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Productive Villages: A Hope for Reviving Rural Development in Egypt/ القرى المنتجة: بارقة أمل لإحياء التنمية الريفية في مصر

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THE PUBLIC POLICY HUB

Productive Villages: A Hope for Reviving Rural Development in Egypt

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2019

The opinions expressed in this paper are those of the authors and do not reflect AUC Policies or views.
They are published to stimulate further dialogue on issues and challenges facing Egypt
in an attempt to expose graduate students to practical policy solutions.

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List of Abbreviations

CBE	Central Bank of Egypt
GDP	Growth Domestic Product
ILO	International Labor Organizations
IMC	Industrial Modernization Center
MoLD	Ministry of Local Development
MS	Medium and Small Enterprises
MSME	Micro, Small and Medium Enterprises
MSMEDA	The Micro, Small and Medium Enterprises Agency
SDG	Sustainable Development Goals
SDS	Sustainable Development Strategy
SME	Small and Medium Enterprises

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Executive Summary

Rural villages in Egypt are equipped with human and natural resources that if utilized and managed efficiently could help in improving local livelihoods through value-added local production. Rural development in Egypt has been approached through a countless number of initiatives and policies. However, these policy tools and interventions have not achieved sustainable rural development as their impact remains limited in its outreach, scattered, disconnected from rural realities and capacities and seldomly sustainable. With more than 60% of the population residing in rural villages, empowering them would unleash untapped resources, benefit from the economies of scale, support the national economy and vigorously contribute to the global market. Poverty is unequally dispersed where rural poverty rate exceeds the urban rates by 20% on average (CAPMAS, 2019). Moreover, the Egyptian economy is incapable of satisfying the national demand for goods and services and the Egyptian exports lack a competitive advantage in global markets. Furthermore, 91% of Egyptian firms are micro firms, unable to export their products, and their products do not qualify with international exporting standards (Ayadi, et al, 2017; World Bank, 2019).

This policy paper addresses the problems facing rural production that are centered around production inputs and processes in terms of skills and capacities, financial sustainability and physical infrastructure, quality and market competitiveness in terms of international standards, technological integration and market information, and institutional challenges regarding monitoring and evaluation, coordination and government centrality.

Policy Objective:

This policy paper seeks to provide a guiding framework that aims at achieving a sustainable and inclusive rural development through implementing and strengthening the “Productive Villages” model.

Policy Option I: Implementing a Local Value Chain Approach:

Value chains consist of the activities and processes that help in the emergence of a product from the conception phase to end-markets (ILO, 2009). Value chains could help in boosting local production holistically through several mechanisms that include the development of production inputs and processes, market integration and capitalizing on small enterprises through mainstreaming them in the value chain process. As it is concerned with developing human and social capital as well, value chains ensure sustainable and inclusive socioeconomic and environmental development.

Policy Option II: Sponsoring Cluster Production

Cluster production refers to the agglomeration of a minimum of thirty economic activities or firms in geographically proximate regions that produce the same products (MSMEDA, Personal Communication, July 31, 2019. Encouraging

localized production clusters in villages ensures quality productions, a build-up of skilled labor force, cost-effectiveness (sharing costs and risks), knowledge and technology sharing and continuation, market linkages and product competitiveness.

Complementary Policy Options: A Consolidated Government Approach in Support of Productive Villages:

The consolidated approach addresses the obstacles facing Productive Villages on the levels of production and institutional setups. Firstly, through strengthening rural production components in terms of human development, technological upgrading, adopting global quality standards, stakeholder engagement, strengthening infrastructure and incentivizing producers, the government ensures the provision of an enabling environment for local producers to grow, develop and gain market competitiveness. Secondly, enhancing institutional capacity entails enhancing coordination, implementing M&E system, forming a reliable database, and adopting a decentralization policy.

Section I: Situational Analysis:

1.1 National Economic Context in Egypt:

Egypt has been witnessing significant improvements in its macroeconomic indicators where the real GDP growth rate has increased from 4.2% in FY 2016/2017 to 5.2% in FY 2017/2018 (CAPMAS, 2019). Despite this, the current transformative policies have resulted in socioeconomic distortions where spikes of inflation exacerbated the national poverty rate to an unprecedented level of 32.5 % in 2018 (CAPMAS, 2019). Furthermore, poverty rates remain highly concentrated in rural areas as it exceeds urban areas by approximately 20% (Figure, 1). Additionally, there is a major discrepancy between exports and imports where imports have exceeded exports by 200 billion EGP in 2018. Moreover, Egypt ranked 115 in the Human Development Index in 2017 (UNDP, 2018). Accordingly, rural development remains limited.

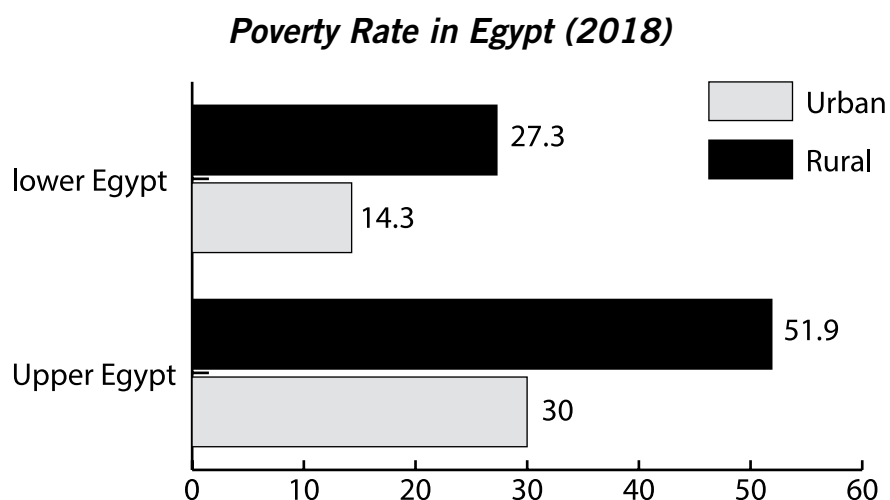


Figure 1: Poverty rate in Egypt. Adapted from: “Indicators on Income, Expenses, and Consumption”, by CAPMAS, 2019

Economic Sectors in Egypt: Their Contribution to GDP, Employment Generational Entries and Trade Balance

While the agriculture sector is considered a main economic activity in rural communities, its contribution to the GDP in 2018 was minimal, reaching 11% compared to the services, industry, and manufacturing sectors which represented 51%, 35%, and 16% respectively (World bank, 2018). This is due to the decrease in the generational entries into the agriculture sector since 2010 from 28.3% to 25% in 2018 according to the International Labor Organization (ILO) (World Bank open data, 2019) (See Figure 2). Consequently, agriculture has been lagging in sustaining the national demand and furthermore, the contribution of vegetables and food products to the Egyptian exports represented only 5.2% and 11% in 2017, despite the promoted policies by the agricultural export council (World Integrated Trade Solutions, 2017).

As for the industry and manufacturing sectors, they began to grow as their generational entries increased to 26.6% in 2018 according to the ILO, with a growth rate of 6.4% in FY 2017/2018 (World Bank Open Data, 2019).

