Case of Urbanization and Industrialization in Shubra el-Khema, Egypt

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APRIL 2000
Urbanization and Industrialization in Shubra el-Kheima

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1. Introduction

Shubra el-Kheima has been one of the fastest growing cities in Egypt. The textile and garment industry has played an important role in generating this growth. In the following report we will attempt to describe how this industry was initiated and developed, the major structural changes that have happened to it, and the problems that face the industry. We will then describe the growth of the city population and the state of public services in it. Lastly we will examine the role of government in fostering or hindering the growth of the industry.

1.1. Background: the textile and garment industry in Egypt

Egypt has a long history of textiles, and of the garment industry this century. In 1938 Egypt imported £E 3,339 millions-worth of cotton textiles. This made up 9 percent of the total value of Egyptian imports. By 1943 this had fallen to £E 1,848 million, 5 percent of imports, and this went down to 3 percent in 1949. Egyptian imports of cotton fabrics fell from 13,270 metric tons in 1938 to 3,880 in 1948. Starting from a production of 93 million square meters of woven cotton in 1938, local production increased by 10 percent per year during the war, reaching 195 million square meters in 1946. The import of textile machinery rose from 1100 tons in 1940 to approximately 11000 tons in 1946.

This boom however did not last long. The end of the war brought the Egyptian economy into a severe crisis as demand collapsed. The textile industry found itself burdened with excess capacity and, while protected by high tariffs, unable to export.
True, these had not been significant before, but from 1948 (yarn) and 1951 (fabric), exports began to grow.

One of the main problems that afflicted the textile industry was the high cost of producing coarse cloth on the basis of high quality domestic cotton. The short staple cotton produced elsewhere in the world was ideal for cheap cloth and hence cheap garments, but the government from the 1930s (to the 1990s) banned the import of this cotton. The government concentrated on the export of fabric and from 1948 imposed an export tax on all varieties of cotton (textile exports were taxed, and from 1949, were subsidized).

The industry did not begin to grow again until the 1950s. The production of cotton yarn experienced rapid growth between 1950 and 1971, with an average annual rate of 5.5 percent. Export of cotton fabrics provided the major stimulus for the growth in production.

The growth of cotton textile exports, particularly of yarn, was mainly due to the opening of the Eastern European markets. Yarn was exported to Rumania as early as 1954, and large exports of fabrics to Eastern European countries began in 1964. Of the approximately 30 thousand ton increase in yarn exports between 1957 and 1966, almost 24 thousand went to Eastern European countries through bi-lateral agreements.

It is important to note that this export market was not functioning at prevailing world prices. Exchange was carried out between commodities. For example, tanks would be directly exchanged for Egyptian textiles. This put the industry under little pressure to increase its competitiveness. It was only when the Eastern European markets began to decline in the late 1970s that the need to compete at world prices began to affect the Egyptian textile industry.

Textiles and garments currently represent 25 per cent of total industrial output, the second largest manufacturing sector after food processing. Excluding export of
crude oil, which has expanded rapidly over the past few years, textile and textile articles have accounted for half of total export earnings until 1991-92 when they fell to 33 percent (the result of the collapse of the Soviet Union and the loss of markets in Eastern Europe).

Egypt's total textile output in 1990 was valued at £E 3,954 million, up from £E 3,282 million in 1989, and just £E 1,443 million in 1984. Domestic sales have more than doubled over the same period, from £E 946 million in 1984, up to £E 1,980 million in 1989 and to £E 2,279 in 1990. Exports resumed growth in the mid-1990s as the government reoriented Egypt towards Western markets and began encouraging exports by private garment producers (helped by the devaluation of the pound in 1992 and its pegging to the US dollar). The ready-made garment production rose from 76 million pieces in 1985/86 to 131 million pieces in 1991/92.

In terms of employment, the textile industry is by far the largest employer in the manufacturing sector in Egypt. In 1990 it employed over 26 percent of the total manufacturing sector labour force, compared to 17 percent for food products and 8 percent for transport equipment.

By the end of 1990 there were 925 firms in the private textile industry employing a total of 296,000 persons. The public sector, 31 textiles mills, accounted for 100 percent of all spinning, and 70 percent of weaving, and employed 200,000. It is estimated that the combined public and private sectors of the industry employ half a million. (This estimate excludes the unrecorded sector).

2. The Industry in Shubra el-Kheima

2.1 History

During the nineteenth century the towns and villages of the province of Qalyubia, to the north of Cairo, were the main centers of traditional textile production
based mainly on rural cottage industry. These included the towns of Banha and Qalyub and the area of Shubra el-Kheima, which was mainly an agricultural region. Shubra el-Kheima, was then about thirty kilometers north of Cairo, separated by the Ismailia irrigation canal; it produced wheat and cotton for the Cairo markets.

The then provincial capital of Qalyub - was a textile center, possessing workshops with thirty looms and selling finished textiles in Cairo. The weaving machines employed in village centers were simple ones and were locally made. At Qalyub, however, there was more sophisticated machines, and many were brought from Cairo. The report of the Egyptian Commission on Commerce and Industry published in 1918, demonstrated that the war had forced Egyptian artisans to expand output. The commissioners estimated that there were 2,455 looms at Mahalla, 390 at Damietta, and 2,000 at Qalyub. Most sophisticated dyeing was done in Cairo, Mahalla, and Qalyub, nearly every village did some dyeing of cloth.

Until the 1920s no significant modern textile sector had emerged in Egypt, since, it was said, there had been no tariff protection for Egyptian industry. The success of Egyptian agricultural exports, particularly cotton, made Egyptian landowners and the colonial administration reluctant to invest in industry.

With the advent of the great depression and the collapse of agricultural prices on the one hand and the imposition of the first serious tariff protection in 1930, Egyptian and foreign investors started establishing large textile factories. Cotton ginning, spinning and weaving facilities were established in Mahalla el-Kubra in the center of the delta and Kafr el-Dawwar to the South of Alexandria and in Shubra el-Kheima.

By the mid-1940s Shubra el-Kheima had become a major textile center. It was an ideal location for the industry. Geographically it is located on the northern borders of Cairo, and is thus very close to a major market. It was also situated in a traditionally cotton producing region and therefore has easy access to the main raw material. Also the main railway line connecting Cairo to Alexandria and reaching several of the main cities in the Delta passes through Shubra el-Kheima.
In 1937 the largest wool textile mill was established in Shubra el-Kheima (Wooltex), followed in 1940 by a major cotton textile mill (ESCO). Between 1961 and 1963 all the large textile firms in Shubra El Kheima were nationalized and an intensive project of modernization was carried out, particularly in the ESCO plant, which by the end of the 1960s employed 26,000 workers.

Another large scale project was added in 1956, a jute factory with a starting capital of 3 million £E with another branch for the company in Billbeis.

During the 1960s textile and clothing manufacture were concentrated in five provinces, which among them contained 85 percent of factories, 85 percent of workers, and 82 percent of capital invested. The concentration is in fact even greater, for the figures of Qalyubia and Buheira represent the suburbs of Cairo and Alexandria, respectively. Proximity to raw material (cotton), and availability of skilled and diverse labor, it is said, were the reasons for such concentration.

During the same period, Shubra el-Kheima was considered one of the principal industrial cities in Egypt in terms of number of factories and number of workers. The city had a relatively high number of factories (122), 3.7 percent of the national total ranking third after Cairo and Alexandria. In terms of workers 31,842 were employed in Shubra el-Kheima accounting for 6.9 percent of the national total, ranking third after Cairo and Alexandria.

