



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Project for the State of PALESTINE

Project number:	170037
Project title:	<i>State of Palestine – Upgrading the footwear value chain in the Hebron district</i>
Thematic area code	Poverty reduction through productive activities
Starting date:	May 2017
Duration:	18 months
Project site:	Hebron
Government	Ministry of National Economy
Coordinating Agency:	
Counterparts:	Ministry of National Economy (primary) Hebron Chamber of Commerce and Industry, and The Federation of Leather and Shoe Industry of Palestine
Executing agency/ cooperating agency:	UNIDO
Project Inputs:	
- UNIDO inputs:	442,480 € EU
- Support costs (13 %):	57,522 € EU
- Counterpart inputs:	In kind contribution
- Grand Total:	500,000 € EU

Brief Description:

The Palestinian leather and shoes sector, mainly concentrated in Hebron, has itself suffered from the poor economic conditions and the overall instability in the region. The sector has seen its golden era, in the years 1975 to 2000, and eventually was exposed to a non-balanced competition against the imported goods from Asia, that is mostly lacking quality and is cheaper in prices. This fierce competition is one of the factors that have driven the number of workshops in the sector from 1000 employing (directly and indirectly) over 30,000 workers in the year 2000 to around 230 workshops currently employing less than 2500 workers. Therefore, given the impact of the competition with footwear and leather imported from China, Turkey, and other sources, among different challenges, it is critical for the industry to *invest in new technologies and further capitalize on differentiation through quality and scalability by deploying innovation and creativity targeting improved production and positioning of the Hebron footwear and leather in both internal and external markets.*

It is within this context that the project main objective is *to increase the competitiveness and turnover of the Footwear Value Chain in Hebron in line with the National Policy Agenda and the National Export Strategy (NES) adopted by the Palestinian Authority.* This will be carried out through a 3-fold approach that will address three main areas, namely: (i). Technology, Quality and Product Development: which will be developed through the establishment of a *Craftspeople Laboratory* to provide training in footwear manufacturing through the

introduction of basic systems of mechanization allowing for the standardisation of product quality in addition to product diversification. Furthermore, a Protocol for the Accreditation process of the quality control laboratory at the Hebron Leather and Shoe development Centre will be prepared to be implemented through the relevant agencies of the Palestinian Authority; (ii.) SME Competitiveness and Value Chain Upgrading (and access to finance): This will be achieved with the provision of know –how in the field of design and creative fashion as tools for developing innovative products that meet local and international market demand. (iii.) Communication and Market Access: this will be implemented by market access through the elaboration and implementation of relevant marketing and communication strategies, the preparation of footwear collections to be promoted in selected regional and international trade fairs.

This is in line with the National Export Strategy (NES) adopted by the Palestinian Authority that has identified the leather and footwear sector as one of the nine priority sectors based on assessed capacity to contribute to export growth, reduce Palestine’s trade deficit, and generate employment through current and potential trade performance, in addition to other qualitative criteria.

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1. Origin of the proposal and background of the initiative

1.1. The challenge of unemployment in Palestine: main economic priority

The Palestinian economy remains weak and highly vulnerable to both internal and external risk factors. While the Gaza Strip is still slowly recovering from the devastating war of 2014, the economic situation in the West Bank and Gaza Strip (WB&GS) shows bleak prospects. In 2015, GDP growth of the WB was down 2.5% compared to the previous year and the trade deficit reached 37% of GDP.

The decline in foreign aid, the Israeli decision to suspend the transfer of Palestinian taxes in 2015, the recent cancellation of West Bank Palestinians' travel permits to Israel and the highly restricted access to Area C of the West Bank have sizable impacts on the Territories' economic outcomes and on Palestinians' livelihood opportunities.

Unemployment at national level is 26% and amounts to 19% in the West Bank. The unemployment rate among young population is 37% with more than half of young women in the OPT unemployed. The female unemployment rate was almost double that of young men (54.8 and 32.4 %, respectively) according to latest 2016 records by the PCBS.

The jobs crisis in the West Bank and Gaza Strip has exacerbated the vulnerability of young people in terms of: (i.) higher unemployment, (ii.) lower quality jobs for those who find work, (iii.) greater labour market inequalities among different groups of young people, (iv.) longer and more insecure school-to-work transitions, and (v.) increased detachment from the labour market.

Consequently, the high unemployment figures among the younger population who, deprived from any economic opportunity, might fall under poverty and become prone to negative coping strategies, such as: crime, extremism and illegal migration. The recent escalations of violence and reprisals, especially in the West Bank, and the absence of near peace prospects bode ill for economic recovery, livelihoods and social stability.

Taking this into account, it is crucial to sustain job creation in Palestinian occupied territories and contribute to resilience building among Palestinian communities, which are increasingly subject to external shocks that threaten their livelihoods. Creative and cultural industries have the potential to employ young Palestinians, both men and women, generate income and build stability in the territories.

1.2. Sector focus: the leather and shoes industry

The project will focus on supporting the value chain of the leather and shoes creative industry in Hebron mainly enhancing and supporting the existing structures and building on specific local strengths and potentials, with the aim of developing integrated, income-generating and labour-intensive value chains.

The Ministry of National Economy of the Palestinian Authority has highlighted the strong potential of the sector and developed a dedicated National Export Strategy with the aim of building “an export-oriented sector with high socioeconomic impact by specializing in higher-end and niche products, through a targeted, concerted, and

decisive acquisition of the needed skills, technologies, and market intelligence.” The proposed project relies on a coherent proposition in line with the national export strategy, targeting the existing leather products value chain in the Hebron governorate.

