME and micro cluster networks through digital platforms	
c. Develop 500 world class competitive SMEs throughout Egypt textile value chain	

Source: Textile Strategy Vision 2025 – preliminary 2019 version; MOTI (2019)

3.6. Governmental institutions

This section presents the complex institutional framework of the Egyptian T&A sector, with a particular focus on the apparel sector. Figure 16 presents a summary of the key institutions.¹⁵

Figure 16: Summary of key institutions in the Egyptian apparel sector



3.6.1. MTI – The Ministry of Trade and Industry complex

The Ministry of Trade and Industry (MTI) and affiliated organisations are the most important governmental institutions supporting the T&A sector. The ministry envisions industrial development to be the engine of sustainable and inclusive economic development in Egypt and strives to provide an adequate environment for a sustainable inclusive economy based on enhancing competitiveness, diversity, knowledge and innovation.¹⁶ The transformation of the T&A industry and its export structure is a major pillar of the Egyptian industrialisation strategy, which is why a large variety of institutions affiliated to the MTI support the cotton, textile, home textile, and apparel sector in different ways. The sector modernisation strategy for the T&A industry (Vision 2025) was elaborated under the strategic guidance of the MTI. Its implementation is strategically guided by the Supreme Council for Textile Industry, which is directed by the Minister for Trade and Industry and assembles other key stakeholders. The MTI is also responsible for approving international donor programmes and projects targeting the T&A sector under a 'security clearance' procedure. According to interview sources, security clearance might take up to one year.

¹⁵ This chapter is based on reports and information collected during field research.

¹⁶ <http://www.mti.gov.eg/English/aboutus/ministrysmissionobjectives/Pages/default.aspx>

3.6.1.1 Cross-sectoral MTI institutions

3.6.1.1.1 IMC – Industrial Modernisation Centre

The Industrial Modernisation Centre (IMC) of the MTI is the key institution aiming to modernise Egypt's industries. IMC was established in 2000 and currently has roughly 300 employees in 15 branches. IMC centres support enterprises across various industrial sectors and conducts company-level gap analysis for technical and management issues as well as Export Readiness Audits (ERA). For the textiles sector, services include training courses — for instance for garment making (sewing, pattern making) — and branding development services for ready-made garment (RMG) companies. Services are provided in-house by IMC experts or externally. To be eligible for support, businesses have to fulfil certain selection criteria.¹⁷ Even though IMC is mandated to support companies of all sizes, mostly medium and large firms apply for services, with few small enterprises receiving support. IMC holds diverse Memoranda of Understanding with training institutes and donors, such as UNIDO, USAID, GIZ, JICA, and others.

3.6.1.1.2 EDA – Export Development Authority

The Export Development Authority (EDA) was established in 2017, has roughly 200 employees, and is responsible for the implementation of the ministry's export strategy, targeting all exporting or potentially exporting stakeholders. EDA aims to foster dialogue between the public and private sector and to strengthen cooperation between civil society organisations and businesses. EDA is in charge of drafting policies and the planning and implementation of a variety of export promoting initiatives, including the provision of market information through market studies and intelligence, as well as electronic marketing, international exhibitions, promotional missions, and B2B meetings. Approximately 40 international exhibition participations per year are facilitated by EDA, and companies receive subsidies for the participation depending on their export volume. Another pillar of EDA's work is to build and develop export capabilities through specialised training and technical support. This includes expert centres for export services (including banking), the establishment of an export hub, and training courses for SMEs in cooperation with USAID. In its work, EDA follows a GVC approach and focuses on high value-added sectors with global growth opportunities.

The five goals of the EDA are¹⁸:

- Sustainable development of Egyptian exports
- Encourage transformation towards high value-added exports
- Expand the export base to include SMEs
- Penetrate potential countries with promising export opportunities
- Simplify export procedures and promote suitable business environment for exporters

EDA also cooperates with the Export Councils (see 3.6.3.1.1) in supporting exporting companies. Companies which are members of the Export Councils are entitled to receive subsidies from EDA. The precise distribution of work between EDA and the Export Councils is however to some extent unclear and has been repeatedly changed in recent years. Owing to its recent set-up and the limited availability of finance, EDA's capacities to fulfil its mission appear limited for the time being.

¹⁷ They need to be privately owned, have more than 10 insured employees, and have a record of a commercial registry, industrial registry, and a tax card.

¹⁸ <http://www.expoegypt.gov.eg/services>

3.6.1.1.3 FTTC – Foreign Trade Training Centre

The Foreign Trade Training Centre (FTTC) is an autonomous non-profit training institute under the auspices of the MTI (until recently, FTTC was part of EDA). The FTTC supports the competitiveness and export capacities of firms through training and capacity building services since 2001/02. The establishment of the FTTC was particularly supported by Japanese donor and trade organisations. Today, the FTTC is also closely cooperating with other international and EU trade and donor agencies to improve its services.

3.6.1.1.4 PVTD – Productivity and Vocational Training Department

The Productivity and Vocational Training Department (PVTD) is in charge of the development of human resources through training and education, and is aiming to meet the demand of the industrial labour market.¹⁹ The PVTD has 4,000 employees. Their services cover multiple sectors, including the T&A sector. Interviews with stakeholders, however, have indicated that the supplied know-how is to a certain extent considered outdated by sector companies.

3.6.1.2 T&A specific MTI institutions

3.6.1.2.1 TCF – Textile Consolidation Fund

The Textile Consolidation Fund (TCF), established in 1953 and funded by the MTI, aims at (i) promoting the marketing of textiles in domestic and export markets and (ii) supporting the textile industry through technical studies as well as the establishment of laboratories, research institutes and training centres in order to raise the technical and professional standards of the sector in cooperation with the respective scientific and specialised bodies. The TCF includes a Marketing Research Department, Statistics Department, Textile Quality Control Centre (TQCC), Textile Development Centre (TDC), Textile Information Centre (TIC). The TQCC, TDC and TIC were established in cooperation with UNIDO.²⁰ The TCF is steered by a Permanent Committee consisting of members of the Chamber of Textile Industry and members elected ex officio from the MTI.

3.6.1.2.2 FDC – Fashion Design Centre

The FDC is a MTI-affiliated fashion and design school. It aims to (i) provide the ready-made garments industry with qualified personnel, (ii) provide industry-specific consulting services, such as design, quality control, and (iii) support young designers entrepreneurs via a small fashion incubator. In doing so, the FDC cooperates with the Italian Istituto di Moda Burgo (since 2001) and has established a new partnership with the University Politecnico di Milano more recently. Its 1.5 year educational programme offers customised courses for sewing, pattern making and fashion design. Approximately 280 students are currently enrolled. FDC also offers special trainings for designers, professionals and companies. Other stakeholders interviewed during field research indicated that FDC is financially constrained and the FDC graduates lack technical and industry-relevant skills, particularly in designing for industrial production. FCD graduates appear to mostly strive for a career in high fashion and couture.

3.6.1.2.3 CATGO – Cotton Arbitration & Testing General Organisation

CATGO is responsible for the monitoring of the quality of Egyptian cotton at the harvesting and ginning level. The organisation maintains modern infrastructure laboratories and

¹⁹ <http://www.mti.gov.eg/English/aboutus/Sectorsandentities/Entities1/ProductivityandVocationalTrainingDepartment/Pages/Activities.aspx>

²⁰ <http://www.tcfegypt.org/about.html>

testing equipment. CATGO offers arbitration, moisture testing, international classing, and other services.²¹

3.6.1.3 Other relevant institutions affiliated to MTI

3.6.1.3.1 IDA – Industrial Development Authority

The Industrial Development Authority's (IDA) mission is to promote the Egyptian industry by deepening local manufacturing, expanding high value-added and technological component industries and creating a suitable climate for attracting foreign investment. It is authorised to issue industrial licences, to provide infrastructure and to establish specialised industrial clusters and parks. Interviews indicate that the capacities of IDA are comparatively limited.

3.6.1.3.2 ICA – Industry Control Authority

The Industrial Control Authority (ICA) monitors manufacturers' compliance with government regulations. It protects rights of Egyptian consumer to have, use and consume industrial products of high-quality standards. On request, ICA also provides industrial studies covering standards and certifications to all national organisations.²²

3.6.1.3.3 EOS – Egyptian Organization for Standardization and Quality

The Egyptian Organization for Standardization and Quality (EOS) is responsible for developing and issuing Egyptian standards and licences. Further, it undertakes all relevant activities in the fields of quality assurance, conformity assessment as well as testing and industrial measurements.²³

3.6.1.3.4 ECS – Egyptian Commercial Service

The Egyptian Commercial Service (ECS) has 55 offices in 49 countries.²⁴ Seventeen of these offices are located in the European Union.²⁵ ECS aims to attract foreign investments as well as to promote trade and diversify export markets for Egyptian goods and services by supplying information and services to Egyptian companies.

3.6.1.3.5 QIZ – Qualified Industrial Zones Unit

Qualified Industrial Zones (QIZ) are designated geographic areas in Egypt that enjoy a duty-free status with the United States. The QIZ Unit issues QIZ certificates and monitors compliance of Egyptian exporters.²⁶ Products exporting using this programme must include a component of Israeli content.

3.6.2. Other governmental organisations and projects

3.6.2.1.1 TVET & Train Tex – Technical and Vocational Education and Training Reform Programme

The Technical and Vocational Education and Training Reform Programme (TVET Egypt) is a national training initiative supported by the EU. The hub brings together governmental, private sector, and partner organisations, aiming to develop innovative, achievable and

²¹ <http://www.egyptcotton-catgo.org/HomePageEN.aspx>

²² <http://www.mti.gov.eg/English/aboutus/Sectorsandentities/Entities1/IndustrialControlAuthority/Pages/default.aspx>

²³ <http://www.eos.org.eg/en/page/11>

²⁴ <http://www.mti.gov.eg/English/aboutus/Sectorsandentities/Sectors/EgyptianCommercialService/Pages/Goals.aspx>

²⁵ <https://een.ec.europa.eu/about/branches/eg00537>

²⁶ <http://www.qizegypt.gov.eg/Page/Overview>

sustainable methods to reform the education system across Egypt. It aims to better respond to new socio-economic needs, in particular youth employability and economic competitiveness in the context of the country's current and future development.²⁷ TVET focuses on three areas of intervention: (i) governance and management, reforming the institutional framework, capacity building, etc.; (ii) professional development, raising the quality of education, and (iii) transition to work, offering career guidance or services, such as a labour market information system.

The T&A sector is one out of 10 sectors the programme targets.²⁸ The Egyptian Association for Training and Research Services for Ready-Made Garment and Textile (TrainTex) is the implementing body of TVET Egypt for the textile sector, organised as a public-private partnership formed by a NGO owned by the private sector and co-funded by the European Commission and the Egyptian Government. It offers services such as tailor-made training programmes, technical assistance and consultancy, and monitoring and evaluation.²⁹

Future Fashion is another programme that will work in partnership with the TVET Egypt in the context of the textile sector. It envisages to help young graduates from technical schools to transition into work in garment manufacturing. The programme will work with small groups of students to prepare them for jobs such as being a quality controller.

3.6.2.1.2 MSMEDA – Micro, Small and Medium Enterprise Development Authority

The Micro, Small and Medium Enterprise Development Authority (MSMEDA), which replaced the Social Fund for Development (SFD) in 2017, is another cross-sector institution with a focus on supporting micro-firms and SMEs in the textile industry. Affiliated to the prime minister's office, MSMEDA has a long-term partnership with UNDP and is exclusively funded by international donors. MSMEDA has 33 regional offices covering all 27 governorates of Egypt. MSMEDA provides financial support, such as loans, and business development services, such as business courses in cooperation with the International Labour Organization (ILO) to micro and SMEs.

MSMEDA's database covers 3.1 million SMEs all over Egypt, roughly 84% of all SMEs in the country. Around 62% of Egypt's SMEs are part of the informal sector. MSMEDA's database covers formal as well as informal companies, the latter making up 40% of the database. A major goal of MSMEDA is to transform informal companies to formalised ones. Non-financial services intended to help SME's and let the sector grow include training to address financial gaps, technical gaps, HR gaps, legality gaps, and creating and implementing business plans. They also maintain a database of business service providers. Between 2017 and 2019, MSMEDA organised 510 training workshops on entrepreneurship with 11,947 participants.³⁰

3.6.2.1.3 Ministry of Agriculture and Land Reclamation (MALR)

The Ministry of Agriculture and Land Reclamation (MALR) and its affiliates play an important role in the cotton segment of the value chain, in particular since the MALR is directly overseeing cotton seed quality and distribution, which was previously handled by the private sector. The most important MALR affiliated institution in this regard is the Cotton Research Institute (CRI) (see 3.6.2.1.4). Further, the Agricultural Research Centre (ARC)

²⁷ https://ec.europa.eu/europeaid/sites/devco/files/aap-education-training-egypt-af-2012_en.pdf

²⁸ <https://tvetegypt.org/tvet/#about>

²⁹ http://www.traintex.net/EN/default_en.html

³⁰ <https://www.eg.undp.org/content/egypt/en/home/presscenter/pressreleases/2019/msmeda-and-undp-mark-the-micro--small-and-medium-sized-enterpris.html>.

and the Central Laboratory of Organic Agriculture (CLOA) are important institutions supporting agricultural production and productivity. CLOA promotes organic agriculture practices, conducts capacity building activities and monitors and issues organic certifications.