Therefore, according to a spokesman from the Ministry of Local Development (MoLD), there are four main products the ministry is projecting: handicrafts, clothes production, leather, and furniture. Accordingly, there is a major growing interest in the handicrafts sector due to the diverse natural resources in rural communities and the role this sector plays in preserving the Egyptian culture, encouraging creativity and helping artisans to contribute to rural development.

Employment by sector (% of total employment)

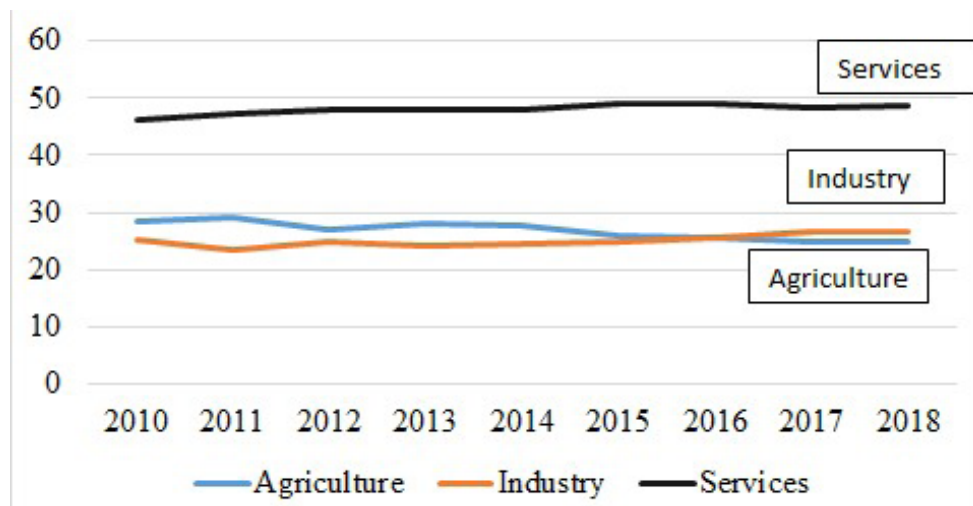


Figure 2: Employment by sector (% of total employment). Adapted from The World Bank Data, 2019. Copyright 2019 by World Bank Group

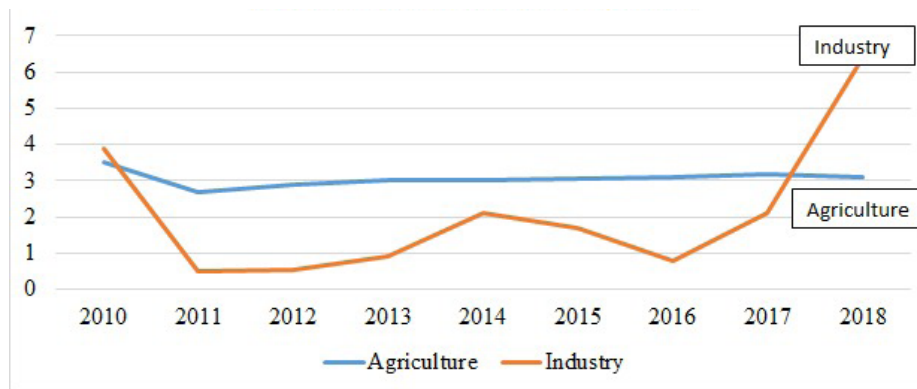


Figure 3: Sectors, value-added (annual % growth). Adapted from the World Bank Data, 2019. Copyright 2019 by World Bank Group

1.2 Rural Context in Egypt:

The rural areas, of which the villages constitute its administrative units, have encountered significant social and economic transformation. According to the MoLD, there are 4741 villages, with a population density which, over the years, reached more than half (57%) of the Egyptian population in 2019 (CAPMAS, 2019). Due to the increase in rural populations, there is a growing demand for employment and income generating activities among rural residents. However, the job market inside the rural areas is insufficient in parallel with the increased population as agricultural functions decreased and as the industrial sector is small in scale (CPAS, n.d.). Following a shift in governmental policy measures towards the elimination of public subsidies directed towards smallholder farmers regarding land ownership, a significant number of rural residents left their agricultural lands as the policies increased smallholder farmers' debt (CPAS, n.d.; Gana, 2015). Furthermore, the productivity of the agriculture and industry sectors are decreasing as the villages continue to apply outdated production techniques due to the lack the knowledge, innovative technical skills and access to modern technologies amongst villagers (Nasry, Communication, June 18, 2019).

Due to these specific factors, agricultural productivity decreased in villages which, consequently, decreased the vegetable and food production and entailed a change in the economic function of the villages as some switched into service-based jobs, others diverted to small handicrafts and industries that remain limited, while others have migrated in search of jobs internally to the cities or immigrated to Gulf countries that welcomed 56.8% of the migrated Egyptians in 2016 (CAPMAS, 2017). This in addition to the deprivation of villages to access a higher quality of physical and social infrastructure such as potable water and sanitation networks, schools and health units (Nasry, Personal Communication, June 18, 2019). Consequently, employment reached only 56% from the age of 15 to 60 years old in rural areas by 2017 (CAPMAS, 2017). Although poverty has decreased from 56.7% to 51.9% in Upper Egypt between 2015 to 2018, this decrease was offset by an increase from 19.7% to 27.3% in Delta's rural areas (CAPMAS, 2019).

1.3 Goals and National Priorities Towards Supporting Rural Production -Egypt Vision 2030:

Egypt is adopting and implementing a Sustainable Development Strategy that is planned to be achieved by 2030 and is aligned with the global Sustainable Development Goals (SDGs). The strategy represents the government's commitment to achieve inclusive development along three pillars: economic, social and environmental.

The economic axis ensures an integrated economic development through fostering knowledge-based production, market competitiveness, job opportunities, and value-added production. The social aspect focuses on the provision of education, as well as vocational and professional training that foster creativity, productivity, and the technical and technological capacities of the citizens. In alignment with the social and economic development commitments of the strategy, Productive Villages come as an essential tool to fulfill the national goals through promoting local value production, alleviating poverty in villages, creating job opportunities, improving and capitalizing on regional/geographical resources and capacities, preserving local crafts and industries, and creating an enabling environment for the young people and residents of Egyptian villages. Furthermore, "Productive Villages" is aligned with several indicators of the SDGS including poverty alleviation, ensuring decent work and economic growth, promoting responsible consumption and production, and fostering industries, innovation and infrastructure (Figure 4).