The city experienced another major boom of growth in the 1980s. Between 1986 and 1996, over 20,000 new industrial establishments were formed employing over 50,000 workers.

2.2 Structure
The prevalence of small-scale establishments is a major feature in private sector ready-made garment manufacturing in Shubra el-Kheima. The 2,838 recorded establishments existing in 1996 employed 10,730 workers. The average number of employees per establishment is 3.8. More than half the recorded establishments (1565) had only one worker and another 724 employed only 2 workers. One establishment alone had over 1000 workers and only three had about 500 workers. (Fig. 1)

For recorded knitwear producers, 163 establishments employed 1883 workers with an average of 11.5 worker per establishment. Only one factory employed more than 500 workers and 2 factories employed more than 100 workers.

The recorded private weaving sector is made up of 1,154 establishments employing 21,000 workers with four factories employing more than 1,000 workers and fifteen factories with over 100 workers. Nearly a quarter of the establishments employed between 5 and 10 workers and 112 establishments have one worker. (Fig. 2)

This picture does not include the unrecorded sector. It is very difficult to estimate how large this sector is, but it seems likely that for garment units, the statistically recorded units of 1 or 2 workers form a small portion of the total. The reasons for making this assumption is that through observation during research it was noticed that homeworkers were extremely reluctant to reveal their economic activity for fear of government inspectors. On the other hand, in the areas that the researcher entered through friends and relatives, and was therefore trusted, it was found that there was scarcely a building without at least one household involved in production.

The predominance of small scale manufacturing establishments in Shubra el-Kheima is a major feature of the city's economy in general, not only in the textile and garment industry. Thus over 130,000 workers are employed in 16,000 manufacturing
units. Over 4000 employ one worker and 92 percent employ less than 10 workers. Only 21 factories have over 1000 workers and 12 have over 500. (Fig. 3)

The structure of the public sector companies is very different. They consist of vertically integrated industrial complexes - 'composite mills' - with spinning, weaving and garment production processes all in the same company. The largest of these in Shubra el-Kheima is ESCO. Until the 1990s this company employed 26,000 workers (it currently employs only 6,000).

**Shubra El Kheima, 1996**

**Fig. 1 Garments Manufacturing (Private Sector)**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Establishments</th>
<th>Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10</td>
<td>2,772</td>
<td>4,979</td>
</tr>
<tr>
<td>11-100</td>
<td>57</td>
<td>1,443</td>
</tr>
<tr>
<td>101-500</td>
<td>5</td>
<td>884</td>
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<td>1,991</td>
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<tr>
<td>&gt;1000</td>
<td>1</td>
<td>1,433</td>
</tr>
<tr>
<td>Total</td>
<td>2,838</td>
<td>10,730</td>
</tr>
</tbody>
</table>

Source: National Census for Population and Buildings, Qalyubia Governorate.
Shubra El Kheima, 1996

Fig. 2 Private Weaving Sector

<table>
<thead>
<tr>
<th>Categories</th>
<th>Establishments</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1-10</td>
<td>781</td>
<td>3,073</td>
</tr>
<tr>
<td>11-100</td>
<td>354</td>
<td>7,643</td>
</tr>
<tr>
<td>101-500</td>
<td>13</td>
<td>2,342</td>
</tr>
<tr>
<td>501-1000</td>
<td>2</td>
<td>1,459</td>
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<tr>
<td>&gt;1000</td>
<td>4</td>
<td>6,301</td>
</tr>
<tr>
<td></td>
<td>1,154</td>
<td>21,018</td>
</tr>
</tbody>
</table>

Source: National Census for Population and Building, Qalyubia Governrate
Fig. 3 Private Sector Manufacturing

<table>
<thead>
<tr>
<th>Categories</th>
<th>Establishments</th>
<th>Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1–10</td>
<td>14,704</td>
<td>42,560</td>
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<tr>
<td>11–100</td>
<td>1,172</td>
<td>25,144</td>
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<tr>
<td>101–500</td>
<td>72</td>
<td>15,107</td>
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<tr>
<td>501–1000</td>
<td>12</td>
<td>7,936</td>
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<tr>
<td>&gt; 1000</td>
<td>21</td>
<td>39,812</td>
</tr>
<tr>
<td></td>
<td>15,981</td>
<td>130,559</td>
</tr>
</tbody>
</table>

No of establishments

No of Workers

Source: National Census for Population and Building, QalyubiaGovernorate
2.3 Markets

Public sector companies (for example, Wooltex and ESCO) depend on public sector retail outlets, and their own chains of retail outlets to market their products. These stores are located mainly in Cairo and Alexandria.

There are five main public sector retail chains in Egypt. These are located in all of the main high streets and commercial centers in Egyptian cities. Traditionally these outlets sold the products of the public sector factories at highly subsidized prices. This provided a stable and secure market for the public sector manufacturers. However, due to the structural adjustment program, all subsidies on cloth and garments have been discontinued and the public retail chains have been privatized. This has had a drastic effect on the public sector sales, creating a major crisis.

Another market for the public sector used to be the Eastern Bloc countries, this was also a non-competitive market that provided a guaranteed outlet for the public sector products. This outlet also disappeared in the 1980s.

Private sector factories depend mainly on wholesalers. The wholesalers deal with retail stores mainly in Cairo. Some of the small factories deal directly with these stores. In all cases they sell on credit, which creates problems for factory owners because the credit is never settled on time. In some cases the wholesaler provides the specifications given by the shops (school uniforms, hospital and work uniforms, particular patterns or designs), in other cases the factory owners produce a variety of designs and the wholesaler distributes them.

Small workshops and homeworkers sell through three main outlets for their products. The first and most important is the large informal clothing markets that exist in the city. This is achieved either directly through the workshop or homeworker having their own stand in the market, or indirectly through market buyers. In the former case,
brokers or merchants are important, putting out work to homeworkers; detailed information is difficult to obtain since both workers and brokers are in constant fear of tax collectors. However, it seems that some factory owners may have put out work to households rather than being pure manufacturers. The second outlet is direct sales to buyers in the neighborhood as some of the workshops have a small showroom next to the workshop. The third outlet is subcontracting for the larger factories.

There are a number of important trade fairs in Cairo but these involve the large textile and garment companies; none of the small producers display here. There are also export-promotion associations in Cairo, but none operate in Shubra; the same appears to be true of industrial associations.

Thus, while the garments produced by the public sector and the larger private factories go mainly to the Cairo market, the garments produced by the small workshops and homeworkers go to the local market, with the exception of the work that goes to the larger factories through subcontracting.

2.4 Exports

Egypt’s exports of ready-made garments in value terms rose sharply from $13.9 million in 1988 to $70.5 million in 1992. The country’s preferential access to markets helps here. However, garment manufacturing in general lacks the capacity to meet the quality requirements of industrialized markets, especially in woven garments. Despite the country’s long tradition and natural resource endowment in terms of raw material and labor supply, garment manufacturing still largely underdeveloped due to the dearth of modern equipment, skilled supervisor and efficient management.

In 1995 garment exports reached $253 million, making it the third largest in terms of value after petroleum ($706 million) and cotton yarn ($300 million). The value of
exports nearly doubled between 1990 and 1995. Thus, garment exports have "taken off".

However, textile sector exports amounted to £E 3.5 billion (US$1.03 billion) in 1995 which saw a decrease from previous year of £E 3.8 billion($1.12 billion). The increase in export value of textile products from 1990-1993 was 40 percent, however since this is calculated in Egyptian £E and needs to be adjusted for inflation and changes in foreign exchange values.