The National Export Strategy (NES) adopted by the Palestinian Authority has identified and targeted few priority sectors based on assessed capacity to contribute to export growth, reduce Palestine’s trade deficit, and generate employment through current and potential trade performance, in addition to other qualitative criteria. The nine prioritized NES sectors are:

1. Stone and marble
2. Olive oil
3. Agro-processed meat
4. Fresh fruits, vegetables and herbs
5. Textiles and garments
6. *Footwear and leather*
7. Furniture
8. Tourism
9. Information and Communications Technology (ICT)

The NES also designates four strategic cross-sector areas: 1) trade facilitation and logistics, 2) quality management, 3) access to finance, and 4) trade information. Hence Palestine’s cross-sector export priorities are elaborated on cross-sector functional priorities aimed at strengthening the business environment for enterprises and exporters in each cross-sector area with focus on structural enhancements to priority sector value chains in addition to market development.

As a potential high-performing Palestinian export-oriented sector identified under the NES, the leather and shoes sector is comprised of 230 footwear manufacturing enterprises (mostly in Hebron) and 13 tanneries (of which 12 are in Hebron) employing 2,500 workers and produces approximately 4 million pairs of shoes. The businesses are mainly family owned businesses that employ less than 10 workers. Tanneries are the major suppliers of raw material to footwear manufacturers (around 60% of the local industry’s needs). The sector deploys 30% of its production capacities, has a local market share of 13%, and according to the national export strategy it contributes around 1% to the GDP.

1.3. Identification of the problems and urgency of intervention

The past months have seen a dramatic increase in violence in the occupied Palestinian territories. Poor economic perspectives and insufficient job opportunities are, alongside extremism and political motives, key drivers of the current situation. Furthermore, reprisals and toughening of the Israeli political line bode ill for any political solution to the conflict and for the stabilization of the situation in the short term.

The overall instability in the occupied Palestinian territories is not only affecting the private sector productivity, but also mounting an effect on the capital accumulation, resulting in shifting away from new or large expansions and hence declining the overall value of investments.

Protecting young people in the most disadvantaged regions from the pull of criminality, extremism and illegal migration is pivotal to local and regional stability. Concern is also rising that, in absence of formal economic opportunities, young Palestinians are more likely to resort to negative coping strategies – in extreme cases including drugs, alcohol and violent groups.

Job creation in the West Bank is considered particularly urgent by the Palestinian Authority and the international development community in order to counterbalance weak economic growth, threats to social stability, and the rise of violence. Youth unemployment in the West Bank calls for immediate relief through employment opportunities.

It is thus crucial to improve livelihood and job opportunities in the West Bank, particularly for the youth, and support the development of a local value chain in a once-flourishing economic sector.

The Palestinian leather and shoes sector, mainly concentrated in Hebron, has itself suffered from the poor economic conditions and the overall instability in the region. The sector has seen its golden era, in the years 1975 to 2000, and eventually was exposed to a non-balanced competition against the imported goods from Asia that is mostly lacking quality and is cheaper in prices. This fierce competition is one of the factors that have driven the number of workshops in the sector from 1000 employing (directly and indirectly) over 30,000 workers in the year 2000 to around 230 workshops nowadays employing less than 2500 workers.

Shoe producing MSMEs¹ operate in small workshops in Hebron equipped with basic but fairly good machines (e.g. swing-arm beam cutting, skiving, variety of sewing, edge folding, pulling-over and toe-lasting, sole pressing, sole stitching and combined finishing) machines. Workshops are congested, although in many cases ample space is used for material (including dead stock) and unused equipment storage. Housekeeping, fire and health protection are sub-standard everywhere. Usually owners (sometimes with their family members) perform as production managers, quality controllers, marketing officers and perhaps material purchasers.

Technical knowledge of operations (parameters, variants, quality aspects etc.) is missing as managing staff does not have any education in footwear materials, design/pattern making, technology and production management.

Creative design and genuine product development activities are absent; entrepreneurs copy each-others' styles, whereas pattern engineering is outsourced to the few local specialists having some skills in this area. Operators' skills are adequate, though they also lack knowledge of technology variants, appropriate machine settings and quality requirements. Nevertheless, the quality of upper stitching is normally acceptable.

¹ *Source: "Opportunity study on the establishment of a development-cum-service centre for the Hebron leather and shoe cluster" prepared by Dr. Ferenc Schmé, Consultant in Leather Products Technology TECHNORG CONSULTING, on behalf of the EGÍS INTERNATIONAL within the Private Sector Development Cluster Project (PSDCP) funded by AFD, March 2015*

To sum-up the major technical constraints of the Palestinian leather and footwear industry are related to lack of fashion and technology knowledge, non-existing or outdated product development and quality assurance throughout the value chain.