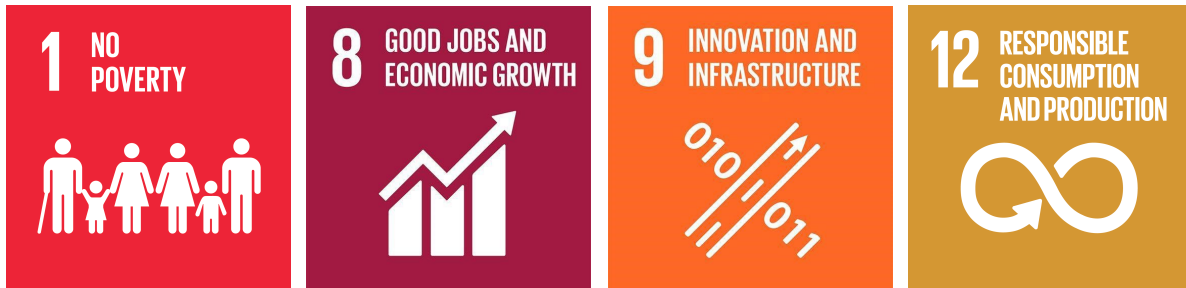


Figure 4: Sustainable Development Goals (SDGs). Adapted from: United Nations.

1.4 Constitutional Context in Egypt:

The Egyptian constitution highlights the importance of the productivity of the villages in two articles that constitute the pillars of all initiatives supporting villages' development. The first article no 28 states that any economic activity is boosted through the government's role in encouraging local production through SME's, attracting investment, encouraging exports and regulating imports (EG. Const. section II, Article 28). The second article no 29 focuses on the importance and contribution of the agriculture sector to the Egyptian economy, hence the responsibility of the state is to protect its agricultural land and to improve the socio-economic condition of rural areas. (EG. Const. section II, Article 29). In support of MSMEs and local production, a General Contracting Law no 182 for the year 2018 was issued. The law entails that the government purchases a minimum of 20% of MSMEs' production to help them grow and generate income.

1.5 Best Practices in Rural Development through Productive Villages:

- International Experience

• *Japan: One Village One Product (OVOP):*

The rural areas in Japan were left underdeveloped and unattractive for the young at the expense of urban growth, so the former governor of Oita prefecture initiated the “One Village One Product (OVOP)” project to boost the rural economy of the area. The OVOP project was initiated through a bottom-up approach where grassroots movements and local leaders take the lead in promoting human development and enhancing added-value products from the existing local environmentally- friendly resources to be marketed and consumed locally, nationally and internationally (Claymore, 2011).

- National Experiences:

A. Handicrafts Production: El-Haraneya Village for Wool Rug (Kilim) Hand Making

First, Ramses Wisa Wassef chose, in 1952, Al-Haraneya village to build his wool-rug (kilim) hand-making center to train the children from 8 to 12 years old in the village. As he believed in the children’s creative abilities, he wanted them from a young age to “imagine” the images and colors they will knit from the surrounding environment, so every rug is a one of a kind and every rug tells a story about the village and its nature (Figure 5, 6, 7). The village’s crafts are highly dependent on tourists’ visits and on the international market where local producers go yearly to international fairs to show their artworks and illustrate the way they manufacture their products (Nasry, Personal Communication, June 18, 2019)



Figure 5: Local artisan (Photo taken by the policy analysts’ team)



Figure 6: Local artisan (Photo taken by the policy analysts’ team)



Figure 7: One of the Kilims - (Photo taken by the policy analysts’ team)

B. Handicraft Products: Tunis Village for Pottery

In the 1980s, Evelyne Porret built a pottery school named “Association of Betah for Training Urbans and Villagers in Pottery Crafts” to train the young children (Sarhan, 2017). Subsequently, many locals have graduated and started

their own pottery studios, where they market their products inside the village and in international fairs. Porret's approach is to use a natural resource from the Tunis village, that is clay, to transform it into an added-value product that can be consumed and exported (Figure 8 and 9). The production process includes the purchase of raw material, pottery production, marketing procedures and participating in national and international fairs and in an annual festival in the village ("Rural tourism: Tunis village," 2014).



Figure 8: Pottery artist Mohammed Youssef teaching the little ones how to make their own pottery artifacts. (Photo: Lina El Wardani)



Figure 9: Pottery artwork. (Photo: Gina Raafat)

C. Horticulture Production: SALASEL Project:

In 2006, the UNDP launched an MDG Fund, part of which was used for the implementation of SALASEL project in order to strengthen horticulture value chains in six governorates in Upper Egypt. The project aimed to enhance the cooperation between small farmers and the private sector to promote agribusinesses, working directly with farmers' associations in order to provide farmers with the necessary business services.

The program has created a culture of collective farming among the farmers, where 67 farmers in Awlad Yahia villages created their own agri-business company "Salasel Co." with a capital of one million EGP. Moreover, the program has provided technical assistance to 130 farmers on post harvesting, promoted the credibility of farmers in wholesale local markets and has helped in linking the farmers to input suppliers as well as six food-processing companies, thus allowing the farmers to act independently from middlemen (UNDP, 2012).



Figure 10: Salasel co, project. Adapted from UNDP, 2012

1.6 National Strategies Targeting Egyptian Villages

A. Your job in your Village (شغلك في قريتك)

This initiative was launched in December 2017 by the Federation of Egyptian Industries, supported by MoLD, MSMEDA and many other governmental and non-governmental entities. Its goal was the creation of job opportunities for family members in their own village through the establishment of 1000 production units in 1000 villages in different governorates in 3 years, and through the creation of micro, small and medium enterprises. It targeted the sector of labor-intensive industries: the clothing sector, leather production, furniture and different crafts. The initiative was based on the value chain approach to support the rural citizens technically and financially, starting from the raw material till the marketing and retailing stage (MoLD, Personal Communication, May 23, 2019).

B. One Village, One Product (قرية واحدة، منتج واحد)

UN Women and the Social Fund for Development launched this initiative in 2013. Its overall objective was empowering women in rural areas through enhancing the production of an existing primary product in each village. The initiative supports women's productivity from the raw material and production phases to marketing and retailing phases whether locally or internationally. It also connects the targeted women with the local civil societies. Among the most distinguished projects are milk production, vegetables preparation, handmade carpets, papyrus production in Beni Suef, El Beheira, Menofia and Ash-Sharqia respectively (National Center for women, 2016).

Section II: Problem Statement

Egypt has been striving to boost local production in rural communities. However, the former interventions remained small, scattered, limited in geographical scope and unsustainable. Consequently, the local production fails to meet national and international market demands, does not contribute to global value chains and is incapable of fulfilling employment needs. Additionally, the institutional setup hinders the scalability of local production in terms of supportive policies, coordination mechanisms, information access, monitoring and evaluation and effective sustainability measures. Hence, there is still a need for a policy framework to organize efforts. These challenges have resulted in diseconomies of scales which reflect on the production processes in several implementation phases that are indispensable for a product to grow. This will be further explored under three main themes.

Problem Description

2.1 Production Inputs and Processes: (Resources Management)

Human resources management is concerned with human capacities presented in skills, local knowledge and manpower. The absence of quality-relevant technical education has hindered the technical, technological and vocational capacities of the villages' labor, which in turn slowed down the production initiatives and processes. According to our field interviews, some of the production of local crafts depends on passed-down knowledge from the elderly to the youngsters of the village (an informal technique of education) without following a specific quality manual or procedures (MSMEDA, Personal Communication, July 31, 2019; and Makary Consulting, Personal Communication, July 15, 2019). In general, vocational training institutions do not incorporate highly accredited specializations that are customized based on the skills and resources available in the villages (MSMEDA, Personal Communication, July 31, 2019). Furthermore, there is a high preference for sustaining micro enterprises, especially among females in villages, instead of expanding their businesses to small and medium sized enterprises, which hinders production expansion.