The most competitive product areas for the expansion of garment exports are knitted cotton garments and garments made under franchise. These highly labor-intensive activities make use of the country's high-quality long-staple cotton. Moreover, firms can also specialize in 100 percent cotton garments. According to rough estimates, export earnings from garment franchises rose significantly from $10 million in 1991 to $31 million in 1993. With the significant increase in the number of local firms operating under franchise, high-quality garment manufacturing will thrive with good management and strict quality control.

Exports of ready-made garments, 1975-1992, selected years
(Thousand $)
<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
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<tbody>
<tr>
<td>1975</td>
<td>14,057</td>
</tr>
<tr>
<td>1980</td>
<td>8,008</td>
</tr>
<tr>
<td>1985</td>
<td>5,488</td>
</tr>
<tr>
<td>1986</td>
<td>4,288</td>
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<td>1987</td>
<td>6,357</td>
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<td>1988</td>
<td>13,886</td>
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<td>1989</td>
<td>24,297</td>
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<tr>
<td>1990</td>
<td>38,996</td>
</tr>
<tr>
<td>1991</td>
<td>52,246</td>
</tr>
<tr>
<td>1992</td>
<td>70,539</td>
</tr>
</tbody>
</table>

Source: Industrial development review series (1994)

In Shubra el-Kheima, most small and medium-size private factories do not export. The main reason given by manufacturers interviewed is their inability to compete with the prices and quality of other countries, especially China. In the case of the small factories, lack of access to the international markets was reported as their main problem.

When asked about exports, a knitwear factory owner said:

_The problem is that we cannot compete in foreign markets because their products are much cheaper than ours. Buying new machines or the needed raw material, for instance, cost the Egyptian manufacturer much more than his Turkish counterpart. For example, the 'tricot' machine in Germany costs around £E 200,000. If a manufacturer in Turkey imports this machine the extra cost he has to bear is equivalent to £E 5,000-10,000 (including taxes, tariffs, and transport expenses). Whereas if I import the same machine, the price will reach £E 300,000. And as you know the price of a garment depends upon the cost of producing the goods (including, costs of labor, fabric, other input, and the extra costs that we bear). Consequently the price of Egyptian garments is higher._

Larger factories export mainly to the United States and the European Union. In one of the large garment factories visited, all production was directed to export. Of 8 million pieces produced over a year's period, 75% went to the United States.
Some smaller factories are involved in exporting in an indirect way through subcontracting for larger firms. Subcontracting occurred when a large exporter receives a big order that the factory could not handle. In this case, the large factory supplies all inputs and the design and pays on piece-rate.

In an interview, a small manufacturer who worked as subcontractor, described the process of subcontracting:

I had to produce 8000 pieces in a month and a half. This was part of the order a million suits to be exported. The exporter provided all the material and designs and paid me £E1.50 per piece, and I had to pay the workers between 75 piasters to £E 1.00. It was too little but due to the market condition these days I had to accept.

2.5 Machinery

With the exception of the el-Mahalla el-Kobra public sector textile company, which established its own textile machinery plant in the 1960s, all textile and garment producers use imported machinery.

In the private sector there is competition between manufacturers with regard to obtaining the latest technology. One manufacturer said:

computerized machines make a difference in the quality and designs. Obtaining a computerized machine is becoming a must. However, because it is very expensive not all manufacturers can buy it. Those who cannot afford buying the machine find other ways to get the needed cash. They buy a ton of thread (raw material) for £E 25,000 to be repaid in installments. They then resell it as a raw material for 18,000 cash to and buy the machine. Of course they have to buy raw material on credit to start production. They end up with debts and some loss, which they transfer to the final price of the piece. On the other hand those manufacturers
who had bought the raw material at the lower cost can afford to reduce the prices of their final products.

2.6 Raw materials and imports

Traditionally, garment producers bought the cloth they used from the public and private weaving sector in Shubra el-Kheima. Cloth imports were illegal and the ban was strictly implemented. The government subsidized the price of cloth. This was because the price of cotton available in the local market was kept by the government at an artificially high price (nearly double the world price), the textile mills were forced to use this expensive cotton and the result was cloth at unaffordable prices, which had to be subsidized by the government.

The Economic Reform Program has changed the situation in a sudden and chaotic way. Subsidies on yarn and cloth were lifted as part of the price liberalization program, but the cotton prices remained the same. The result was that the weaving sector produced cloth at astronomical prices. The public sector textile mills debts to the banks reached six billion £E., and private sector weaving establishments experienced the most severe crisis in their history with hundreds of bankruptcies and closures.

At the same time the government reduced its restrictions on the import of thread and cloth and cast a blind eye on the massive illegal smuggling of imported cloth (particularly Chinese fabric). The result has been an influx of cheap threads and cloth, whether imported or smuggled, and this has been the main source of raw materials for garment producers in Shubra El Kheima.

For example, the owner of a knitwear factory deals with wholesalers who import thread from Turkey and Indonesia, explained:

the cost of one kilo of Turkish thread is £E 10 ($3) in Turkey, I buy it here for £E 20 ($6) including the tariffs and the transport costs. Buying domestically produced
thread of the same quality costs me £E 25. So it is cheaper for me to buy imported raw material.

2.7 Competition

Two main sources of external competition threaten the private sector garment producers in Shubra el-Kheima. The first is the illegally imported garments from China and other East Asian countries. These garments can be anything from a third to half the price of the garments manufactured in Shubra el-Kheima, and of better quality. While owners are very liberal when it comes to the import of threads and cloth, they become ardent nationalists when discussing the import of garments. The problem is that illegally imported garments have, according to their terminology, 'invaded' all levels of the Egyptian market. Such imports pose a problem for the small workshops since wholesalers sell Chinese garments in the local informal markets, and more seriously for the larger factories since these garments have become readily available in the high street markets of Cairo.

The other source of competition is the new industrial cities. These are a particular threat to the larger factories that are attempting to improve quality and to export. For example, in the Tenth of Ramadan City, which is one of 11 such cities either operating or planned, 340 industrial projects are already functioning, of which 66 are in the field of textiles and clothing. These are provided with many incentives that are simply not available to their counterparts in Shubra el-Kheima. These incentives include the availability of modern industrial infrastructure, tax holidays, preferential customs duties and access to technical vocational training schemes for workers. Manufactured products include suits, trousers, T-shirts, knitwear, underwear, men’s, women’s and children’s clothing, carpets and curtains. In addition to cotton yarns, cotton cloth, woolen cloth, synthetic fibres and cloth, elastic bands, laces and zip-fasteners, as well as the dying and finishing of cloth.
2.8 The changing composition of output

As mentioned earlier, until the 1980s, public sector retail chains sold mainly public sector-made clothing. The garments sold in these outlets were heavily subsidized by the state. This situation led to uniformity in designs and poor quality since there was very little competition.

In the 1990s with the removal of subsidies and the privatization of retail outlets, there has been a major change in the quality and design of garments. Foreign franchises began producing in Egypt. Brand names such as Benetton, Stefanel, Joval and Wrangler, with their wide variety of designs and fashions began to appear in shops. Although most people could not afford the products of these franchises, the effects of advertisement and widespread availability was to increase the demand for better quality and more varied designs.

