

# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY FOOTWEAR AND LEATHER SECTOR EXPORT STRATEGY 2014-2018



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Layout: Jesús Alés (sputnix.es)

**The International Trade Centre (ITC) is the joint agency  
of the World Trade Organization and the United Nations**

**Street address:** ITC 54-56, rue de Montbrillant 1202 Geneva, Switzerland  
**Postal address:** ITC Palais des Nations 1211 Geneva 10, Switzerland  
**Telephone:** +41-22 730 0111  
**Fax:** +41-22 733 4439  
**E-mail:** [itcreg@intracen.org](mailto:itcreg@intracen.org)  
**Internet:** <http://www.intracen.org>

**Ministry of National Economy (MONE)**

**Address:** Ramallah – Im Al-Sharayet  
**Tel:** + 970 2 2981218  
**Fax:** + 970 2 2981207  
**P.O.Box:** Ramallah 1629  
**Email:** [info@met.gov.ps](mailto:info@met.gov.ps)

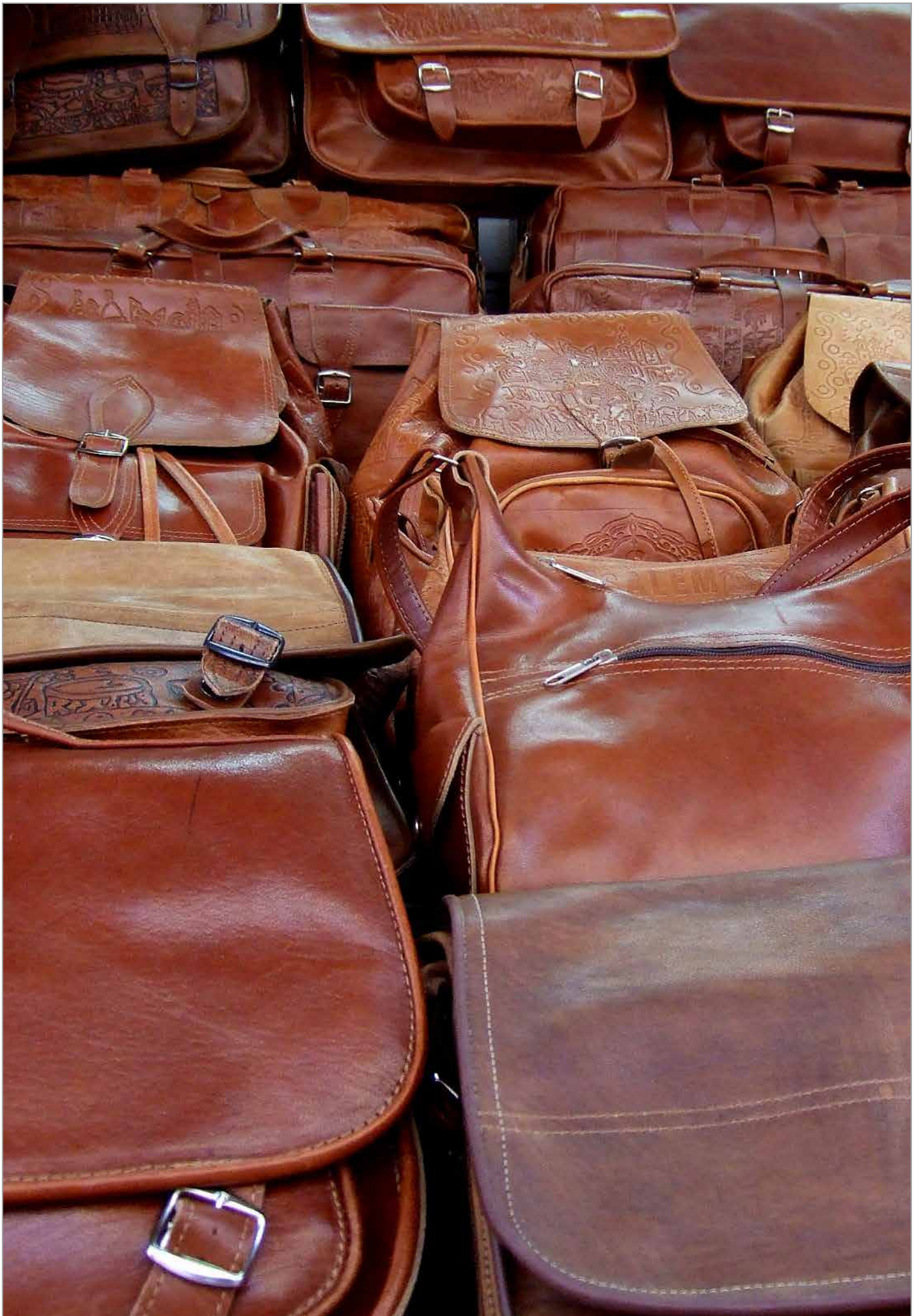
**Palestine Trade Center (PalTrade)**

**Head Quarters**  
(Ramallah Office): Alwatanieh Towers Bldg | 5th floor, Albireh  
**P.O. Box:** 883 | Ramallah | Palestine  
**Tel:** + 970 2 240 8383  
**Fax:** + 970 2 240 8370  
**Email:** [info@paltrade.org](mailto:info@paltrade.org)

# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY FOOTWEAR AND LEATHER SECTOR EXPORT STRATEGY • 2014-2018







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This document represents the ambitions of the private and public stakeholders who dedicated long hours to define the enhancements and future orientations for the sector to increase its export performance and growth (full list of stakeholders in Appendix 1).

Guidance and support were provided to the project by the following key personnel.

### Sector Strategy Team:

- **Tareq Abu El Filat**  
Palestinian Leather Industry Union
- **Ibrahim Jabareen**  
Palestinian Standards Institution
- **Hamdi Za'tary**  
Al Tawfiq Co.
- **Abd Abu Rajab**  
Al Worod Co.
- **Awni Julani**  
First Shoes Co.
- **Abeed Al Za'tary**  
Al Waleed Co.
- **Adel Al Za'tary**  
Palestinian Leather Industry Union
- **Dalal Abu Hamed**  
Ministry of Labour
- **Asma'a Al Haj Hamd**  
Ministry of Labour
- **Raed Al Zighaier**  
Blue Co.
- **Hamzeh Abu Dab'at**  
Palestinian Leather Industry Union
- **Shaban Natsheh**  
Palestinian Leather Industry Union
- **Kamel Al Zighaier**  
Al Ramah Al Masieah Co.
- **Ismail Sharif**  
HCCI
- **Jawad Herbawi**  
Team Coordinator
- **Baha Sartawi**  
Ministry of Labour
- **Mazen Zghier**  
HCCI
- **Jawdi Abu Rageb**  
Glad Baby Co.
- **Farhat Siaj**  
Tossetti Shoes
- **Zeyad Fadel**  
Ministry of National Economy
- **Rami Zughear**  
Golf & Horse Co.
- **Fdel Natsheh**  
Naboli
- **Ghandi Al Za'al**  
Palestinian Leather Industry Union
- **Ameer Haboub**  
Palestinian Leather Industry Union
- **Adel Zatari**  
Al Walid Co.
- **Mohammed Atawenih**
- **Faten Alomlah**
- **Omar Syaj**  
Tossetti Shoes

### Ministry of National Economy (MoNE):

- **Manal Farhan**  
NES Navigator
- **Nahid Qudsi**  
Assistant Navigator

### PalTrade and Ministry of National Economy (MoNE):

- **Hanan Taha**  
Chief Executive Officer
- **Shawqi Makhtoub**  
Trade Policy Manager
- **Samir Maree**  
NES Specialist
- **Mohammed Al Ram'ah**  
NES Coordinator
- **Mayada Diab**  
Program Coordinator

### International Trade Centre:

- **Anton J. Said**  
Chief, Export Strategy
- **Darius Kurek**  
Project Manager
- **Charles Roberge**  
Lead technical Advisor
- **Rahul Bhatnagar**  
Lead Author
- **Jawad Sayed**  
Team Coordinator in Palestine

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## ACRONYMS

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CAD	Computer-Aided Design	PFCCIA	Palestinian Federation of Chambers of Commerce, Industry and Agriculture
CNC	Computer Numerical Control	PFI	the State of Palestine Federation of Industries
CPA	Consumer Protection Agency	PIPA	the State of Palestine Investment Promotion Agency
EU	European Union	PLIU	Palestinian Leather Industries Union
FDI	Foreign Direct Investment	PNA	Palestinian National Authority
GAFTA	Greater Arab Free Trade Area	PoA	Plan of Action
GIZ	German Society for International Cooperation	PPU	Palestine Polytechnic University
HCCI	Hebron Chamber of Commerce	PSCC	Private Sector Coordination Council
ICT	Information and Communications Technology	PSI	Palestine Standards Institution
KPI	Key Performance Indicator	SLU	Shoes and Leather Union
KSA	Kingdom of Saudi Arabia	SME	Small and Medium Enterprise
MIGA	Multilateral Investment Guarantee Agency	ToR	Terms of Reference
MoF	Ministry of Finance	TSI	Trade Support Institution
MoH	Ministry of Health	TSN	Trade Support Network
MoNE	Ministry of National Economy	TVET	Technical Vocational and Educational Training
NES	National Export Strategy	UAE	United Arab Emirates
PCBS	Palestinian Central Bureau of Statistics	WB	West Bank
PEA	Palestinian Energy Authority		
PEC	Palestinian Export Council		



Source: PalTrade

# EXECUTIVE SUMMARY

The Palestinian footwear and leather industry has traditionally served as an important national industrial sector due to the contributions it makes to industrial production, employment and exports. At the height of subcontracting activity in the mid-1990s, it is estimated that the sector comprised about 1,000 companies, employed more than 10,000 workers, and produced approximately 13 million pairs of shoes annually.

## CURRENT CONTEXT

At the moment, the footwear and leather sector is comprised of approximately 230 footwear manufacturing firms, and 12 tanneries – mainly family-owned SMEs that employ on average less than 10 employees. Leather tanneries are the major suppliers of raw material to footwear manufacturers. The footwear and leather subsector value chains are closely integrated, and nearly all domestic production of leather is used by the footwear subsector. The main products of the sector are shoes (for men, women and children), slippers, sandals and bags.

Employment levels stand at approximately 2,500 workers, 88% of whom are employed in the footwear subsector. Current employment is significantly lower than during the period leading up to 2000, when the sector was estimated to have employed over 10,000 workers. Annual production in the sector stands at 4 million pairs of shoes, reflecting a production decline of roughly 70% from pre-2000 levels. Overall, the sector is characterized by strong technical skills and decades of accumulated experience passed across generations. The sector currently features a number of characteristics and advantages, including a relatively high production capacity (albeit relatively under-utilized) and the presence of significant technical expertise gained through decades of experience. There is a well-integrated supply chain that is characterized by strong relationships between the tanning industry and footwear producers, resulting in a steady supply of raw material.

Imports of footwear products by wholesalers and retailers include low-priced products that are in tune with the latest modern designs popular in international markets. These have special appeal for young customers that are more attuned to international trends. Palestinian manufacturers have been unable to cater to this important customer segment and imported goods have filled the resulting vacuum.

## EXPORTS PERFORMANCE

Nearly all of the domestic production of the leather subsector is absorbed by the footwear subsector in the State of Palestine, with a minor portion absorbed by the textiles and furniture sectors. Traditionally, the footwear subsector has focused on the domestic market and the Israeli market (through a subcontracting model) as its main target markets.