3.6.2.1.4 CRI – Cotton Research Institute

The Cotton Research Institute (CRI) was established in 1913 and is an affiliate of the MALR. CRI aims to increase cotton production yields through the development of new early maturing, pest-resistant, and stress-tolerant cotton varieties, as well as through the maintenance of genetic purity, yield potentials and fibre qualities of existing varieties.

3.6.2.1.5 Holding Company for Cotton, Spinning, Weaving and Clothing

The Holding Company is in charge of strategically managing Egypt's large public sector T&A companies. It is an affiliate of the Ministry of Public Enterprises, which manages government investments and the related companies, including the ones operating within the T&A sector. Modernisation of the state-owned T&A companies is one of the focuses of the T&A sector strategy 2025. This includes: (i) a substantial reduction of the number of active companies in all segments of the chain, (ii) a US\$1.1. billion investment programme in the remaining companies to introduce state-of-the-art production facilities, particularly in ginning and spinning mills, but also in home textiles and garments production, and (iii) a privatisation of the state-owned companies at the end of the programme, which is currently in the early phase of implementation.

3.6.2.1.6 Others

- Export Development Bank (EBE) – The EBE supports Egyptian exporters by issuing credit facilities.³¹
- Export Credit Guarantee Company (ECGE) – The ECGE provides credit insurance, factoring services, buyer's information reports and export debt recovery to exporters.³²
- Technical Education Unit – The Technical Education Unit is an affiliate of the Ministry of Higher and Technical Education and responsible for Textile Higher Education Universities. The unit provides technical education programmes (3–5 years) related to the textile sector and sub-sectors.

3.6.3. Private and public-private institutions

3.6.3.1.1 Export Councils

Three export councils cover the textile industry:

1. Textile Export Council (TEC)
2. Ready-Made Garments Export Council (RMGEC)
3. Home Textiles Export Council (HTEC)

The Export Councils are member-based entities that represent the interest of participating textile sector exporters. The three councils have been functionally merged recently. The councils are formally private entities, closely connected to the MTI. For instance, the

³¹ <https://www.ebebank.com/>

³² <http://www.ecgegypt.net/en/>

current president of TEC serves as deputy chair of the Supreme Council for Textile Industry.

The sub-sector specific councils support the members' export activities through trade shows and trade missions, and by providing market information, including export opportunities and buyers' lists, training and seminars, marketing studies, and individual consultancy. Currently, 950 companies are members of the councils. Membership is voluntary and goes with annual membership fees. Membership is however a precondition to getting access to export subsidies from EDA.

3.6.3.1.2 FEI – Federation of Egyptian Industries – Ready-Made Garments Chamber & Textile Industries Chamber

The Federation of Egyptian Industries (FEI) is one of the country's largest employers' associations, including 19 active industrial chambers³³, and considers itself as the voice of industry in Egypt. The Ready-Made Garments Chamber and Textile Industries Chamber are the two chambers representing the textile sub-sectors.

3.6.3.1.3 ExpoLink – Egyptian Exporters Association

The Egyptian Exporters Association – ExpoLink is another member-based private sector association, founded in 1997. ExpoLink collaborates with donors, such as USAID, as well as with governmental organisations, such as IMC. The main goal of ExpoLink is supporting its members to develop export-ready products and exporting activities, including through market intelligence and matchmaking of suppliers and buyers.³⁴

3.6.3.1.4 ETDA – Egyptian Textile Development Association

The ETDA is a business association representing Egypt's textile industry. Services provided by the association include: marketing and export promotion, technical assistance, policy advice, and information technology assistance.

3.6.3.1.5 ALCOTEXA – Alexandria Cotton Exporters' Association

Founded in 1932, ALCOTEXA is a non-profit, non-trading organisation engaging in the regulation of Egyptian lint cotton exports. Individuals and companies members of ALCOTEXA working in the cotton exporting sector have the exclusive right to export Egyptian cotton. Export contracts must be registered with ALCOTEXA approval, and every season the association announces regulations for selling different Egyptian cotton varieties.³⁵ In this context, it is also responsible for trade arbitration. ALCOTEXA owns the Egyptian Cotton trademark in partnership with the MTI (see 3.6.3.1.6).

3.6.3.1.6 CEA – Cotton Egypt Association & Egyptian Cotton Trademark

The CEA is the main body dedicated to the promotion of the Egyptian Cotton trademark. The Egyptian Cotton trademark is owned by ALCOTEXA and the MTI. CEA is funded through licence fees and infringement fines. Without receiving additional funds from the government, the scale and scope of its activities are currently limited. In 2015, samples from the UK, US and EU showed that 90% of what was labelled as Egyptian Cotton was not of Egyptian origin. Implementing a monitoring and tracing system for members, which safeguards the provenance of cotton sold labelled as Egyptian cotton, has been the major focus of the CEA in recent years. To this end, awareness raising activities vis-à-vis retailers

³³ <http://www.fei.org.eg/index.php/en/fei/about-fei>

³⁴ <https://expolink.org/expolink-mission-amp-vision/>

³⁵ <https://alcotexa.iimdo.com/about-alcotexa/>

in the EU and other countries have been implemented. At the moment, 70 companies — almost exclusively in home textiles — use the Egyptian Cotton trademark logo. Roughly half of the companies that use the logo are foreign owned. In the Egyptian apparel sector, only two or three companies use the logo. Since 2018, the Egyptian Cotton Steering Committee³⁶ is responsible for licensing and promoting the label worldwide. It consists of members from MTI, ALCOTEXA, CEA, the Ministry of Agriculture, the Supreme Council of Textiles, and the Holding Company for Cotton, Spinning, Weaving & RMG.

In spite of pursuing an ambitious agenda, resource constraints limit the range of activities of the CEA compared to its main competitor, the American Supima cotton organisation. Supima has more than 400 licensees worldwide, albeit with a strong regional focus in North America,³⁷ and a budget of some US\$7 million (CEA interview). The limited scope of activities of the CEA stands in marked contrast to the importance attached to it by most of our interviewees during field research.

3.7. Donor initiatives

3.7.1. UNIDO – The Egyptian Cotton Project

UNIDO engages with the Egyptian T&A sector through a project known as The Egyptian Cotton Project (2017–2019), funded with US\$1.5 million from the Italian Agency for Development Cooperation. The project's full name is 'From cotton seeds to clothing: Enhancing the sustainability, inclusiveness and value addition of the cotton value chain in Egypt'. The project leverages the Cotton for Life initiative³⁸ that aims to promote fully transparent, eco-friendly and socially responsible cotton value chains.³⁹ The Egyptian Cotton Project⁴⁰ aims to improve the economic, social, and environmental performance of the chain through the promotion of organic and non-contaminated cotton, local value addition (local content and processing), and local linkages. The project also aims to improve the quality, innovation, and scientific knowledge in the area of cotton. In February 2019, UNIDO also launched a Better Cotton Initiative (BCI) (see 3.7.2) pilot project under the framework of the Egyptian Cotton Project.⁴¹

The UNIDO project on the circularity of Egypt's textile value chain is also currently in process of security clearance at MTI. The project tries to tackle the waste produced in the textile industry by using it more efficiently, including with better valorisation. The pilot project will focus on denim scrubs, and introduce mechanical recycling to produce high-quality denim fabrics.

3.7.2. BCI – Better Cotton Initiative

BCI is a global initiative promoting sustainable cotton production through the Better Cotton Standard System: a holistic approach covering environmental, social and economic aspects of sustainability.⁴² Training for Egyptian cotton farmers through this programme started in 2019. The project is implemented by UNIDO in collaboration with the MTI, MALR, and local and international private sector stakeholders. In the pilot phase of the project, approximately 5,000 smallholder cotton farmers will be involved. Whether a direct BCI

³⁶ <https://www.cottonegyptassociation.com/egyptian-cotton-steering-committee-announced-safeguard-future-brand/>

³⁷ <http://www.supima.org>

³⁸ The initiative is funded by the Italian company Filmar and the Alexbank of Intesa San Paolo Group.

³⁹ <https://www.filmar.it/en/blog/135/cottonforlife-rethinking-the-cotton-value-chain>

⁴⁰ https://open.unido.org/projects/EG/projects/160068?_ga=2.229231962.772529826.1571815798-1775387007.1569846449

⁴¹ <https://www.unido.org/news/unido-pilot-better-cotton-initiative-egypt-towards-sustainable-cotton-production>

⁴² <https://bettercotton.org/better-cotton-standard-system/>

programme in Egypt shall be implemented, will be decided upon evaluating the pilot phase.⁴³

3.7.3. ITC – GTEX Project

The Global Textile and Clothing (GTEX) programme (2018–2021) of the International Trade Centre (ITC) aims to increase export competitiveness in five selected countries: Egypt, Morocco, Tunisia, Kyrgyzstan and Tajikistan. GTEX is funded by the Swiss State Secretariat for Economic Affairs (SECO; CHF 9.8 million) and the ITC (CHF 0.6 million). In-kind country contributions amount to CHF 1 million. The programme envisages to increase employment and income along the value chain. The project goal includes two key outcomes: First, to improve the business environment and the performance of trade and investment supporting institutions in the sector. Second, to improve the competitiveness of 35 SMEs. In Egypt, the programme started in the fourth quarter of 2019. Its budget amounts to roughly CHF 2 million. The institutional partners on the Egyptian side include the RMG Export Council, the Textile Export Council, the Egyptian Exporters' Association (ExpoLink), TrainTex, and the Fashion Design Centre.⁴⁴

3.7.4. USAID – SEED Project

USAID's Strengthening Entrepreneurship and Enterprise Development (SEED) Project is a five-year programme that will end in late 2019, early 2020. The budget is US\$22.9 million. The project focuses on strengthening the development of micro, small and medium enterprises (MSMEs) and entrepreneurship through: i) stimulating entrepreneurship and innovation; ii) enhancing formalisation of private enterprises; iii) improving financial and non-financial services to MSMEs; iv) integrating MSMEs and entrepreneurs in progressive value chains; and v) addressing enabling environment policy reform initiatives. Special attention is given to youth and women. SEED provides technical assistance, capacity building, and training to business development services and financial service providers. According to the project website, SEED has so far created 3,328 jobs, helped 8,712 SMEs to access financial services, and more than 200 MSMEs to integrate into value chains.⁴⁵

3.7.5. ILO – Better Work Programme

The Better Work Programme is a collaboration between the ILO and the International Finance Corporation (IFC), aiming to: (i) improve the working conditions in the garment industry; (ii) to ensure the compliance with workers' labour rights; and (iii) to boost the competitiveness of the apparel sector. The programme includes direct cooperation with factories towards complying with ILO core labour standards. Currently, the programme is active in 1,600 factories in seven countries.⁴⁶ Between July 2017 and December 2018 a pilot of Better Work's services benefiting 30 factories was implemented in the Egyptian garment sector and related industries. However, the Better Work pilot was not extended. The ILO states that an important consideration in this decision was Egypt's lack of conformity in law and practice with international labour standards, as determined by the ILO's supervisory bodies.⁴⁷

Another ILO project in Egypt is the ACCEL Africa project (Accelerating action for the elimination of child labour in supply chains in Africa'). The four-year programme (November 2018–November 2022; €23.5 million) is being implemented in six African

⁴³ <https://bettercotton.org/better-cotton-pilot-project-launches-in-egypt/>

⁴⁴ <http://www.intracen.org/projects/gtex/Egypt-Improving-the-international-competitiveness-of-the-textile-and-clothing-sector-GTEX/>

⁴⁵ <http://www.seedegypt.org/>

⁴⁶ <https://betterwork.org/about-us/the-programme/>

⁴⁷ <https://betterwork.org/where-we-work/better-work-pilot-in-egypt/>

countries and focuses on various supply chains.⁴⁸ In Egypt, cotton growing is identified as a high-risk activity, in which reportedly millions of children are involved each year.⁴⁹ However, to date, no robust statistical evidence is available, a deficiency the project will address.

3.7.6. EBRD – European Bank for Reconstruction and Development

Egypt has been a member of the EBRD since 1991 and qualified as a recipient country in 2015. In Egypt, the EBRD focuses on four objectives: i) supporting the competitiveness of Egypt's private sector; ii) improving the quality and sustainability of Egypt's public utilities through private sector participation; iii) supporting Egypt's Green Economy Transition; and iv) strengthen governance. The EBRD focuses on : (i) access to national or international consultants; (ii) training for domestic consultants; and (iii) connecting SMEs to domestic banks for finance.