One garment manufacturer that made women's clothes noted that:

*until the 1980s, the company could keep on producing the same design for 4 to 5 years without any need for change. Now, if we do not have new designs for every season we would be out of business.*

Some of the small factories used to produce for the public sector companies (retail chains such as Omar Efandi, Shamina and Sidnawi). These companies supplied the raw material, the needed inputs, and the design. One producer who owns a small factory described the procedure:

*this was part of the government project to produce cheap clothing during the 1980s. The order was to produce 30,000 pieces per month. It included different types of products (shirts, pants, dresses, Galabiya, etc.). Although they did not*
pay much per piece, the size of the order was compensation. When that project stopped due to changes in government policies, we had to start producing to other customers' order.

A wide variety of garments are currently produced in Shubra el-Kheima and although the cloth used is usually imported from outside the city, many of the other inputs are produced locally. Inputs to production such as lace, zip-fasteners, plastic buttons and elastic bands are produced by private sector factories in Shubra el-Kheima. In fact, an interesting development has been taking place since the late 1980s as a spin-off from these accessory industries. In one of the newer spontaneous settlements (el-Wihda el-Arabia) there has been a rapid growth of a small scale plastics industry. The units of production are in the first floor of the houses, and a wide variety of plastic goods are produced. These include kitchen utensils, plumbing equipment, toilet seats, slippers and buckets.

2.9 Specialization and interdependence

The relation between the different units of production in the textile and garment sector in Shubra el-Kheima is one of 'clustering' rather than 'networking', in the sense that they form a clear sectoral and geographic concentration of firms with local external economies, yet the level of inter-firm co-operation and joint action is insignificant.

The local external economies are evident. These include access to the market for inputs such as lace, buttons and zippers, which have developed in the area, access to markets for machinery. Shubra el-Kheima has the largest traders in textile and garment machinery. Finally, access to skilled labor specializing in the industry, which is abundant in the region.
Another advantage of agglomeration in the same region is access to subcontracting orders. Subcontracting plays a major role in garment manufacturing in Shubra el-Kheima. Factories regularly put out work to small workshops and homeworkers. In some cases most of the production process is not carried out within the factory. The cloth would be cut in the factory but the sewing, assembling of accessories and ironing would be carried out in the households or workshops.

The advantages of subcontracting to the factory owner are many. First, the payment is by order and not by wage, which means that when there is work the outworker will be employed, when there is no work the owner does not have to worry about wages. Second, this process avoids government inspections and all the complications and costs related to them. Third, it saves on machinery investment.

There are problems involved however. When government inspectors find out about subcontracting activity a serious increase in tax estimations occurs and other fines are imposed for employing labor informally. Loss of control over quality was the other problem that factory owners complained about regarding subcontracting. With increasing demand for better quality and designs, subcontracting can become a liability.

Although there is no clear specialization among different firms in terms of the types of garments produced (most firms produce a wide variety of cotton garments, depending on demand), there has emerged in recent years a form of specialization in terms of the markets involved. As mentioned earlier, the large firms tend to sell to the Cairo market, Whereas the small workshops sell to the local informal markets. It is an important emerging distinction since the former market consumes garments of high quality cotton whereas the latter consume garment of coarse cotton that is not produced on a large scale in Egypt.

3. Labor
3.1. Recruitment

Until the 1980s, recruitment of skilled workers to the public sector factories took place through the Ministry of Labor. Graduates of industrial schools, as all other graduates had the automatic right to a job in the public sector. Lists of fresh graduates would be given to the Ministry of Labor, which would then distribute them according to the needs of the different companies, and more importantly, according to the geography of their residence. This system was not fundamentally different to an army conscription system. It is interesting to note that during the 1970s public sector factories were obliged to employ ex-soldiers that had finished their military conscription.

A large pool of excess labor was thus created in the public sector factories. Thus the ESCO Factory was able to reduce its labor force during the 1990s from 26,000 to 6,000 without significant technical developments and without a reduction in production.

Unskilled labor was recruited to the public sector through posting job openings in the factories. Workers would be recruited for a training period of 6 months. This training period allowed the companies to avoid making a contract with the worker and therefore not give them the benefits stipulated in the labor law which included the right to work and immunity against dismissal.

Since the mid-1980s the right to public sector employment has been revoked and since the public sector companies had an excess of labor, there has not been any recruitment to these companies and the work force has been undergoing a continuous reduction.

On the other hand, private sector factories and workshops recruit informally. The skilled and more experienced workers bring recruits from their neighborhood or families, who are then briefly interviewed by the owner and employed. In the majority of cases no contracts are signed and the work relations remain informal.
Map: Qalyubia Governorate
It was found that in the case of factories owned by Copts, the church plays an informal but important role in the recruitment of labor. The local priest would act as mediator between young church goers looking for work and Christian factory owners in need of labor. It is not surprising therefore to find that the majority of the workers in a Christian owned factory are Copts.

Some of the skilled public sector workers that have retired or been laid off through the early retirement scheme have started their own garment production projects, usually in their own households. However this did not represent a significant new source of firms partly because most of the workers being laid off are older ones specialized in the spinning and weaving sectors of the industry.

3.2 Composition

In both the public and private factories and workshops, the skilled workers are mostly literate and the unskilled mostly illiterate. The older skilled workers read and write but have no formal education. The younger skilled workers have at least primary education and in many cases a secondary industrial diploma. In the private sector factories and workshops most of the unskilled workers are women and children, the skilled workers are nearly invariably men.

About 60 percent of the workers in private factories and workshops are women, the majority of whom are illiterate. Female workers are usually very young between 12-25 and assist the male skilled worker (Osta).

In the public sector factories 70 percent of the work force are males, the female workers are concentrated in the garment-producing sector of the factories. Spinning and weaving operations being predominantly male.
In the medium-size and small private factories the majority of workers are employed without contracts as temporary workers, either paid on daily or weekly basis. An owner of a factory explained that for contracted workers he has to pay social security that reaches 40 percent of the wages that they receive.

The skilled workers in these factories are paid on piece-rate. They are paid £E 1.50 per-piece and produce around 20 pieces per day (their wages range between £E 500-600 monthly). The wage of unskilled female workers ranges between £E 80-150 per month, while male workers between £E 100-200.

3.3 Housing

The public sector companies provided housing for their workers through the building of housing blocks in the vicinity of the factories. For example, Wooltex built around 150 building blocks, each of which consisted of 10 apartments. However this policy was stopped in the early 1980s when the last expansion of the housing estates occurred. Currently the companies do not provide any housing and, in some cases, are trying to evict retired workers and their families from the company housing estates to make them available for new tenants. The government is awaiting new tenancy laws before seeking the privatization of the housing stock.

Private establishments do not and have never provided housing for their workers. Traditionally workers lived in the surrounding villages, but with the expansion of the city, it is the slum towns that have become the main residential area for factory and workshop workers.

There are three distinct types of housing used by workers in Shubra el-Kheima. The first is made up of large plots of company blocks around the old public sector factories, the oldest built in the 1960s and the newest in the 1980s. These are symmetrical block buildings five stories high with 10 apartments in each. Most
apartments are about 100 square meters with running water, electricity, and connected to the sewage network. The blocks are separated by relatively wide streets with easy access to the main street. Although run down, with little maintenance and numerous plumbing problems, and although the apartments are overcrowded as the families of the workers increase without the possibility of getting extra apartments (in many cases a son of the worker would marry and live in the same apartment with his parents), these apartment blocks represent by far the best housing in Shubra el-Kheima.

