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EUROMED CLUSTERS FORWARD

Enabling the Clusters Regulatory Framework in Egypt

Egypt – Report

Submitted By
ICEALEX

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1. Introduction

The EuroMed Clusters Forward project aimed to enhance the competitiveness and sustainability of clusters across the Euro-Mediterranean region. Euromed Clusters Forward is funded by the European Union and coordinated by ANIMA Investment Network with three implementing partners and nine affiliates from the Euromed region. Berytech is an implementing partner for Lebanon and Egypt.

In Egypt, ICEALEX, as focused on strengthening the enabling environment for cluster development through policy dialogue, advocacy, and capacity building. This report summarizes the key findings, activities, and achievements of the EuroMed Clusters Forward project in Egypt, drawing upon extensive research, stakeholder consultations, and collaborative efforts with key actors within the Egyptian cluster ecosystem.

The report will take the following in detail,

- **Comprehensive Research and Analysis:** The project involved in-depth research to understand the existing cluster landscape in Egypt, including identifying key clusters, their characteristics, and challenges. This research utilized a mixed-methods approach, combining desk research with stakeholder interviews and focus group discussions.
- **Stakeholder Engagement:** The project actively engaged with a diverse range of stakeholders, including government ministries, industry associations, academia, and civil society organizations. This engagement involved identifying and mobilizing key stakeholders, including cluster representatives, industry leaders, and academics.
- **Policy Dialogue and Advocacy:** The project facilitated policy dialogue and advocacy by identifying key policy and advocacy players, mobilizing stakeholders, and forming a Steering Committee to provide strategic guidance.
- **Action Plan Development:** Based on the research findings and stakeholder consultations, a comprehensive action plan for cluster development in Egypt was developed.
- **Next Steps :** The project suggested the next steps to adopt 3 measures out of the action plan developed to be the plan for the cluster development in Egypt

2. Research Methodology

This section outlines the research methodology employed to gain a comprehensive understanding of the Egyptian cluster landscape and identify key challenges and opportunities for cluster development.

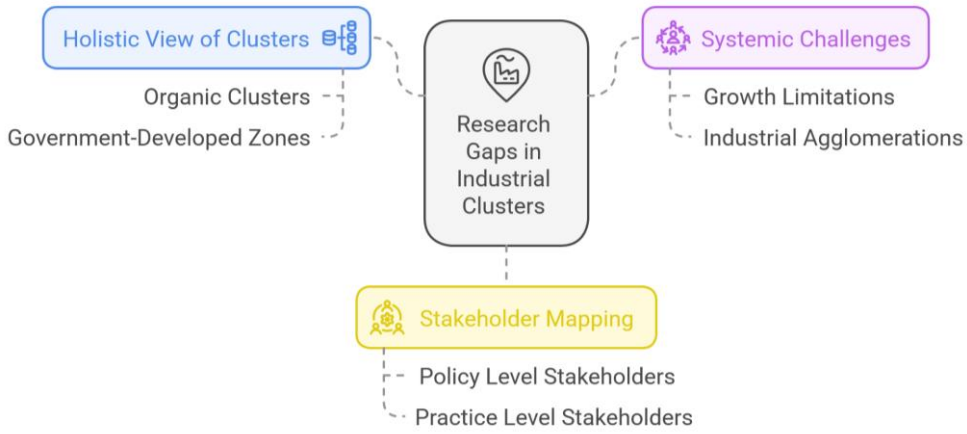
2.1 Existing Research Focus (studies that has been done and taken as references):

- **Mapping Clusters in Egypt:** The research focused on mapping clusters across various governorates and sectors in Egypt, with a particular emphasis on organic clusters.
- **Identifying Sector-Specific Barriers:** The previous studies aimed to identify sector-specific barriers to competitiveness and expansion within clusters, considering the unique challenges faced by different industries.
- **Industry-Specific Policy Recommendations:** The research sought to develop industry-specific policy recommendations to address the identified challenges and enhance cluster competitiveness.
- **Needs Assessment:** The previous studies focused on understanding the specific needs of SMEs and larger businesses operating within clusters, while also considering the needs of clusters as separate entities.