3.8. Sustainability issues

Cotton production

Low and instable income of smallholders, seasonal labour, and child labour issues

Cotton growing in Egypt is predominantly done by smallholders and seasonal workers. Cotton production is a high-risk activity for producers due to low margins, low yields, as well as output and price volatility negatively affecting their income stability. The ILO also reports that child labour is present in Egypt's cotton sector. Although up-to-date and robust empirical evidence of the magnitude of child labour is lacking, there is apparently a general consensus on its prevalence, which is why the Egyptian government has elaborated a National Action Plan for Combating the Worst Forms of Child Labour and Supporting Families 2018–2025. The implementation of the plan is supported by the ILO via the ACCEL programme.⁵⁰

Large environmental footprint

Egyptian cotton also has a large environmental footprint, since the production of cotton depletes the soil, requires agrochemicals, and is highly water-intensive. The stringent demands on water and land consumption required by cotton cultivation pose high and growing opportunity costs to Egypt given: (i) the scarcity of both water and arable land in Egypt; (ii) increasing import dependence on wheat, the country's major food staple; and (iii) a rapidly growing population putting demand pressures on food consumption, land use requirements for settlements and infrastructure.

Existing water irrigation systems in Egypt are old and ineffective, and suffer from underinvestment. The management of water canals is run by the Ministry of Water Irrigation. According to interview sources, although water supply and management is considered an issue of national security, no integrated water plan exists which would take into account the needs of different sectors. Coordination between government entities on water issues is reported to be severely lacking. Water irrigation is based on the old open canal system in the Delta region, with water being supplied to farmers every 8–10 days. Water is reused, which increases the risk of contamination of organic land through

⁴⁸ https://www.ilo.org/ipecc/projects/global/WCMS_698536/lang-en/index.htm

⁴⁹ https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipecc/documents/publication/wcms_698538.pdf

⁵⁰ https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipecc/documents/publication/wcms_698538.pdf

contaminated water. Plastic contamination of water flowing through uncleansed canals is also widespread.⁵¹

Land use for cotton cultivation particularly in the Nile Delta is often suboptimal, so cotton cultivation could be moved to less fertile land. Highly fertile land could thus be better used for products that require such soil, such as food products. Additionally, pesticides used in cotton production pollute soil and groundwater. The use of pesticides is also a danger to untrained farmers and children involved in the production process (Impact Institute 2019). Organic cotton production requires significantly lower quantities of blue water (up to 80%), but organic production is limited in Egypt. Some of these issues are also targeted by UNIDO's Egyptian Cotton Project and the BCI pilot.⁵²

Processing and manufacturing

Limited wastewater treatment of some companies

Wastewater treatment is a key environmental risk from wet processing activities in the textile industry. A study carried out to test the industrial wastewater discharge into the main drain station at the industrial free zone area at Port Said found water above the legal limits for contaminants (El-Bassuony 2016).

Energy efficiency

Egypt has traditionally relied on subsidies to the population and companies to supply affordable energy. With costs of up to 7% of GDP and more in the early 2010s, and the country becoming a net energy importer also around in 2010, the fiscal cost of these subsidies was becoming unsustainable. Above all, the social incidence of the subsidy regime was regressive, disproportionately benefited richer households and energy-intensive sectors with high environmental externalities.⁵³ Starting in 2015, the government initiated a gradual phasing out of energy subsidies until 2021, and implemented a series of structural reforms in the energy sector, including an investment programme in renewable energy. Nonetheless, the energy mix including the production of electricity, is overwhelmingly based on hydrocarbons, such as oil and gas. In order to make the sector commercially viable, electricity tariffs were repeatedly raised during the last five years, both for households and businesses. The savings in government funds — some US\$4 billion per year — were used to finance a number of social programmes. In addition to two new cash transfer programmes, food subsidies have been increased by 300% to provide food security to the country's poorest, and the school lunch programme is now able to feed significantly more children. According to the World Bank, the Takaful and Karama programmes, which offer both conditional and unconditional pensions, cover more than 2 million households, reaching 9 million Egyptians, almost 88% of whom are women. By 2018, spending on social protection for the poorest 20% of the population had doubled, and subsidies began to target those groups that needed them most.⁵⁴ For companies, electricity price increases over the past 6 years amounted up to 50%, with further increases likely in the near future.⁵⁵ With electricity accounting for 5%–10% of total production costs

⁵¹ The German KfW supports a programme to modernize the irrigation system by installing new pumps and cleaning of canals from waste and contamination. Services are provided to farmers' groups of a minimum of 50 farmers.

⁵² <https://www.cottonegyptassociation.com/egyptian-cotton-launch-bci-pilot-project-part-sustainability-drive/>

⁵³ See OXFORD ENERGY COMMENT, August 2017, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/08/The-political-economy-of-energy-subsidies-in-Egypt-and-Tunisia-the-untold-story.pdf>
See ESMAP IMPACT Issue 16, June 2019, <http://documents.worldbank.org/curated/en/780061567532224696/pdf/Maximizing-Finance-for-Development-in-Egypt-Energy-Sector.pdf>

⁵⁵ Based on data provided by CEIC, see <https://www.ceicdata.com/en/egypt/electricity-price/electricity-price-commercial-251600-kwh>

in the textile industry, investing in energy efficiency will become commercially attractive for companies in the near future. This relates both to better process management to save energy, and investment into more energy efficient machinery. While the former is mainly related to skills training and reorganisation, the latter requires access to affordable finance and is thus arguably more difficult to implement for local SMEs.

Challenging working conditions in terms of labour rights, wages, and occupational health and safety

Social sustainability issues are a major challenge in Egypt's T&A sector. First, with regards to labour rights, the right to freedom of association is restricted by the Egyptian government. Second, worker's payment in factories is low (generally below €200 per month, see Annex: Figure 21) and social services are limited, which is why workers prefer to work in different sectors. Given two-digit inflation rates and rising living costs particularly in urban agglomerations, the current low wage levels in the industry are a key factor behind the comparatively high rates of workforce turnover and absenteeism. While contributing to the prevailing low-wage, low-productivity, low-price business model of many T&A companies, skills development and functional upgrading is structurally constrained, which arguably impedes innovation and thus the long-term sustainability of the industry.

Third, health and safety measures often do not comply with corresponding regulations. Dyes often contain heavy metal or other hazardous substances, harming workers' health, for example, or workers do not wear protective gear, etc. (Impact Institute 2019). Nevertheless, the impressions gained by the consultants team during some 30 factory visits in October 2019 suggest that the health and safety situation in export-oriented local SMEs is significantly better than in East Asian countries (see company visit reports from sector experts).

The ILO's Better Work programme targeting the T&A sector ended in late 2018 and was not extended due to Egypt's lack of conformity in law and practice with international labour standards, as determined by the ILO's supervisory bodies.⁵⁶ The concept of decent work as promoted by the ILO and the call for responsible value chains potentially benefits all workers and in particular those most vulnerable, i.e. women and youth. ILO worked together with Egyptian constituents to strengthen the enforcement of existing regulations by supporting the development of the tools and procedures of labour inspectorate and the capacity of employers' and workers' organisations and their active involvement in the prevention process. Furthermore, concepts of health and global security were introduced in the educational curricula allowing an early anchoring of good practices (ILO 2018).

Gender

The great majority of workers in the textile and apparel sector in Egypt are women. Gender-based discrimination and violence are still prevalent. As is the case in many T&A producing countries, a gender divide exists in the Egyptian T&A industry, with management and high-skills professional positions typically staffed with men, while women are restricted to low-skilled jobs. In our interviews, this has been typically explained with reference to cultural factors, which contribute to women leaving work after marriage, or because of family obligations, and high rates of absenteeism. All of these factors purportedly discourage companies from promoting women. Besides the discriminatory

⁵⁶ <https://betterwork.org/where-we-work/better-work-pilot-in-egypt/>

dimension, the prevailing gender division of labour might also have negative effects on productivity.

Empirical research points to the possibility of increasing production-line productivity with higher numbers of female line managers (Naeem and Woodruff 2015). Opening up career possibilities for female workers might thus increase company performance. Empirical evidence for the T&A industry is not yet fully conclusive, but the validity of the relationship between company performance and female participation in management positions has been shown for a cross-section of other industries, particularly for industries where women form a larger share of the labour force, such as in the services sector (see e.g. Christiansen *et al.* 2016). Thus, the case for promoting the role of women in the T&A industry is not just based on political and ethical arguments, but also on business efficiency.

The ILO and UN Women have a programme named “Promoting Productive Employment and Decent Work for Women in Egypt, Jordan and the occupied Palestinian territory”, which aims to work with national partners to create gender responsive labour laws and policies and develop a gender responsive private sector that attracts, retains and promotes women, and challenges stereotypes about gender roles in society.⁵⁷ The Federation of Egyptian Industries recently published a position paper on Women Entrepreneurship Development, also calling — *inter alia* — for a gender-sensitive legal and regulatory system, access to gender-sensitive business development support services, and higher representation of women in policy dialogue (FEI 2019).

Youth

Egypt's youth unemployment rate is at a worrying high level. In 2019, 32.6% of Egypt's total labour force between 15 and 24 years were unemployed (World Bank 2019b). The misalignment between the educational and skills systems and the economy's demands particularly contributes to high unemployment rates (ILO 2017, 2018). Typically TVET programmes do not include internships and training on the job, causing students to be ill-prepared for practical employment (ILO 2017). There is, in addition, not only a lack of jobs in terms of quantity but also in terms of quality. Egypt's youth, and in particular women, are the most vulnerable to unfair practices in the labour market and thus more affected than other age groups by the deficits of conforming to national and international labour standards (ILO 2017).

Child labour in textile and apparel companies is a problem to such an extent that youth workers aged less than 15 years are employed. Though no robust empirical evidence exists, drawing on the interviews conducted during this project, the phenomenon seems to be widespread in the sector. The cohort mostly affected are secondary school dropouts.

⁵⁷ https://www.ilo.org/beirut/projects/WCMS_703463/lang--en/index.htm

4. IDENTIFICATION AND ANALYSIS OF OPPORTUNITIES AND OBSTACLES

Based on the analysis of the development and trends in the EU market (see Chapter 2) as well as Egypt's T&A sector and export development (see Chapter 3), this section argues that the most promising product-market combinations (PMCs) are:

- Niche market Egyptian cotton womenswear
- Mid to high end Egyptian cotton menswear, particularly woven shirts
- Egyptian cotton underwear
- Islamic wear
- Men's, women's and children's low to mid-end casual wear (incl. denim products)
- Men's and women's low to mid-end suits

The following section discusses the basis for the selection of these PMCs as well as related opportunities and obstacles in the apparel sector and related value chains in more detail.⁵⁸

4.1. Key obstacles

4.1.1. Systemic obstacles

Unstable macroeconomic framework

Egypt's macroeconomic situation has slightly improved over the last two years, with growth averaging 5%, fiscal deficit falling to 9.7% (end of 2018), and the current account deficit decreasing to 2.4% (2018) from 6.1% in 2017. Headline inflation, though on a downward trend, is at 12.3%, and the external debt service ratio at 17% relative to the current account, both remaining challenges to the economy. Due to the high population growth (+2.5 million per year) and a fall in investment dynamics, inter alia because of high interest rates, employment rate fell to 38% in 2018, from more than 40% in 2016. Fiscal consolidation, including cuts to energy subsidies, in combination with high inflation continue to pose social risks, as living conditions for the population deteriorate. Thus, in spite of achieving a degree of macroeconomic stability, the social situation remains vulnerable with key poverty indicators remaining high.

Eroding competitive advantages

Due to high inflation levels, upward pressure on wages will arguably increase in the short to medium term. As wage costs are key for the price-competitiveness of most T&A producers specialised in the low to mid segments of the T&A market, the competitive advantages emanating from the 2016 exchange rate devaluation will gradually erode.

High interest rates, which after devaluation are on average about 4% points higher than previously, act as an impediment to investment, in particular for the private sector. This curtails upgrading in the T&A sectors, particularly for SMEs.

⁵⁸ Thanks go to CBI sector experts, which have provided valuable inputs for this section.

Declining cotton production

Cotton production in Egypt is on a long-term downward trend for a variety of reasons, including: low prices and low farmer incomes, decreasing production area⁵⁹, decreasing yields, labour costs limiting collection rounds, cotton string contamination, crop switching, and regulatory changes. The latter have led to decreasing local demand, since textile mills turned towards importing short staple cotton.

The low prices and associated crop switching in Egypt are also a result of the pricing system. Cotton in Egypt is overwhelmingly cultivated by small-scale cotton farmers via labour-intensive production methods. Farmers decide on the crops to be produced based on expected revenue. Cotton price determination in Egypt essentially depends on world market prices. Cotton prices have been showing a downward tendency over the last years, so farmers have shifted to other crops with higher returns, such as rice.

For these reasons, and also in the context of increasing competition in long and extra-long staple production, in particular from the US, China, and India, Egypt's area under cultivation for cotton and, consequently, yields have gone down significantly. If this trend continues, as is expected by some experts interviewed, it will eventually pose a threat to the feasibility of the government's Textile Vision 2025 objective to vertically integrate the cotton value chain in Egypt.

For the apparel segment, the declining cotton production is however of minor importance, since most companies rely on imported textile inputs.