The second type of housing consists of privately owned apartment building, built during the 1970s and 1980s. The owner would often be a former worker who was able to save through working in the Gulf States, return, purchase a plot of land and build on it. These buildings, 3 to 4 stories high have smaller apartments, worse maintenance, and are much more overcrowded than the company blocks. The owner would keep two stories for himself and his family and rent the rest.

Renting is a complicated business in Egypt because of the old tenancy laws. In the 1960s the Nasserist government made it illegal to evict tenants or to increase the rent. This has made direct renting obsolete. What has taken its place is a system by which the person wanting to rent informally pays the owner a sum of money usually ranging (since the 1980s) between £E 5,000-20,000, agrees on a formal rent that is written in the contract and informally pays an extra monthly installment to the owner for an agreed period of time.

The third type of housing consists of spontaneous settlements, these are unplanned buildings that expanded into the agricultural lands to the north of the city and currently make up the largest area in the city, housing the majority of the population of the city. Many of the families that settled and built on these lands were families of workers in the factories and workshops. They would first build one story and would then expand with another story when they had saved enough money. Again, Gulf work played a major role in financing the expansions. As with all other private housing the same rent laws apply.
It is obvious from the above that it is very difficult for a new worker to find affordable housing in the city. There is a serious housing crisis. In Shubra el-Kheima, as in other Egyptian cities, you are either an old tenant, or an owner or you have enough money to buy an apartment.

Until recently, both tenants and owners had assumed the old tenancy arrangement to be permanent. However, with the structural adjustment programs, the old Nasserist laws are being scrapped and real estate is to return to the open market. Although this move might eventually make cheap renting available, it does not solve the problem of the current tenants, who in many cases will be evicted as owners will want to make more efficient use of their land and buildings. The tenants paying the rent rates of the 1960s will find it very difficult to pay the rates of the end of the 1990s.

3.4 Unions

Shubra el-Kheima has a long history of militant trade unionism. In the period between 1946 and the 1952 coup, these unions carried out a series of important political strikes. However the unions were taken over by the regime in the 1950s and became government organizations. Nevertheless, the workers of the textile factories of Shubra el-Kheima continued to play an important role in Egyptian politics until the 1980s when the government started drastically reducing the number of workers. The last major strike was in 1986 by the ESCO factory workers, who were able to barricade several of the streets in the city and prevent the President giving a speech there on May Day. However with the structural changes taking place and with the demise of the large textile mills the workers movement in Shubra experienced a serious retreat.
The only workers that are unionized in Shubra are the public sector workers who are union members by law. They are part of the General Union of Textile and Garment Workers. This Union lost a third of its membership in less than 10 years (from a membership of 300,000 in 1990 to now less than 200,000).

The Union does not play any role in recruitment. It provides vocational training and instruction but only for union members and is therefore of little value for workers in the private sector. Recently the General Union has been attempting to form Union branches in the private sector.

There are several NGOs operating in Shubra el-Kheima. They mainly provide social services to the residents, such as nurseries, training programs, and health services. In addition, there exist some religious organizations, mostly in mosques and churches.

4. The city

4.1 Location and history

Administratively the city of Shubra el-Kheima is part of al-Qalyubia governorate that is located in lower Egypt (see map). It is considered the largest city in the governorate and one of the important industrial centers in Egypt. It accommodates nearly 70 percent of the urban population of the governorate. It is also part of the Greater Cairo region and accounts for 8 percent of its population. The city is divided into two districts referred to as 'District 1' and 'District 2'. Each district consists of several localities.

The oldest settlement in the city is the Nobar Basha area. It was mainly under agriculture. In the 1920s the process of establishing small factories started in the area
called Industry Street. During the 1930s and 1940s some big factories, owned by foreigners, were built in the area. The city was mostly inhabited by workers who migrated from nearby rural areas to work in the factories.

Since the 1950s, the expansion of the city on agricultural land has proceeded. Much of the growth in Shubra el-Kheima during the 1950s and the 1960s was the result of the government programs to provide housing for workers. Most public sector factories built apartment blocks in several areas around the factories. The public housing projects attracted many people to buy land and build their own houses around this area. At a later stage, private sector housing started expanding in the city. The rate of conversion from agricultural to residential usage grew more rapidly during the 1970s, with tremendous migration to Shubra el-Kheima from rural as well as urban areas.

The number of housing units in the city increased from 88,000 in 1976 to 180,000 in 1986. An increase of 100 percent compared to the increase of 50 percent for Cairo and 85 percent for Giza in the same period. Thus, Shubra el-Kheima was the fastest growing housing settlement in the Greater Cairo region.

There have been two parallel processes which have contributed to the rapid growth of many cities in Egypt in the last 30 years: one can be described as legal because it is planned and controlled by the state. The other, though illegal, labeled spontaneous urbanization, is nevertheless the more important of the two from the point of view of housing. For example, in Cairo between 1973 and 1978 nearly 76 percent of all dwelling built were located in the spontaneous urbanization zones, and these zones housed 1.6 million people (25 percent of the population of the city).

This, in part, is due to a withdrawal of the State from the production of subsidized housing for the intermediate and lower strata of the middle class.
This holds true for Shubra el-Kheima. In a study carried out in 1987, it was estimated that spontaneous settlements (unplanned housing) account for 46 percent of the total built area of the city and 54 percent of the population.

With the growth of the industrial areas several residential and commercial areas developed. The agricultural land began to shrink as the people started to build houses and new industry emerged. These industries are spread in different areas in the city.

4.2 Population

Shubra el-Kheima has experienced a rapid growth in population in the past 20 years. In 1976, the population was 394,000. This reached 870,000 in 1996, a growth of more than 120 percent. The main period of growth was between 1976 and 1986. In 1986 the population had already grown by 80 percent reaching 711,000 people.

The main growth occurred in District 2 of the city, which nearly tripled between 1976 and 1996, whereas District 1 grew by 80 percent.

The population growth of Shubra el-Kheima is far greater than that witnessed by other cities in the governorate of Qalyubia. For example, Banha, the capital of the governorate, grew by 64 percent, the city of Qalyub grew by 30 percent, and the town of Qanater grew by 50 percent.

Table 1 Population growth among various towns

<table>
<thead>
<tr>
<th>District</th>
<th>1976</th>
<th>1986</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banha</td>
<td>88,845</td>
<td>115,571</td>
<td>145,792</td>
</tr>
<tr>
<td>Qanater</td>
<td>36,879</td>
<td>48,909</td>
<td>54,599</td>
</tr>
<tr>
<td>Shubra el-Kheima</td>
<td>394,223</td>
<td>719,794</td>
<td>870,717</td>
</tr>
<tr>
<td>Qalyub</td>
<td>62,564</td>
<td>86,684</td>
<td>97,157</td>
</tr>
</tbody>
</table>

Over 50 percent of the increase in population of the city was a result of migration. An interesting aspect of this process of migration was that a large percentage of the migrants came from other cities and not from rural areas, the largest contributor of migrants to the city being Cairo, followed by Giza.