Access to diverse and sustainable **financial resources**, such as land acquisition, financial capital, and other funding resources is an integral aspect of sustaining local production. Due to the prevalence of poverty among rural communities, the possession of financial resources is limited and insufficient to sponsor a local production of acceptable scale and quality. On the demand side, rural producers are more concerned with the sustainability of financial liquidity (Banque Misr, Personal Communication, August 17, 2019). They often fear high interest costs and the risk of the potential inability to pay back their debts (Kumar, 2017; and UNCTAD, 2010). Furthermore, some of the local producers are not able to leverage the available financial opportunities due to the lack of awareness (Ayadi et al., 2017).

As for **physical resources**, the deteriorating infrastructure, low-quality public services in terms of public transportation and waste management systems, inadequate communication networks and supportive facilities (processing and storage) in many of the rural villages are an obstacle to sustainable production.

This is due to the lack of sufficient routes and transports which delay the transfer of locally produced goods and services leading to the decaying of products and financial losses over the long run (MoLD, Personal Communication, May 23, 2019).

2.2 Quality and Market Competitiveness

The quality standards of locally produced goods and services constitute a major obstacle for the integration in regional and global value chains. For example, the agricultural produce does not often have the production, processing, and packing technologies to meet the health and safety standards of international markets. For the local producers, the cost of complying with different standards and certifications can be unaffordable for them, hindering them from entering into the regional and global value chains (Eskesen, 2014; and UNCTAD, 2010).

Accessing and integrating **modern and adequate technology** limit the local production opportunities because poor rural producers do not have access to modern and adequate technologies which in turn affects the quantity and quality of production (MSMEDA, Personal Communication, July 31, 2019).

Marketing: Addressing issues of productive capacities should be accompanied by an understanding of market dynamics and needs in the present as well as in the future. According to a report published by the World Bank in 2019, most Egyptian exports have been growing in sectors that have a low global demand. In other words, “Egypt is becoming a winner in losing sectors”. This is further illustrated in the upcoming figure (World Bank, 2019).

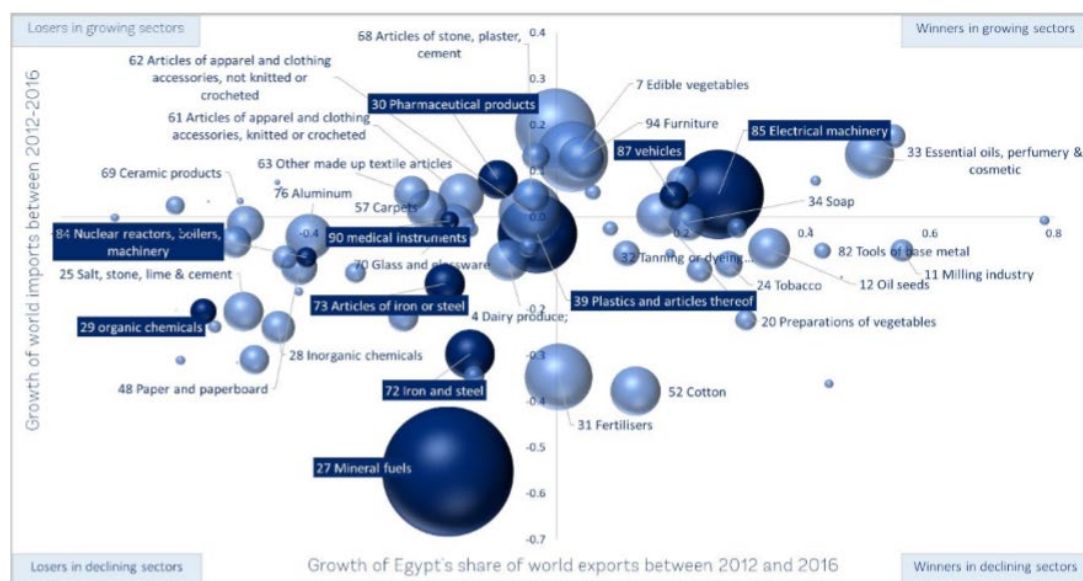


Figure 11: Bubbles' size reflects products' share in Egyptian exports. Adapted from: Egypt Economic Monitor from Floating to Thriving: Taking Egypt's Exports to New Levels (Youssef and Zaki, 2019) Copyright: World Bank Group 2019

It appears that the only sectors for which there is a high global demand and in which Egypt has a relatively high potential are edible food and fertilizers, which have contributed only 4.1% and 3.4% on average from 2012 - 2016 to the exports (World Bank, 2019). Moreover, sectors such as carpets, salt, stones, sulphur, fabrics and textiles represent some of the untapped opportunities for Egypt. Examining the local level, some of the major challenges facing local producers are the lack of proper market information in terms of market needs, quality standards, pricing models, new trends, tariffs and regulations and, most importantly, linkages with larger retailers and opportunities of integration in larger value chains (MSMEDA, Personal Communication, July 31, 2019). For example, Fuwwah Kilim cluster did not participate in fairs until the government intervened and helped them gain market access. While this was a milestone for them, unfortunately, it was not fully sustained as their engagement has decreased after the end of these interventions (MSMEDA, Personal Communication, July 31, 2019).

2.3 Institutional Challenges:

The absence of a results-based monitoring and evaluation on the macro and micro levels. MoLD lack sufficient M&E budget directed towards rural production. Hence, they lack data about the production size, average revenue of the rural producers, and the contribution of rural products in the Egyptian exports, and in the Egyptian national GDP. Therefore, they fail to assess the impact of the policy on the rural areas to make sure they are on the right track and guarantee the sustainability of their interventions. Furthermore, there is a lack of data on mapping the existing production in the Egyptian villages (Makary Consulting, Personal Communication, July 15, 2019).

According to our field interviews, *the lack of a well-functioning coordination mechanism* between the different ministries as well as the international development agencies has led to the duplication of efforts, the depletion of financial resources, and the prevention of the economies of scale (MSMEDA, Personal Communication, July 31, 2019; and Egyptian Export Authority, Personal Communication, July 14, 2019).

Section III: Policy Options:

Policy Objective:

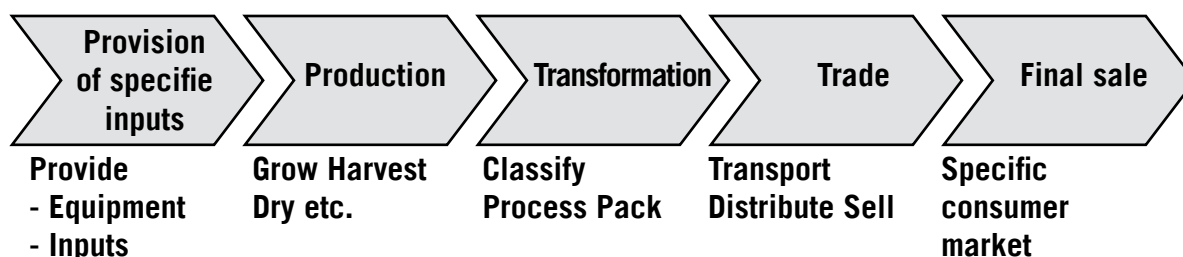
Strengthening the approach of “Productive Villages” through a comprehensive package of interventions and policies on the local and institutional levels, focusing on strengthening the rural value chains, rural cluster production, and adopting a consolidated governance framework.