The State of Palestine's exports of footwear have grown at a rate of 4% since 2007, which is less than the global growth rate of exports of 7%. The export growth in the sector is primarily driven by exports in the 'outer soles and upper leather' (HS 6403) product group.

Currently, there are four main importing markets for Palestinian footwear products: Israel, Jordan, Gulf countries, and the European Union (EU). In recent years, the State of Palestine has lost significant market share in markets that include both Arab (Jordan, Saudi Arabia, Egypt), and western markets (France, Germany, and Italy). The State of Palestine's footwear sector exports are now concentrated primarily in Israel (84%, 2010), with Egypt (11%), Saudi Arabia (2%) Jordan (2%) and Gulf countries (1%) comprising the other main markets. Footwear exports are facing important competition in target markets. The majority of competition originates from China, Italy and Viet Nam. Chinese exports are present in all four top target markets for the State of Palestine.

The analysis indicates that a number of issues hamper and limit the export development of the leather and footwear sector. These constraints include the restrictions on imports of chemicals because of “dual-use concerns”, absence of a bulk-buying mechanism, low levels of organization in the sector, outdated equipment and designs lagging behind international trends, and finally gaps in quality control at the enterprise level. These important issues are further exacerbated by challenges such as the absence of an export promotion fund, poor quality of

state level monitoring and compliance infrastructure, and lack of reliable and timely trade information.

## OPTIONS FOR FUTURE DEVELOPMENT

In order to realise the export potential and increase the export competitiveness of the Palestinian leather and footwear sector, the following vision has been adopted:

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### Palestinian-made, creative and competitive

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To achieve this vision, the strategy will reduce the binding constraints on trade competitiveness and capitalize on strategic options identified for the Palestinian leather and footwear sector. The strategic orientations for the next five years aim at developing key markets in the short and medium for Palestinian exporters, and facilitate structural changes in the value chain to increase its efficiency and value generation for Palestine.

The short term market development of the leather and footwear sector will focus on selected products in such target destinations as Israel, Jordan, Saudi Arabia, Kuwait, Oman, Qatar, Yemen, UAE. In the medium term, the strategy will enable exporters to expand their export reach through the supply of new products to selected target markets such as Iraq and eventually the European Union.

To achieve efficiency gains in the leather and footwear sector, the key structural changes to the value chain will include the following: increase focus on the gender dimension, improve TVET infrastructure, develop an eco-friendly footwear sector, strengthen linkages with the ICT sector, increase capacities of the tanning sector and strengthen linkages with the textiles and furniture sectors, spur development of a national accessories value chain, strengthen linkages between the footwear, and textiles and fashion, sectors, Improve environmental sustainability of sector operations.

## ROADMAP FOR SECTOR EXPORT DEVELOPMENT

The sector strategy vision will be achieved through the implementation of the Plan of Action (PoA) for the sector. This PoA revolves around the following four strategic objectives, each spelling out specific sets of activities intended to address both challenges and opportunities facing the leather and footwear sector in Palestine:

- Drive improvements at the policy and the regulatory levels so as to develop a business environment that supports innovation and investment in the sector.
- Build the capacity of sector enterprises to be able to satisfy key buyer requirements in their main target markets, with particular focus on supply consistency and quality management.
- Improve coordination levels in the sector, among enterprises as well as enterprise associations, so as to improve collaboration and encourage pollination of best practices.
- Improve market development and diversification, in order to intensify as well as diversify the sector's client base.

## TARGET MEASURES

The key targets of the strategy as defined by the sector exporters are to:

- Increase by 20% the share of total leather and footwear exports to Israel to capitalise on existing export relationships and distribution channels to international markets
- Increase exports of footwear to KSA for this market to represent 23% of total footwear exports in 5 years. The 50% growth achieved in this market in the last few years was achieved without any systematic approach. With new target actions this market will be further developed. The lost market share of Syrian products could be substituted by Palestinian products. The declined share from the Israeli market will be utilized to the benefit of this market.
- Increase export to Jordan so this markets represents 18% of total exports by 2018. This will be achieved through capitalising of existing distribution channels and utilising trade mission and agreements.





Source: PalTrade

- Diversify exports to three new target markets because of increased design capacities and increased quality management of production. At the end of five implementation period, it is anticipated that total new exports to Germany will be worth 5 million of US\$, new exports to Gulf countries will exceed 20 million of US\$, and new exports to Iraq aim to reach 15 million US\$.

## IMPLEMENTATION MANAGEMENT

The achievement of these ambitious targets will require continuous and coordinated efforts from all relevant private and public stakeholders as well as support from key financial and technical partners, donors and investors

alike. Several institutions are designated to play a leading role in the implementation of the sector PoA and bear the overall responsibility for successful execution of the strategy. They will be assisted by a range of support institutions that are active in the leather and footwear sector. Each institution mandated to support the export development of the leather and footwear sector is clearly identified in the strategy PoA. Moreover, the proposed Palestinian Export Council (PEC) and its Executive Secretariat will play a coordinating and monitoring role in the implementation of the leather and footwear sector strategy in the overall framework of the National Export Strategy. In particular, the PEC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders.

## Box 1: Methodological note

The approach used by ITC in the strategy design process relies on a number of analytical elements, such as value chain analysis, trade support network analysis, problem tree, and strategic options selection, all of which form major building blocks of this sector export strategy document.

### Value chain analysis

A comprehensive analysis of the sector's value chain is an integral part of the sector strategy development process. This analysis results in the identification of all players' processes and linkages along the sector. This was the basis for analysing the current performance of the value chain and for deliberating on options for future development of the sector. The analysis charts the main stages involved in the sector's export process, from inputs sourcing to distribution in market segments. This is followed by the identification of key stakeholders who include not just the primary players (e.g. producers, processors, distributors) but also those fulfilling support functions with direct linkages to the primary players. These support services include inputs providers, transportation service providers, storage and logistics services, and financial service providers, among others.

### Trade Support Network (TSN) analysis

The trade support network comprises the support services available to the primary value chain players discussed above. It is constituted of policy institutions, trade support organisations, and business services providers. An analysis of the quality of service delivery and constraints affecting the constituent trade support institutions (TSIs) is an important input to highlight gaps in service delivery relative to specific sector needs. A second analysis of TSIs assessed their *level of influence* (i.e. their ability to influence public policy and other development drivers in the country and therefore make things happen or change) and their *level of capacity* to respond to the sector's needs.

### Problem tree analysis

The problem tree analysis used is based on the principles of root cause analysis and the Pareto principle. The reason for using the problem tree exercise is to gain a deeper understanding of *what* is causing the high level constraints, and *where* solution-seeking activities should be directed. This exercise involves a two-step process:

- *First*, the value chain analysis, surveys, and consultations with key public and private stakeholders identify constraints affecting sector-specific export value chains. These constraints are abstract and a more thorough breakdown is required to identify the specific root causes of constraints. Multiple levels of root causes are identified for each high-level constraint.
- *Second*, the problem tree uses the Pareto principle to identify critical root causes in the problem tree. This is especially important for resource limitations that usually exist during the *strategy implementation phase*. Therefore focus is needed on the 20% of root causes which result in 80% of constraints affecting the sector. Critical paths through the problem tree are charted to discover the most significant root causes constraining the sector.

These steps resulted in a comprehensive problem tree detailing the constraints affecting the sector's export value chain, along with characterisations related to the types, granularity and intensity of the root causes. The problem tree then guides the design of the solution-seeking phase of the strategy.

### Defining where we want to go

The strategic options for the development of the sector are reflected in the future value chain, which is the result of consultations, surveys and analysis conducted as part of the sector strategy design process. The future perspective has two components:

- A market-related component involving identification of key markets in the short and medium-to-long terms for Palestinian exporters, and;
- Structural changes to the value chain that result in either strengthening of linkages, or introduction of new linkages.

Both components are integral parts of the future value chain, which is the basis of the strategic action plan developed for the sector.

# INTRODUCTION

The footwear and leather analysis and strategy presented in this document forms an integral part of the National Export Strategy (NES) of the State of Palestine. Once a key export sector of the Palestinian economy, in the last few years the footwear and leather sector has faced a variety of challenges including outdated production lines, limited design capacities, competition from mass imports, and difficulty in maintaining increasing quality and supply consistency requirements. The sector now requires some key investments to upgrade and diversify its market and product base. The absence of planned development projects, interventions or support to the sector makes restructuring difficult. This document presents the expectations of the private and public sector for the enhancement of the footwear and leather sector in the State of Palestine. Without concerted efforts to address critical issues and identified market development opportunities, the sector could remain in survival mode instead of leveraging its important potential and capacity. The five year plan of action of the strategy proposes realistic and achievable activities that will contribute to making footwear and leather a leading industrial sector promoting Palestinian-made products and supported by a strong, creative and competitive base.

## HISTORICAL OVERVIEW

The Palestinian footwear and leather industry has traditionally served as an important national industrial sector due to the contributions it makes to industrial production, employment and exports. Historically centred in Hebron, with a smaller concentration in Nablus and Bethlehem, the sector is comprised of both footwear manufacturing firms and tanneries.

The period between 1975 and 2000 is commonly referred to as the 'golden era' for the Palestinian footwear and leather sector. This period, especially the 1990s, was marked by a high degree of outsourcing by Israeli footwear firms to Palestinian manufacturers, during which firms in the West Bank and Gaza experienced steady demand for their services. Driving this trend were a host

of factors including low investment capital levels available to Palestinian enterprises, low operating costs in the West Bank and Gaza, and an overall restrictive trade environment driven by Israeli policies that reduced the competitiveness of Palestinian products relative to competitors. At the height of subcontracting activity in the mid-1990s, it is estimated that the sector comprised about 1,000 companies, employed more than 10,000 workers, and produced approximately 13 million pairs of shoes annually.<sup>1</sup>

The outsourcing model had a number of effects on Palestinian footwear and leather skills. First, the steady dependence on limited relationships led to a decline in business development and marketing capabilities. Second, the nature of outsourcing relationships obviated the need for Palestinian firms (and indeed decreased their capabilities) to keep up with the latest international trends in footwear fashion. Third, skills developments in the sector were driven by the skills in demand from the subcontracting sector. Processes and technology followed a similar trend.

The outsourcing model saw a decline after 2000 as a result of changing market forces, as well as the political turmoil brought about by the second intifada. From an economic standpoint, the increasing operating costs of production in the West Bank and Gaza led Israeli firms to explore opportunities in other countries in the region. On the political level, the second intifada resulted in Israeli firms pulling out of operations within the West Bank and Gaza. Deprived of the convenience offered by the outsourcing model, Palestinian firms started to target European (primarily through Israeli agents) and Arab markets (direct), but were largely unable to achieve a significant level of penetration.

Towards the end of the second intifada restrictions on movement and imports were eased to an extent, leading to increased competition for domestic footwear producers from foreign suppliers. Ironically, the restrictions that

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1. PFI - CARANA Corp (2009). *The current status of the industrial sector in the State of Palestine*. USAID, p. 9.