2.2 Research Gaps:

- **Holistic View of Clusters:** A key research gap identified was the need for a holistic view of clusters, encompassing both organic clusters and government-developed zones, to develop a comprehensive and unified policy solution.

- **Systemic Challenges:** The research aimed to analyze the systemic challenges that persist in limiting the growth of new and existing clusters and industrial agglomerations.
- **Stakeholder Mapping:** The study sought to conduct a holistic mapping of cluster stakeholders, identifying key players at both the policy and practice levels.



2.3 Research Methodology & Parameters:

To address these research gaps and gain a comprehensive understanding of the landscape, the following methodology and parameters were adopted:

- **Desk Research:** Comprehensive analysis of previous research studies, policy papers, project reports, and news articles on the Egyptian economic clusters landscape.
- **Stakeholder Interviews:** Conducted 15 in-depth interviews with carefully selected stakeholders, covering all key identified stakeholder groups, including government officials, cluster managers, industry representatives, academics, and civil society organizations.
- **Focus Group Discussions:** Conducted a multi-stakeholder validation workshop to gain a deeper understanding of key challenges and potential solutions through interactive discussions and group brainstorming.
- **Policy Dialogue:** Engaged multiple stakeholders in a policy dialogue around identified challenges and opportunities, leveraging existing platforms such as the RiseUp Summit to facilitate interaction and knowledge exchange.

Policy Dialogue

Focuses on engaging stakeholders in discussions to influence policy.

Desk Research

Involves analyzing existing literature and documents to gather background information.

Focus Group Discussions

Involves group discussions to explore ideas and solutions collaboratively.

Stakeholder Interviews

Entails conducting interviews with key individuals to gain insights.

3. Research Output

This section presents the key findings and insights derived from the research conducted on the Egyptian clusters landscape. The research aimed to map the existing clusters, identify challenges, and propose actionable recommendations to enhance the competitiveness and growth of clusters in Egypt. The outputs are organized into the following subsections:

3.1. Cluster Landscape Mapping

The research mapped the Egyptian clusters landscape, identifying two main types of clusters: **Industrial Zones** and **Organic Clusters**.

- **Industrial Zones**: These are government-planned and developed zones, including Public and Private Free Zones, Investment Zones, Technological Zones, Special Economic Zones, and Industrial Zones. There are over 276 industrial zones in Egypt, with the majority being industrial in nature. These zones are regulated through a complex governance framework and are incentivized by benefits such as tax exemptions and reduced fees. However, they often lack operational cohesion and synergy, which are key characteristics of successful clusters.
- **Organic Clusters**: These clusters emerge organically without direct government intervention. Over 145 organic clusters have been mapped in Egypt, with more than 90 focused on handicrafts. Organic clusters are typically unregulated, and most businesses within them operate in the informal sector. While they exhibit higher potential for collaboration and synergy due to their sectoral focus, they lack access to formal incentives and support.

3.2. Sectoral and Geographic Insights

The research also provided insights into the geographic distribution and sectoral focus of clusters in Egypt:

- **Top Industries in Industrial Zones**: Furniture, bakery products, wearing apparel, structural metal products, and other fabricated metal products.
- **Top Industries in Organic Clusters**: Textile production, food production, mining and building materials, agricultural products, and wood production/furniture.

These findings highlight the potential for sector-specific interventions to enhance the competitiveness of clusters in key industries.

3.3. Alternative Approaches to Cluster Development

The research identified several alternative approaches that have emerged to address the challenges faced by clusters:

- **Non-Profit Organizations**: Some clusters have registered as non-profit organizations to formalize their structure and access finance and external support.
- **Business Development Service (BDS) Centers**: These centers, established within existing business associations, provide technical support and resources to cluster members.
- **Voluntary Board of Trustees**: Some clusters have established voluntary boards to govern their operations and facilitate collaboration among members.