Table 2. Urban population by gender and age

<table>
<thead>
<tr>
<th></th>
<th>Sex</th>
<th>Age Group</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tr>
<td></td>
<td></td>
<td>-6 12 6- 12</td>
<td>65</td>
<td>al</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>DISTRICT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>M</td>
<td>36,679</td>
<td>30,138</td>
<td>120,227</td>
<td>2,778</td>
<td>189,843</td>
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</tr>
<tr>
<td></td>
<td>F</td>
<td>34,768</td>
<td>28,689</td>
<td>111,364</td>
<td>2,545</td>
<td>177,366</td>
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</tr>
<tr>
<td></td>
<td>T</td>
<td>71,447</td>
<td>58,827</td>
<td>231,591</td>
<td>5,344</td>
<td>367,209</td>
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<tr>
<td>DISTRICT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>M</td>
<td>39,801</td>
<td>29,004</td>
<td>106,636</td>
<td>1,993</td>
<td>177,433</td>
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<tr>
<td></td>
<td>F</td>
<td>38,048</td>
<td>27,454</td>
<td>98,879</td>
<td>1,771</td>
<td>166,152</td>
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<tr>
<td></td>
<td>T</td>
<td>77,849</td>
<td>56,457</td>
<td>205,515</td>
<td>3,764</td>
<td>343,585</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>M</td>
<td>76,480</td>
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<td>226,863</td>
<td>4,792</td>
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<td>72,816</td>
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<td>210,243</td>
<td>4,316</td>
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<td>T</td>
<td>149,296</td>
<td>115,284</td>
<td>437,106</td>
<td>9,108</td>
<td>710,794</td>
<td></td>
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<tr>
<td>Governor-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ate Total.</td>
<td>M</td>
<td>110,277</td>
<td>88,161</td>
<td>359,443</td>
<td>9,872</td>
<td>567,753</td>
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<tr>
<td></td>
<td>F</td>
<td>105,671</td>
<td>83,768</td>
<td>333,060</td>
<td>9,168</td>
<td>531,667</td>
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<tr>
<td></td>
<td>T</td>
<td>215,948</td>
<td>171,929</td>
<td>692,503</td>
<td>19,040</td>
<td>1,099,42</td>
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</table>

Table 3. Workforce by gender

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<tr>
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<th>Employed</th>
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<th>Unemployed</th>
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<th>Total</th>
<th></th>
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<td></td>
<td>M</td>
<td>F</td>
<td>T</td>
<td>M</td>
<td>F</td>
<td>T</td>
</tr>
<tr>
<td>DISTRICT 1</td>
<td>79,91</td>
<td>10,1</td>
<td>90,04</td>
<td>5,78</td>
<td>2,49</td>
<td>8,27</td>
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<tr>
<td></td>
<td>4</td>
<td>26</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>DISTRICT 2</td>
<td>73,07</td>
<td>4,99</td>
<td>78,06</td>
<td>5,21</td>
<td>1,32</td>
<td>6,54</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>7</td>
<td>8</td>
<td>5</td>
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<tr>
<td>TOTAL</td>
<td>152,9</td>
<td>15,1</td>
<td>168,1</td>
<td>11,0</td>
<td>3,81</td>
<td>14,8</td>
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<tr>
<td></td>
<td>87</td>
<td>22</td>
<td>09</td>
<td>01</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL</td>
<td>234,9</td>
<td>31,1</td>
<td>266,1</td>
<td>24,8</td>
<td>14,3</td>
<td>39,1</td>
</tr>
<tr>
<td>GOV. Urban</td>
<td>36</td>
<td>87</td>
<td>23</td>
<td>29</td>
<td>00</td>
<td>29</td>
</tr>
</tbody>
</table>


4.3 Infrastructure

With the exception of electricity which reaches most households in the city, all other services face severe problems. According to the 1996 census, 84 percent of households in Shubra el-Kheima have access to electricity through the public networks, and more than 10 percent have access to electricity outside the public network, these are usually households in the slum areas that use stolen lines from the public network. Only 8 percent have no access to electricity whatsoever.

Sewage disposal is a major problem. 72 percent of households are connected to the municipal system. But this network is overloaded in the extreme which causes major blockages and overflows of sewage into the streets and alley ways of the city. There is always at least one area of the city that is flooded with sewage. 20 percent of households which lack any access to the public network, use the trench system. These are open sewage pipes that run from each building and collect waste in a primitive sewage tank. The tank is evacuated every 4 to 5 days by a lorry hired by the residents of these households. Delays in evacuation, blockages, and overflows of the sewage are
weekly occurrences. Nearly, 8 percent of the households have no access to any kind of sewage disposal system.

Around 88 percent of households have running water supply within the households through the public network, another 4 percent have running water within the building and 8 percent have no access to running water and use public manual pumps to obtain their water needs. The women in these households make several trips a day to carry water for use in their homes. The main problem with water supply is not access but quality. The public network is made up of old metal pipes and investments in improving and expanding the water network lag far behind the physical and population growth of the city. The result of this situation is that the quality of water provided is extremely poor.

Diseases, especially of the kidney and related to drinking water containing harmful residues, are widespread.

Garbage disposal is the biggest and most visible problem related to lack of public services in the city. Traditionally garbage was collected sorted, recycled and burnt by communities of garbage collectors who would collect the garbage using horse-drawn carts and take it to garbage villages where it would be sorted and dealt with. This system still exists, but even in the 1970s it was already incapable of removing the rapidly increasing waste of the city. The governorate has garbage trucks and public garbage collectors but there has been no modernization or expansion of this service since the 1970s in a city that has more than doubled in size and population. The result is that garbage bags are a main feature in all the residential streets of the city. Every empty plot of land is used as a dumping area and the middle of the main streets are always lined with garbage bags, in the remote hope that the government trucks will come to collect them.
It must be obvious by now that environmental conditions in Shubra El Kheima are catastrophic. With rotting garbage on the streets and recurring floods of sewage, with air and noise pollution from the factories and with rusting water pipes, Shubra has some of the worst urban living conditions in Egypt.

4.4 Social services

The situation of schools also represents a severe problem in the city. The rate at which the government builds schools is far behind the rate of population growth, and the conditions in the existing schools are demanding.

The number of pupils in a class in the average school reaches 80. There are usually not enough chairs for all the pupils so many either use the floor or share a chair with another pupil.

The average salary of a schoolteacher is £E150 (about US$ 44 at the official exchange rate). Most teachers depend on giving private lessons to groups of pupils. Those who do not take private lessons usually have little chance of passing exams, both because it is difficult to assimilate knowledge in the crowded classrooms and because the teachers who mark the exam papers are the same ones that give the private lessons.

Some areas such as Bigam, Bintar and Ibn el-Hakam, mainly slum areas, lack schools altogether, although each area has at least 100 thousand residents.

According to the census returns of 1996, of those above 10 years of age of the population in Shubra el-Kheima nearly 30 percent are illiterate, 23 percent have some
primary education, 43 percent have secondary education, and 4 percent university education. If we compare these figures with those of 1986, it is evident that very little has changed in the literacy rate and the educational status of the city’s population. In the census of 1986 among those above 10 years of age 30 percent are illiterate, 30 percent have some primary education, 26 percent have secondary education, and less than 3 percent have university degrees.