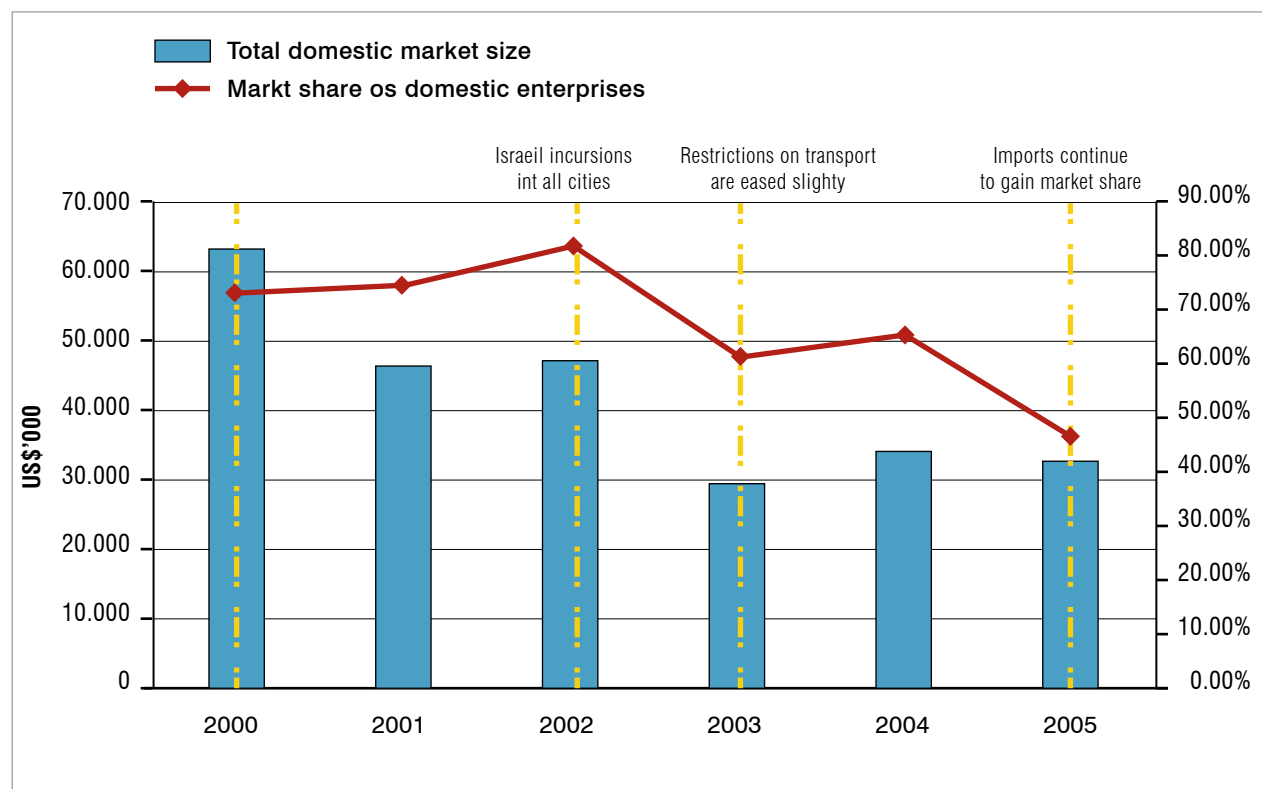
constrained imports and movement of goods and services had helped to partly protect the domestic Palestinian footwear industry. Due to the difficulties in importing from major source countries such as China and Turkey,<sup>2</sup> domestic consumers depended largely on local suppliers, thus allowing them to increase their market share. The easing of restrictions resulted in foreign footwear goods flooding the local markets and capturing significant market share.

2. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 9.

Figure 1 captures the trends discussed above. As shown, the domestic share and the size of the domestic market both exhibited a downward trend from 2000 to 2005. While the domestic market size declined by approximately 50% from US\$63 million in 2000 to US\$32 million in 2005, the domestic market share fell from 74% to below 50% over the same period.<sup>3</sup> While the intifada and the resulting restrictions were the main contributing factors between 2000 and 2003, the rise in competition from foreign suppliers was the main reason for decline from 2004 to 2005.

3. *Ibid.*

Figure 1: Trends in domestic market size and share for footwear in the State of Palestine, 2000-2005



Source: Palestinian Leather Industries Union (PLIU)



# WHERE WE ARE NOW

## STRUCTURE OF THE SECTOR

At the moment, the footwear and leather sector is comprised of approximately 230 footwear manufacturing firms, and 12 tanneries – mainly family-owned SMEs that employ on average less than 10 employees.<sup>4</sup> Leather tanneries are the major suppliers of raw material to footwear manufacturers. The footwear and leather subsector value chains are closely integrated, and nearly all domestic production of leather is used by the footwear sector. The main products of the sector are shoes (men's, women's and children's), slippers, sandals and bags. A small portion of the production is also supplied to the textiles and garments industry for the production of apparel, furniture covers and other items. Although production still covers a wide variety of products, including shoes, slippers, sandals and bags, local producers have been unable to keep pace with foreign competition in meeting consumer preferences with regards to fashions and trends. This has led to a greater focus on those products that are less subject to the fashion cycle, such as men's dress shoes and children's sandals.<sup>5</sup>

4. PFI - CARANA Corp (2009). *The current status of the industrial sector in the State of Palestine*. USAID.

5. Abdalla, J. (2013). Palestinian Shoe Industry Declines in Hebron, 13 March. Available from <http://www.al-monitor.com/pulse/originals/2013/03/palestinian-industry-suffers-cheap-imports.html>.

Employment levels stand at approximately 2,500 workers, 88% of whom are employed in the footwear sector.<sup>6/7</sup> Current employment is significantly lower than during the period leading up to 2000, when the sector was estimated to have employed over 10,000 workers. Of note, however, is the relatively high level of worker productivity, which is estimated at US\$29,000.<sup>8</sup>

Table 1 provides a snapshot of the sector at the end of 2000 and current levels. Palestinian footwear manufacturing has experienced a decline since the end of the 'golden era' in 2000, and the number of firms operating in the sector has diminished to about a quarter of pre-2000 levels.

6. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 3.

7. Note that other sources number employees at up to 4,000. Abdalla, J. (2013). Palestinian Shoe Industry Declines in Hebron, 13 March. Available from <http://www.al-monitor.com/pulse/originals/2013/03/palestinian-industry-suffers-cheap-imports.html>.

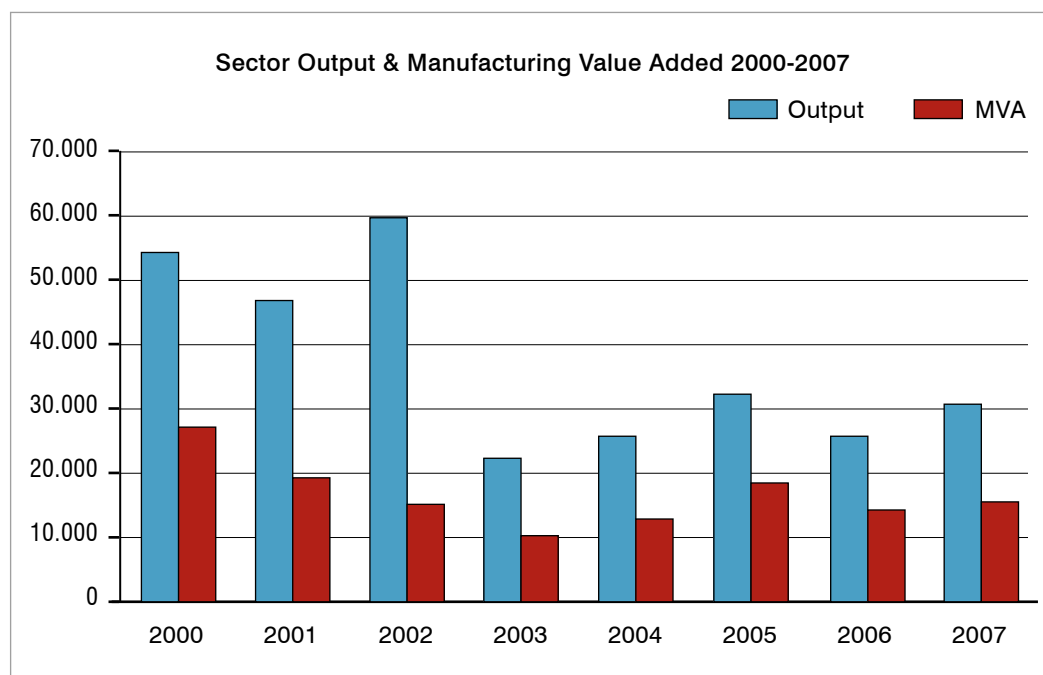
8. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 9.

Table 1: Sector evolution

	Pre-intifada (pre-2000 levels)	Current state
Number of firms	1 000	230
Production volume	13 million pairs of shoes	4 million pairs of shoes
Direct employment	10 000	2 500

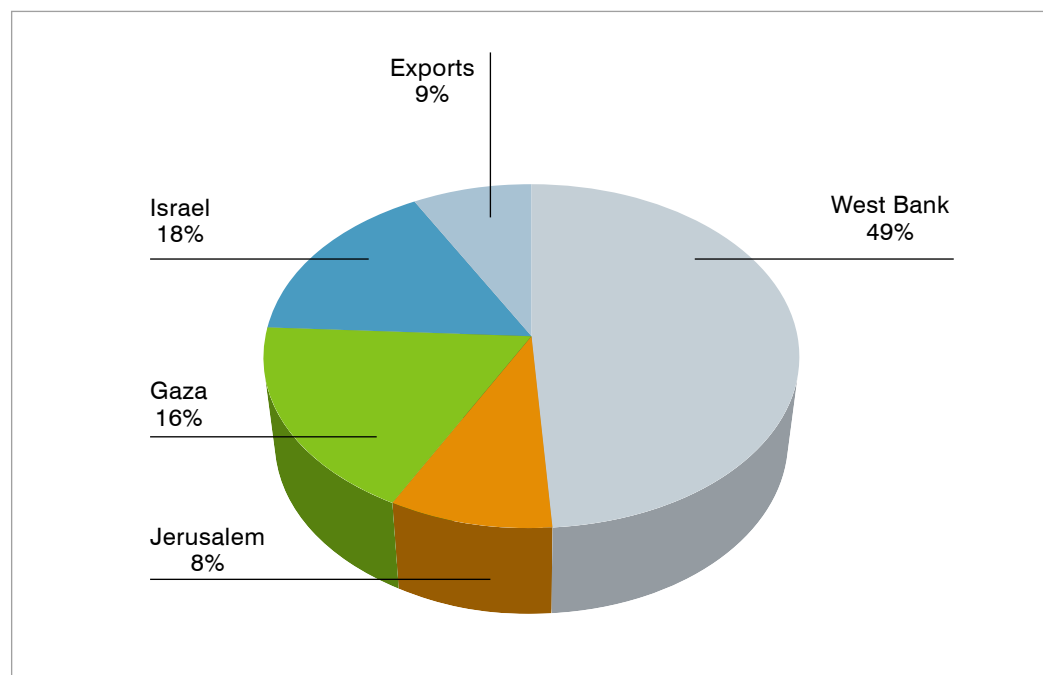
**Source:** PFI – CARANA Corp. (2009). *The current status of the industrial sector in the State of Palestine*. USAID, p. 9. Data retrieved from PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 4.

Figure 2: Palestinian footwear and leather sector output and manufacturing value added 2000 to 2007



Source: PFI – CARANA Corp., 2009

Figure 3: Current market share distribution for the footwear industry in the State of Palestine



Source: PalTrade (2011). Leather & Footwear sector in Palestine, p. 6.

Annual production in the sector stands at 4 million pairs of shoes,<sup>9</sup> reflecting a production decline of roughly 70% from pre-2000 levels.<sup>10</sup> The sector contributes approximately 1% of GDP, but as detailed in figure 2, both output and manufacturing value added have declined from 2000 onward.<sup>11</sup>

As indicated in figure 3, approximately 65% of the sector's product is absorbed by the domestic market (with almost 50% going to the West Bank). Of the remainder, 18% of the output is absorbed by Israel and 8% by Jerusalem. The remaining 9% is destined for non-Israeli exports.