While these approaches have their limitations, they represent significant progress in enabling clustered businesses to work together and access support.

4. Stakeholder Interviews

This section presents the findings and insights derived from the **13 stakeholder interviews** conducted as part of the research for the Euromed Clusters Forward. The interviews aimed to address information gaps, gain a deeper understanding of the challenges and opportunities within the Egyptian cluster landscape, and uncover the perspectives of key stakeholders. The research methodology included **13 semi-structured in-depth interviews** (averaging one hour each) and a **multi-stakeholder focus group** (1.5 hours). The qualitative sampling technique used was **purposive sampling**, ensuring the selection of participants from key stakeholder groups, including public sector entities, semi-governmental organizations, cluster management organizations, cluster members, and international development organizations.

4.1. Overview of Stakeholder Interviews

The interviews were conducted with a diverse range of stakeholders, including:

1. **Ministry of Trade & Industry (MTI)**
2. **Industrial Modernization Center (IMC) - Clusters Development Office**
3. **Ministry of Local Development (MoLD)**
4. **Micro, Small, and Medium Enterprise Development Agency (MSMEDA)**
5. **Federation of Egyptian Industries (FEI)**
6. **GIZ**
7. **UNIDO**
8. **ECO-FEI**

9. **Alexandria Businessmen Association (BDS Unit)**
10. **Cluster Member (Robiki Fir Leather)**
11. **Public Zone Members**
12. **Cluster Consultants**

The interviews provided a comprehensive understanding of the challenges, opportunities, and recommendations for cluster development in Egypt. Below is a summary of the key outcomes and recommendations identified through these interviews.

4.2. Key Findings from Stakeholder Interviews

4.2.1. Industrial Zones and Organic Clusters Governance

- **Industrial Zones**: These are government-planned zones that host various economic activities. They are regulated through a complex governance framework and incentivized by benefits such as tax exemptions. However, they often lack operational cohesion and synergy, which are key characteristics of successful clusters.
- **Organic Clusters**: These emerge organically without government intervention. Over 145 organic clusters have been mapped in Egypt, with more than 90 focused on handicrafts. These clusters are unregulated, and most businesses within them operate in the informal sector. While they exhibit higher potential for collaboration, they lack access to formal incentives and support.

4.2.2. Zone/Cluster Management and Governance Structures

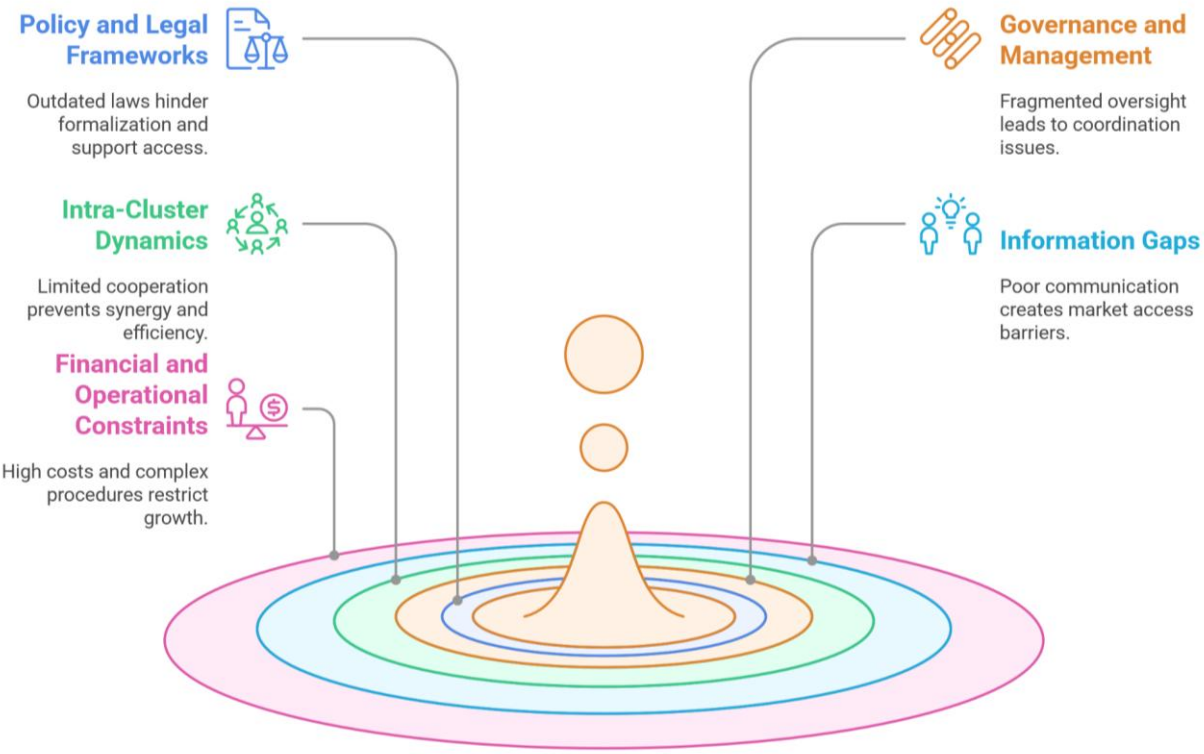
- **Industrial Zones**: Management varies based on affiliation. Zones affiliated with the **New Urban Communities Authority (NUCA)** typically lack management services, while those affiliated with **local governorates** offer minimal services. **Private zones** provide more advanced services, such as marketing and training, but these are still limited.
- **Organic Clusters**: These clusters lack formal governance structures. Some have established **non-profit organizations** or **boards of trustees** to facilitate coordination and access to support, but these structures often lack legal recognition and financial sustainability.