Lagging dynamics with respect to organic cotton production

The scale of organic cotton production in Egypt is severely lagging behind other cotton cultivating countries due to a number of factors. The knowledge base for organic cotton cultivation in the Egypt is very limited, both at government institutions (in particular the CRI) and among farmers. Mistakes have been made, for example, initially using low-yield cotton varieties such as Giza 45 for organic cotton production. This specific mistake has now been corrected, with better-suited varieties being currently grown, such as Giza 92 and 94, which have higher yields .

A variety of reasons, including small plots of land for cotton cultivation, higher levels of exposure to air and water contamination, have led farmers in the Delta region to experience problems with certification under GOTS. Farmers are also reluctant to switching to organic cotton production, given the lack of knowledge with respect to organic cultivation, the lower yields and the practice of crop rotation. In addition, certification of land is costly, and farmers typically cannot pay for the cost on their own.

With respect to spinners and weavers, companies complain to not earn money on organic yarn and fabric production yet. An important factor underlying this is the complete segregation requirement for processing organic cotton under GOTS, which is very cumbersome for producers (and arguably too strict for clothing as opposed to organic foodstuffs). Organic cotton has been included in the production portfolio by textile producers mainly because of demand from buyers.

The first initiatives to establish organic cotton production in Upper Egypt (in particular the Faiyum governorate) have been started, as this area is better suited for organic cotton production.

⁵⁹ Production area is at a historical low level with 216,000 feddan in 2017/18, compared to 920,000 feddan in 1996/97.

Given the secular market trend towards organic and sustainable T&A products in the European market, overcoming existing bottlenecks and increasing the quantity and quality of organic Egyptian cotton, should become a priority task for policymakers in Egypt.

Lack of vertical integration and upgrading

The sector generally lacks vertical integration. A large share of Egyptian cotton (60%–70%) is exported without adding significant value, and, on the other hand, cheaper and short staple cotton is imported for further processing. The Egyptian T&A sector thus does not use the full potential of having a fully integrated value chain. This is particularly true for the apparel segment of the chain, since only few firms and products use ELS as an input. For this reason, Egyptian textile companies use imported cotton yarn, even though knitting, finishing and producing clothing often takes place in Egypt. While Egypt does have a textile production industry, fabrics also are imported from Europe and Asia. This is because of lower prices and because special fashionable fabrics are not always easily available in Egypt. Finishing, bleaching, dyeing and printing services represent around 35% of the value of a processed fabric. Having to outsource these services to international providers and reimport the finished fabrics for further processing into garment or home textiles has been both costly and burdensome. Furthermore, it has prevented Egyptian producers from upgrading into higher segments of the value chain, like for instance full-package services.

The major upstream bottlenecks (cf. MOTI 2019) of the sector include:

- (i) man-made fibre;
- (ii) cotton yarns;
- (iii) woven fabrics, in particular narrow woven fabrics and denim from non-Egyptian cotton;
- (iv) light-weight cotton fabrics used as input in the local apparel sector;
- (v) knitted fabrics, such as man-made fibre knitted fabrics and very fine Egyptian cotton fabrics, such as those used for fine underwear or polo shirts;
- (vi) quality and supply of dyeing, finishing and printing for woven and knitted fabrics.

Low profitability and lack of investment

Given the competitive nature of the global T&A value chain and the specialisation of most Egyptian companies in the low to mid segments of the market, profitability in the export-oriented industry appears to be rather low. Reported profit margins were mostly below 10%, and in some cases smaller than 5%. While profitability in the domestic market seems to be somewhat higher, the T&A sector generally lacks investments on various scales. Many firms, in particular locally owned small firms, in different segments of the chain operate with old equipment and machinery. While larger family-owned companies have the capacity to finance investment from retained profits and accumulated assets, smaller firms neither have the required capital nor do they often have access to banks. The major investment dynamics during recent years thus come from two sources: FDI mostly from expatriate Syrian entrepreneurs, which have invested, for example, in textile production for curtains, etc., and the state-owned holding company, which is currently in the process of implementing a large scale modernisation programme, to be financed largely through the sale of land and real estate in urban areas. In general, investment dynamics, though low in aggregate, has thus been biased in favour of larger private and foreign, as well as state-owned companies. Arguably, it will take significant change in international market conditions, or the modernised state-owned companies aggressively moving into the mass market after being privatised, to prompt major structural changes within the T&A sector, unless the private sector modernises and upgrades into more innovative and higher value-added products.

Limited access to finance, in particular for SMEs

A major interrelated obstacle regarding the lack of investments and modernisation is the lack of access to finance. Given the prevailing low-wages, low-productivity, low-prices business model, companies, in particular SMEs, suffer from low profitability. Modernisation of technical machinery and equipment remains thus a big challenge for textile, home textile, and RMG companies. Funds for investments either have to come from retained profits, family savings, or bank loans. Typically, the first option is only open to well-established large companies. Commercial banks charge interest rates that are rather high — typically between 10% and 15% in the recent past — and have stringent collateral requirements. The government has remedied the situation somewhat with the establishment of a financing facility offering subsidised rates. It remains however doubtful whether this facility will suffice to cater for the financing needs of the sector in the near to medium term.

Innovation dynamics remains low

Limited evidence from company interviews suggests that a majority of export-oriented companies are located in the low to mid segments of the textile market. There is a widespread consensus in the global T&A industry that a business model focussed on price competition, which in turn is based on low wages, is highly vulnerable to competitors (mainly from Asia), but the general attitude towards product and process innovation among companies interviewed appeared relaxed. Rhetorical references to the need for innovation were frequent, and in particular in-house product development or design services were generally regarded as desirable by company representatives, but the information provided on concrete upgrading and innovation strategies as well as activities remained scarce.

Lack of vocational training, education, and skilled workforce

If at all, vocational training takes place at individual companies, while large companies have in-house TVET centres, sometimes operated with support from the Egyptian government. High turnover rates and absenteeism however discourage companies from investing in human capital, as companies fear that their investment in employee training will be quickly wasted and benefit competitors. There is a general lack of skills formation and human capital development. Another problem relates to the lack of trained technicians and middle management equipped to perform the roles of quality management, product development and export management.

At the systemic level, a limited number of universities as well as the FDC provide higher education in textile engineering and design. Opinions expressed by interviewees point to a mismatch between curricula and the needs of companies, in particular with respect to designing for industrial scale production. Thus, if needed, companies contract Europeans instead of local designers.

Governmental support for the sector is comprehensive, but some institutions lack financial resources and the allocation of tasks and responsibilities is to some extent unclear

The Egyptian government supports the development of the sector through a comprehensive set of policies and services such as the Egypt Vision 2030 and the planned Textile Vision 2025. However, many governmental institutions lack adequate resources, like the EDA, or have overlapping objectives and tasks, which is why there seem to be many institutions involved in the support of specific tasks. For example, the IMC, PVTDC, TCF, the Textile Technology Centre, and the Ministry of Manpower Training Centre provide training and productivity improvement services. The organisation and support of

international trade shows, exhibitions, and B2B mission involves the EDA, Expolink, the Export Councils, IMC, and the Egyptian trade fair convention authority. Export market information and related information services are provided by EDA, Expolink, ECS, TCF, and IMC. This situation increases information costs for companies and thus impedes access to services.

Limited availability of workers in labour-intensive apparel segment

Factories struggle to find enough workers. In particular the low wages, which are often lower compared to other sectors, makes it hard to recruit skilled workers on a long-term basis. Some companies have to run bus services to get workers from areas far from productions sites. Other factories rely on migrant workers. Furthermore, some potential female workers are reluctant that they might lose pensions received through male family members if they take up formal jobs.

Lack of sustainability and social responsibility in cotton production

Cotton growing in Egypt is predominantly done by smallholders and seasonal workers. Cotton production is a high-risk activity for producers due to low margins and yields as well as output and price volatility, negatively affecting their income stability. The ILO, in addition, highlights that child labour is prevalent in Egypt's cotton sector.

Egyptian cotton also leaves a large environmental footprint. Cotton production depletes the soil, requires agrochemicals, and is highly water-intensive. Cotton cultivation require high levels of water and land consumption posing high and growing opportunity costs to Egypt because of three factors:

- (i) the scarcity of both water and arable land in Egypt;
- (ii) increasing import dependence in wheat, the country's major food staple;
- (iii) a rapidly growing population putting demand pressure on food consumption, land use requirements for settlements and infrastructure.

Existing water irrigation systems are outdated and suffer from underinvestment. Pesticide use can also be a danger for farmers and children involved in the production process if they are not properly trained (Impact Institute 2019).

Organic cotton production, which is limited in Egypt, requires significantly less water. Given that the apparel sector is only loosely interrelated with local cotton production, sustainability issues in the cotton segment are often not directly related to companies in the apparel segment.

Manufacturing processes face a variety of sustainability and CSR issues

The main sustainability issues related to manufacturing in the sector (see section 3.8 for more details) include:

- (i) the limited wastewater treatment of some companies;
- (ii) the restricted freedom of association for labour unions;
- (iii) wages in the T&A sector are comparatively low;
- (iv) working conditions sometimes do not meet health, safety and hygiene standards (OSH risks);
- (v) child labour is allegedly widespread in cotton cultivation, and in textiles and RMG, including using apprentices under 14;
- (vi) women and younger employees are particularly affected by the challenging working conditions.

4.1.2. Obstacles to export

Egypt's partially negative reputation as a supplier country among European buyers

Interviews with European buyers suggest that Egypt has a partially negative reputation as a supplier country, mostly due to delays in supply and challenging communication leading to missing or late responses. Some buyers also raised concerns about dealing with small privately owned businesses in Egypt which lack exporting experience. Buyers that have sourcing relationships with Egypt, however, generally praised the price-quality ratios of Egyptian firms.

Strong global competition in the apparel market has increased price sensitivity and reduced margins

Strong competition in the market creates downwards pressure, which reduces margins and the profitability of many firms, making additional investments difficult. Some Egyptian apparel firms use export agents, which further limits their margins. The high-price sensitivity also implies that added values, such as social or environmental improvements or certifications do not necessarily translate into higher prices and margins, but are typically considered a pre-condition by EU buyers to source from Egyptian producers, for which no extra compensation is granted.

Only a few companies export Egyptian cotton or organic cotton products

Almost all apparel companies that produce cotton products do not use Egyptian cotton and rely on cheaper imported inputs to supply the local and export markets. In some cases, this is a requirement of a specific product, such as denim. In other cases, long staple Egyptian cotton could improve a product but its high costs can be an obstacle for Egyptian textile producers. Additionally, the use of organic cotton in textile product production is very low. The limited availability of organic Egyptian cotton limits the possibilities for expansion. Furthermore, organic cotton is also more costly and is seen as a premium input so it may not align well with firms whose business models focus on low-priced market segments.

Egyptian SMEs in the apparel segment lack knowledge and capacities in various areas to enter or improve their position in the EU market

The interviews and company audits in the apparel sector indicate that many local SMEs in the apparel sector have clear limitations regarding:

- (i) international communication standards;
- (ii) export marketing;
- (iii) financial management (pricing and costing);
- (iv) knowledge about EU legal and private buyer requirements, including certification, technology (ICT and integrated systems) and communication standards, CSR, etc.;
- (v) design capabilities;
- (vi) technology standards due to outdated machinery;
- (vii) product quality.

Limited design capacity

Approximately 90% of apparel firms in Egypt are operating on a CMT or OEM model. If, in rare cases, buyers demand design services, companies contract external designers often based in Europe. Local designers graduating from Egyptian institutions, such as the Egyptian Fashion and Design Centre, are negatively known for lacking the practical skills to design for industrial production. Other international cooperation programmes, like

USAID/SEED, have tried to remedy this situation with a series of capacity-building measures, including cooperation with Italian design centres, joint curriculum development, etc., but interviewees did not report improvements.

Limited export marketing

Many apparel producers do not have a sales plan or a proactive sales attitude. They do not actively search for new customers and have no strategic plan. Some companies exhibit at fairs, particularly when trips are funded by support institutions, but often with insufficient preparation. Company representatives also face obstacles with getting EU visas to participate in European trade fairs.