Table 4. Population by education and gender

<table>
<thead>
<tr>
<th>District</th>
<th>Sex</th>
<th>Illiterate</th>
<th>Read and Write</th>
<th>Below University</th>
<th>University &amp; Higher</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Male</td>
<td>34,06</td>
<td>46,797</td>
<td>46,808</td>
<td>6,758</td>
<td>134,4</td>
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<tr>
<td></td>
<td>Female</td>
<td>1</td>
<td>29,497</td>
<td>31,985</td>
<td>2,305</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>35,06</td>
<td>76,294</td>
<td>78,793</td>
<td>9,063</td>
<td>158</td>
</tr>
<tr>
<td>2</td>
<td>Male</td>
<td>37,44</td>
<td>48,465</td>
<td>32,320</td>
<td>2,991</td>
<td>121,2</td>
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<tr>
<td></td>
<td>Female</td>
<td>8</td>
<td>27,120</td>
<td>19,510</td>
<td>865</td>
<td>24</td>
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<tr>
<td></td>
<td>Total</td>
<td>38,32</td>
<td>75,585</td>
<td>51,830</td>
<td>3,856</td>
<td>145</td>
</tr>
<tr>
<td>TOTAL</td>
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<td>95,262</td>
<td>79,128</td>
<td>9,749</td>
<td>255,6</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>9</td>
<td>56,617</td>
<td>51,495</td>
<td>3,170</td>
<td>48</td>
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<tr>
<td></td>
<td>Total</td>
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<td>151,879</td>
<td>130,623</td>
<td>12,919</td>
<td>263</td>
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<tr>
<td>GOV.</td>
<td>Male</td>
<td>114,1</td>
<td>139,890</td>
<td>130,719</td>
<td>14,094</td>
<td>408,8</td>
</tr>
<tr>
<td>Urban</td>
<td>Female</td>
<td>32</td>
<td>87,740</td>
<td>90,946</td>
<td>9,916</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>116,4</td>
<td>227,630</td>
<td>221,665</td>
<td>34,010</td>
<td>443</td>
</tr>
</tbody>
</table>


Although the illiteracy rate has dropped by 8 percent, there has been a sharp increase in the percentage of those dropping out before reaching secondary level. Yet
in terms of numbers, those with secondary education, according to 1996 census, have more than doubled form 130,000 in 1986 to 295,000 in 1996.

The female educational level in Shubra el-Kheima continues to be lower than that of their male counterparts. Illiteracy among female population above 10 years of age constitutes more than 60 percent of the total, and slightly more than a third among those with some primary education. Females with secondary education constitute 40 percent of the total, and those with university education less than 25 percent.

**Table 5. Population, 10 years or more, by education**

<table>
<thead>
<tr>
<th>DISTRICT</th>
<th>Total Population</th>
<th>10 years +</th>
<th>Illiterate</th>
<th>Read and Write</th>
<th>Below University</th>
<th>University &amp; Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>DISTRICT 1</td>
<td>416,526</td>
<td>329,868</td>
<td>853,288</td>
<td>74,039</td>
<td>153,968</td>
<td>16,573</td>
</tr>
<tr>
<td>DISTRICT 2</td>
<td>454,196</td>
<td>347,772</td>
<td>110,332</td>
<td>85,038</td>
<td>141,493</td>
<td>10,918</td>
</tr>
<tr>
<td>TOTAL</td>
<td>870,716</td>
<td>677,640</td>
<td>195,620</td>
<td>159,068</td>
<td>295,461</td>
<td>27,491</td>
</tr>
</tbody>
</table>


In terms of health services provision, the city suffers severe shortages. There are only 10 public health clinics which cannot cover the needs of population. There are 4 public general hospitals which lack resources and facilities.

The standard of services provided in the clinics and hospitals is poor. Although the public hospitals are supposed to provide their services free of charge, in practice the sick have to buy their own cotton, syringes, medicine and even gloves for the doctors and nurses. Hygiene is also poor in the public hospitals.

Waiting lists for dialysis for kidney failure, and other expensive treatments have become extremely long with many patients not being able to get any treatment. This
situation has been made worse in the past few years since the government started carrying out extensive spending cuts which affected the health service drastically.

These conditions have led to a rapid increase in the demand for private health clinics. Mosques and churches have played a major role since the 1980s in meeting this demand in Shubra el-Kheima. Nearly all the larger mosques and churches in the city have established clinics specializing in all main branches of medicine, from gynecology to dentistry. The mosque or church employs a number of young doctors who cannot afford to open their own private clinics, buys equipment and tools from donations and provides cheap medical services. This system however has several problems. Firstly it is still too expensive for a large section of the population, secondly it deepens communal divisions as church clinics only treat Christians and mosque clinics only treat Muslims. Thirdly, these clinics use primitive second hand equipment and do not have the facilities for major operations.

Public transport is probably the only area of services that has seen major improvement in Shubra el-Kheima in the past two decades. A major metro network has been opened which connects the center of the city with the two main centers of Cairo, Ramsis and Tahrir squares. There have also been improvements in the passenger trains on the railway network, with increases in the number of trains on each line.

5. The role of government

5.1 Structural adjustment

Until the mid-1970s the Egyptian economy was mainly owned and run by the State. Large State enterprises dominated most of the production sectors, as well as trade, commerce, transport, communications and banking. This situation started to
be reversed in 1974 when the state embarked on a policy of economic liberalization known as the opening or infitah.

The pace of reforms was accelerated in the early 1990s under the supervision of the International Monetary Fund (IMF) and the World Bank. In May 1991 an Economic Reform and Structural Adjustment Program was agreed with the IMF, which was followed by a structural adjustment loan of $300 million from the World Bank in November of that year. A second agreement with the IMF, arranged under its Extended Fund Facility was concluded in 1993.

The new cooperation with the IMF and the World Bank was based on the understanding that the government would accelerate its economic reforms aimed at stimulating a transition to a mixed economy in which private enterprise would play the major role.

5.2 Fiscal policy

The first part of the reforms was aimed at creating financial stability. Interest rates were gradually freed and a temporary credit ceilings were imposed on bank lending to help ease inflationary pressures. The regulatory framework governing the financial sector was changed completely. Under the new laws, branches of foreign banks have been allowed to operate in local currency, capital gains from securities (stocks and bonds) became exempted from taxes, corporate tax incentives were given to companies raising more than 50 percent of their equity by public subscription, restrictions were removed on bond trading and measures were launched to encourage the secondary trading of securities.

The foreign exchange policy began to be reformed in 1991, when most foreign exchange controls were eliminated leaving the rates to reflect market forces. In 1992 the multiple exchange rate system was unified and the exchange market opened to non
bank dealers. The Egyptian pound was pegged to the U.S. dollar and has remained stable in the past 5 years (between 3.3 and 3.4 £E to the $).

5.3 Trade Policy

Until the early 1970s the government maintained an import substitution policy with high tariff protection and the banning of a long list imports. Trade was carried out through state owned trading companies through bilateral trade agreements mainly with the Soviet Union and Eastern Europe. With the Inflah policies of the mid-1970s, bilateral trade agreements were terminated, private trading companies were allowed to operate. But although the government had since the 1970s embarked on an export promotion strategy, high import tariffs protecting production for the local market remained in place until the mid 1990s and exporting was made difficult by a wide range of administrative obstacles.

In the 1990s maximum tariff rates have been lowered from 80 percent in 1990 to 60 percent in 1994 and 50 percent in 1995. The only import ban is on ready made garments. This will be removed in 2002.

5.4 Industrial policy

Since 1995 the main focus of the government’s industrial policy has been on privatization. Although liberalization and the transition to a market economy have been the main aim of the government since the 1970s, until 1995 most of the public sector had remained intact, particularly the industrial public sector. In 1995 alone more than 25 percent of public sector company assets were privatized. By 1998 over
40 percent of the public sector had been privatized, either through the selling of
shares or through direct sale to major investors.

In an interview with Al-Hayat newspaper on June 5, 1998, the Egyptian Minister
of Industry stated that the share of the private sector in industrial production would reach
75 percent in 1999 and 90 percent in 2002. The government’s plan was to increase
industrial exports threefold from their current value of 5 billion L.E.