- Policy Option I: Implementing the Local Value Chain Approach:

Value chains are defined as a sequence of activities and processes that help in the emergence of a product from the conception phase to end-markets. The intermediary processes include several elements that range from design, input

and raw material, production, marketing, distribution and support services coupled with the existing natural and human resources in place (ILO, 2011).

Basic functions (chain links)



Categories of chain operators and their relations



Figure 12: Generic Linear Value Chain Map. Adapted from: Indian Agricultural Research Institute, New Delhi, by A. Reddy, 2014, December 24.

This approach takes the end markets as a driver for growth; hence its focus is to improve the added value and quality of the product targeted to improve its competitiveness through inter-firms' linkages (USAID, 2008). Improving the value chain competitiveness is a "powerful tool to generate income and achieve economic growth" (ILO, 2011). This added value is generated by the share of different networks and phases inside the chain. Rural producers possess the potential to contribute to local and global value chains, which will help them fight poverty, unemployment and marginalization. In value chain development initiatives and projects, the "impact at scale" is a determinant factor in the success of these interventions, which "refers to sustainable systemic change that leads to an improvement of job and income opportunities and the ability to make informed choices for a large number of people, without necessarily extending the project's outreach" (ILO, 2016). Improving local value chains could happen through improving production inputs and processes, strategic marketing models, inclusion of MSMEs, and applying sustainability measures.

Enhancing production inputs is a cornerstone in improving local productivity whether in the value chain model, cluster approach or in MSMEs. Thus, the development of production inputs and processes will be emphasized as a standalone policy option.

1) Strategic Marketing Models:

One of the key elements that shape value chains are the market systems through which they operate. These market systems consist of public and private organizations including governments, associations and businesses and can be divided into two main categories: the market players that provide supportive roles, such as

R&D, Skills, information and infrastructure; and formal and informal norms (Figure 13). Therefore, creating a strong market system is a prerequisite for the success of any value chain and is essential for the creation of productive villages (ILO, 2016). However, in real life, market systems suffer from multiple problems that affect the productivity of the value chain.

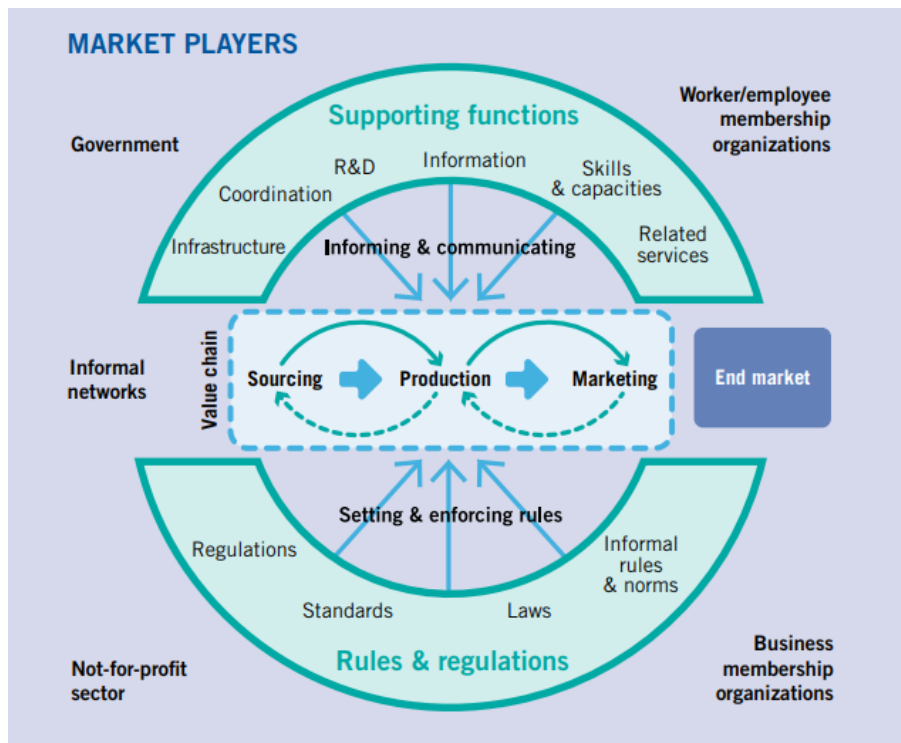


Figure 13: Market players. Adapted from: ILO, 2016.

In addressing the challenges facing local production, a value chain analysis approach will be applied. Opting for a value chain analysis will provide a holistic approach to assessing challenges hindering the transformation of Egyptian villages from consumption to value production and offers sustainable alternatives to address these production development gaps. The lack of information on prices, value chains, competitiveness, consumers, globally demanded products and standards are some of the main problems that face producers in villages in Egypt. Therefore, creating a market intelligence department under the auspices of the Ministry of Local Development that provides up-to-date information on the standards, innovative technologies and market requirements is essential.

The market intelligence system will provide the necessary recommendations to upgrade the capacities of local producers and should directly work with cooperatives and Farmers Associations in order to transfer the information.

The department will be concerned with conducting market research analysis through identifying the existing value chains, their contribution to the GDP, growth potential, mapping the existing actors in the value chains, as well as the incentives that could be provided for the different players. Furthermore, it should map out the existing handicrafts across villages in Egypt as well as determine

the comparative advantage for the rural villages. Furthermore, it should include representatives from the Ministry of Agriculture, Ministry of Trade and Industry, MoLD, MSMEDA and the Ministry of planning.

Additionally, creating new connections in the value chain is a success factor through linking local producers in the poorest villages with supermarkets or hotel chains as well as engaging local producers in global value chains. Moreover, another untapped opportunity is connecting rural residents with foreign and domestic startups in other countries and governorates that target residents in rural areas but do not have the necessary know-how. Therefore, this will create employment opportunities for the residents as they will use their expertise in order to sell the product of the startup.

2) Integration of MSMEs in Value Chains:

Accounting for existing local production efforts is integral in strengthening and expanding the value chain. Since MSMEs contribute with 80% of the national GDP and 75% of the total employment in the private sector (Ayadi et al., 2017), mainstreaming them in value chain processes helps in unifying production efforts to maximize impact and outreach. MSMEs are defined as formal enterprises that run economic-productions, trades or services. Their organizational structure does not exceed 200 workers, its share capital starts with 50 000 EGP and its annual turnover does not exceed 200 million EGP (CBE, 2017; and Ministry of Finance, 2005). Until 2019, 3.1 million Micro and Small Enterprises (MSEs) were established which have provided 4.8 million jobs (MSMEDA, 2019). Hence, the MSE sector provides formal job opportunities that can help decrease the level of unemployment to 4% as Egypt 2030 Vision states.