SWOT Analysis² of the Hebron leather and Shoe Cluster

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Adequate working capital. ○ Adequate number of members within the cluster. ○ Well established-industry. ○ Most of the processes across the value chain are available locally. ○ Availability of local tanneries. • Geographical proximity between members. ○ Strong Outbound Logistic. ○ Fairly after sale-services. ○ Good reputation for products in the domestic market. Availability of local raw materials suppliers. ○ Skilled designers. ○ Low labour turnover. ○ Flexibility and capability to produce all type of shoes. 	<ul style="list-style-type: none"> ○ Low education level for the people in the cluster. ○ Limited understanding of quality. ○ Inadequate marketing and branding. ○ Inadequate general management system. ○ Inadequate costing and pricing processes. ○ Inadequate HR management system. ○ Lack of adequate design centre. ○ Lack of qualified testing centre. ○ Individualism thinking. ○ Inadequate services from the business service organizations (BSOs). ○ Inadequate financial management system. ○ Inadequate operations management systems ○ Fluctuation of the hides' availability.
Opportunities	Threats
<ul style="list-style-type: none"> ○ Indicators for slight recovery in the industry. ○ Availability of business support organizations (HFLI, HCCIA). ○ Arab market and the situation in Syria. ○ The general policy toward supporting local products. ○ Capacity to produce more. 	<ul style="list-style-type: none"> ○ Uncontrolled influx of imported products. ○ Instability of the general situation. ○ General tend to move out from this industry, both individuals and Firms. ○ Fluctuating and seasonal demand. ○ High bargaining power of the Israeli customers. ○ Environmental regulations. ○ Constraints on importing some necessary materials.

Therefore, given the impact of this fierce competition with footwear and leather imported from China, Turkey, and other sources, among different challenges, it is critical for the industry to *invest in new technologies and further capitalize on differentiation through quality and scalability by deploying innovation and creativity targeting improved production and positioning of the Hebron footwear and leather in both internal and external markets.*

It is worth mentioning that some development partners have initiated some programs with the view to assist the Hebron leather and shoes industry to overcome some of the above-described challenges:

² See Footnote 1

One of the most important is *the Private Sector Development Cluster Project (PSDCP)* funded by the *Agence Française de Développement*³ (AFD – the French Development Agency) that was implemented by the Ministry of National Economy (MONE) and the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA). The overall objective of the project, which is going to be completed in June 2017, was to strengthen the competitiveness of local companies, especially micro- and small-scale manufacturing enterprises (MSMES), in order to increase their market share of the domestic market and/or explore new markets for export.

A cluster approach was used to achieve the defined objectives and was anticipated that there would be a variety of support for the chosen clusters that have growth potential. Among the five industrial sub-sectors and their respective geographic areas, the Hebron leather and footwear manufacturing cluster was selected. The Hebron leather and shoe cluster (HLSC) was formally established by volunteering MSMES and with direct support from the Hebron Chamber of Commerce and Industry (HCCIA) and the Palestinian Federation for Leather Industries (PFLI).

In the course of implementing PSDCP the need for an appropriate institution capable of providing various technical assistance services to tanneries and shoe producers, as well as material, components, tools etc. suppliers has emerged. Local stakeholders, namely HLSC, MONE, FPCCIA, HCCIA, PFLI, the Hebron based Palestinian polytechnic university (PPU) signed a Memorandum of Understanding (MOU) with regards to establishing an “*Innovation Centre for the Leather and Shoe Industry*” in Hebron. The main task of the subject institution would be “*to provide a range of services to the cluster and help to create advanced knowledge, improved methodologies in technology, increased management capability and develop shoe and leather focused education that will lead to the competitive development and sustainability of the cluster*”.

The centre has been initiated under the name of the *Hebron Leather and Footwear Development Centre* but not operational yet. Some key equipment for quality control (physical testing) and design (CAD/CAM) have been purchased and will be installed and commissioned during the second quarter of 2017 before the closure of the AFD-funded project. Nevertheless, there is a lot to be done for the knowledge transfer, training, and global technical assistance to assure the full sustainability and operationalization of the centre.

In light of the above background, the reviving of this industry as a key employment sector is vital and shall provide answers to key challenges that are hindering the production and markets growth while engaging all relevant stakeholders including government, private sector, academia, and the public.

This project proposal, therefore, relies on a coherent proposition in line with the national policy agenda at large and the national export strategy in specific, targeting the existing leather and shoes value chain in Hebron Governorate.

³ See Footnote 1

2. Strategy of intervention

2.1 General Objective

To increase the competitiveness and turnover of the Footwear Value Chain in Hebron in line with the National Policy Agenda and the National Export Strategy (NES) adopted by the Palestinian Authority.

2.2. Specific objective(s) and Main Outputs

Output 1 Technology, Quality and Product Development

The newly-established Leather and Footwear Development Centre is operationalized and able to provide services in the field of quality control, design and product development, and training in footwear manufacturing through the *Craftspeople Laboratory*.

Description: *This will be done through the establishment of a Craftspeople Laboratory to provide training in footwear manufacturing through the introduction of basic systems of mechanization allowing for the standardisation of product quality in addition to product diversification. Furthermore, a protocol for the accreditation process of the quality control laboratory will be prepared to be implemented through the relevant agencies of the Palestinian Authority.*

Output 2 SME Competitiveness and Value Chain Upgrading (and access to finance)

The technical and management capacity of SMEs in the leather products (mainly footwear) of Hebron is developed and upgraded.

Description: *This will be achieved with the provision of know-how in the field of design and creative fashion as tools for developing innovative products that meet local and international market demand.*

Output 3 Communication and Market Access

The Hebron Leather and Shoe cluster is assisted through marketing strategy in penetrating the local as well as selected regional and international markets.

Description: *this will be executed by improving market access through the elaboration and implementation of relevant marketing and communication strategies, the preparation of footwear collections to be promoted in selected regional and international trade fairs.*

Output 4 Visibility and Coordination of the Project

A project coordination unit is set-up and a communication and visibility plan for the project and the donor's involvement is prepared and implemented, including the preparation of promotional material, the organization of a conference and the preparation of a final project report suitable for communication to a wider audience.