With regards to capacity, a recent PalTrade<sup>12</sup> report notes:

In addition to a shrinking number of domestic enterprises, the capacity utilization of domestic firms today is quite low. While nearly 30% of firms report maximum monthly production capacity of US\$100,000 or more, on average, firms with the maximum capacity output between US\$0 and US\$49,999 were producing at 34% of capacity, while those with capacity of over US\$250,000 were operating at 20% of capacity in 2008.

Overall, the sector is characterized by strong technical skills and decades of accumulated experience passed across generations. The sector currently benefits from a number of characteristics and advantages, including a relatively high production capacity (albeit relatively underutilized) and the presence of significant technical expertise gained through decades of experience. There is a

well-integrated supply chain that is characterized by strong relationships between the tanning industry and footwear producers, resulting in a steady supply of raw material. Moreover, Palestinian footwear manufacturers benefit from preferential access to the United States of America, Arab countries, and the European Union. Products are of high quality but designs tend to be unsophisticated.

## INVESTMENT NEEDS OF THE SECTOR

The sector has experienced a drastic drop in investment in recent years. This is driven in large part by the politically unstable environment in the region, and also due to high competition from imported products, which has suppressed Palestinian footwear manufacturing to a significant extent. It is estimated that investment levels in 2009 had declined from US\$220 million<sup>13</sup> to US\$70 million. As discussed in the competitive analysis section, Palestinian enterprises in the sector have been largely unable to make investments to update their capital equipment stock. However, investment needs do not solely pertain to equipment –other areas including new product development, business development, marketing, etc. also qualify as necessary investment categories.

Figure 4 shows the broad areas of investment needs for the State of Palestine's footwear and leather sector according to a survey conducted by the Palestinian Federation of Industries (PFI) in 2009. Based on the survey, prominent among these needs are investments for foreign market penetration (66%), procurement of machines and technology (33%), new product development (16%), and forging strategic alliances and partnerships (16%).

9. Data retrieved from PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 4.

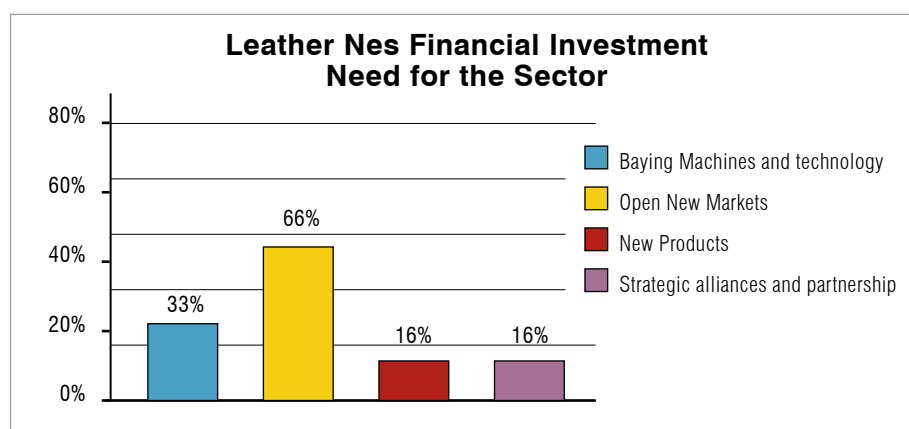
10. PFI - CARANA Corp. (2009). *The current status of the industrial sector in the State of Palestine*. USAID, p. 9.

11. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 9.

12. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 10.

13. Base year is unknown, but presumably refers to pre-2000 levels. PFI - CARANA Corp. (2009). *The current status of the industrial sector in the State of Palestine*. USAID, p. 11.

Figure 4: Financial investment needs for the footwear and leather sector



Source: PFI, 2009

## Box 2: Hebron footwear manufacturing sector and the impact of Asian imports

The Hebron shoemaking industry is famous for production of high quality handmade footwear products, developed through skills handed down from generation to generation through family businesses. The city was renowned for its skilled cobblers, producing famously comfortable and durable leather shoes and sandals.<sup>14</sup>

While Hebron is still the centre of the Palestinian shoemaking industry, it has lost the momentum and growth it experienced in the past few decades. The Hebron footwear sector currently comprises approximately 230 firms, which are fed by 10 tanneries that supply the local market.<sup>15</sup> Firms are operating at 30% of their capacity, and produce around three million pairs of shoes annually<sup>16</sup>. The industry is in a general state of decline.

A flood of cheap imports has significantly depressed the competitive edge of Palestinian footwear producers. The market liberalization clauses contained in the Paris Protocol allowed foreign exporters to penetrate the Palestinian domestic market with inexpensive, albeit generally inferior quality, products, including within the footwear and clothing sectors. The domestic consumer base was drawn to these products primarily due to their low prices and modern designs – aspects which Palestinian manufacturers could not compete with. Low quality imported shoes cost between US\$ 13 and US\$ 21, significantly lower than the US\$ 25 to US\$ 30 charged for Palestinian products, and the cost difference has taken on greater importance with the economic difficulties of the past few years.<sup>17</sup>

Almost 90% of shoes (a product category within the footwear sector) in the Palestinian market are imported from China, while only 8% of shelf products are Palestinian.<sup>18</sup> The experience of one entrepreneur, Omar Sayyaji, in dealing with increased competition from imports is detailed in a recent article:<sup>19</sup>

Omar Sayyaji, 37, partner at Tossetti Shoes Co. in Hebron, one of the companies still operating in the city, says his grandfather established their family-owned business back in the early 1960s. He said the industry witnessed a “golden age” between 1970 and 1990, when their factory produced some 400,000 pairs a year. They now produce no more than 200,000 pairs a year, working on 30% of their factory’s capacity... Sayyaji said his company would like to be able to rely more on the local market, but fierce competition with much cheaper, poorer quality imports that are popular among consumers is cutting them off from a key market, and slowly putting them out of business.

Weaknesses also lie with Hebron’s footwear manufacturing enterprises. Like their peers in other Palestinian sectors, these enterprises have not kept in touch with the latest designs and consumer tastes and preferences around the world. Chinese manufacturers have applied mechanisms to ensure that their designs are modern, which partly explains their success despite the relatively inferior quality of their products. The net result is that not only do local producers find it difficult to compete on price, but having historically based production on quality and not design, they are unable to stay ahead of the latest trends and fashions in footwear. Even those that wish to do so find it difficult to afford the regular updating of equipment, such as moulds, that are necessary to produce new models. This has helped hasten the decline in domestic market share, as consumer preferences in the local and Israeli markets have begun to give greater weight to design over quality. Local manufacturers have therefore been forced to concentrate their production on traditional goods with low fashion content such as men’s dress shoes and children’s sandals.

Hebron’s footwear manufacturers also need to upgrade their production lines in order to diversify their products while still maintaining high quality levels. Product diversification will go hand in hand with the requirement to improve the sector’s access to finance and credit options. This is substantiated by anecdotal evidence of manufacturers sticking with products like dress shoes and children’s sandals, while unable to develop expertise in shoes for young people – which require capital intensive investments in a variety of moulds that capture the latest trends.<sup>20</sup>

To revive Hebron’s footwear industry, a combination of measures at the policy and technical level are required. A 35% levy on imported Chinese goods was applied on 15 April 2013. This tariff was recently approved by the cabinet, and acknowledges the need to protect the local footwear industry. On other fronts, there is an urgent need to provide institutional support to enterprises in the form of trade information (market intelligence, consumer trends), and access to finance (credit instruments that take into account the specific requirements of the sector) among others.

14. Abdalla, J. (2013). Palestinian Shoe Industry Declines in Hebron, 13 March. Available from <http://www.al-monitor.com/pulse/originals/2013/03/palestinian-industry-suffers-cheap-imports.html>.

15. *Sectoral structure of Palestinian economy – Footwear*. (n.d.). Available from <http://www.visitpalestine.ps/en/business-and-investment/sectoral-structure-of-palestinian-economy>.

16. Abdalla, J. (2013). Palestinian Shoe Industry Declines in Hebron, 13 March. Available from <http://www.al-monitor.com/pulse/originals/2013/03/palestinian-industry-suffers-cheap-imports.html>.

17. *Ibid.*

18. *Ibid.*

19. *Ibid.*

20. *Ibid.*



## SECTOR VALUE CHAIN

*The following section presents the structure and dynamics of the footwear and leather sector. The section is composed of the various steps to bring the product from design to final consumers.*

### INPUT SOURCING

The footwear and leather sector relies upon a number of inputs that include raw materials such as leather, soles, lining, upper soles, wax, dyes, various chemicals and glues. Other inputs include equipment; machinery; tools; both skilled and unskilled labour; design software and tools; accessories such as threads, steel shanks, tracks and nails; utilities; and packaging materials.

The sector's production begins with the provision of leather – one of the main inputs for a large variety of footwear production. The majority of leather used in the footwear sector is imported from abroad due to the limited availability of animals from slaughtering.<sup>21</sup> Imported skins and hides (mainly HS-410449) are imported by tanneries to be treated and processed into leather for further processing. The tanning process converts the rawhide into a stable material that will not putrefy, thereby rendering it suitable for further processing. The vast majority of finished leather (96%) goes to footwear manufacturers, while the remaining portion is used by the textiles and garments sector. It should be noted that the tanning process can have a significant environmental impact. The transformation can lead to air and water pollution, with trimmings, sludge and dust typical by-products.

A key production input for footwear products is design. This typically begins with manual sketches and is followed up by Computer-Aided Design (CAD) when available. The design stage generally involves deciding upon style, material, and colour schemes. At the moment, very few enterprises have the skills and technologies to use CAD.

### PRODUCTION AND TRANSFORMATION

Footwear production is carried out by both factories and workshops, and often facilitated through subcontractors. The production stage can be divided into four sub-stages, represented by different organizational departments. The first is clicking or cutting where the upper part of the shoe is created. The product then moves to skilled machinists at the closing or machining unit responsible for sewing together the components. This is followed by piercing, punching, skiving, folding, combining with linings, and sewing together. The upper section then moves



Source: © John Murray.

to lasting and making where it is moulded. At the finishing stage the final cutting, trimming, cleaning, and polishing of the shoes is performed.

### DISTRIBUTION TO MARKET

Palestinian shoes are distributed in local and foreign markets. Products destined for the local market are sent to retailers, who use stores and factory outlets to distribute products to consumers. Products destined for export are mainly exported directly by production companies, using customs brokers and freight forwarders. Currently, there are four main importing markets for Palestinian footwear products: Israel, Jordan, Gulf countries, and the European Union (EU).

Table 2 indicates the main buyer requirements applied by importers when selecting suppliers. It appears that price, design, and quality are common buyer requirements that serve as critical success factors in the top markets. Compliance with standards is a critical success factor in EU markets.

Purely for reference purposes, buyer requirements for domestic markets are also included in the table below. Price is the most critical buyer requirement in domestic markets, followed by design.<sup>22</sup> This aligns with the success of cheap and modern (in terms of design) imported products versus good quality Palestinian products which have been unable to compete on price or design.