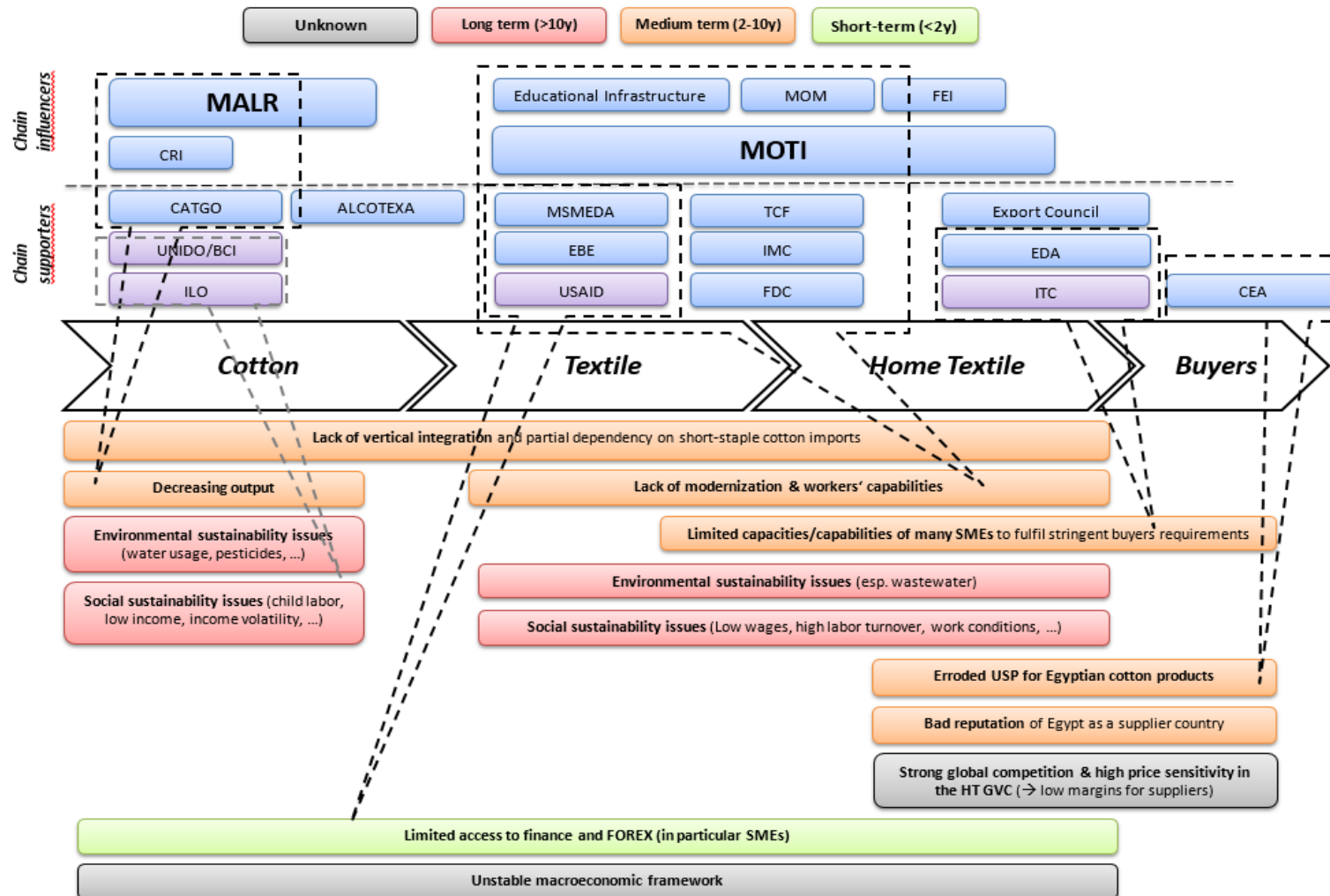
Limited use of ICT and integrated systems

ICT is of growing importance, such as computer-aided design, real-time order tracking for the manufacturer and the buyer, resource planning, inventory management, handling logistics, etc. In order for Egyptian producers to become full-package suppliers, these systems and services need to be in place. Interviews with factory management indicated that employees often are not open to changing their ways of working and adopting ICT systems to increase efficiency, improve planning and provide enhanced customer service.

Lack of certifications

Company visits indicate that the working conditions in general are not alarming, but that companies lack labour-related certifications, as well as policies, trainings and visuals in the factories. This represents a competitive disadvantage when working with EU buyers, as many buyers require companies to be audited under standards, such as BSCI or SEDEX. Companies consistently comply with major labour standards in practice, but they lack proper documentation to attest to it, which excludes them for consideration from some buyers. In the apparel industry, often each major European buyer, whether it is a retail chain, supermarket, or department store, has a unique code of conduct, so if Egyptian firms want to sell to such buyers, a large investment in getting multiple certifications may be necessary.

Figure 17: Indicative overview of obstacles and related institutions in the apparel sector



4.2. Key opportunities

Recovering EU market looking for new suppliers: Nearshoring with short lead times an advantage for Egyptian companies

The Egyptian T&A sector may benefit from the recovering apparel market in the EU, as well as from the restructuring of the T&A GVC away from China. This opens a window of opportunity for alternative supplier countries, potentially including Egypt. The political situation in Turkey may also provide an opportunity for countries in the MENA region, including Egypt. At the moment, exports are mainly driven by large companies, but SMEs also have the potential to increase exports.

Even though China is still the most important supplier of apparel to the EU, rising trade tensions and other factors are causing a relocation of production away from China, increasing nearshoring to Europe. This movement is so far benefiting nearby Turkey, and within the EU, Romania and Portugal, but this trend could potentially be exploited by Egypt as well, given its competitive advantages, such as:

- (i) competitive wages compared to many Asian supplier countries⁶⁰ (see Annex: see Figure 21);
- (ii) preferential market access to the EU and the US;
- (iii) proximity to the EU market;
- (iv) local supply of ELS cotton.

However, the Egyptian sector so far lacks vertical integration, continues to export a high share of unprocessed cotton, depends on cheaper and lower-quality imported cotton, and has a variety of bottlenecks in the textile segment of the chain. The promotion of a vertically integrated value chain and local processing of Egyptian cotton should be at the core of the sector development strategy. However, for the apparel segment, such a strategy has clear limitations given that only few apparel products, particularly in higher market segments can use Egyptian cotton as an input.

Exporting to the EU or the US is — depending on the specific value chain — very demanding and often not very profitable due to low margins. Linking to these GVCs can nonetheless be beneficial if they act as a channel for learning, potentially supporting the competitiveness of the sector and exports in value chains with higher margins. In this context, Egypt can benefit from the aforementioned competitive advantages. For SMEs, potential access to the EU is particularly important as European buyers are likely to have small orders. In this context, proximity to the EU is a major advantage that allows for short lead times and facilitates quicker restocking, since transport by plane, truck and boat is well organised in Egypt.⁶¹ Clothing producers in Egypt seeking to have short lead times also benefit from the local availability of accessories, including zippers, buttons, stitching tread, packaging, hangers and polybags.

Exploiting the nearshoring trend will also depend on the extent that Egyptian producers are capable of functional upgrading, so as to offer additional benefits to EU buyers and gain a competitive edge over their competitors. In general, apparel manufacturers in Egypt are CMT or OEM firms that offer no or few additional services. In order to add value,

⁶⁰ Salaries in the Egyptian apparel sector are low (below €200), especially in comparison with its competitor Turkey. But compared to its Asian competitors, these wages are high. This is one of the reasons why it will be very difficult to be competitive in low-end mass production. Salaries in the clothing industry in Eastern Europe are generally higher, but vary widely by country. In Poland, for example, wages are approximately €400–€500, while in Georgia, they are comparable to Egypt.

⁶¹ Most production is shipped by sea and takes maximum eight days to the EU, for example, when shipped to Rotterdam from Port Said and then by truck to final destination. Air is only a few days for samples or very small-order quantities from Cairo Airport.

Egyptian firms should aim to upgrade to OEM or ODM. This would enable them to increase their profit margins and also help to reduce costs for EU buyers. Upgrading from CMT to OEM or ODM is strongly related to facilitating learning processes, improving management and workers' skills, access to finance, etc. However, some companies have in-house design or developed their own clothing brands, in particular for the local market, which could be exported to the EU or used as sample collections to attract EU private label buyers.

Short lead times, as well as timely and reliable product delivery are key for Egyptian producers to benefit from EU nearshoring trends. Given Egypt's geographical proximity to Europe, the ability of T&A firms to produce small orders, as well as the industry's production at all levels of the supply chain, there is good potential to improve vertical integration in the sector to shorten lead times and thus increase competitiveness in the EU market. For this to happen, the bottlenecks in the textile segment described above need to be remedied. That combined with the lack of finishing capacities present a chance to fully integrate the value chain and capture important value-added processes and reduce lead times. It can also present opportunities for individual businesses to functionally upgrade. The US\$1.1 billion modernisation programme for the state-owned textile mills as well as Chinese, Syrian and other recent investment in textile production and finishing capacities are important steps to potentially improve the situation in the near future. The opportunities arising from these developments should be further exploited to develop a national fully integrated value chain and support business improvement. This will strengthen Egypt's position in competing for EU market segments that require low lead times.

Lifestyle and storytelling trends could offer opportunities for Egyptian cotton

Egyptian cotton has traditionally enjoyed a high reputation internationally, particularly among older generations and quality-conscious consumers. Traditional quality aspects have been losing importance in consumer decisions, especially among younger consumers, the trend towards lifestyle and products that have a background story present opportunities for Egyptian producers in the EU market. For this purpose, a marketing strategy oriented towards the mid to high end as well as luxury segments in Europe, should build on this reputation and include the promotion of Egyptian cotton as a quality brand. The establishment of the Egyptian Cotton trademark initiative in 2000 has contributed to increase quality awareness, particularly with respect to retailers and producers, but the profile of Egyptian cotton with producers, retailers as well as consumers in Europe could still be expanded considerably.

Large and growing local and regional market

Local and regional markets are important learning sources, especially with regard to design and brand development. Egypt has the benefit of a relatively large domestic market, which will continue to grow strongly in the foreseeable future thanks to the high population growth. Egypt could also increasingly tap into growing markets in the macro region of the Middle East, in particular Saudi Arabia and the Gulf countries. Both geographical and cultural proximity could facilitate the promotion of mid to high-segment products, such as Islamic fashion, in these markets.

Shifting demand patterns and the sustainability trend offer opportunities for environmentally friendly cotton and textile production, including organic cotton

Land use for cotton cultivation particularly in the Nile Delta is often suboptimal. IN addition, pesticides used in the production pollute groundwater and soils. Cotton cultivation could

be moved to less fertile land, freeing the highly fertile land for food crops, for example. Promoting the production and consumption of organic cotton is of crucial importance to achieve the UN Sustainable Development Goals (SDGs) since organic cotton production has a substantially smaller environmental footprint and tends to preserve soil quality. Expanding sustainable production practices under BCI and similar initiatives would not only facilitate market access to the EU and other markets via increased certifications, but reduce costs by increasing resource efficiency, including energy and other inputs.

Another opportunity to be exploited is the strong global trend towards circularity in textile and apparel production. Given the large material throughput and the resulting amounts of waste of fabrics and yarns in the Egyptian T&A sector, investing in circularity will deliver benefits both for export and domestic markets, efficiency gains for producers, and, last but not least, environmental benefits. Initial projects could focus on types of fabrics, which have a particularly pronounced environmental footprint, and are widely used in the domestic T&A industry. Among these are denims, for which pilot projects have already been developed. At a subsequent stage, such projects might be extended to other cotton fabrics, such as those used for bed linen and towels.

Exporting to non-mass markets may also require companies to invest in quality. Firms can also seek to target small but emerging markets that look for products based on more sustainable production models, such as using recycled raw materials or innovative new environmentally friendly materials — such as Egyptian cotton, sustainable fabrics, organic cotton, Ecovero, Tancel, recycled fibres, etc. — and inputs for dyeing techniques.

High potential in Europe for selected apparel products

Promoting companies, foreign or locally owned, that are embedded in the local economy is important since they are more likely to create linkages that support the country's development process. However, in the following discussion, we emphasise supporting exports of locally owned SMEs to the EU, in line with the CBI's mandate.

Egyptian apparel firms that aim to increase exports to the EU should specialise in specific product groups. In doing so, the companies are able to offer standardised high-quality products to buyers in the mid and high segments. Based on an analysis of the EU's market development and trends (see Chapter 2), as well as Egypt's sector and export development (see Chapter 3), this report identifies the following product-market combinations as having high potential for increasing Egyptian SMEs' exports to the EU (see also Table 4):

- 1) Niche market Egyptian cotton womenswear
- 2) Mid to high end Egyptian cotton menswear, particularly woven shirts
- 3) Egyptian cotton underwear
- 4) Islamic wear
- 5) Men's, women's and children's low to mid-end casual wear
- 6) Men's and women's low to mid-end suits

For Egyptian SMEs, targeting markets that will pay more for small runs of higher quality products has more potential than trying to compete with low-cost, large-scale producers that can outcompete on economies of scale. PMCs (1), (2), and (3) would use Egyptian ELS cotton as a selling point, an advantage that Egyptian SMEs can leverage thanks to the positive perception and high value that Egyptian cotton has among European buyers.

PMC (1) and (3) would also aim to take advantage of the growing market for niche high-end womenswear in the EU. As discussed above, this market involves growing consumer

demand for products that have sustainable characteristics or background stories that appeal to potential customers. Egyptian SMEs are positioned to take advantage of these trends by using high-quality Egyptian cotton, organic cotton and processes with lower-than-average environmental impact. SMEs can also provide social services, such as creating employment for women or training opportunities, which can also be used to create stories that attract customers.

By targeting PMC (2), and to some extent (1) and (3), some selected SMEs may also take advantage of a growing market for high-end and luxury items in the EU. Producers of men's shirts, for example, can seek to produce ELS cotton shirts, possibly also organic, for high-end European brands.