Accordingly, integrating rural MSMEs into national and global value chains will assist in producing higher quality products that comply with international standards (ILO, 2011). Mainstreaming MSMEs indicates the process of coordination amongst relevant stakeholders to use available resources efficiently, make informed decisions, and share modern technical and technological methods to improve products' design and marketing (Palomero & Chalmeta, 2012). Therefore, it will help small local producers produce higher-quality products, increase their market opportunities domestically and internationally, and become direct suppliers to large enterprises. Moreover, it will reduce the gender gap as women-owned MSME's are the most prominent segment in the MSMEs sector, especially in wholesale and retailing activities (Kumar, 2017). Thus, small producer-focused value chains can help underprivileged rural communities find suitable jobs and sustain a profitable income.

Financial sustainability is integral in improving and growing the production of MSMEs. The Central Bank of Egypt (CBE) has launched an initiative in 2016 to give small loans with a 5% interest for small-scale enterprises and with a 7% for medium enterprises (Ministry of Finance, 2005). This is in addition to the provision of small loans directly to the producers or through local civil society in the community targeted by MSMEDA (MSMEDA, Personal Communication,

July 31, 2019) Money liquidity constitutes the main concern for the producers (National Bank of Egypt, Personal Communication, August 16, 2019; and Banque Misr, Personal Communication, August 17, 2019). Hence, there should be a framework policy on the range of interest for each type of enterprises that financial institutions must abide by. Additionally, there must be a financial plan for each economic sector- poultry, agriculture, industry, and handicrafts- according to market demand and its share of GDP and exportation. The government can enhance and publicize the role of the NILE exchange/ bourse, which is an MSME trading platform for local and international investors (Yusuf, 2016).

This will increase the private investment that in turn will facilitate MSMEs' expansion and integration (Lakhi & Sinha, 2019).

Additionally, to ensure a sustainable financial liquidity, the government can promote the model of Village Savings and Loan Association (VSLA) which consists of "a group of people who save together and take small loans from those savings one time per year" (VSL associates, n.d.). The purpose of a VSLA (Gam'iyah) is to provide simple savings and credit services in a village that is featured by its strong social networks of families and neighbors and which does not have an easy access to formal financial services. This model is based on community -reliance on each other to build their own capital. Also, 81% of Egyptian women are dependent on this method of capital generating (Care, 2017).

Market Connectedness and Exportations in MSMEs:

In order to strengthen MSMEs' presence in the market and improve their contribution to national exports, there are recommended efforts that need to be carried out by both MSMEs' owners and the government. Through identifying the dominating product categories in exportation of Food (16%), Textile (11%) and handicrafts (10%), MSMEs' owners need to respond to these market opportunities by tailoring their production to add-value to market needs. For example, Egyptian handicraft exports reached \$142 million during the first eight months in 2018 (Egyptian Export Council for Handicrafts, 2018).

On the other hand, the Egypt Export Promotion Authority could support local products of MSMEs through creating home-grown demand through promoting and investing in local and international fairs such as the International Handicrafts Show among others. Such fairs will help in creating market value networks through incorporating products produced locally, regionally or internationally.

Furthermore, local products should have the brand name of the MSME in order to promote it and associate it with the local story of the product. Moreover, rural tourism could be integrated in villages famous for handicrafts as a method of promoting the products' brands and gaining worldwide recognition.

While the Export Promotion Authority is only cooperating with producers in the Greater Cairo region, there should be an expansion in its supportive framework to include wider geographical areas. Additionally, sponsoring partnerships between the Egyptian Export Council for handicraft and e-commerce platforms such as

Yadawee and Youmken as well as existing local brands and stores such as fair trade is integral in strengthening the presence of MSMEs. Moreover, the council could help in integrating artisans in the value chains of reputable Egyptian brands such as Negada or Sami Amin.

3) Chains: Linking the Four Pillars of Sustainable Value Chains: The Social, the Environmental, the Economic and the Institutional

In assessing and implementing value chain activities, focusing solely on the economic development pillar is unsustainable and may lead to hazardous social and environmental impacts. Therefore, a holistic approach should combine economic goals with social and environmental objectives in addition to enabling an inclusive institutional arrangement to ensure the quality of growth (GIZ, 2015).

The sustainability of social life is a core determinant of the success of value chain activities. Social sustainability tackles issues such as local participation, equity, social justice, access to resources and opportunities, and the inclusion of the most disadvantaged and marginalized groups (ILO & GIZ, 2015).

A study of the targeted communities and villages is critical in understanding the sociocultural and political constructs in terms of traditions, norms, social values, gender roles, leadership style, hierarchy and power relations. This study will help in strategically planning interventions that resonate with the social, cultural and political construct of the villages to facilitate integration and acceptance, foster trust among stakeholders and ensure empowerment through inclusion and equal access to opportunities (ILO & GIZ, 2015).

Rural areas have the greatest diversity of natural resources. However, these resources are often over-exploited, which leads to its degradation. For example, water is being wasted on a large scale and threatens to cause water shortages which can reduce global food production by more than 10% (Braun & Virchow, 2001). To fulfill environmental sustainability, a strict criterion should be applied to ensure better management of scarce resources, to account for population growth and consumption patterns, and to avoid environmental degradation and to preserve biodiversity. Conducting an environmental assessment is integral in safeguarding environmental sustainability through accounting for available natural resources, ecological life, existing animals and plants. This will help in mapping available green opportunities, eliminating the pollution and depletion of available natural resources (water and soil); and planning value chain activities to be greener and more sustainable. The institutional dimension will be emphasized thoroughly in an upcoming section (ILO & GIZ, 2015).