21. There are limitations imposed by Israel on the import of live animals

22. PalTrade (2008). *Market Share Assessment: Leather Footwear*.

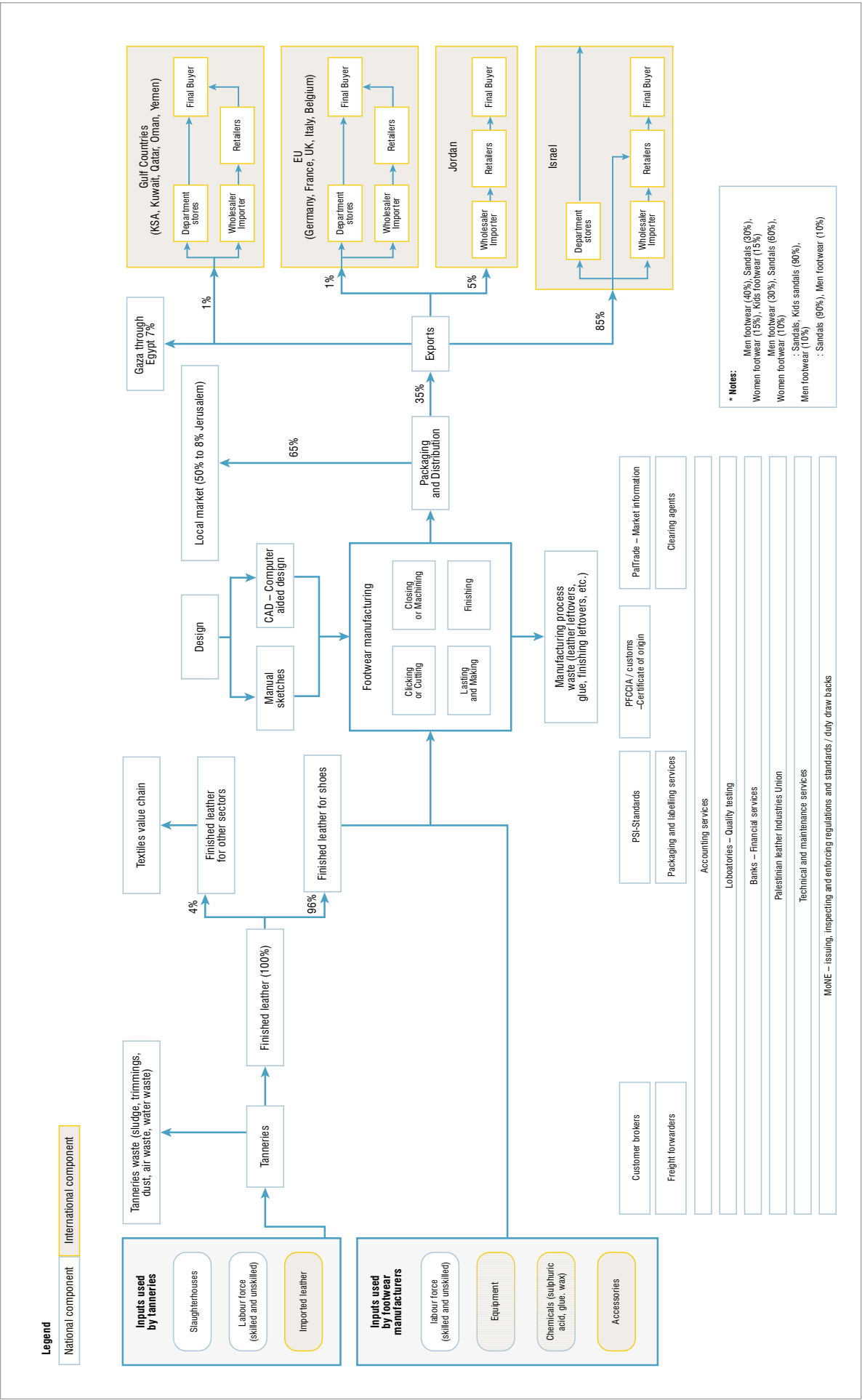
Table 2: *Distribution channels*

	Price	Design	Quality	Standards	Main competitors	Main distribution channels	End users
Domestic market	X	X			China	Wholesalers	Medium quality final buyer
Israel	X	X	X		China (Turkey, Italy)	Importers, wholesalers Re-exporters	Medium quality final buyer Retailers, wholesalers and medium quality final buyers in re-export markets
Jordan	X	X	X		China, Romania, Turkey	Importers, wholesalers	Medium/high quality final buyer
Gulf markets	X	X	X		China, Turkey, Italy	Importers, wholesalers	Medium/high quality final buyer
EU	X	X	X	X	China (Italy, Germany)	Wholesalers, chain and department stores	Medium quality final buyer



Source: PalTrade

Figure 5: Value chain







Source: © PalTrade



# SECTOR IMPORTS

Imports of footwear (inputs or finished) can be broadly classified as imports for the manufacturing process and imports by retailers and wholesalers for sales.

Primary imports by footwear manufacturers include wax, accessories, dyes, glue, and artificial leather.<sup>23</sup> While a minor portion of these materials can be sourced from domestic suppliers, the scope is limited by the small size of the domestic supplier base. There are also restrictions on the type of imports that can be brought into the State of Palestine, based on the list of dual-use<sup>24</sup> items maintained by Israel. For the footwear and leather sector, these restrictions hold particular relevance on the supply of chemicals such as sulphuric acid (an important input into the tanning process), and certain types of glue used in footwear manufacturing.

Imports of footwear products by wholesalers and retailers include low-priced products that are in tune with the latest modern designs popular in international markets. These have special appeal for young customers that are more attuned to international trends. Palestinian manufacturers have been unable to cater to this important customer segment and imported goods have filled the resulting vacuum.

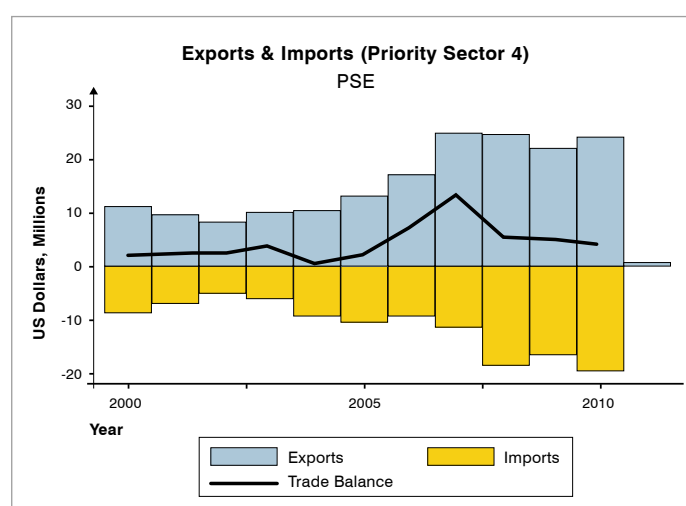
Israel is a prominent supplier of footwear to certain segments such as high quality sports shoes and leather shoes – which command a relatively higher price than Palestinian or Chinese products. Israel is also an important supplier of inputs such as ‘outer soles and heels, of rubber or plastics’, which are used by Palestinian footwear manufacturers.

Figure 6 highlights the growing proportion of imports for the footwear sector since 2000. As indicated, the trade balance achieved a positive high in 2007 and has since been declining in line with increasing import levels in the sector.

23. *Ibid.*, p. 21.

24. For additional detail on restrictions on dual-use items, please refer to the competitive constraints section.

Figure 6: Trade balance of footwear, gaiters and the like, parts thereof (HS64)



Source: ITC calculations based on Comtrade's SITC Revision 3 data



Source: © PalTrade

A review of import statistics confirms the above analysis. Table 3 indicates the footwear products imported into the State of Palestine.

Table 3: List of imported footwear and origin

HS Code	Description	Imports in 2010 US\$ thousand	Imports in 2010 US\$ thousand
640299	Other footwear with outer soles and uppers of rubber or plastics	4 737	China (4 583) Turkey (138)
640399	Other footwear with uppers of leather	3 286	China (3 027) Turkey (137)
640620	Outer soles and heels, of rubber or plastics	1 852	Israel (1 486) China (177) Turkey (163)
640411	Sports footwear with outer soles of rubber or plastics	1347	Israel (1325) China (14)
640351	Footwear with outer soles and uppers of leather, covering the ankle	1189	Israel (1,189)
640359	Other footwear with outer soles and uppers of leather	735	China (685)

Source: ITC calculations based on Comtrade statistics

# GLOBAL MARKETS – A SNAPSHOT

## GLOBAL IMPORTS

The total size of the global footwear and leather market stood at US\$ 116 billion in 2011, reflecting a rebound after a sharp dip between 2008 and 2009. Global imports experienced an annual growth (by value) of 6% between 2007 and 2011.

The United States leads world imports of footwear and leather goods by a wide margin. As the second largest importer, Germany has exhibited the highest annual growth rate (2007-2011) among the top five importers. Among the top ten global importers, Russia and the Netherlands have both demonstrated significantly high annual growth rates of imports since 2007.

## GLOBAL EXPORTS

China leads world exports of footwear products and exhibits the highest growth rate (13% between 2007 and 2011) among the top 10 global exporters. It possesses almost 36% of the global share in world exports. As indicated in table 5, the top five exporters are located in Asia and Europe. Overall, the major exporters of footwear have mostly experienced positive growth rates from 2007 to 2011.

Table 4: Leading global importers of footwear, gaiters and the like, parts thereof (HS64) 2007 to 2011

Rank	Importers	Value imported in 2011 (US\$ thousand)	Annual growth in value 2007-2011 ( % )	Annual growth in value 2010-2011 ( % )	Share of world imports ( % )
	World	115 833 219	6	14	100
1	United States of America	23 650 049	4	8	20.4
2	Germany	9 492 185	10	20	8.2
3	France	6 756 985	3	13	5.8
4	Italy	6 720 931	4	14	5.8
5	United Kingdom	5 985 999	3	6	5.2

**Source:** ITC calculations based on UN Comtrade statistics.

Table 5: Major global exporters of footwear, gaiters and the like, parts thereof (HS64) 2007 to 2011

Rank	Exporters	Value exported in 2011 (US\$ thousand)	Annual growth in value 2007-2011 (%)	Annual growth in value 2010-2011 (%)	Share of world exports (%)
	World	116 278 160	7	18	100
1	China	41 722 333	13	17	35.9
2	Italy	11 598 552	0	18	10
3	Viet Nam	9 258 734	9	16	8
4	Hong Kong, China	5 651 303	-2	1	4.9
5	Germany	5 198 542	10	32	4.5

Source: ITC calculations based on UN COMTRADE statistics.

Table 6: Palestinian footwear exports – HS 6 level (2010)

Code	Product label	Exported value in 2010 (US\$ thousand)	Main target markets
640199	Other waterproof footwear with outer soles, uppers of rubber or plastic	15 096	Israel (15 096)
640351	Footwear with outer soles and uppers of leather, covering the ankle	6 970*	Israel (2 881) Jordan (504)
640419	Other footwear with outer soles of rubber or plastics	1 767	Israel (1 767)
640219	Other sports footwear, outer soles and uppers of rubber or plastics	732	Israel (732)
640620	Outer soles and heels, of rubber or plastics	429	Israel (429)
640691	Parts of footwear of wood	228	Israel (228)
640411	Sports footwear with outer soles of rubber or plastics and uppers of tex mat	222	Israel (222)
640590	Footwear, n.e.s.	196	Israel (196)
640110	Waterproof footwear incorporating a protective metal toe-cap (safety shoes)	25	Israel (25)
640320	Footwear with outer soles and uppers of leather	21	Israel (21)

Source: ITC calculations based on Comtrade statistics

\* This figure is misleading as it reflects intra-territories trade – i.e. goods crossing from West Bank to Gaza through Egypt, due to closures put into place by Israeli authorities.