PMC (4) would aim to take advantage of the growing market for Islamic wear in the EU. Companies that are successfully selling products for this market domestically may have opportunities to start exporting to the EU.

PMCs (5) and (6) take advantage of Egyptian SMEs' ability to produce small and minimum runs. These companies also benefit from being close to Europe and having efficient transportation options. Egyptian producers have the ability to produce products that can meet the tight margins required for the price-competitive low to mid-end market. The products could be made from low-cost domestic or imported fabrics. This type of offering is particularly appealing to EU buyers, as they often require small orders that cannot be produced by large manufacturers.

Table 4: Product-market combinations for Egyptian apparel SMEs to increase exports to the EU

Product Categories	Market Segment	Notes	Opportunity
Niche market Egyptian cotton womenswear	Mid to high end	<ul style="list-style-type: none"> – Exploit USP – Targeted at consumers that value sustainability and a story associated with the products, production can be linked to a social enterprise – Could be private label, full package 	High
Egyptian cotton menswear, particularly woven shirts	Mid to high end	<ul style="list-style-type: none"> – Exploit USP – Can appeal to market for high-end menswear – Could be private label, full package 	High
Egyptian cotton underwear	Mid to high end	<ul style="list-style-type: none"> – Exploit USP – Could be Egyptian brands or private label, full package 	High
Islamic wear	Range	<ul style="list-style-type: none"> – Could be Egyptian brands 	Medium
Men's, women's and children's casual wear	Low to mid end	<ul style="list-style-type: none"> – Egyptian SMEs can offer smaller minimums and quicker turnaround than many competitors – Could use imported fabrics – Could use denim – Potential products: Cotton T-shirts; Men's or boys' cotton trousers and shorts; Women's or girls' cotton trousers and shorts; Men's or boys' shirts, of cotton, not knitted or crocheted; men's and women's sportswear, such as sweatshirts and sweatpants – Could be private label, full package 	Medium
Men's and women's suits	Low-mid end	<ul style="list-style-type: none"> – Egyptian SMEs can offer smaller minimums and quicker turnaround than many competitors – Could use imported fabrics – Could be private label, full package 	Medium

Table 5: Value Chain Obstacles

Observed constraints and bottlenecks in the value chain and how they limit export opportunities (incl. CSR)	Critical constraint (Y/N)	Solvable in short term (Y/N)	Which organisation is providing this solution?
Systemic obstacles			
Unstable macroeconomic framework due to inflation, debt, poverty	N	N	Domestic: Government & various ministries Donors: EU, IMF
Eroding competitive advantages by high inflation and interest rates	N	N	Domestic: MOTI, IMC, IDA, MSMEDA, TCF Donors (ITC, CBI, USAID)
Declining cotton production	Y	Y	Domestic: MALR, CRI, CATGO Donors: BCI, UNIDO
Lack of vertical integration and upgrading	Y	N	Domestic: MOTI, IMC, IDA, TCF, MSMEDA ITC, CBI, USAID
Low profitability and lack of investment	Y	Y	Domestic: MOTI, MSMEDA, EDB Donors: EBRD
Limited access to finance, in particular for SMEs	Y	Y	Domestic: MSMEDA, EDB Donors: EBRD, USAID
Low level of innovation dynamics	Y	N	Domestic: MOTI, IMC, FDC, MoMP, MSMEDA Donors: CBI, ITC, USAID, UNIDO
Lack of vocational training	Y	N	Domestic: MoMP, PVTD, TVET Donors: CBI, ITC, UNIDO, EU
Complicated, unclear distribution of competences among government agencies	N	N	Domestic: MoTI, MALR, MoMP, Donors: CBI, EU, USAID
Limited availability of workers in labour-intensive apparel segment	N	N	Domestic: Various
Export related obstacles			
Ambivalent reputation of Egypt as a supplier country among European buyers	Y	N	Domestic: CEA, EDA, ECS, Export Councils

			Donors: EU, CBI,
Strong global competition discourages upgrading	Y	Y	Domestic: MOTI, IMC, IDA, TCF, MSMEDA Donors: ITC, CBI, USAID
Export and EU market knowledge and capabilities are lacking in design, export marketing, ICT, communication standards, etc.	Y	Y	Domestic: MSMEDA, EDA, Export Councils Donors: ITC, CBI
Challenged exploitation of the USP (Egyptian cotton)	Y	N	Domestic: MoTI, CEA, ALCOTEXA Donors: ITC, CBI
Sustainability issues			
High and growing opportunity costs of current cotton cultivation methods	Y	N	Domestic: MALR, CRI, CATGO Donors: BCI, UNIDO
Large environmental footprint of cotton and textile production	Y	N	Domestic: MALR, CRI, CATGO Donors: BCI, UNIDO
Lack of freedom of association for workers	Y	N	Domestic: MoMP Donors: ILO
Marginalisation of social groups	Y	N	Domestic: Various government institutions & civil society
Working conditions sometimes do not meet international standards	Y	Y	Domestic: MoMP Donors: ILO
Child labour in the cotton sector	N	N	Domestic: MoMP Donors: ILO

Table 6: Value Chain Opportunities

Observed opportunities in value chain (incl. CSR)	Critical opportunity (Y/N)	Short term benefit (Y/N)	Which organisation is or should be providing a solution for this opportunity? (CBI or others)
Recovering EU market looking for new suppliers: nearshoring with short lead times as advantage	Y	N	Domestic: EDA, ECS, Export Councils Donors: ITC, CBI, USAID
Exploit the potential for reducing lead times by remedying bottlenecks in the textile segment fully integrating the value chain	Y	Y	Domestic: MOTI, MoMP, TCF, ECS Donors: EU, EBRD
Lifestyle trend and products with a story could offer opportunities for Egyptian cotton	Y	Y	Domestic: CEA, ALCOTEXA Donors: CBI, ITC
Large and growing local and regional market	N	N	Domestic: EDA, HTEC, MSMEDA Donors: USAID, ITC, OFID
Shifting demand patterns and the sustainability trend offer opportunities for environmentally friendly cotton and textile production, including organic cotton	Y	N	Domestic: MALR, CRI, CATGO Donors: BCI, UNIDO, OFID
High potential in Europe for selected apparel products	Y	Y	Domestic: MALR, CRI, CATGO Donors: BCI, UNIDO, OFID, CBI, ITC

5. POSSIBLE INTERVENTIONS AND SUPPORT ACTIVITIES IN THE VALUE CHAIN

The overall goal of a CBI intervention is to support selected SMEs to export to the EU. The product-market combinations proposed by this report particularly aim at four strategic trajectories:

- (i) promoting a vertically integrated value chain;
- (ii) moving towards sustainable production;
- (iii) dynamising innovation capacities and capabilities;
- (iv) leveraging the export competitiveness of the Egyptian apparel sector.

Helping to build connections from high-quality Egyptian cotton production with SME apparel producers is a key goal in this process. Another strategic goal is developing the capability of Egyptian SMEs. Areas of focus include design capabilities, quality of production and managing timelines. The interventions proposed in this section outline activities to help achieve these goals.

Strategic Trajectory I: Promoting a vertically integrated value chain

Increase productivity and profitability of cotton production by supporting farmers

The long-term trend of declining cotton production poses a risk to the strategic objective of integrating the Egyptian cotton value chain. In order to increase production, the government should make cotton production more lucrative for farmers. This could be achieved by:

- (i) subsidies and technical assistance to farmers to expand cotton production and productivity;
- (ii) introducing a guaranteed minimum price for cotton to reduce price volatility for farmers;
- (iii) stimulating downstream value chain segments, in particular ginning and spinning mills, to pay premiums to farmers above the prevailing world market price.

However, since the majority of apparel products manufactured in Egypt rely on short-staple cotton, improvements in the cotton sector have only minor effects on the apparel sector, as long as almost only ELS is produced.

Implement an export tax on cotton to support vertical integration and internalise environmental costs

Depending on the year, approximately 60%–70% of the cotton grown in Egypt is exported after ginning, without further adding value to the raw material.⁶² The value added of producing final T&A products is thus reaped by companies in other countries. This is a highly problematic state of affairs, both for economic and environmental reasons. Potential domestic value addition is foregone, and the high environmental externalities of cotton production remain uncompensated, as they are arguably not covered by market prices. The government could introduce an export tax to discourage exports of unprocessed Egyptian cotton, such as in ginned cotton bales, and promote local value addition. The

⁶² Own calculations; Source: GAIN Report Number: EG-19005, <https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Cotton%20and%20Products%20Annual%20Cairo%20Egypt%204-11-2019.pdf>

proceeds from such a tax should be used to support sustainable cotton practices and facilitate the availability of cotton at attractive prices to local textile companies.

Increasing vertical integration with the apparel segment, however, would also require an increasing production of apparel products that use Egyptian cotton as an input.

Stimulate investment in dyeing, printing and finishing services

One of the major problems in the industry refers to the lack of high-quality dyeing, printing and finishing services in the country. High-quality services in dyeing, printing and finishing (DPF) are however key for upgrading into higher-value products. This existing bottleneck could be remedied in a number of ways. First, the government may support the establishment of a number of DPF houses as an element of its modernisation programme for SOEs. Second, the government may support the establishment of private DPFs, which are set up and run by private local investors or by groups of local textile companies, such as cooperatives. Third, the government may stimulate foreign investors, in particular from Turkey and Italy, to establish DPF houses in Egypt. This would have the additional advantage of technology transfer, which is particularly relevant in this industry segment.

Strategic Trajectory II: Move towards sustainable production

Improve more efficient use of scarce water and land resources

The government, with support from international donors, could take the following measures to decrease the environmental impacts of cotton, textile and apparel production:

- (i) Modernising the irrigation system in order to decrease water waste and make water consumption for cotton production more efficient.
- (ii) Investing in the development of cotton varieties that use less water, while still delivering acceptable yields.
- (iii) Stimulating farmers to shift cotton cultivation to less fertile lands, using regulatory measures and technical assistance to determine appropriate cultivation areas.
- (iv) Promoting global best practices in wet processing activities in textile and apparel production.

Promote organic and sustainable cotton production throughout the value chain and exploit export potentials with EU market

Promoting the production and consumption of organic cotton is of crucial importance to achieve the SDGs, considering that organic cotton production uses substantially less water and tends to preserve the soil quality. Given the trend towards organic textiles in the EU and other consumer markets, an increase in organic cotton production presents an opportunity for the Egyptian T&A sector. Establishing an organic VC involving farmers, ginning and spinning mills as well as textile and apparel companies that use organic fabrics for end products will thus help Egypt to grab a larger market share in organic textiles and apparel in major consumer markets.

There are also opportunities for improving sustainability in textile production, such as by improving wastewater management and dyeing practices, including using natural dyes and better waste management. These opportunities would open the possibility of certification under various sustainability standards, such as OEKO-TEX®, Better Cotton Initiative (BCI), Organic Content Standards (OCS) and Global Organic Textile Standard (GOTS).

Producing apparel made from organic cotton can provide added value for producers targeting high-end niche markets.

A CBI programme could consist of a combination of the following elements:

- (i) support farmers in cultivating organic cotton, for example, by providing technical expertise on organic production processes to farmers and by supporting certification processes, preferably in cooperation with international donors, such as UNIDO, and national stakeholders already active in the field, such as SEKEM and CRI;
- (ii) support textile and apparel companies in developing an organic product collection and help them to market the collection in the EU market;
- (iii) support companies in their efforts to increase resource efficiency in production, including better water use, wastewater treatment, using less harmful chemical substances, and acquiring certifications.

Strategic Trajectory III: Dynamise innovation capacities and capabilities

Improve access to finance, in particular for SMEs, to increase investments and upgrade production facilities and equipment

The government should promote long-term financing instruments at MSMEDA, the Export Development Bank and via co-operations with international donors, like EBRD. The crucial factors that make investment loans affordable are moderate interest rates and long repayment terms. In the current high-inflation environment, interest rates are in general too expensive, and commercial banks tend to require very demanding repayment periods. Interest rates for investment should, as a general rule, not exceed the nominal rate of GDP growth (currently at roughly 5 per cent). Repayment periods should be extended to 10 years at minimum, with grace periods of at least 2 years before start of repayment.

Improve SMEs' design capacities

In-company training and internships for design students need to be systematically incorporated into design school curricula and university programmes. A minimum of 25% of the curricula' duration should be devoted to internships in companies. Cooperation with EU-based design schools should be used to set up student exchanges and for internships of Egyptian students in EU companies.

In addition, the Egyptian government should stimulate T&A companies to set up career development programmes for young workers to upgrade their skills in design, textile engineering, etc. For qualified young workers, the company would pay for training and education at domestic or international educational institutions. The workers would remain employed at the company during the training period and commit to work for the company after graduating from the training programme for a specified minimum period. The government would pay a wage premium to the FDC or similar institutions to set up partnerships with educational institutions in the EU, and facilitate internships.