4.2.3. Alternative Approaches to Cluster Governance

- **Non-Profit Organizations**: Some clusters have registered as non-profits to formalize their structure and access finance and external support.

- **Business Development Service (BDS) Centers**: These centers, established within existing business associations, provide technical support and resources to cluster members. They are often supported by international organizations like GIZ.
- **Board of Trustees**: Some clusters have established voluntary boards to govern their operations and facilitate collaboration among members.

4.2.4. Key Challenges Identified



- **Policy and Legal Frameworks**: Outdated and complex legal frameworks make it difficult for cluster members, especially SMEs, to navigate formalization processes. There is no dedicated legal structure for clusters, limiting their ability to register formally and access support.
- **Governance and Management**: Fragmented governance structures with no single entity responsible for overseeing clusters lead to coordination issues. Lack of advanced cluster management services reduces the effectiveness of clusters.
- **Intra-Cluster Dynamics**: Limited inter-firm cooperation and competition among businesses within clusters prevent the realization of synergies and collective efficiencies.
- **Information Gaps**: Limited communication between central government and grassroots entrepreneurs creates information asymmetries. Limited access to market data and knowledge hinders the ability of clusters to access local and international markets.

- **Financial and Operational Constraints:** High operational costs and limited access to financial resources are major barriers for SMEs within clusters. Complex import/export procedures and limited regional/international cooperation further restrict market access.

4.3. Recommendations from Stakeholder Interviews

Infrastructure Improvement

Improve infrastructure and services within clusters.

Financial Support

Offer specialized financial products and simplify export procedures.

Information Platforms

Create platforms for information dissemination among stakeholders.

Cluster Management

Enforce management services like marketing and training within clusters.

Legal Structure

Establish a dedicated legal framework for clusters to access support.

4.3.1. Enhance Policy and Governance Frameworks

- **Unify the affiliation of all industrial zones under the Industrial Development Authority (IDA)** to streamline governance and coordination. (This recommendation is already in action by the ministerial director who issued the activation of this law)
- **Establish a dedicated legal structure for clusters** to facilitate formalization and access to support.
- **Simplify business formalization policies** to encourage informal businesses to enter the formal economy.

4.3.2. Improve Cluster Management and Services

- **Enforce the provision of cluster management services**, including marketing, training, and inter-firm collaboration.
- **Develop industry-focused clusters** to ensure industrial symbiosis and operational synergy.