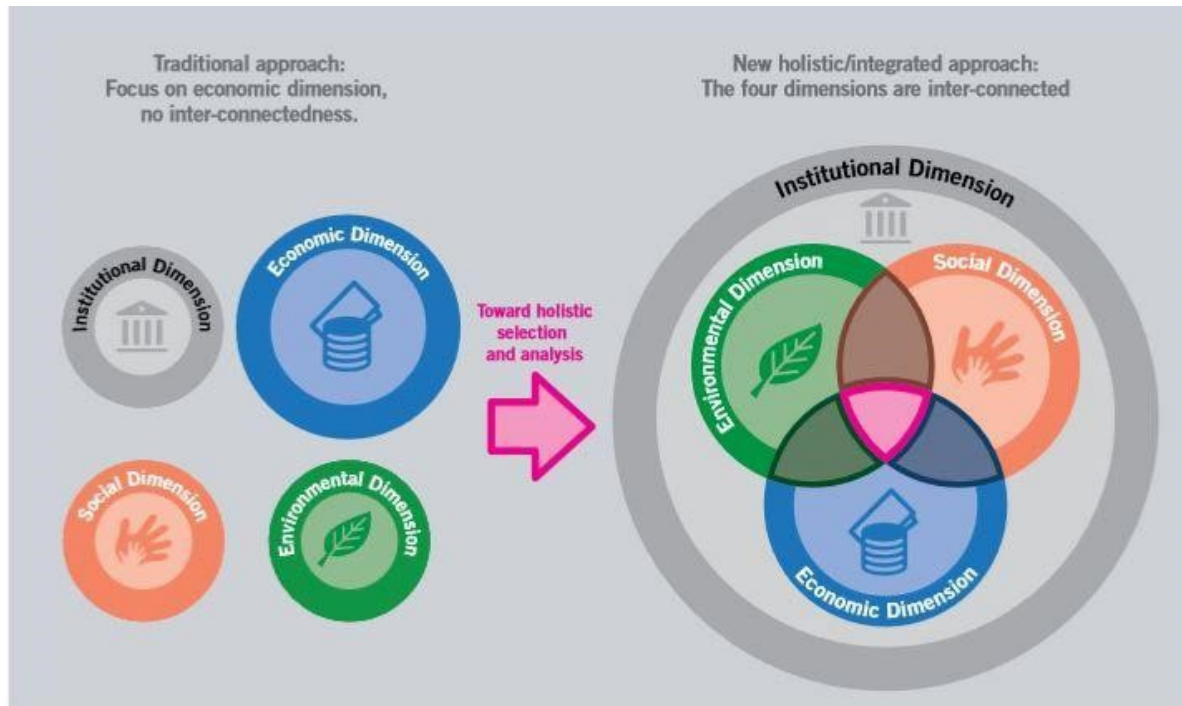


Figure (14): The Pillars of Sustainable Value Chains. Adapted from: ILO & GIZ, 2015.

- Policy Option II: Sponsoring Cluster Production

Cluster production refers to the agglomeration of a minimum of thirty economic activities or firms in geographically proximate regions that produce the same product (MSMEDA, Personal Communication, July 31, 2019). Clusters are an efficient tool to increase not only productivity, but also innovation and positive economic spillovers (El Baradei, 2010). In developing countries, cluster-based development has the potential to achieve economic development due to the abundance in the labor force, the strong “social capital” in local communities, and the flexibility of production structure (Zhang, 2016). Encouraging localized production clusters in villages ensures quality production, the build-up of skilled labor force, cost-effectiveness (sharing costs and risks), knowledge and technology sharing and continuation, market linkages, and product competitiveness. The number of identified clusters in Egypt are around 145 organic clusters, out of which 79% are informal. The organic clusters are defined as clusters that were carried out by the local producers themselves without the government’s intervention. These clusters are concentrated around textiles (46), food production (33) and agriculture (17) along with wood, leather and chemicals among others (SFD, 2016) (Makary Consulting, Personal Communication, July 15, 2019). Additionally, there are several non-organic clusters and handicrafts as local cluster models (Abdellatif, 2016).

For cluster products to add value, there needs to be a framework that helps in creating linkages between industrial clusters and sector-specific value chains (Abdellatif, 2016) and encourages the production of specialized products and services. In order to foster cluster production in villages, the mapping of existing

local production concentration points and products in different categories is integral in identifying target groups and intervention types. Government interventions should be directed towards strengthening the existing clusters through providing opportunities for growth and expansion through tangible and intangible measures (Zhang, 2016). The tangible interventions should include building markets, providing adequate infrastructure, organizing exhibits and conventions, and enhancing security. The intangible efforts should be concerned with highlighting regional strengths and capacities and promoting the value of cluster productions among target groups (Zhang, 2016). Efforts to encourage cluster expansions should be concerned with the quality upgrading of local products or services rather than quantities.

- Complementary Policy Options: a Consolidated Government Approach in Support of Productive Villages.

1. Strengthening Rural Production Components:

Strengthening and expanding rural value chains could be achieved through the following measures:

Human development is a key aspect for producing innovative products to compete in the market and gain the trust of other stakeholders in the value chain. Therefore, the government must foster technical education and training. First, technical and vocational schools must expand to nearly all villages in consideration of the economic specialization of each village and new technologies. Second, an integrated professional training plan has to be conducted for all levels of productive villages to enhance their skills and knowledge about designing an operational business plan that require from the rural producers to analyze their internal organization's strengths and weaknesses. Moreover, external opportunities and threats from competitors mean better management of the organization technical, human, economic and financial resources that benefit its planning and communication and better understanding of the market dynamics, new technology, market demands and new trends, consumer behavior, pricing and marketing and exportation strategies. Hence, the government must ensure the existence of training facilities near each village to ensure the sustainability of the transmission of knowledge.

Technological upgrading is a major component to increase high-quality production that is necessary to meet international standards. Local producers must be up to date in regard to technological systems and innovation. For example, MSMEDA has changed the manual foot pedal pottery wheel for the Tunis village workers which doubled their production and increased their quality. Furthermore, it upgraded the loom technology which increased its production (x15) and reduced the production time from three weeks to 5 days (MSMEDA, Personal Communication, July 31, 2019). Therefore, there is a need to strengthen technology learning in vocational schools for each sector of products to increase access opportunities to be integrated into global value chains. In addition, the integration of local products in national and global value chains will link the small producers

with large companies which will benefit them with a continuation of technological upgrading and knowledge about the technology market. To improve innovation, the Tokyo Action Statement provides some practical measures to promote the capacity for innovation which include: “Establishing logistic technology centers, including the use of electronic tags for creating a seamless distribution network; providing access to information on world best technologies and processes; and promoting partnerships between SMEs and organizations overseas that can develop or transfer world-leading technology, products, processes or management practices” (Kumar, 2017). In this framework, technological upgrading must contribute to higher quantity and quality of production.

Quality assurance and control: Localized production hubs that aim at providing technical support throughout the steps of production, applying quality control measures, acting as a networking venue where local producers meet and collaborate with other stakeholders, and helping in the processing and marketing of locally produced goods and services should be strengthened. In this regard, there should be a representative in MSMEDA hubs that ensure the quality of the material used, the quality of logistics and the quality of the processes. Applying a traceability system to local products is integral, which is the ability to track a product throughout the phases of its development along the value chain (Verzija, Derojeda, Rouwma, PwC Netherlands, Probst, Frideres, & PwC Luxembourg, 2015). This system ensures compliance with international standards as well as brings visibility and credibility to local products.

Network value through drawing **linkages between multiple stakeholders**. This cooperation between different actors generate economies of scale, improve the quality of the product and reduce its production cost. However, this cooperation is conditioned by “trust” among the relevant stakeholders: the producers, distributors and the buyers (USAID, 2008). These linkages require a stakeholder mapping to identify key local producers and lead firms with a vision orientation towards cooperation and make them central in value-chain enhancement efforts. These firms can be major buyers who will have a stake in contributing to the process to ensure quality and price competitiveness, such as hypermarkets (Reddy, 2014). MSMEDA local hubs could be a potential training center for lead firms mapping and may also play the role of mediators to foster linkages between them and local producers to ensure cooperation.