5.5 The government and garment manufacturing in Shubra el-Kheima

Although the macro economic policies might seem to favor the growth of private
industry, at the micro level things look different, or at least that is the case in Shubra el-
Kheima. Garment factory owners complained bitterly against the government on a wide
range of issues. Of course, businessmen frequently complain everywhere, but it is useful
to list the priorities in Shubra el-Kheima.

The first problem concerns raw materials. The public sector monopolizes the
spinning industry and the importing of cotton yarn is restricted and with very high tariffs.
The price of cotton is also determined by a government body at levels well above the
world prices. The result is that the price of locally produced cloth is extremely high,
making it very difficult for garment producers to compete either with the growing volume
of illegally imported garments, or internationally through exports.

The second problem concerns taxes. Not only are the tax procedures highly
complicated and bureaucratic, but also and more importantly, the method of estimation
is arbitrary. The tax statement provided by the owner is largely irrelevant. Tax inspectors
make repeated surprise visits to the factories and make their own estimation as to the
types of products produced and the volume of production. The estimations are high and
there are only two ways in which the factory owner can reduce them, either by making
a legal case through the courts against the tax department (that can take years and is very costly). Or the tax inspector can be bribed to reduce his estimation. This is costly as the inspectors demand large sums of money and it can also be very risky. Thus the owner has no accurate way of knowing in advance how much tax will be asked of him, nor how much he will end up paying.

Another aspect of the problem of taxes, as already mentioned, is that the government provides the new companies in the new industrial zones with many tax benefits that are not provided to the companies in the older industrial districts such as Shubra el-Kheima. This gives the newer companies a competitive advantage over Shubra and making most new investments go to the new industrial zones and abandoning Shubra.

The third problem concerns government inspectors. Social Security inspectors come to check whether the owner pays social security for his workers or not. Although they are only supposed to come twice or three times a year, they come for inspection every month at least. The purpose is to collect bribes and unless the inspector is satisfied, he can file a negative report to the Ministry which could cost the company large fines. Another group of inspectors is the labor officials who also make repeated visits to the factories to check on working conditions and whether there are under-age workers in the factory. Again the purpose is bribes that the owner must pay if he is to stay in business.

The fourth problem concerns prices of electricity and water. These increased rapidly after the government removed the subsidies. The price of water increased to such an extent that in many cases, factory owners prefer to be cut off from the water network and get their water needs informally through workers carrying the water from water pumps to the factory.

The fifth problem involves the ‘drawback’ system. The government allows companies to import specified quantities of cloth and other raw materials tariff free on
condition that the garments produced with the cloth are re-exported. However, the tariff inspectors that check the export material insist that the same amount of cloth imported must be re-exported. They do not allow for the amount of cloth that is necessarily wasted in the production process, which can reach up to 15 percent. This means that the company has to pay the full tariff value for the wasted cloth. This process is subject to a lot of corruption. On the other hand, some companies with the right connections do not re-export any of the materials imported by the drawback system.

The sixth problem involves transport. Firms use the roads to transport to Cairo and the railways to move goods to Alexandria. The inefficiency of the railway network and the congestion of the road network greatly increase transport time and costs, making delays in delivery a constant problem. Furthermore, trucks are permitted to deliver cargo only between midnight and 6.00 a.m., and this creates long delays. No air or sea transport appears to be used, although historically, the canals and the Nile river were used to deliver goods to Cairo. The government is currently building a circular highway around the greater Cairo region, but it is not clear when the project will be completed and what effect it will have on transport to and from Shubra el-Kheima.

The seventh problem involves trade liberalization. The government is a signatory of the GATT agreement and, from 1994, started to reduce tariffs and remove bans on imports. The ban on importing ready-made garments is to be abolished in 2002. Already the existence of a growing market for smuggled garment imports from China and other East Asian countries is causing great problems for the companies in Egypt. They are incapable under current conditions of competing with Chinese prices. The prospect of legalizing the imports of these garments is a cause of great worry for the garment producers in Shubra.

5.6 Local government

What can be described as local government is the 'local administration authorities'. This is represented by the Governorates. These administrative areas are controlled by a Governor with supporting organs. The basic internal
division of a governorate - into cities- is decided by the central government but further division - village, district, etc.- is decided by the local council and approved by the Prime Minister.

The local councils are elected organs for districts, cities and governorate levels. However, their role is marginal and the turn-out in elections is negligible.

The role of the local government in Egypt is minimal compared to other countries. This is due to the highly centralized nature of the Egyptian government. This fact resulted in the change of the name of the local government from `local Governance’ to `Local Administration' which is more suitable to its role.

Hardly any planning or policymaking takes place at the local level, most of the services are controlled centrally by the corresponding Ministry. This applies to all infrastructure services such as the supply of energy, electricity, telecommunications and gas. Social services such as education and health are also controlled by the central government.

Local administration is responsible for housing, waste disposal in addition to administering central policies for other services.

Industrial development and promotion is performed by the Ministry of Industry. The Ministry of Housing and New Societies controls new industrial areas - 6th of October, Sadat, 10th of Ramadan, etc- even if the `New Society’ exists within the geographical boundaries of a Governorate.

There are no local tax incentives. The incentives for the new industrial cities are decided by decree by the central government. Local taxation is non-existent except for tourism governorate, and even the local tax is decreed by the central government.
This lack of power of the local government is understandable, since most if not all the funds for the governorate are allocated in the State Budget prepared by the Ministry of Finance, and there is no freedom for individual governorates to make local decisions.

Shubra el-Kheima is under the control of the Qalyubia Governorate. The so-called Investment Bureau within the governorate has sole responsibility to allocate State-owned land for the use of the investment projects. However, the governorate is densely populated with hardly any land to spare except for the desert area near El-Khanka, which is awaiting a legal settlement. There are hundreds of requests for approval delayed in the bureau without decision.

6. Conclusions

In the 1980s a large agglomeration of small garment factories and workshops began to emerge rapidly. Nationally, exports played an important role in stimulating this expansion, but in Shubra el-Kheima, it was local demand which drove growth - the Cairo private sector wholesale and retail markets and the large local informal markets. The growth in these markets arose both because of general income increases, but also because of the decline of the public sector and the restrictions on imports.

Industrial growth helped fuel the rapid growth in the city population. Shubra el-Kheima has been one of the fastest growing cities in Egypt in terms of population. This growth has led to the emergence of large spontaneous settlements expanding to the north on previously agricultural land. Although many of the migrants came from the countryside, a large percentage came from Cairo and other urban areas.

The government has not played a positive role, either in facilitating the industry, or in servicing the growing city. No significant investments have been made on industrial infrastructure, on vocational training and education, or on providing any incentives to the industry. The government has a kind of tributary relationship with the industry, tax and
fine collection being its main concern. This position contrasts sharply with the government's attitude towards industries in the new industrial cities.

The same negative situation can be seen in the government's attitude to the growing city population. Its investments in health care, education, sewage and waste disposal and other major services have been far behind the basic needs of the city.

The prospects for the industry are not clear. The garment industry has been one of the most heavily protected industries in Egypt. The effects of trade liberalization, in the absence of any significant moves towards export markets, can make it difficult for the Shubra el-Kheima industry to survive. That, coupled with the government policies described above can lead to severe difficulties, both in the industry and in the city.
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Appendix II: Photos of Shubra el-Kheima

Spontaneous Settlements
Reminisce of Agriculture Land
Garbage Disposal Problem
Case of Urbanization and Industrialization in Shubra el-Khema, Egypt

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APRIL 2000