4.3.3. Address Information Gaps

- **Create platforms for information dissemination** and communication between cluster stakeholders.
- **Provide accurate and up-to-date market data** to support cluster members in accessing local and international markets.

4.3.4. Support Financial and Operational Needs

- **Offer specialized financial products and services** tailored to the needs of clusters.
- **Simplify export procedures** and provide export incentives to businesses engaged in international trade.

4.3.5. Enhance Infrastructure and Basic Services

- **Improve infrastructure within clusters**, including access to utilities and residential facilities for workers.
- **Create geographic boundaries for clusters** to enable better management and service provision.

4.4. Key Active Stakeholders and Their Roles

- **MSMEDA**: Plays a key role in SME development and has developed the **National Strategy for the Development of Organic Clusters**. Provides technical assistance, capacity building, and financial support to clusters.

- **Federation of Egyptian Industries (FEI)**: Acts as an advocate for industrial policies and supports cluster development through its industry chambers and initiatives like the **Environmental Compliance Office (ECO-FEI)**.
- **Industrial Modernization Center (IMC)**: Focuses on modernizing Egyptian industries and supports cluster development through technical assistance, capacity building, and regulatory support.
- **GIZ and UNIDO**: International organizations that have led several cluster development projects, including the transformation of industrial zones into **eco-industrial parks** and the development of organic clusters.

5. Steering Committee & Action Plan

This section outlines the formation and activities of the **Steering Committee** established by **ICEALEX** to guide the implementation of the Euromed Clusters Forward. The committee comprises key stakeholders from various sectors, including government entities, international organizations, and industry representatives. The committee has played a crucial role in validating recommendations, finalizing the action plan, and prioritizing the next steps for the project. Additionally, this section details the **action plan** and the adoption of the 3 crucial measures identified from the action plan as a next step for the cluster development in Egypt.

5.1. Steering Committee Formation

ICEALEX successfully invited the following members to be part of the **Steering Committee**:

1. **Mohamed Hanno** - Alexandria Businessmen Association
2. **Waleed Besheer** - Industrial Development Authority (IDA)
3. **Ahmed Elkenany** - Micro, Small, and Medium Enterprise Development Agency (MSMEDA)
4. **Nahla Mahgoub** - Ministry of Local Development (MoLD)
5. **Ahmed Kamal** - UNIDO
6. **Sameh Hammad** - GIZ
7. **Ahmed Bastawy** - ICEALEX

The Steering Committee represents a diverse group of stakeholders with expertise in cluster development, policy formulation, and industrial growth. Their collective input has been instrumental in shaping the project's direction and ensuring alignment with national and international development goals.

5.2. Steering Committee Activities

The Steering Committee has conducted **three online meetings** and **one offline meeting** to discuss and validate the recommendations, finalize the action plan, and prioritize the next steps for the project. Key activities of the committee include:

- **Validation of Recommendations**: The committee reviewed and validated the research findings and recommendations, ensuring they align with the needs and priorities of the Egyptian clusters landscape.

- **Finalization of the Action Plan**: The committee provided feedback on the proposed action plan, helping to refine the roadmap for cluster development.
- **Prioritization of Recommendations**: The committee identified the **top three priorities** to be included in the **Terms of Reference (ToR)** for the project's next mission. These priorities will guide the implementation of the project in its next phase.