Increase labour productivity through incentives and TVET programmes

Labour productivity growth in the textiles industry is comparatively low, given the high absenteeism, low wages and high turnover. In the long term, this erodes the competitiveness of the industry. Companies thus should provide incentives for workers to take on skills formation and learning programmes, for example, by paying wage premiums to workers participating in skills formation programmes. CBI could provide technical assistance in setting up and improving company-based TVET programmes in participating

SMES, for example, by promoting cooperation in developing a joint TVET programme among groups of companies.

Stimulate and attract investments to tackle bottlenecks

The government needs to stimulate and support investments of locally owned or foreign companies to mitigate bottlenecks along the apparel value chain, including through improved access to finance, tax incentives, etc. To improve the apparel value chain, investments should particularly be incentivised in the production of (i) man-made fibre; (ii) cotton yarns; (iii) woven fabrics, in particular narrow woven fabrics, denim and light-weight cotton fabrics used as inputs in the local apparel sector; (iv) knitted fabrics, such as man-made fibre knitted fabrics and very fine Egyptian cotton fabrics, such as those used for fine underwear or polo shirts; (v) quality and supply of dyeing, finishing and printing for woven and knitted fabrics, in particular specialised private companies could provide dyeing and finishing services to other private T&A companies. Increased domestic availability of a variety of textile inputs and finishing services could also help to provide locally sourced inputs for the production of export-oriented Islamic wear.

Strategic Trajectory IV: Leverage export competitiveness

Develop capacities and capabilities of locally owned apparel SMEs to increase exports of selected PMCs to the EU

Promoting companies, foreign or locally owned, that are embedded in the local economy is important since they are more likely to create linkages and support the country's industrialisation process. Egypt has a well-developed apparel sector producing various products for exports and the local market. Apart from FDI and larger companies, this report argues that opportunities for exports of locally owned SMEs to the EU exist in the selected PMCs. However, as has been highlighted in the previous section, many SMEs lack capacities and capabilities to export to the EU and to meet the market-specific buyer requirements. Governmental agencies, such as EDA, IDC, MSMEDA, and donors, such as CBI and ITC, need to support these firms through training with respect to their various weaknesses.

In cooperation with the local apparel companies participating in the CBI programme, CBI should make an assessment of the strengths, weaknesses and key bottlenecks for companies, with regard to their export competitiveness. That said, a training programme should be developed comprising both general training programmes for the whole group of participating companies as well as tailor-made training programmes for individual companies. Other types of support could particularly aim at:

- (i) building export and marketing capacities, including product development, sample collection design for tradeshow exhibitions, pricing, sales, self-promotion and market access requirements, etc.;
- (ii) supporting market entry of SMEs through existing BSOs, or through matchmaking activities and the co-financing of fairs;
- (iii) training in sustainable production techniques, such as recycling fabrics and incorporating circularity);
- (iv) improving sourcing capacities and know-how, such as visits to fabric fairs;
- (v) providing ICT training,⁶³ including showcasing integrated enterprise resource planning (ERP) systems, order tracking systems, stock control as well as showing the benefits of data collection);

⁶³ This training would have to address the resistance to ICT among employees that managers mentioned during the firm audits.

- (vi) developing design capacities (see below).

The training activities should also be coordinated with other donors working in the apparel sector, such as UNIDO, ITC/GTEX, and USAID, and with the responsible government agencies, in particular MOTI, Export Council, FDC, EDA, IMC, and others, depending on the specific bottleneck to be addressed. Cooperating with institutions related to MOTI and other local institutions in the development and implementation of training programmes will also facilitate the transfer of expertise to local actors. It might, for instance, be useful to use the twinning method, forming tandems of trainers with one international expert and one local expert, who will be jointly responsible for implementing certain training modules.

Support the Egyptian cotton brand as a USP for finished Egyptian products and develop a long-term strategy for Egyptian cotton products

Egyptian cotton is internationally renowned for its quality, which is the USP of Egyptian cotton products. However, many supplier countries import Egyptian cotton for further processing and exporting to the EU and other international markets. Many companies, in addition, also engage in false labelling. For these reasons, the USP has to some extent eroded. In this context, the international enforcement of the Egyptian Cotton trademark — as is currently done by CEA — is key. With the CEA relying exclusively on licence fees for its funding, its marketing activities necessarily remain constrained in scale and scope. The government and the donor community could support the CEA in its activities. While branding vis-à-vis the final consumer in the EU would be rather demanding and require massive investment in PR activities, CBI could facilitate co-branding activities with EU buyers, support B2B missions of CEA with European buyers, and help CEA in reaching out to EU companies using Egyptian Cotton as an input.

This would support Egyptian apparel manufacturers that use Egyptian cotton as an input and market this USP.

Exploit potential links between apparel and home textile firms

A key question regarding the development of a CBI programme are the potential links between the apparel and the home textile segments. At the company level, the links between the sub-sectors are very small, but there are some companies engaged in both segments. Some apparel products, such as bathrobes, in addition, may add to the product portfolio of home textile firms, for example spa sets made of Egyptian cotton products for hotels. At the institutional level, however, there are some overlaps between the sectors, since the governmental strategies (Textile Vision 2025) and related institutions generally target both sub-sectors. Egyptian cotton is an additional link in case of apparel products that use Egyptian cotton as an input. Overall, the findings of the apparel and home textile value chain analysis suggest that the links between the two sub-sectors are small at the company level, and high at the institutional level. Supporting the production of Egyptian cotton, in addition, may be beneficial for both sub-sectors, but particularly for home textiles. In sum, the synergies reaped from a joint project targeting both sub-sectors are limited, even though there are important overlaps at the institutional level in case two projects are implemented.

Table 7: Potential risks for a CBI project

Risk	Possible impact	Likelihood	Impact	Mitigation strategy
Political interference and cronyism (e.g. by MOTI/Export Councils)	Biased selection of companies for CBI programme, delay of programme start, programme renegotiation during implementation	4	5	Define red lines for CBI during preparatory dialogue and security clearance procedure
Duplication of already implemented donor projects	Programme interventions targeted at wrong companies	3	2	Coordinate with other donors during prep phase
Unstable political situation	Political turmoil may prevent, impede, or delay the implementation of the project	3	5	NA
Egyptian national protocol of 'Clearance'	May delay project	4	4	Close coordination with Egyptian government necessary; communicate through diplomatic channels
Not sufficient companies with right profile	May decrease impact of the project	2	3	Extend sector analysis and company audits; close coordination with helpful government agencies; coordinate with other donors (ITC)
Not sufficient buy-in by partners in general	Lack of government support or limited interest by companies may impede implementation of the project	2	4	Coordinate closely with government and private sector
Not sufficient buy-in by partners regarding sustainability development strategies	Lack of interest in strategies promoting sustainable development (social or environmental sustainability issues)	3	3	Impact depends on specific project-strategy. A sustainable development strategy needs to have a business-case idea that resonates with the private sector

Note: Likelihood scoring: 5= almost certain; 4 = likely; 3 = possible; 2 = unlikely; 1= rare. Impact scoring: 5 = severe; 4 = major; 3 = moderate; 2 = minor; 1 = negligible

6. CONCLUSIONS

Shifting T&A GVC dynamics have opened a window of opportunity to increase exports to the EU for regional low-cost countries such as Egypt. China's decreasing global supply of apparel products and an increasing trend towards nearshoring are the hallmarks of this shift. Egypt has, in addition, not only market opportunities in key consumption markets, but also in regional markets with high growth potential and in the relatively large local market.

This report highlights the Egyptian T&A sector's many strengths and the necessary preconditions to increase exports as a regional and global supplier of apparel products. The major advantages of the sector include:

- (i) low production costs, especially wages;
- (ii) a well-developed infrastructure;
- (iii) duty-free and quota-free market access to the key consumption markets of the US and the EU;
- (iv) an institutional regime that is committed to support the sector and improve its performance through a variety of interventions;
- (v) for products that use ELS as an input, the local availability of ELS cotton.

In order to improve sectoral export performance and take advantage of the opportunities, the key bottlenecks in the T&A sector need to be mitigated. Some constraints are structural in nature and will take time to solve in large scale. Reducing key bottlenecks on a step-by-step basis will nonetheless suffice to gradually increase exports. The key bottlenecks and obstacles include:

- (i) the limited vertical integration of the T&A sector, such as bottlenecks in the textile segment, limited use of ELS cotton as an input, etc.;
- (ii) the lack of modernisation and limited workers' capabilities;
- (iii) the limited access to finance, in particular SMEs;
- (iv) the limited capacities and capabilities of many SMEs to meet global buyers requirements;
- (v) the partially negative reputation of Egypt as a supplier country;
- (vi) the environmental and social sustainability challenges in the various sub-sectors (cotton, textile, apparel).

The lack of capacities and capabilities of locally owned SMEs to link to GVCs and meet buyers' requirements, in particular, highlights the importance and potential of supporting measures as offered by CBI.

The industrial policy focus and strategic orientation of the Egyptian government could leverage CBI's mandate to work on sustainable economic development with a focus on improving sector competitiveness through the promotion of BSOs as well as locally owned SMEs in their 'last step' towards exporting to the EU market, to create an integrated approach that could play an important complementary role in facilitating private sector development in general, and export growth to the EU in particular.

Taking into account the CBI's focus on supporting SMEs, the EU market and trend developments (section 2), and looking into Egypt's apparel sector structure (section 3), the following product-market combinations have been identified as mid- to high-potential targets for a CBI programme (see section 4.2 for a more detailed analysis):

- Niche market Egyptian cotton womenswear;
- Mid to high end Egyptian cotton menswear, particularly woven shirts;

- Egyptian cotton underwear;
- Islamic wear;
- Men's, women's and children's low to mid-end casual wear (incl. denim products);
- Men's and women's low to mid-end suits.

The selected PMCs are in line with the sector strategy of the Egyptian government to promote the vertical integration of the textile and apparel sector. They also aim to leverage the competitive advantages of the Egyptian apparel sector and recent EU market developments, such as the increasing potential for Islamic wear, sustainability trends that increase demand for organic products, etc. If CBI implements a project in support of locally owned apparel SMEs in Egypt, it is also important to ensure its sustainability and maximise its impact. Connecting with key government institutions and, depending on the project, local stakeholders and key relevant donors will be crucial to avoid redundancies, identify complementarities and maximise the impact of CBI's programme.

Achieving the SDGs is a pressing global concern, so incorporating improved sustainability of production into a project run by CBI is crucial. Across any of the PMCs identified, production processes can be encouraged to reduce environmental impact and support the creation of decent work opportunities. Key opportunities include supporting the use of environmentally friendly raw materials, such as organic cotton, BCI cotton and recycled fibres. SMEs directly involved in CBI programmes can receive training on ways to set up their facilities (such as planning processes, payment structures, and management styles) to help ensure the creation of good jobs. Additionally, a successful expansion of Egypt's apparel industry would create new job opportunities in the future.

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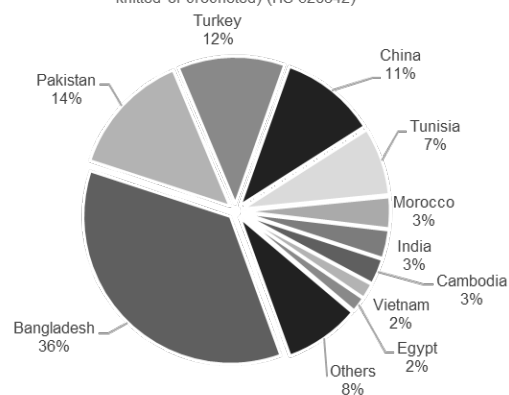
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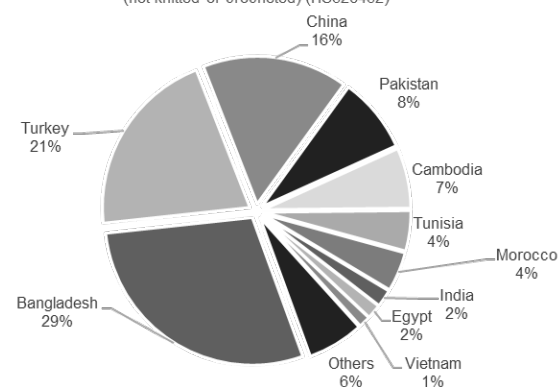
8. ANNEXES

Figure 18: Top-10 EU trade partners in Egypt's top export products to the EU

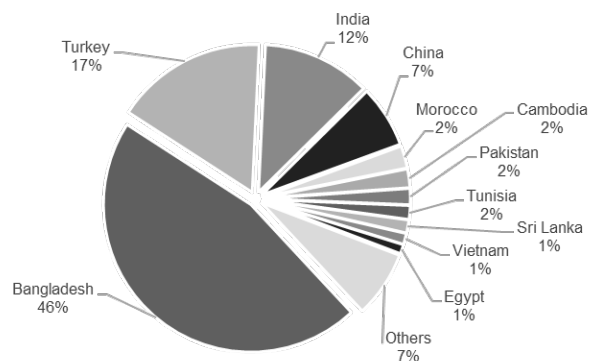
Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted) (HS 620342)