Strengthening village-city linkages: Investing in “hard” infrastructure Village-city linkages are vital for economic growth as they serve the movement of people, goods, and capital (Srivastava & Shaw, 2016). So, the village and the city are in a complementary relationship where rural people provide the city with food and natural resources and the city provides services and income that are invested in the villages. However, rural villages have remained isolated from the cities; hence they encountered constraints at purchasing economic inputs for project implementation and constraints in marketing their products outside their village, so they were dependent on other traders. Accordingly, the linkages between the city and village must be strengthened through building adaptable

roads, providing reliable transportation network, strengthening connectivity to local ports and facilitating access to energy supplies such as electricity.

The implementation of financial and non-financial incentives through tax relief that encourages the small producers to scale their activities in the formal sector, incentives to boost local exportation and facilitation of land allocation. Additionally, providing subsidies to agri-businesses in order to encourage farmers to adopt an entrepreneurial rather than a supplier-only approach.

2. Enhancing Institutional Capacity:

The establishment of a coordination committee: The representative committee consists of all the relevant stakeholders including the designated governmental institutions, the private sector, the local producers, cluster representatives and cooperatives, and non-governmental organizations under the auspices of the Cabinet of Ministries. This committee will be held once a month to discuss the progress of the rural productions.

A further cooperation between MSEMUDA, the Ministry of Agriculture, and Food Councils for Exports should be enhanced in order to transfer the necessary information on the standards and requirements of agriculture and food products.

The poorest villages should be included in the strategy of the Ministry of Trade and Industry especially in agribusiness, handicrafts and food products that target markets in Asia and in Africa (Ministry of Trade and Industry, 2017).

The role of MSEMUDA as a knowledge hub should be activated to provide information intelligence for stakeholders regarding the striving local products and services, market assessments and requirements, funding opportunities, latest technologies, pricing models, supporting services and previous and current interventions and programs among others. Making this information accessible will strengthen the capacity of key players, increase the bargaining power of local producers, change market rules of the game and make collaborations and joint initiatives amongst different stakeholders.

Results-based monitoring and evaluation: Qualitative and quantitative M & E systems can be implemented to measure the impact of stakeholders' interventions through identified indicators of success for each activity and objective. Additionally, it could be conducted through local governments that gather all the required information, analyze the lessons learned and best practices and report it to MoLD to monitor the progress of the policy towards the achievement of objectives.

The formation of a database that includes information regarding policies, current and previous projects, stakeholders, funding opportunities and legislations needed to strengthen the "Productive Villages" model (Egyptian Export Authority, Personal Communication, July 14, 2019). This database should be shared and discussed during the coordination committee meetings.

The promotion of fiscal and administrative decentralization: The main challenge about implementing and sustaining the productivity of a village is that policies

and interventions do not resonate with the local context. Hence, to ensure its sustainability, the government needs to build the capacities of local institutions in each governorate to ensure the better access and management of information about the local context specialty and align them with the policy recommendations. Additionally, to ensure the financial sustainability of the implementation of productive village's policy, financial decentralization processes and specific fiscal arrangement must be planned and promoted to increase the investment inside the village. Furthermore, the local administration must strengthen the local civil societies inside each governorate and promote a partnership framework between them, the private sector and rural people themselves with different rural occupations such as farmers, rural artisans, rural industrial workers, and women. Moreover, Reviving the role of cooperatives as a representative entity of local farmers and producers' needs, rights and products is integral in enhancing their bargaining power and negotiations with the government and other stakeholders.

Conclusion:

In conclusion, the policy paper has mapped out the major challenges that face poor villages in Egypt and came up with multiple policy options in order to untap the potential of rural villages, empower local producers, create a productive environment, and benefit from economies of scale which is summarized in the next table.

Fields of Intervention	Recommended Actions	Expected Results	Key Stakeholders
<i>Production inputs & processes</i>	- Technological upgrading	<ul style="list-style-type: none"> ✓ Establishing specializations in technical schools based on the comparative advantage of the village ✓ Increasing mass production and decreasing the unit cost of production 	<ul style="list-style-type: none"> • Technical schools • Ministry of Education and Technical Education (MoETE)
	<ul style="list-style-type: none"> - Integrated professional training programs - Localized technical support and training facilities (BDS) - Linking technical education to production specializations 	<ul style="list-style-type: none"> ✓ Certification of technical schools ✓ Improving the skills of laborers and human capital 	<ul style="list-style-type: none"> • Industrial Training Center • MSMEDA • MoETE • International organizations (GIZ- EU- TVET- USAID)
	<ul style="list-style-type: none"> - Diversifying financial resources - Public purchase programs - Facilitating requirements imposed by financial intermediaries - Establishing SME promotion platforms 	<ul style="list-style-type: none"> ✓ Increasing access of local producers to the funds ✓ Scaling MSMEs especially micro enterprises to be small enterprises 	<ul style="list-style-type: none"> • MoLD • Ministry of Finance • CBE • Financial Regulatory Authority (FRA) • MSMEDA • International donors
	<ul style="list-style-type: none"> - Addressing gaps in outbound logistics - Strengthening local physical infrastructure 	<ul style="list-style-type: none"> ✓ Facilitating exporting and the transition of resources 	<ul style="list-style-type: none"> • MoLD • General Organization for Physical Planning

	<ul style="list-style-type: none"> - Establishing production hubs - Provision of information on international standards and regulations 	<ul style="list-style-type: none"> ✓ Meeting the global standards of exporting 	<ul style="list-style-type: none"> • MSMEDA • Ministry of Industry and Trad
	<ul style="list-style-type: none"> - Strengthening networks and cooperatives - Decentralization of production value chains 		<ul style="list-style-type: none"> • MoLD • International org. UNDP, USAID, GIZ
Institutional Setup	<ul style="list-style-type: none"> - Information intelligence - Coordination mechanisms 	<ul style="list-style-type: none"> ✓ Improved coordination between the ministries 	<ul style="list-style-type: none"> • State Information System • Ministry of Planning • MoLD
Marketing	<ul style="list-style-type: none"> - Creating a market intelligence department - Market research - Stakeholder mapping - Fairtrade and exhibitions 	<ul style="list-style-type: none"> ✓ Creating a brand with a strong reputation for Egyptian products 	<ul style="list-style-type: none"> • Agricultural export council • MoLD • Agricultural Cooperatives

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The Public Policy HUB is an initiative that was developed at the School of Global Affairs and Public Policy (GAPP) in October 2017. It was designed to fill in the policy research gap. It provides the mechanism by which the good ideas, plausible answers, and meaningful solutions to Egypt's chronic and acute policy dilemmas can be nurtured, discussed, debated, refined, tested and presented to policymakers in a format that is systematic, highly-visible and most likely to have a lasting impact.

The Public Policy HUB provides a processing unit where policy teams are formed on a regular basis, combining experienced policy scholars/mentors with young creative policy analysts, provide them with the needed resources, training, exposure, space, tools, networks, knowledge and contacts, to enable them to come up with sound, rigorous and yet creative policy solutions that have a greater potential to be effectively advocated and communicated to the relevant policy makers and to the general public.

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