## THE STATE OF PALESTINE'S EXPORT PERFORMANCE

Nearly all of the domestic production of the leather sub-sector is absorbed by the footwear subsector in the State of Palestine,<sup>25</sup> with a minor portion absorbed by the textiles and furniture sectors. Traditionally, the footwear sector has focused on the domestic market and the Israeli market (through a subcontracting model) as its main target markets.

Due to a variety of reasons – which include global market dynamics, the structural changes in the Israeli economy, increasing cost structures within the State of Palestine, and political risk (of operating in the State of Palestine) perceived by Israeli firms at the end of the second intifada – the Israeli outsourcing model has declined in recent years. On the domestic front, foreign imports have succeeded in dislodging Palestinian footwear products through cheap, modern, albeit low quality, products. The Palestinian customer base (especially the young population that demands modern styles of shoes) has responded to the value proposition offered by Chinese imports.

25. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, pp. 2, 3.

As a coping mechanism, Palestinian exporters in the sector have started to target international markets either directly (Arab markets including Jordan and Saudi Arabia), or indirectly (EU markets through Israeli agents), although the latter constitute very low export volumes (see table 6). Also, a portion of the footwear exports to Israel is re-exported under Israeli brand names. Given the high market penetration and solid distribution channels that Israel already possesses in its target markets, the re-exported goods command a higher price premium than the original Palestinian exports.

## PRODUCTS

Table 6 provides a snapshot of the main Palestinian exports in the footwear and leather sector (based on latest data available). As indicated, waterproof footwear constitutes the majority share of the sector's exports basket.

The State of Palestine is a very small player among global footwear and leather exporters. As indicated in table 7, for all four-digit HS code categories except one (HS 6401 – waterproof footwear, rubber or plastic), the State of Palestine's global share is less than 1%. Waterproof footwear products (HS 6401) are the largest Palestinian exports in this sector, with exports greater than the combined exports for the other HS code categories.

The State of Palestine's exports of footwear have grown at a rate of 4% since 2007, which is less than the global growth rate of exports of 7%. The export growth in the sector is primarily driven by exports in the 'outer soles and upper leather' (HS 6403) product group. This is also the only product group that has been able to maintain a degree of survivability in terms of export relationships. Exports of other product groups, despite strong growth rates in Israel for 6404 and 6402, are characterized by loss of high export drop-offs to target markets such as Jordan and Saudi Arabia.

Table 7: Major Palestinian exports in the footwear sector

HS 4	Product label	Exported value 2010 (US\$ thousand)	% Growth by value of Palestinian exports (absolute values)	% Annual growth by value of world imports (absolute values)	Global share of exports in 2010 ( % )	Top importing markets	Dropped markets
			(2007-2010)	(2007-2010)			
64	All Palestinian footwear exports	25,712	4.2	6	< 1	Israel	See below
6401	Waterproof footwear, rubber or plastics, bond sole	15,121	-30.5	40.4	1.2	Israel	Belgium, France
6403	Footwear: outer sole and upper leather	7,006	32.5*	-5*	0	Israel, Egypt, Saudi Arabia, Jordan	Germany, Kuwait, France, Italy
6404	Footwear, upper of textile mat	1,990	140	28	0	Israel	Jordan, UAE, Egypt, Swaziland
6402	Footwear n.e.s., outer soles and uppers of rubber or plastics	732	53.5	47.6	0	Israel	Jordan, Yemen
6406	Parts of footwear: gaiters, insoles etc.	667	-39%	10.3	0	Israel	Jordan
6405	Footwear, n.e.s.	196	-91	Top of Form 39 Bottom of Form	0	Israel	Jordan, Saudi Arabia, Egypt

Source: ITC calculations based on Comtrade statistics

\* 2008-2010 data



## MARKETS

The State of Palestine's footwear sector exports are concentrated primarily in Israel (84%, 2010), with Egypt (11%), Saudi Arabia (2%) Jordan (2%) and Gulf countries (1%) comprising the other main markets. The historical importance of Israel as a destination market is reflected in the fact that following the second intifada (2000-2005), which caused total export value of the sector to drop by 50%, exports to Israel increased from 15% before 2000 to the current 84%.<sup>27</sup> However, even in Israel exports of the sector have been declining at an absolute rate of 9% since 2007.

In recent years, the State of Palestine has lost significant market share in markets that include both Arab (Jordan, Saudi Arabia, Egypt), and western markets (France, Germany, and Italy). An examination at the HS 4 level also indicates that the 'outer sole and upper leather' product group (HS 6403) is the only category exporting to

multiple markets with a fair degree of survivability. Other product groups are characterized by near complete loss of market share in target markets such as Jordan, Saudi Arabia, Egypt, and the UAE.

In the past, Palestinian exporters were able to forge export relationships with European markets including France, Germany, Belgium and Italy, albeit through extremely low export volumes. Current export volumes are at an all-time low, with exports to the EU totalling only US\$4,000 in 2010.

The low survivability rates are further elaborated in figure 7. The probability of the export relationship surviving drops to between 55 and 60% by the end of the first year, to less than 40% by the second year, and 20% by the third year.

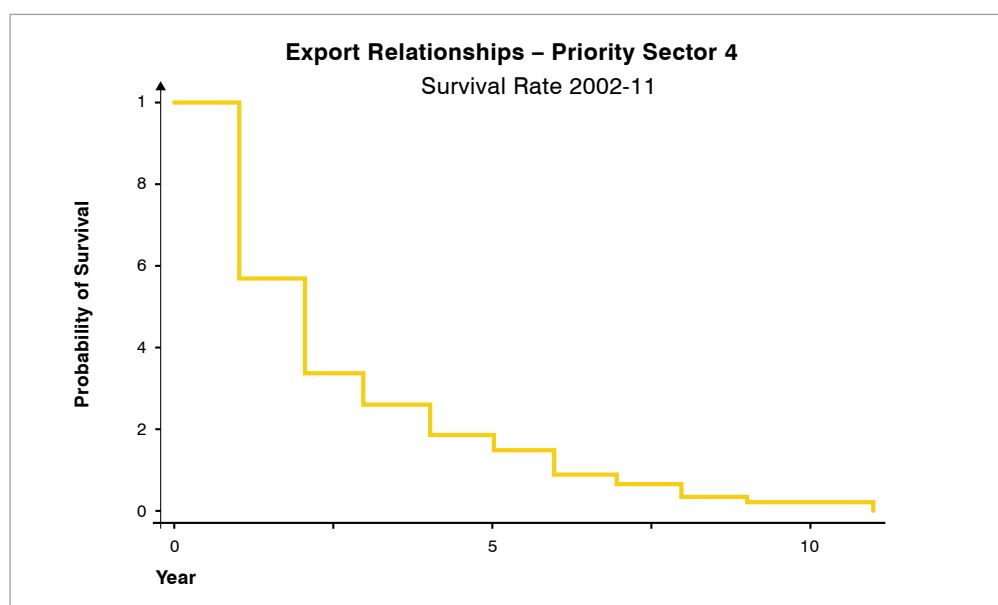
## COMPETITION IN TARGET MARKETS

The State of Palestine's footwear exports are facing important competition in target markets as indicated in table 8. The majority of competition originates from China, Italy and Viet Nam. Chinese exports are present in all four top target markets for the State of Palestine.

26. This figure is misleading as it reflects intra-territories trade – i.e. goods crossing from West Bank to Gaza through Egypt, due to closures put into place by Israeli authorities.

27. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 9.

Figure 7: Survival rate of Palestinian export relationships for footwear, gaiters and the like, parts thereof (HS64)



Source: ITC calculations based on Comtrade's SITC Revision 3 data

Table 8: *The State of Palestine footwear export performance in top target markets*

Importers	Palestinian sector exports value in 2010 (US\$ thousand)	Palestinian exports growth in value 2007-2010 (absolute values)	Target market import growth in value 2007-2010 (absolute values)	Main competitors in target markets
World	25 712	4%	6%	--
Israel	21 623	-9%	9%	China, Belgium, Italy, Spain
Egypt*	2,881	NA		
Saudi Arabia	536	54%	7%	China, Italy, Turkey, Viet Nam, India
Jordan	504	5%	13%	China, UAE, Romania
United Arab Emirates	86	76%	9%	China, Italy, Thailand, India, Viet Nam

**Source:** ITC calculations based on UN Comtrade statistics.

\* Egypt is not the second highest importer of Palestinian footwear products, despite the trends highlighted by Comtrade data. This is due to the fact that shoes and leather manufacturers used to export to Egypt as a transit station to continue their export to Gaza since Gaza was completely closed from the West Bank side.

## DECOMPOSITION OF EXPORT GROWTH

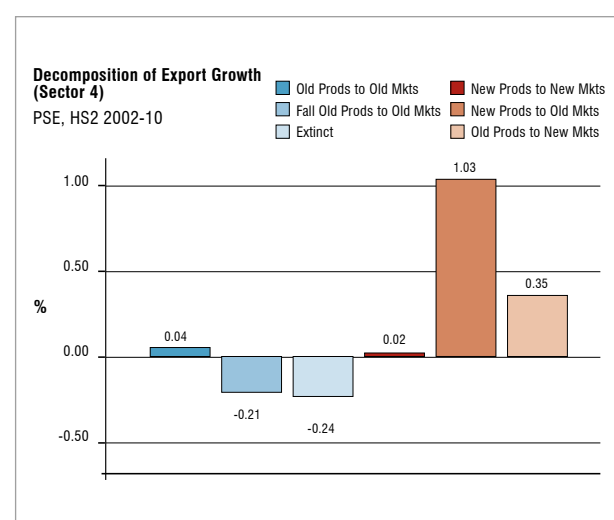
Figure 8 shows the decomposition of export growth during the past decade. Export growth can be decomposed between traditional products and markets: intensification (in red) and diversification of products and markets (green). According to a vast body of empirical trade literature, export diversification has a strong, positive impact on growth. However, it is observed in the State of Palestine's footwear sector that increased export flows and diversification have not led to increased overall growth.

The sector's survival and small growth has taken place mainly through exports of new products to existing markets and to a lesser extent (almost half) by existing products flowing to new markets. The former is possibly the result of exporters leveraging existing distribution channels to introduce new products into existing markets. While this is indeed possible, it is more likely that the exports basket and level of exports were very low in 2002 at the height of the intifada (base of comparison). In either case, it is evident from previous tables that market diversification has not occurred to a significant extent: growth in exports of new products to new markets was negligible.

Since 2002, a large number of products have become extinct and a high degree of traditional product flows to existing markets have fallen, possibly indicating the impact of stiff competition from foreign products, as well as a perceived inability of exporters to manage existing relationships. Very little growth has taken place in terms of exporting existing products to existing markets (market penetration). This situation confirms that new relationships need to be established, in addition to strengthening existing ones.

The analysis of trade performance of the footwear sector tells a story of industrial decline in the face of increased competition. It demonstrates an industry with important accumulated experience in production that is having a hard time growing its business beyond traditional markets. Numerous factors have been identified as limiting the sector's development and will be discussed in the four gear analysis. Solving such challenges will contribute to strengthening the sector for a new phase of sustained growth.

**Figure 8:** *Decomposition of export growth for footwear, gaiters and the like, parts thereof (HS64)*



**Source:** ITC calculations based on Comtrade's SITC Revision 3 data



Source: © PalTrade



# THE INSTITUTIONAL PERSPECTIVE

The trade services institutions (TSIs) that provide important services to the Palestinian footwear and leather sector can be categorized in the following support areas:

- Policy support network
- Trade services network
- Business services network

Tables 9 to 11 identify the main TSIs whose service delivery impacts the footwear and leather sector in the State of Palestine. An assessment of the TSIs along four key dimensions – coordination, human capital, financial sustainability, and advocacy – is provided. The ranking (high/medium/low) for each TSI was selected keeping in mind the service delivery of the TSI relative to the footwear and leather sector. In other words, the assessment was conducted based on the evaluation of TSIs by stakeholders from the perspective of how well they serve the sector.