5.3. Action Plan: Recommendations Roadmap

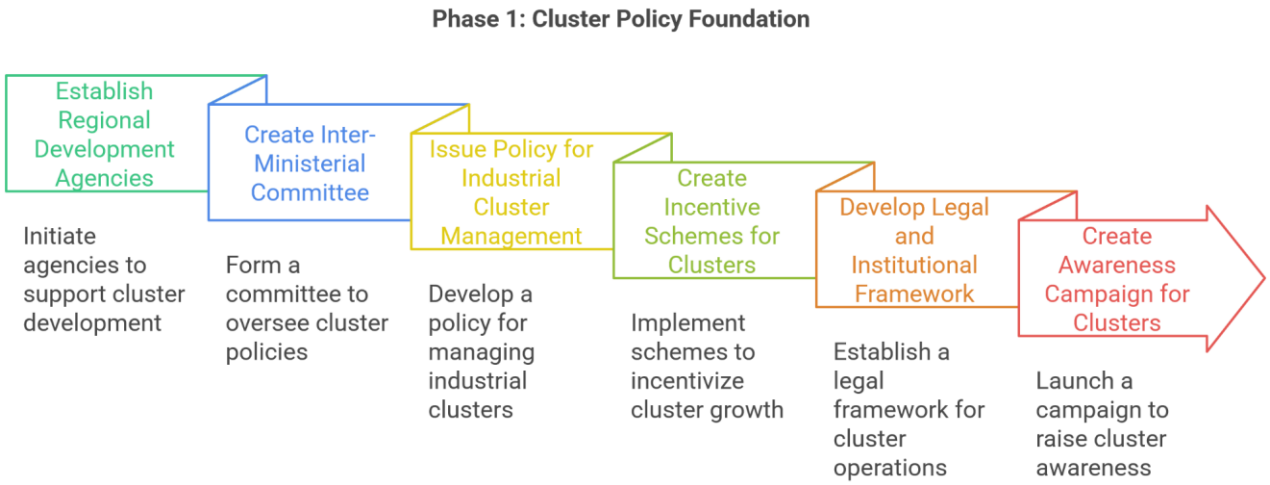
Based on the Steering Committee's input, the action plan has been divided into **four phases**, each with specific recommendations, timelines, and objectives. The recommendations are categorized by priority level (High, Medium High, Medium, Low Medium) to ensure a focused and strategic approach to cluster development.

Phase 1: Cluster Policy Foundation

Timeline: 3-5 years (Long Term)

Objective: Establish a strong policy and governance foundation for cluster development in Egypt.

Recommendations:



1. **Establish Regional Development Agencies for Organic Cluster Development** (High Priority)
2. **Create an Inter-Ministerial Committee for Cluster Development** (High Priority)

3. **Issue a Policy for Industrial Cluster Management** (Medium High Priority)
4. **Create Incentive Schemes for Clusters** (High Priority)
5. **Develop a Legal and Institutional Framework for Clusters** (High Priority)
6. **Create an Awareness Campaign for Clusters** (High Priority)

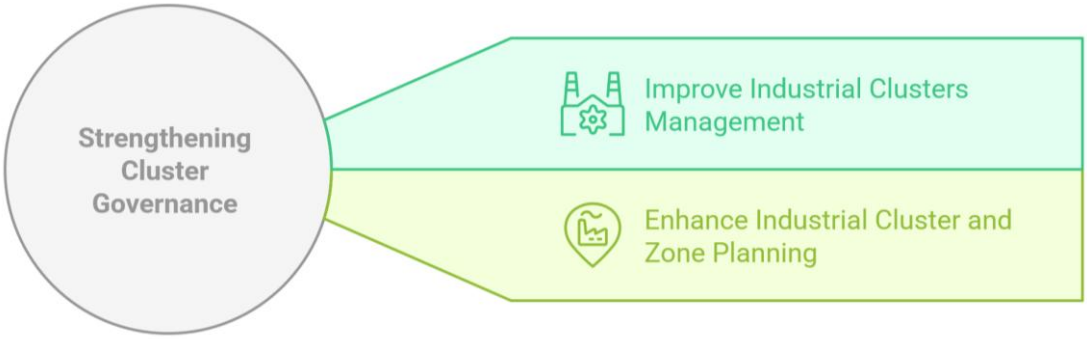
Phase 2: Cluster Governance Foundation

Timeline: 2-3 years (Mid Term)

Objective: Strengthen the governance and management of industrial and organic clusters.