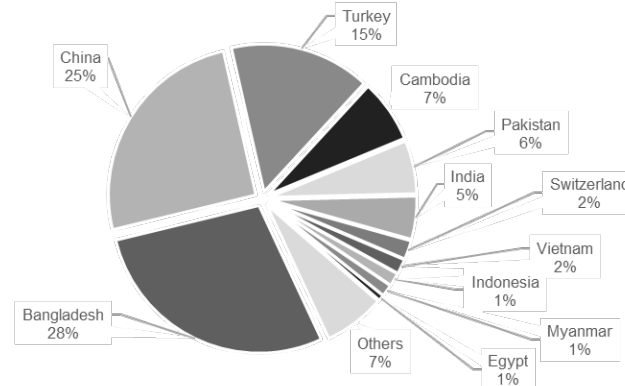
Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted or crocheted) (HS620462)



T-shirts, singlets and other vests; of cotton, knitted or crocheted (HS610910)

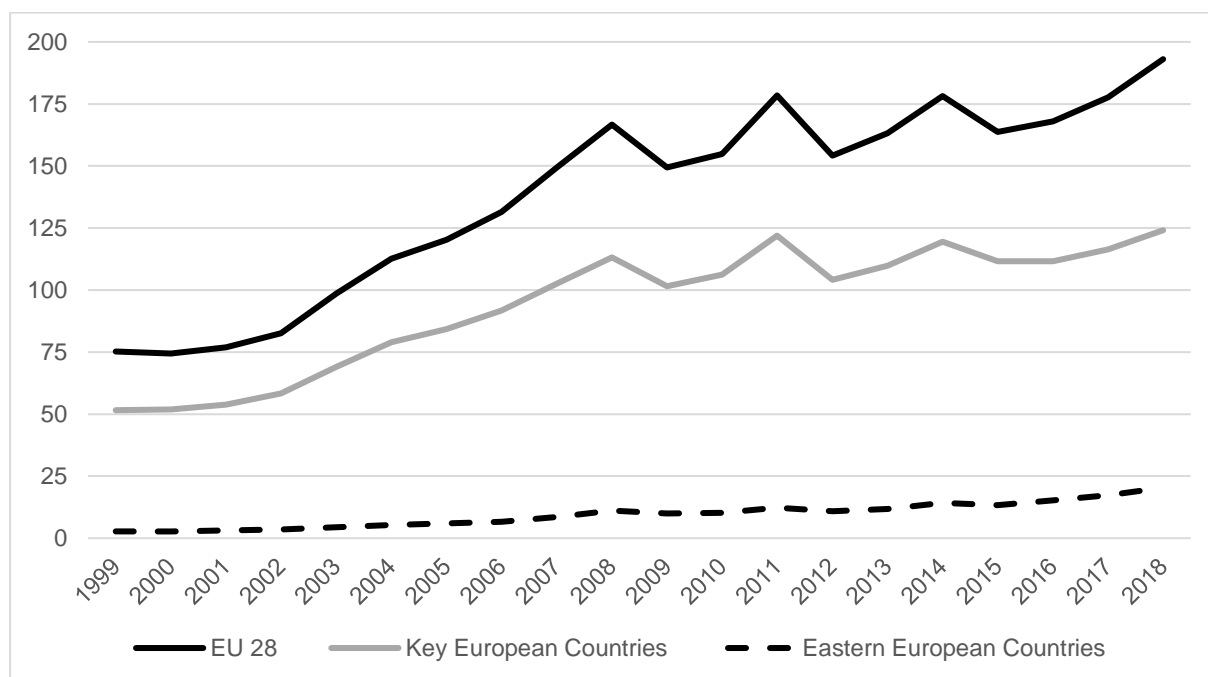


Coats; men's or boys' overcoats, car-coats, capes, anoraks, wind-jackets and similar articles, of cotton, knitted or crocheted (excluding heading no. 6103) (HS611020)



Source: UN Comtrade 2019 (WITS)

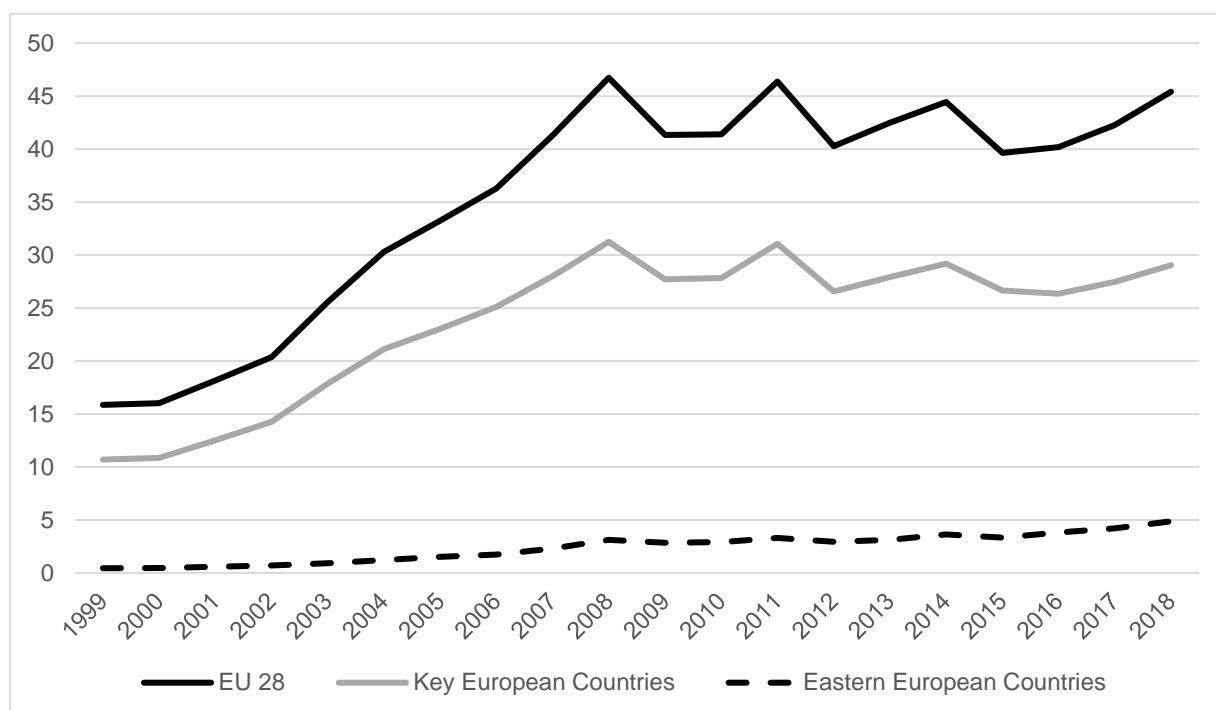
Figure 19: European apparel imports (HS 61-62) 1999–2018, in US\$ billion



Note: Eastern European Countries comprises Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Key European Countries includes France, Germany, Italy, Spain and the UK. Data includes intra-EU trade.

Source: UN Comtrade 2019 (WITS)

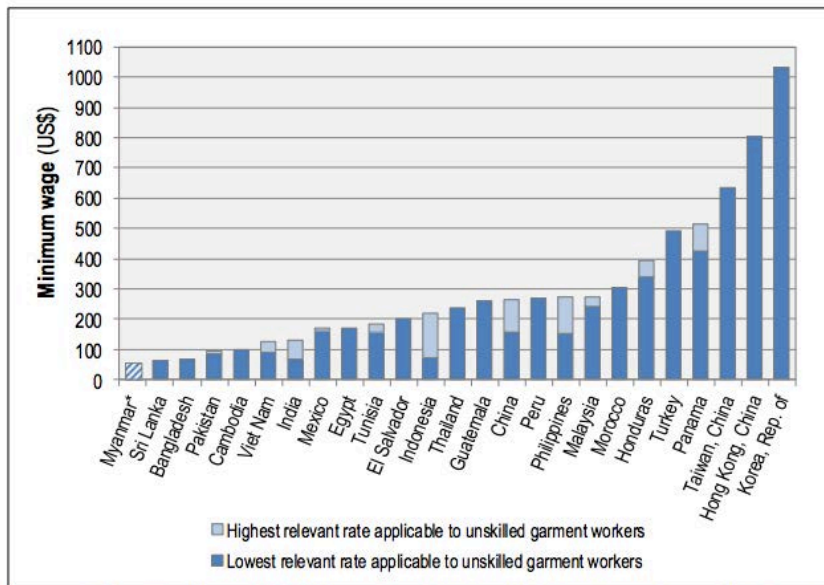
Figure 20: European apparel imports of key Egyptian apparel export products (HS 610910, 611020, 620342, 620462) 1999–2018, in US\$ billion



Note: Eastern European Countries comprises Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Key European Countries includes France, Germany, Italy, Spain and the UK. Data includes intra-EU trade.

Source: UN Comtrade 2019 (WITS)

Figure 21: Minimum monthly wages in the clothing industry in 2014, selected countries



* Temporary rate for industrial zones, currently under review. Source: ILO compilation based on national sources. ILO Regional Office for Asia and the Pacific/Regional Economic and Social Analysis Unit, 10 Feb. 2014.

Source: ILO 2014

Figure 22: Stakeholder assessment grid

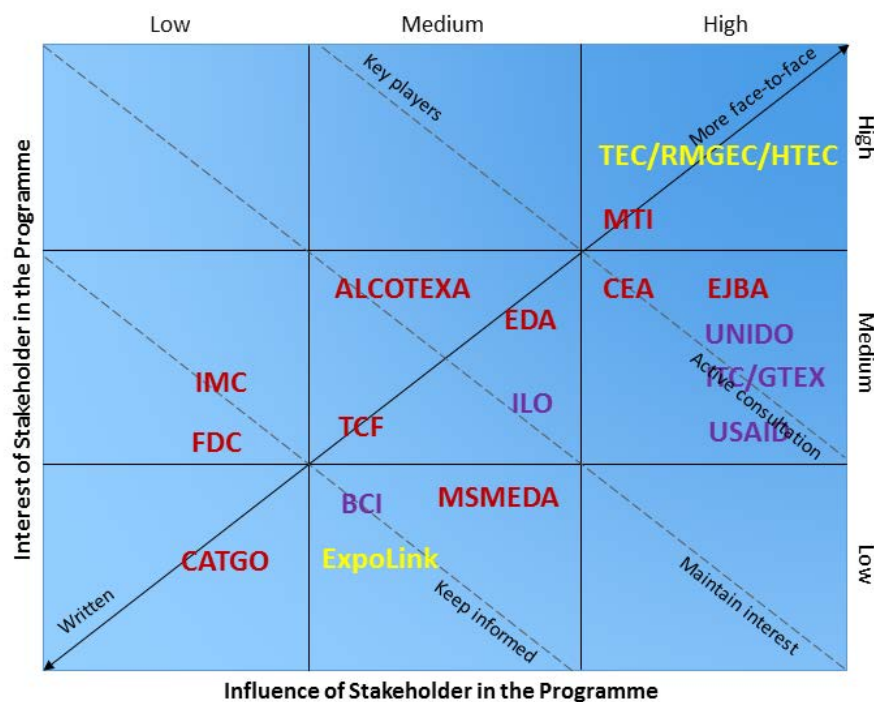


Table 8: Value Chain Baseline Measurement

Stakeholder	Indicator	Value (2018)
With SMEs	Number of SMEs operating in the T&A sector	Roughly 4,000
	Number of exporting SMEs in the apparel value chain	Roughly 700
	If company audits are conducted: level of export knowledge and capacities	Large differences between firms; from low to high
With BSOs and sector associations	Number of BSOs and sector associations active in this value chain	Numerous; key institutions: ~11 (excl. donors)
	Type of export-enabling services provided by BSOs and sector associations	Market intelligence, export management, trade fair participation, B2B missions
	Level of cooperation between the private sector, government, NGOs and knowledge institutions	Medium; cooperation between private sector organisations and government affected by political situation and diverging views on sector development objectives
	Management capacities of BSOs	Medium; Governmental organisations often lack financial capacities to fulfil their task appropriately; lack of coordination among government institutions
With local government	Relevant export development strategies and international trade-related policies formulated and implemented	Egypt's Vision 2030 Textile Vision 2025 (to be implemented) Free-trade agreements with key consumption countries (EU, US) in force
	Level of access to finance for SMEs	Limited
Contextual factors	Direct exports to neighbouring and other non-EU countries	Total apparel exports: €1.9 bn
	Direct exports to the EU	Apparel exports to the EU: €684 million (35% of total apparel exports)
	Main export destinations	United States (46%), followed by Spain (8%), Germany (8%), Turkey (7%), France (6%), the United Kingdom (5%) and Italy (4%)
	Employment figures (if available)	Roughly half a million employees in the T&A sector (conservative estimates)
	Level of foreign investments	Low
In this Value Chain	Main bottlenecks in this value chain for exporting SMEs	Access to finance; Limited capacities and capabilities to meet buyer requirements; partially negative reputation of Egypt as supplier country; strong global competition; lack of innovation

	Main certification standards in this value chain in this country	Large differences among firms, but often include: ISO, BSCI, OEKO-TEX, SEDEX. Some firms have no certifications
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Source: Various (see this report)