## POLICY SUPPORT NETWORK

These institutions represent ministries and competent authorities responsible for influencing or implementing policies at the national level.

## TRADE SERVICES NETWORK

These institutions or agencies provide a wide range of trade-related services to both government and enterprises. They support and promote sectors and are concerned with the delivery of trade and export solutions within a developing country. They are also responsible for assessing trade information, trade finance, and quality management services.

Table 9: *Palestinian policy support network*

Policy support network					
Name	Function/role	Coordination	HR/Human capital	Financial resources	Advocacy
Ministry of National Economy (MoNE)	<p>For the footwear sector the Ministry of National Economy is responsible for:</p> <ul style="list-style-type: none"> <li>• Standards and legislation enforcement</li> <li>• Duty draw back payments</li> <li>• Release of financial guarantees</li> <li>• Industrial licences</li> <li>• Renewal of industrial operating licences</li> <li>• Verification of names</li> <li>• Certification of a Certificate of Origin</li> <li>• Re-exporting transactions</li> <li>• Certified Exporter certificates</li> </ul>	M	L	L	L

Table 10: *Palestinian trade services network assessment*

Trade services network					
Name	Function/role	Coordination	HR/Human capital	Financial resources	Advocacy
Palestine Trade Centre (PalTrade)	PalTrade is the trade promotion organization of the State of Palestine with the mandate to develop exports. PalTrade's mission for the footwear sector is improving trade competitiveness through trade promotion and capacity building; fostering international business practices and standards among professionals, firms and business organizations; and providing trade-enabling knowledge.	H	M	M	H
Palestine Polytechnic University (PPU)	The primary mission of PPU is to emphasize quality vocational and technical engineering education. This is achieved by providing students with practical knowledge to help them acquire up-to-date experience directly related to their disciplines.	L	L	M	L
Palestine Standards Institution (PSI)	PSI provides technical services to meet the sector's quality needs, supporting importers, exporters, manufacturers, service providers, the government and the public. It monitors conformity to market entry requirements into the State of Palestine, or for Palestinian exporters targeting worldwide markets.	L	L	L	L
Palestinian Central Bureau of Statistics (PCBS)	The responsibility of PCBS for the footwear sector is to: <ul style="list-style-type: none"> <li>• Serve the needs of businesses and their organizations for statistical information on states and trends;</li> <li>• Participate effectively in building the different administrative records and central registers to meet the administrative and statistical needs of Palestinian society;</li> <li>• Publish a statistical yearbook annually.</li> </ul>	M	L	M	L
Palestinian Investment Promotion Agency (PIPA)	PIPA's role is to be proactive in promoting the State of Palestine's advantages to investors while keeping a close eye on legal developments and their impact on the private sector. In the footwear sector PIPA can play an important role in mobilizing the necessary support to modernize infrastructures.	L	L	L	L



## BUSINESS SERVICES NETWORK

These are associations, or major representatives, of commercial services providers used by exporters to effect international trade transactions.

Table 11: *Palestinian business services network assessment*

Business services network					
Name	Function/role	Coordination	HR/Human capital	Financial resources	Advocacy
Palestinian Leather Industries Union (PLIU)	The PLIU is the apex institution of the sector and it represents the interests of its members. PLIU is there to structure the sector and lobby on behalf of it.	H	L	L	M
Palestinian Federation of Industries (PFI)	PFI facilitates industrial development as the basis for economic performance. PFI's representational role is to educate, advocate, and communicate the value of a developed, socially responsible and globally competitive industry.	M	M	L	M
Palestinian Federation of Chambers of Commerce, Industry and Agriculture (PFCCIA)	The Federation's main task is to help local chambers of commerce and their members meet the requirements of the global business environment. It aims to ensure that the private sector operates freely and has a voice in policy formulation at the national level. The Federation also strives to create strong regional and international links to global markets, and works with SMEs to improve their performance, focusing on market access, quality, costing and financial management. The PFCCIA is a lobbying and advocacy institution for the private sector.	M	M	M	M

In a resource-constrained economy such as the State of Palestine's, the need to ensure coordination among TSIs is very important. In the absence of coordination, redundancies and overlaps result in wastage of effort and valuable resources, and on the other hand lead to gaps in service delivery. From the perspective of the Palestinian footwear and leather sector stakeholders, PSI and PPU have been identified as being significantly limited in terms of coordinating their service delivery with the specific requirements of the exporting sector in mind.

According to the assessment, PSI, PPU, PCBS and PLIU all suffer from significant human capital deficiencies. Either there is a need to improve the skills levels of these institutions' staff, or there is a need for organizational alignment.

From the point of view of financial stability, MoNE, PSI, PLIU, and PFI face significant challenges. This is a direct result of the economic crisis that is affecting the State of Palestine, due to which funds allocation is affected at all levels, including ministry level.

Advocacy is also a very important aspect of the work of TSIs, and serves to inform the beneficiaries (current and potential exporting enterprises) of the services available to them and other important information. This area has been cited as a significant weakness for MoNE, PPU, PSI and PCBS. This indicates that the advocacy mechanisms of policymakers (MoNE), the key Technical Vocational and Educational Training (TVET) provider (PPU), the standards setting institution (PSI), and the statistics collection and dissemination agency (PCBS) are all weak. This has an aggregate adverse impact on the export competitiveness of the sector.

**Table 12:** Stakeholder perception of Palestinian trade support institutions in the footwear and leather sector – influence versus capacity

		Capacity of institution to respond to sector's needs	
		Low	High
Level of influence on the sector	High	<ul style="list-style-type: none"> <li>Ministry of National Economy (MoNE)</li> <li>Palestine Standards Institution (PSI)</li> <li>Palestinian Leather Industries Union (PLIU)</li> <li>Palestinian Federation of Industries (PFI)</li> </ul>	<ul style="list-style-type: none"> <li>Palestine Trade Centre (PalTrade)</li> <li>Palestinian Federation of Chambers of Commerce, Industry and Agriculture (PF-CCIA)</li> </ul>
	Low	<ul style="list-style-type: none"> <li>Palestine Polytechnic University (PPU)</li> <li>Palestinian Central Bureau of Statistics (PCBS)</li> </ul>	<ul style="list-style-type: none"> <li>PIPA</li> </ul>



Source: © PalTrade

### PERCEPTION OF PALESTINIAN TRADE SUPPORT INSTITUTIONS IN THE FOOTWEAR AND LEATHER SECTOR – INFLUENCE VS. CAPABILITY

Table 12 represents the perception of sector stakeholders regarding the level of influence and capacity to respond of each institution.

The assessment of influence versus capacity indicates that institutions at the policymaking level, such as MoNE, and key technical institutions (PSI) are perceived as having a high level of influence on the sector. However, it appears that these institutions seem limited in their support of the sector because of their overall low levels of resources. Similarly, the two sector associations in charge of defending the interests of the sector are constrained in the resources they can dedicate to the sector's development.

From a TVET perspective, PPU is the main organization that supplies skilled labour to the sector. This institution

is assessed to have weaknesses in terms of resources that constrain it from responding to the sector's needs. The four gear analysis points out that the curriculum and training are outdated and not considered aligned to the sector's current needs.

On the other hand, PalTrade and PFCCIA are both in a relatively good position in terms of their level of influence on the sector, as well as their resource capacities. This implies that these organisations are currently the best place to contribute to the sector's development through targeted initiatives.

The analysis of TSIs indicates that some of the institutions identified as key for the development of the sector, namely MoNE, PPU and PLIU, will require targeted support and capacity building to effectively lead the implementation of activities identified as part of their mandates in the strategy plan of action. To ensure efficient sector growth, it will be important to ensure roles and responsibilities remain clarified for the strategy implementation.

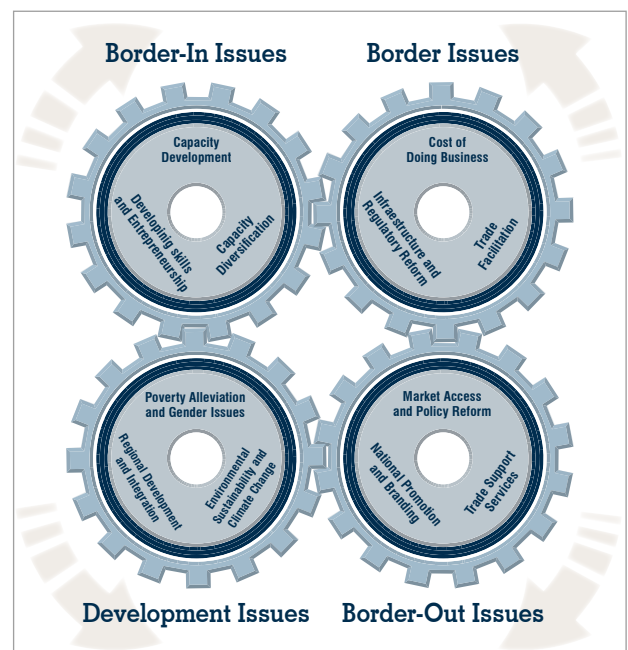
# EXPORT COMPETITIVENESS ISSUES

The export constraints analysis uses a four gears framework, presented below, to determine the major concerns in export development:

- **Supply side issues** impact production capacity and include challenges in areas such as availability of appropriate skills and competencies, diversification capacity, technology, and low value addition in the sector's products.
- **The quality of the business environment** are constraints that influence transaction costs, such as regulatory environment, administrative procedures and documentation, infrastructure bottlenecks, certification costs, internet access and cost of support services.
- **Market entry** issues are essentially 'external' to the country (but may also be manifested internally), such as market access, market development, market diversification, and export promotion.

The analysis presents those major constraints that are currently export competitiveness bottlenecks for the footwear and leather sector in the State of Palestine. However, the assessment also explores issues limiting socioeconomic spillovers of exports to society at large:

- **Social and economic concerns** include poverty reduction, gender equity, youth development, environmental sustainability and regional integration.



## THE BORDER-IN GEAR (SUPPLY-SIDE)

### Box 3: Overview of supply-side issues

- Restrictions on imports of chemicals and other inputs in the sector continue to adversely affect volumes and quality of tanned leather output.
- Absence of a bulk buying mechanism for footwear inputs leads to increased costs.
- Low levels of organization in the sector have contributed to low individual volumes and non-uniform supply consistency, limiting the capacity of enterprises to manage customer demands.
- Greater impetus is required to improve quality control at the enterprise level, to improve quality levels and conformance with international standards.
- Outdated equipment makes it harder for enterprises to maintain volume levels.
- The TVET structure in the State of Palestine has a weak feedback loop with the private sector, resulting in lack of specialization opportunities and misalignment of curricula design.
- A steady brain drain from the sector threatens the future talent pipeline.
- The reluctance of family businesses to hire external managerial talent has resulted in deficiencies in business skills throughout the sector.
- Outdated designs lagging behind international trends present a competitive challenge to Palestinian firms in the footwear and leather sector.

### RESTRICTIONS ON IMPORTS OF CHEMICALS AND OTHER INPUTS IN THE SECTOR CONTINUE TO ADVERSELY AFFECT VOLUMES AND QUALITY OF TANNED LEATHER OUTPUT

Restrictions on certain dual use items that serve as important inputs for the footwear and leather sector – especially the tanning subsector – have adversely affected quality levels of tanned leather produced by Palestinian manufacturers. The sector faces continual shortages of chemicals that are key components of tanning or production processes. These include chemicals such as sulphuric acid for tanning, and glues used in footwear manufacturing. The shortages stem from the restrictions imposed by Israeli authorities on so-called dual use items, which have legitimate civilian uses but can also be used for weaponization and military applications.