Recommendations:

1. **Improve Industrial Clusters Management** (Medium Priority)
2. **Enhance Industrial Cluster and Zone Planning** (Low Medium Priority)



Phase 3: Cluster Technical Development

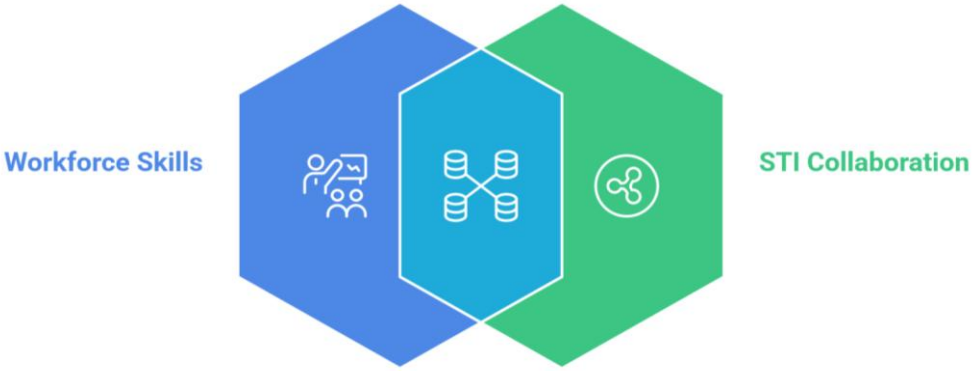
Timeline: Ongoing (1-3 years)

Objective: Enhance the technical capacities and innovation capabilities of clusters.

Recommendations:

1. **Enhance the Capacities and Skills of Clusters' Workforce** (Medium High Priority)

2. **Support Collaboration with Science, Technology, and Innovation (STI)** (Medium High Priority)



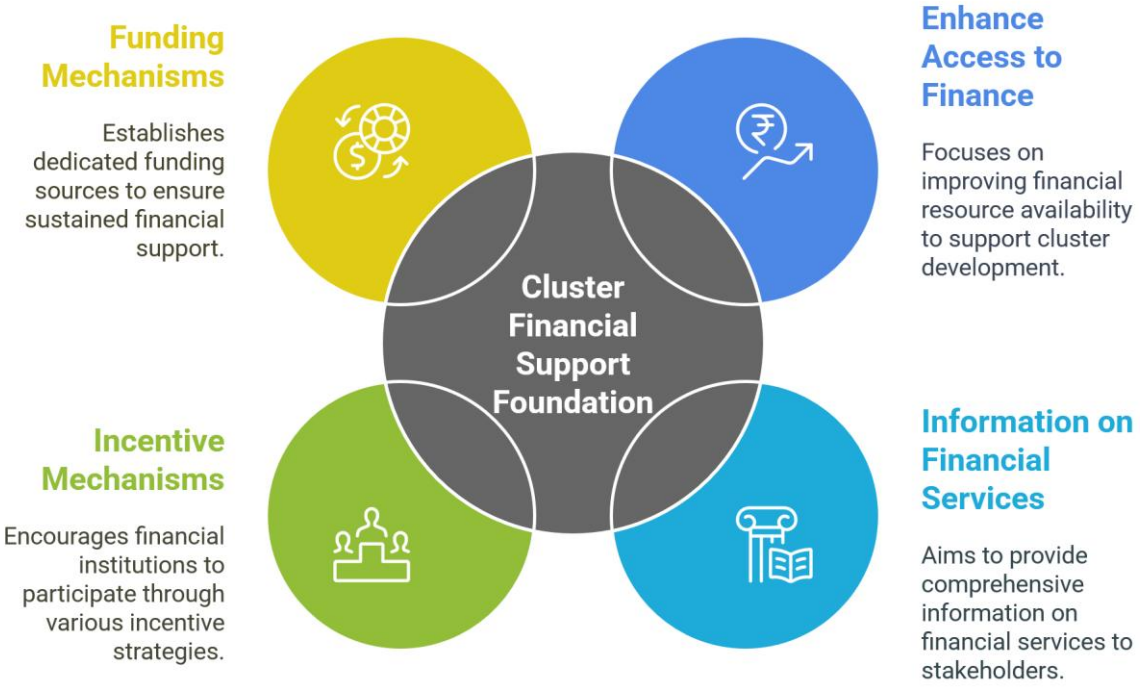
Phase 4: Cluster Financial Support Foundation

Timeline: 3-5 Years (Long Term)

Objective: Improve access to financial resources for cluster development.