2.3 Activities

Activities for Output 1: Technology, Quality and Product Development

- 1.1 Prepare a detailed plan for the establishment of one (1) Craftspeople laboratory and implement it;
- 1.2 Prepare an Accreditation protocol for achieving full accreditation of the quality control laboratory (physical) with relevant agencies of the Palestinian Authority for their implementation;
- 1.3 Partner with design schools/institutes to establish twinning arrangements to conduct capacity building programs for local designers and craftspeople;
- 1.4 Conduct training programs for youth and women on design, production processes as well as entrepreneurship;
- 1.5 Establish a mechanism to link the sector's enterprises and trained youth for the purpose of matchmaking (details of trained youth will be pooled and candidates with right skill sets will be recommended to enterprises that require workers with particular qualifications).

Activities for Output 2: SME Competitiveness and Value Chain Upgrading

- 2.1 Conduct a skill gap assessment to identify area of TA to be provided including an action plan for the TA capacity building programs to be conducted including skills development and vocational training;
- 2.2. Implement TA Action Plan to fill gaps within the value chain;
- 2.3 Assess the need for equipment in the selected enterprises and assist in the procurement⁴ through SMEs development credit line schemes⁵;
- 2.4 Organize training sessions and workshops on design techniques specific to the leather products sector.

Activities for Output 3: Communication and Market Access

- 3.1 Assist selected enterprises with the preparation of a branding, marketing and communication strategy;
- 3.2 Develop footwear collections through the organization of specific training sessions;
- 3.3 Prepare promotional materials including an updated common web-site, and also way of creating an on-line sales platform;
- 3.4 Establish a list of potential national and international customers and target them with specific marketing tools;
- 3.5 Organize the participation of clusters' member to specialized exhibition both in domestic and regional markets as well as at international level;
- 3.6. After trade fair follow up and results consolidation;
- 3.7 Repeat this exercise for at least two seasons on cost-sharing basis.

⁴ This provides an important opportunity to encourage SMEs for investment in new machineries and expansions given know-how is introduced and new markets are identified and penetrated.

⁵ For example through the "Palestinian SME Development Program" that is a joint initiative between the Italian Development Cooperation and the Ministry of Finance of the Palestinian National Authority. With a EUR 25 million credit line, participating Banks are currently offering low interest rate loans to finance the purchase of equipment and/or services of Italian origin as well as investments in working capital.

Activities for Output 4: Visibility and Coordination of the Project

- 4.1 Establish a Project Coordination Unit (PCU);
- 4.2 Elaborate a 1-year Communication and Visibility Plan (CVP) emphasizing on the donor, i.e. the Italian Agency for Development Cooperation's (AICS) intervention;
- 4.3 Implement the CVP including the preparation of promotion materials, videos and press releases;
- 4.4 Organize a conference at the national level to disseminate project experiences and results;
- 4.5 Prepare and publish a comprehensive report in the form of a book highlighting the success stories and lessons learned;
- 4.6 Submit and distribute the monitoring and evaluation report to all stakeholders.

3. Direct and indirect beneficiaries

The main target beneficiaries will be the economic and institutional actors involved in the footwear production sector in Hebron, West Bank.

The direct beneficiaries will be mainly the total of 60 manufacturing enterprises in the cultural and creative industry value chain in the leather footwear sector as well as youth and women for skills acquisition and vocational training.

The indirect beneficiaries will include key support industries and services of packaging, design and printing houses, logistics, and trade facilitation.

4. Expected results and indicators (including *baseline* and targets)

The Hebron leather and shoe cluster is able to build its reputation as supplier of high quality-leather footwear in the domestic market as well as start exporting in targeted regional markets (e.g. the Gulf States, Southern European countries, and selected African Arab countries like Sudan). Specifically:

4.1 Strategic targets

- Contribute to the growth rate for the leather products sector at the national level (possibly by 10-15% increase);
- Assist in doubling the sector's export capacity by 2020 (from 5% to 10% of national exports);
- Assist in increasing the number of countries importing Palestinian leather products (up to 6-8 countries in total);
- Assist in increasing exports to Israel, Jordan and Gulf States by 20%;
- Promote Palestinian leather products in new markets with specific emphasis on EU (e.g. Germany, Italy and the Netherlands).

4.2 Operational targets

- 1 local value chain is structured, developed and assisted.
- Capacity building is provided to at least 1 relevant agency/ institution (e.g. the Hebron Leather and Shoe Development Centre) on value chain on development and networking.
- 40-60 selected enterprises are upgraded and assisted.

- 50% of enterprises assisted demonstrate improvement in terms of quality, design capacities, innovation processes, export capacities and market assess.
- 100-150 youth, men and women, are trained on relevant skills, including design, creativity, product development, production techniques, quality, marketing, branding and communication as well as on entrepreneurship.
- At least 1 product collection is developed in line with the branding strategy.
- 1 market penetration strategy is elaborated to develop domestic, regional and eventually export markets.
- The sector's products are exposed to international markets through relevant trade fairs.
- 1 “*Craftspeople Laboratory*” is established within the Hebron Leather and Shoe Development Centre acting as a service provider for product and service development, strategic business advice and market penetration.

5. Implementation modalities

The project will be implemented within the existing institutional framework in Palestine and in partnership with relevant government's line ministry and key engaged private sector organizations.

The project implementation will be led by the United Nations Industrial Development Organization (UNIDO) and in partnership with Italian Trade Agency Office in Amman, Jordan, the Ministry of National Economy, and Private sector representative institutions (Hebron Chamber of Commerce and Industry and the Leather and Shoes industry federation). The following section provides a brief on each of the partners' roles in the implementation of the intended support in line with the National Policy Agenda framework of the Palestinian Authority:

United Nations Industrial Development Organization - UNIDO⁶ has been actively involved in similar projects with projects covering a wide range of technical assistance interventions, such as vocational training, cluster building and value chain development. UNIDO, through its business, investment and technology services has been supporting governments and other institution in technological capacity-building initiatives, offering strategies aimed at supporting governments developmental goals, and the sharing of knowledge and best practices to promote MSMEs/private sector development in manufacturing industries, with particular emphasis on improving the competitiveness of enterprises that would lead to mobilizing investments, and facilitating access to appropriate technologies.

UNIDO can count on its large experience in supporting the Sub-Saharan Africa leather and leather products industry, through the implementation of the Regional Programmes

⁶ In this context, UNIDO, as the United Nation's specialized agency for industrial development, has been providing technical assistance for developing countries for social and economic development and environmental sustainability, through specialized technical services in the areas such as poverty reduction, trade capacity-building, developing private-public partnerships, innovation, technology transfer and productivity enhancement, industrial infrastructure and institution building, clean energy, and in the domain of gender, the projects formulated by UNIDO specifically addresses the empowerment of women through access to education, training, science and technology to enable them to engage in productive activities.

both Phase 1 and 2 entitled: “*Hides and Skins , Leather and Leather products Improvement Scheme*” and the “*Regional Africa Leather and Footwear Improvement Scheme*“ implemented over two decades in ten eastern and southern Africa countries⁷. Specifically, the case of the Ethiopian leather products cluster development program can be considered a great success. In a nutshell, through the cluster approach, the main results can be summarized as follows: (i.) 29,1% increase in production (average); (ii.) 550 new direct jobs created; (iii.) 10 new clusters platforms established; (iv.) over 1 Million US\$ earned from exported shoes to Kenya; (v.) 15% of the costs saved from proper footwear manufacturing.

Furthermore, the project will highly benefit from the experience accrued by UNIDO in similar initiatives with focus on Cultural and Creative Industries in the occupied Palestinian Authority, such as the on-going project entitled: “*Development of Clusters in Cultural and Creative Industries in the Mediterranean*” funded by EU and Italy, which will serve as basis for this project. In this context, UNIDO is already supporting the development of integrated value chains in two sectors: (i.) the handicrafts sector in Bethlehem; and (ii.) the furniture sector in Nablus. Among other activities, the project is involved in providing training to young workers and designers as well as technical assistance to enterprises with the aim of improving their processes and products offer and, thus, helping them access new markets.

Italian Trade Agency - The ICE-Italian Trade Promotion Agency is the government organization which promotes the internationalization of the Italian technologies and companies, in line with the strategies of the Ministry for Economic Development. ICE will play a key role in providing links with potential technology partners in the leather and shoes industry for the purpose of implementation of technological interventions and knowledge transfer activities including training and study tours for the beneficiaries through the project approach and methodology.

Ministry of National Economy - MNE (Government Coordinating Agency) – The Palestinian Ministry of National Economy is the UNIDO counterpart and acts as the line government institution in charge of the establishment of the development framework for the Palestinian private sector. The MNE plays a leading role in the identification of development directions and provision of policy support to make them possible in partnership and cooperation with relevant government and non-government institutions.

HCCI and PFLI (private sector institutions) – The Hebron Chamber of Commerce and Industry and the Palestinian Federation of Leather Industries are member based organizations that strive to supporting the private sector (with focus on Leather and Shoes for the PFLI) and providing forums for business networking and leadership development for the private sector in the Hebron Governorate. Private sector institutions are mainly the beneficiaries with the role to ensure ownership and to act as a platform to warrant the sustainability of the technical assistance and services provided.

A Project Coordination Unit (PCU) will be established to coordinate and monitor the project’s activities on the ground including the setup and implementation of communication and visibility activities internally and externally.

⁷ Botswana, Ethiopia, Kenya, Malawi, Namibia, Sudan, Tanzania, Uganda, Zambia and Zimbabwe

The governance structure of the project will rely on the establishment of a **Project Steering Committee (PSC)** according to UNIDO's roles and regulations. The PSC will include UNIDO, AICS Jerusalem, MoNE, and a Private Sector representative. The PSC will:

- 1) Provide strategic guidance on the project implementation and to facilitate the coordination with various project stakeholders at the national level.
- 2) Assesses the project progress and make necessary recommendations on the project outputs and outcomes to the project team.
- 3) Provide linkages and establish synergies with other initiatives related to SME development, cluster development and creative and cultural industries development.

The project will also look into the possibility of:

- Synergizing with the existing Italian credit line for SMEs' development by means of stimulating demand for new and upgraded technologies in the leather and shoes industry. In this context, it should be noted that:

The Palestinian SME Development Program is a joint initiative between the Italian Development Cooperation and the Ministry of Finance of the Palestinian National Authority. With a EUR 25 million credit line, participating Banks are currently offering low interest rate loans to finance the purchase of equipment and/or services of Italian origin as well as investments in working capital. This provides an important opportunity to encourage SMEs for investment in new machineries and expansions given know-how is introduced and new markets are identified and penetrated.

- Creating partnerships with associations as appropriate and in the framework of UNIDO rules & regulations related to this topic;
- Fostering the involvement of national counterparts such as the Ministry of National Economy (MoNE), the Hebron Chamber of Commerce and Industry, the Palestine Trade Centre (PalTrade), the Palestine Polytechnic University (PPU), the Palestine Standards Institution, and the Palestinian Central Bureau of Statistics (PCBS) among others;
- Building linkages with other agencies and partners.