Recommendations:

1. **Enhance Access to Finance** (Medium High Priority)
2. **Facilitate Access to Information on Financial Services** (Medium High Priority)
3. **Create Incentive Mechanisms for Financial Institutions**
4. **Establish Dedicated Funding Mechanisms**



For the detailed roadmap see the annexes.

5.4. Next Steps

Based on the Steering Committee's prioritization, the following **top three priorities** have been selected for adoption as the next phase for the cluster development in Egypt.

1. **Establishment of an Inter-Ministerial Committee for Cluster Development**
   - Conduct in-depth research to identify key ministries and their roles.
   - Develop a comprehensive proposal for the committee, including objectives, membership, and decision-making processes.
   - Facilitate stakeholder consultations and develop a roadmap for implementation.
2. **Development of a Legal and Institutional Framework for Clusters**
   - Conduct a legal and regulatory review to identify gaps.
   - Develop policy recommendations for new legislation or amendments.

- Facilitate stakeholder consultations to gather input on proposed frameworks.

3. **Cluster Awareness and Capacity Building**
   - Develop and implement an awareness-raising campaign to educate stakeholders about cluster development.
   - Build the capacity of cluster actors through training programs and knowledge-sharing platforms.

For more details see Annexes.

6. Conclusion

The findings underscore the importance of **policy coherence**, **inter-ministerial collaboration**, and **regional development agencies** in addressing the fragmented governance and management of industrial and organic clusters. The establishment of an **Inter-Ministerial Committee** and the development of a **legal and institutional framework** for clusters are pivotal steps toward creating an enabling environment for cluster growth. Additionally, the emphasis on **capacity building**, **innovation**, and **access to finance** will empower clusters to compete effectively in both local and international markets.

The **Steering Committee**, comprising key stakeholders from government, industry, and international organizations, has played a vital role in validating the recommendations and prioritizing the action plan. Their input has ensured that the project's next phase is aligned with national development goals and addresses the most pressing needs of Egypt's clusters.

As the project moves forward, the implementation of the **action plan** and the adoption of the three identified measures are crucial for the cluster development in Egypt

Annexes

The following documents are included as part of this report to provide additional context and detailed findings:

Annex Number	Document Title	Description	Link
Annex 1	Egyptian Cluster Landscape Research	Comprehensive research report on the current state of clusters in Egypt.	EuroMed Clusters Forward - Egyptian Cluster Case Final Report.pdf
Annex 2	Stakeholders Interviews Report	Summary of insights and recommendations from 13 stakeholder interviews.	EuroMed Clusters Forward Updated Interviews Report.pdf
Annex 3	1st Panel Report	Report from the first-panel discussion on cluster development challenges.	EuroMed Clusters Forward - 1st Panel Report.pdf
Annex 4	Workshop Report	Summary of outcomes from the multi-stakeholder validation workshop.	EuroMed Clusters Forward Egypt _ Workshop Report.docx.pdf
Annex 5	2nd Panel Report	Report from the second panel discussion on policy and governance frameworks.	EuroMed Clusters Forward-Public Policy Dialogue

			Event Report.pdf
Annex 6	Egyptian Clusters Development Roadmap	Detailed roadmap for cluster development, including timelines and priorities.	EuroMed Clusters Forward | Clusters Development Action Plan For Egypt.pdf
Annex 7	Terms of Reference (ToR)	Document outlining the scope, objectives, and priorities for the next mission.	[DRAFT] ICEALEX | EuroMed Clusters Forward - ToR V1.0
Annex 8	Steering Committee Meeting Minutes	Minutes from the Steering Committee meetings, including decisions and feedback.	Steering Committee Meeting Minutes