6. Budget and sources of funding

The total funding will be provided by the Italian Agency for Development Cooperation (AICS) for a total amount of EUR 500,000 including:

6.1 Counterpart inputs

All the involved stakeholders and local institutions will provide relevant inputs and contributions for the action plans implementation. The PCU will implement fundraising activities in an attempt to secure additional cost-sharing arrangements for certain activities related to Output 3, Communication and Marketing.

6.2 UNIDO Inputs

UNIDO will be responsible for:

- Maintaining the project management unit, recruiting national and international experts and consultants required for the project. The project will strive to achieve a gender balanced structure.
- Organizing and implementing all the activities planned in the validated action plan in coordination with the MNE and in synergy with the development organization and local institutions including the private sector for assuring project sustainability.
- Managing the overall implementation of the project, making sure priority is given to national expertise whenever applicable, ensuring the gender balance through the entire project cycle.

The following international and national staff will be recruited /involved through UNIDO:

1. International and national staff

- Project Manager at UNIDO Headquarters, including technical support managers (PSC)
- An administrative project assistant at UNIDO Headquarters (PSC)
- International experts in specific areas will be recruited according to the needs
- National experts as it may be required.

2. Sub-contracts

One sub-contract will be implemented for the establishment of the *Craftspeople laboratory* and related training following UNIDO rules and regulation for procurement of equipment and services⁸.

⁸ Specifications for the *Craftspeople Laboratory* will be included in a document, i.e. the Terms of Reference that will be published on UNIDO WEB site on an international basis and offers will be collected within a set deadline. The offers received will be evaluated and the most technically and economically one will be selected as winner and awarded the sub-contract.

3. Training

Training programmes for target beneficiaries will be designed based on findings during the implementation phase. Furthermore, exposure to regional and international trade fair will be organized on a cost-sharing basis in cooperation with the Italian Trade Office in Amman, Jordan. All project team members will undergo gender-sensitization trainings.

Summary of the estimated budget in € EURO:

Output	BL	Description	Total (Y1+Y2)	Year 1	Year 2 (6 m.)
Output 1 Technology and Innovation	21-00	Sub-Contracts (Craftspeople laboratory incl. training)	120,000	120,000	0
	30-00	Training (incl. study tours to selected countries)	30,000	20,000	10,000
Output 2 SMEs Upgrading	30-00	Capacity building programs both in technical and entrepreneurship development	40,000	20,000	20,000
Output 3 Communication & Marketing	30-00	Capacity Building for product development (incl. preparation of collections and participation in selected trade fairs)	45,000	30,000	15,000
Output 4 M&E	11-00	International Experts	90,000	70,000	20,000
	15-00	Travels	14,480	7,480	7,000
	16-00	UNIDO Staff Travels	8,000	4,000	4,000
	17-00	National Experts	80,000	60,000	20,000
	51-00	Sundries (fuel, printing, communication)	15,000	10,000	5,000
Sub total			442,480	336,480	106,000
Support costs (13%)			57,522	43,740	13,780
Grand Total			500,000	380,220	119,780

7. Duration and action plan

18 months, starting in May/June 2017 (as soon as possible after receipt of funds).

8. Risks and mitigation strategies

Unpredictable events related to the socio-economic situation of the West Bank include:

- The decline in foreign aid towards Palestine compared to previous years;
- The 2015-2016 escalation of violence and reprisals in the West Bank, in particular in settlers' colonies and in the occupied territories;
- The Israeli decision to suspend the transfer of Palestinian taxes in 2015/2016, which put into pressure the Palestinian Authority's ability to provide basic services and, thus, put communities' resilience into test;

- The Israeli decision to cancel Palestinians' travel permits to Israel in 2016 with possible cancellation of work permits;
- The continued settlement plans in the West Bank and the toughening of Israeli political line.

These unpredictable events cannot be properly managed and prevented over the long-term unless job opportunities are created for Palestinian youth, resilience is strengthened for communities and assistance is provided to the sector's enterprises, which have suffered from decade-long losses in economic competitiveness.

9. Sustainability

A “*Craftspeople laboratory*” that will be created to ensure sustainability of the project and TA services after it ends thanks to the anticipated high involvement of local institutions, in order to organize their activities and to provide *ad hoc* services (in a coordinated manner) for MSMEs development.

The project approach is needs-based and sustainability will be ensured by integrating the technical assistance into the institutional local framework and by increasing the number of active beneficiary MSMEs from the footwear and leather throughout the value chain to benefit from the development services and promote linkages to existing and further developed organizational networks.

The “*Craftspeople laboratory*” will serve as the development laboratory to ensure sustainability of the impact of the project's interventions after its conclusion.

Moreover the project will improve the entrepreneurship capacity of the MSMEs (project's beneficiaries) and will involve the local development players by linking their business with the organized networks of MSMEs.

The project will coordinate closely with the key private sector development stakeholders to ensure continuity of support and ownership to sustain the sustainability of services and development of the centre through the direct engagement of the Hebron Chamber of Commerce and Industry (HCCIA) and the Palestinian Federation of Leather Industries (PFLI).

The Hebron Leather and Shoes Cluster is already covering the cost of the personnel of the centre and this is expected to continue through reserves accumulated and will further be secured through the anticipated charges of service provided from the beneficiaries of the centre.

10. Gender Mainstreaming

In order to integrate specific gender-oriented initiatives it is necessary to collect gender-specific data on the current situation in the sector. It is possible that resistance will emerge from their communities or even family members to undertake gender equality promoting measures. These resistances should be acknowledged and a strategy shall be designed to deal with them. UNIDO has gained experience in similar projects in other developing regions, when dealing with these constraints.

During the implementation phase, a gender expert will be recruited and seek to ensure balanced access and participation of women and men in project activities, with particular attention to capacity building and related support activities to the women network. To this end, the gender expert will develop specific actions to ensure gender balance and activities taking into consideration special needs of women groups for income generating activities and business management

All the project activities will be equally provided to women and men, but a particular attention has been reserved to women and youth. In particular, ad hoc linkages will be created with other initiatives currently implemented in the occupied Palestinian territories by national or international stakeholders and development partners.

Regarding project staff, a gender balance in the recruitment of project management and staff will be emphasized, and efforts will be made to ensure that recruited staff either has existing knowledge on integrating a gender perspective or their capacity will be built in this area, or will be trained (e. g. I Know Gender Course on UN Women's eLearning Campus: <https://trainingcentre.unwomen.org/> and [UN Women Training Centre https://trainingcentre.unwomen.org/course/index.php?categoryid=1](https://trainingcentre.unwomen.org/course/index.php?categoryid=1)).

11. Monitoring and evaluation

11.1 Reporting

The reporting/monitoring framework will follow largely existing reporting formats enabling an efficient monitoring of activities per result according to UNIDO's procedures and guidelines. Procurement of goods and costs of implementation of activities (training, mission costs, etc.) will be included in an annual work plan.

11.2 Monitoring

The performance monitoring will be executed based on a detailed work plan and LOGframe. Day-to-day technical and financial monitoring will be part of UNIDO responsibilities and according to its procedures and regulations. A Project Steering Committee (PSC) will be established and will act as the responsible for the overall project oversight and guidance.

11.3 Evaluation

Considering the limited project funds, the project will be subject to a self-evaluation undertaking a mid-term and a final evaluation according to UNIDO's procedures and regulations. The conclusions and recommendations of the mid-term review will lead to follow-up actions to be taken and any corrective action necessary including, if recommended, the reorientation of Project components.

It should be noted that for all M&E activities disaggregated data, by sex and age, will be collected.

12. Prior Obligations and Prerequisites

The project is to be fully funded by the Italian Agency for Development Cooperation (AICS) for an initial duration of 18 months. The total project budget has been estimated at a maximum of 500,000€ EU. The most important prior requirements are AICS funding approval and the signature of the AICS Funding Agreement. The BASIC

TERMS AND CONDITIONS GOVERNING UNIDO PROJECTS should be also signed between UNIDO and the Government Counterpart (MoNE) ensuring that full cooperation and support through the implementation of this project activity is provided.

13. Legal Context

The present project is governed by the provisions of the BASIC TERMS AND CONDITIONS GOVERNING UNIDO PROJECTS to be concluded between the Palestinian Authorities and UNIDO prior to commencement of the project activities.

14. Logical Framework

The LOG frame is presented in the table in the next page.

OBJECTIVE, OUTCOMES, OUTPUTS, ACTIVITIES	INDICATORS	VERIFICATION	ASSUMPTIONS
OBJECTIVE			
<p>To increase the competitiveness and turnover of the Footwear Value Chain in Hebron in line with the National Export Strategy (NES) adopted by the Palestinian Authority.</p>	<ul style="list-style-type: none"> • Contribute to the growth rate for the leather products sector at the national level (possibly by 10-15% increase); • Assist in doubling the sector's export capacity by 2020 (from 5% to 10% of national exports); • Increase of the income level of the target groups, disaggregated by sex (increased) 	<ul style="list-style-type: none"> • Baseline data collected at the start of the project implementation phase • Official statistics collected by MoNE, and the project • Project progress/ evaluation reports • Reports from stakeholders 	
OUTCOME			
<p>The Hebron leather and shoe cluster is able to build its reputation as supplier of high quality-leather footwear in the domestic market as well as start exporting in targeted regional markets (e.g. the Gulf States, Southern European countries and selected African Arab countries like Sudan).</p>	<ul style="list-style-type: none"> • % volume of production, disaggregated by age and sex • % decrease in unit cost of production • % increase of profit margin per unit. #of jobs created (full-time, part-time, seasonal or jobs on 'ad-hoc demand') disaggregated by age and sex • # increased jobs for special target groups including youth, women, disaggregated by age and sex 	<ul style="list-style-type: none"> • Baseline data collected at the start of the project implementation phase • Official statistics collected by MoNE, and the project • Project progress/ evaluation reports • Reports from stakeholders 	<ul style="list-style-type: none"> - Full support is received from the HLF Cluster as well as from the Ministry of National Economy of the State of Palestine; - Products made by the HLF Cluster can access to regional / international markets.
OUTPUTS AND ACTIVITIES			
<p><u>OUTPUT 1: Technology, Quality and Product Development (Craftspeople Laboratory)</u> The newly-established Leather and Footwear Training Centre (LFTC) is operationalized and able to provide services in the field of :</p> <ul style="list-style-type: none"> - Quality control; - Product Development and design; - Training in footwear manufacturing through the Craftspeople Laboratory. 	<ul style="list-style-type: none"> • Accreditation protocol for the test laboratory prepared and process started with relevant agencies of the Palestinian Authority • 1 "Craftspeople Laboratory" is established within the HLSD Centre acting as a service provider for product development and market penetration • 100-150 youth, men and women, are trained on costing, design, product development, production techniques, quality, marketing and entrepreneurship. 	<ul style="list-style-type: none"> • Project progress/ evaluation reports • Reports from stakeholders 	<ul style="list-style-type: none"> - Laboratory equipment is installed at the LFTC; - The LFTC has the necessary space to accommodate the "Craftspeople Laboratory"; - Trainees willing to undertake training programs at the LFTC.

Activities for Output 1:

- 1.6 Prepare a detailed plan for the establishment of 1 Craftspeople laboratory and implement it;
- 1.7 Prepare an Accreditation protocol for achieving full accreditation of the quality control laboratory (physical) with relevant agencies of the Palestinian Authority for their implementation;
- 1.8 Partner with design schools/institutes to establish twinning arrangements to conduct capacity building programs for local designers and Craftspeople;
- 1.9 Conduct training programs for youth and women on design, production processes as well as entrepreneurship;
- 1.10 Establish a mechanism to link the sector's enterprises and trained youth for the purpose of matchmaking (details of trained youth will be pooled and candidates with right skill sets will be recommended to enterprises that require workers with particular qualifications)

OUTPUT 2: <u>SME Competitiveness and Value Chain Upgrading</u> The technical and management capacity of SMEs in the leather products (mainly footwear) of Hebron is developed and expanded.	<ul style="list-style-type: none">• At least 40-60 selected enterprises are upgraded and assisted.• 50% of enterprises assisted demonstrate improvement in terms of quality, design capacities, innovation processes, export capacities and market access.	<ul style="list-style-type: none">• Project progress/ evaluation reports• Reports from stakeholders	SMEs fully committed to utilize the services of the LFTC and also of the expertise/tools provided through the project.
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Activities for Output 2:

- 2.1 Conduct a skill gap assessment to identify area of TA to be provided including an action plan for the TA capacity building programs to be conducted including skills development and vocational training;
- 2.2. Implement TA Action Plan to fill gaps within the value chain;
- 2.3 Assess the need for equipment in the selected enterprises and assist in the procurement through the Government of Italy Credit Line;
- 2.4 Organize training sessions and workshops on design techniques specific to the leather products sector.

OUTPUT 3: <u>Communication and Marketing</u> The Hebron Leather shoe cluster is assisted through marketing strategy in penetrating the local and selected regional and international markets.	<ul style="list-style-type: none">• 1 market penetration strategy is elaborated to develop domestic, regional and eventually export markets.• At least 2 product collections are developed in line with the branding strategy.• The 2 product collections are exposed for at least two seasons at relevant regional/international shoe fairs.	<ul style="list-style-type: none">• Project progress/ evaluation reports• Reports from stakeholders	The Hebron Shoe cluster members are ready to cost-share some of the costs to attend regional / international shoe fairs
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Activities for Output 3:

- 3.1 Assist selected enterprises with the preparation of a branding, marketing and communication strategy;
- 3.2 Develop footwear collections through the organization of specific training sessions;
- 3.3 Prepare promotional materials incl. a common web-site, and also way of creating an on-line sale platform;
- 3.4 Establish a list of potential national and international customers and target them with specific marketing tools.
- 3.5 Organize the participation of clusters' member to specialized exhibition both in domestic and regional markets as well as at international level;
- 3.6. After trade fair follow up and results consolidation;

3.7 Repeat this exercise for at least two seasons on cost-sharing basis.

OUTPUT 4: M&E

A Project Coordination Unit (PCU) is set-up and a communication and visibility plan for the project and the donor's involvement is prepared and implemented.

- 1 PCU established and operational
- CVP prepared and implemented
- M&E properly conducted

- Project progress/ evaluation reports
- Reports from stakeholders

Project Office is provide free of charge by the local counterparts as part of their in kind contribution.

Activities for Output4:

4.1 Establish a Project Coordination Unit (PCU);

4.2 Elaborate a 1-year Communication and Visibility Plan (CVP) emphasizing on the donor, i.e. the Italian Agency for Development Cooperation's (AICS) intervention;

4.3. Implement the CVP including the preparation of promotion materials, videos and press releases;

4.4 Organize a conference at the national level to disseminate project experiences and results;

4.5 Prepare and publish a comprehensive report in the form of a book highlighting the success stories and lessons learned;

4.6 Submit and distribute the monitoring and evaluation report to all stakeholders.

15. Tentative Activities Work-Plan

Activities/Timeframe	18 months																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Output 1: <u>Technology, Quality and Product Development (Craftspeople Laboratory)</u>																		
1.1: Prepare a detailed plan for the establishment of 1 Craftspeople laboratory and implement it	■	■																
1.2: Prepare an Accreditation protocol for achieving full accreditation of the quality control laboratory (physical) with relevant agencies of the Palestinian Authority for their implementation			■	■	■													
1.3: Partner with design schools/institutes to establish twinning arrangements to conduct capacity building programs for local designers and Craftspeople					■	■	■					■	■	■				
1.4: Conduct training programs for youth and women on design, production processes as well as entrepreneurship				■				■			■				■			
1.5: Establish a mechanism for matchmaking (skilled youth and women to enterprises)			■	■	■													
Output 2: <u>SME Competitiveness and Value Chain Upgrading</u>																		
2.1: Conduct a skill gap assessment to identify area of TA to be provided including an action plan for the TA capacity building programs to be conducted including skills development and vocational training	■	■																
2.2: Implement TA Action Plan to fill gaps within the value chain			■	■	■	■												
2.3: Assess the need for equipment in the selected enterprises and assist in the procurement through the Government of Italy Credit Line					■	■	■					■	■	■				
2.4: Organize training sessions and workshops on design techniques				■				■			■				■			