Given that the likelihood of a political solution to relieve the import restrictions remains slim for the near future, the need to identify suitable substitutes is gaining urgency. However, suppliers lack knowledge or access to information on where alternatives may be found. There is therefore an urgent need for concerted efforts to develop a reliable supply chain of alternative chemicals and inputs for the sector.

### ABSENCE OF A BULK BUYING MECHANISM FOR FOOTWEAR INPUTS LEADS TO INCREASED COSTS

There are no bulk buyers in the State of Palestine for non-dual-use items for the footwear and leather sector. Apart from a handful of individual enterprises that import tanned leather or other inputs from Israel, Turkey and China, the majority of enterprises do not have a well-developed sourcing pipeline.

The absence of bulk importers and distributors, or even a consortium of importers buying footwear inputs, has driven up average costs of essential inputs. The need for an import consortium to facilitate negotiated lower input costs for manufacturers is especially critical.

## LOW LEVELS OF ORGANIZATION IN THE SECTOR HAVE CONTRIBUTED TO LOW INDIVIDUAL VOLUMES AND NON-UNIFORM SUPPLY CONSISTENCY, LIMITING THE CAPACITY OF ENTERPRISES TO MANAGE CUSTOMER DEMANDS

The family-owned business model has not proved suitable to developing economies of scale for the footwear and leather sector: supply volumes remain low and operating costs remain high. Contributing to this challenge is the limited organization in the sector. The Palestinian Leather Industries Union is a relatively small association with a small, mostly voluntary, secretariat, which makes it difficult to monitor the sector's development and lobby and defend the interests of members. There is no common branding initiative to represent the interests of the micro and small enterprises that comprise this sector.

Clustering initiatives – involving companies geographically co-located and provided with a common support infrastructure – have not been attempted on any significant scale. Both government and enterprises have largely calculated the cost-benefit analyses to be against clustering, given the high risk, and because of the lack of success stories for this approach in the State of Palestine. As a result, enterprises in the sector have remained isolated from other enterprises and have not been able to boost volumes, nor improve supply consistency levels.

## GREATER IMPETUS IS REQUIRED TO IMPROVE QUALITY CONTROL AT THE ENTERPRISE LEVEL, TO IMPROVE QUALITY LEVELS AND CONFORMANCE WITH INTERNATIONAL STANDARDS

The Palestine Standards Institution (PSI) has developed about 50 standards that apply to Palestinian firms in the footwear sector. These standards are voluntary and relate to quality management systems as well as technical quality systems. However, as indicated by a recent report released by PalTrade, quality control is an important weakness at the enterprise level that needs to be addressed. According to the report,<sup>28</sup> more than 80% of footwear manufacturers lack quality management departments, and more than 95% have not obtained any form of standards certification. The voluntary nature of the certifications process has partially resulted in non-conformance of the sector's products with target market requirements. Targeted efforts at informing and building

awareness and compliance of enterprises would contribute to greater market accessibility.

## OUTDATED EQUIPMENT MAKES IT HARDER FOR ENTERPRISES TO MAINTAIN VOLUME LEVELS

Production capacities of enterprises in the sector are affected by outdated equipment. It has been estimated that *about 70% of footwear manufacturing companies are more than 10 years old, with a mean age of 16 years. In line with the age of the firms, about 30% of basic equipment used in this industry is more than 28 years old and 63% of equipment is more than 19 years old.*<sup>29</sup> There are multiple contributing factors that have led to this, among which regulatory restrictions on importing machinery, as well as the lack of investment capital available to SMEs, are the most serious. The fragile political and economic situation in the country, coupled with extensive competition from foreign imports, has forced enterprises to focus their resources towards *survival rather than innovating or upgrading*.<sup>30</sup> For scaling up the production capacity of the sector, CNC (computer numerical control) machines and other equipment for mass production will be essential in the future.

## THE TVET STRUCTURE IN THE STATE OF PALESTINE HAS A WEAK FEEDBACK LOOP WITH THE PRIVATE SECTOR, RESULTING IN LACK OF SPECIALIZATION OPPORTUNITIES AND MISALIGNMENT OF CURRICULA DESIGN

Human capital development remains a priority area for the Palestinian footwear and leather sector. There is a shortage of skilled technical personnel to operate machinery and specialized equipment. For instance, the tanning process requires specialized skills and training that are in low supply within the subsector. Important finishing skills such as dyeing, polishing, and packaging are also in low supply. Institutes in the State of Palestine do not provide specific training in footwear design, which is a specialized field.

An important contributing factor is the weak feedback mechanism between the private sector and training institutions/universities, which results in curricula at both private and public training institutions lagging behind the actual needs of enterprises. There is currently no programme for skills development adapted to the specific needs of the footwear and leather sector. This reduces opportunities for interested students to specialize in the

28. PalTrade (2008). *Market Share Assessment: Leather Footwear*, p. 22.

29. *Ibid.*, p. 22.

30. *Ibid.*, p. 1.



sector. The overall impact is that the talent pipeline for skills pertinent to the footwear and leather sector is weak.

### A STEADY BRAIN DRAIN FROM THE SECTOR THREATENS THE FUTURE TALENT PIPELINE

Given the declining state of the sector and resulting drop in earning potential, there is a steady drift of the sector's skilled labour away from this profession. This could pose a significant human capital problem in the future. As mentioned earlier, the decades of accumulated experience gained through family-owned enterprises is one of the key unique selling points for Palestinian footwear products, and will be diluted if the current trend of brain drain does not reverse.

### THE RELUCTANCE OF FAMILY BUSINESSES TO HIRE EXTERNAL MANAGERIAL TALENT HAS RESULTED IN DEFICIENCIES IN BUSINESS SKILLS THROUGHOUT THE SECTOR

Overall, the State of Palestine suffers from an overall lack of business culture. Limited business practices hamper enterprise capacities to manage operational and strategic goals. There is an ample supply of trained business managers in the sector; the primary challenge is one of proper utilization. Palestinian enterprises in the footwear and leather sector are mainly small, family-owned entities run and operated by close relatives. These enterprises are generally hesitant to hire external managers, and in doing so reject the absorption of best practices in areas ranging from operational and financial management to

strategic goal setting. Palestinian enterprises across the board also exhibit low levels of participation in national and international shows. This impacts the flow and exchange of best practices and new business models throughout the sector.

### OUTDATED DESIGNS LAGGING BEHIND INTERNATIONAL TRENDS PRESENT A COMPETITIVE CHALLENGE TO PALESTINIAN FIRMS IN THE FOOTWEAR AND LEATHER SECTOR

The quality of designs in the Palestinian footwear and leather sector is not up to par with international standards. Generally, Palestinian designs are handmade, leading to significant redundancy in designs of moulds, soles etc. Palestinian designers have high quality skills when it comes to handmade designs, but many do not have the expertise to operate design tools such as AUTOCAD. There are currently no design centres in the State of Palestine providing CAD design services. Additionally, there is relatively low utilization of international design/consulting firms that provide CAD design services. The sector also exhibits very limited partnerships with international counterparts in the design field, due to low awareness levels and financial feasibility.

The other factor affecting design quality is the limited access to information related to market trends. Given the low participation of Palestinian footwear firms in international fairs, exposure to global trends and new designs is limited. An important requirement exists at both the institutional and enterprise level to improve awareness and information flow related to international trends in design.

#### Box 4: Overview of business environment issues

- Competition from foreign exporters in the Palestinian market, coupled with the poor quality monitoring and compliance infrastructure, is eroding market share for Palestinian firms in the domestic market, and consequently affecting the financial stability of firms.
- There is an urgent need to spur an infusion of investment and technology in the sector.
- Quality control infrastructure is weak and needs to be strengthened.
- Visa restrictions make it challenging to organize international trade fairs in the State of Palestine.
- Lack of coordination between service providers and donors is leading to replication of efforts in some areas and gaps in others.
- The high cost of utilities increases the financial burden on enterprises in the sector.

## THE BORDER GEAR (QUALITY OF THE BUSINESS ENVIRONMENT)

***Competition from foreign exporters in the Palestinian market, coupled with the poor quality monitoring and compliance infrastructure, is eroding market share for Palestinian firms in the domestic market, and consequently affecting the financial stability of firms.***

The footwear and leather sector is one of the least regulated sectors in the State of Palestine and there are no specific regulations pertaining to the sector. All rules and regulations that apply in general to the industrial and commercial sector in the State of Palestine – including the investment incentive law, commercial law, and companies registration law – also apply to the footwear and leather sector.

Flooding of Chinese footwear and leather goods in the Palestinian market has rendered Palestinian goods relatively uncompetitive in the domestic market. This is one of the main reasons why the Palestinian footwear and leather sector's share of the national market has been going down at a regular pace. The dumping of low quality goods from Asian countries, in particular China, primarily results from low monitoring levels and lack of testing for quality control against existing standards. The absence

of specialized testing labs to verify quality and provide certification for footwear imports in the State of Palestine is a key contributing factor.

According to one estimate<sup>31</sup> approximately 80% of current Chinese imports would be stopped at the border if the quality infrastructure for sampling and testing imported footwear products was in place and working well. Therefore, there is a need at the policy level for MoNE and agencies such as PSI to take concrete steps to address regulatory gaps in quality standards monitoring related to imports.

It should be noted, however, that in response to the issue of the dumping of Chinese footwear products in the local market, the Palestinian National Authority recently passed a law to impose a new 35% tariff on Chinese imports. The tariff took effect on 15 April 2013.<sup>32</sup>

Additionally, the low influence of consumer protection agencies, stemming from limited financial and human capital resources, affects their ability to monitor low quality imports and launch advocacy campaigns.

31. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*.

32. Abdalla, J. (2013). Palestinian Shoe Industry Declines in Hebron, 13 March. Available from <http://www.al-monitor.com/pulse/originals/2013/03/palestinian-industry-suffers-cheap-imports.html>.

### Box 5: Increase in Chinese footwear imports

A key reason that Chinese footwear imports have found success is the economic challenges being faced by the State of Palestine in recent years, which have driven down the purchasing power of consumers. For this reason, even as consumer perceptions of Chinese products indicate awareness of poor quality and the unsafe materials used in the production of these products, low cost still manages to drive large volumes of sales.

The following are the results of a consumer survey<sup>33</sup> –based on 1,600 survey respondents – conducted on Chinese shoes and clothing:

- 87% think that imports from China increased because of the Israeli siege;
- 93% believe that these imported products are of inferior quality and below average;
- 94% believe that wearing these shoes is very unhealthy;
- 91% believe that they cause many diseases due to poor manufacturing;
- 62% got fungus on their feet because of these products;
- 97% were very disturbed by the repelling odours from these products;
- 78% had to buy more than eight pairs of shoes per year because they get destroyed quickly.

33. PalTrade (2011). *Leather & Footwear sector in the State of Palestine*, p. 15.

## THERE IS AN URGENT NEED TO SPUR AN INFUSION OF INVESTMENT AND TECHNOLOGY IN THE SECTOR

The footwear and leather sector needs an infusion of investment and technology. Due to restrictive import controls, and limited investment capital in the sector, foreign direct investment (FDI) inflows are small and unsystematic. The sector therefore remains characterized by outdated technology and techniques. Contributing factors are the prevailing uncertain political climate and the presence of larger, more sophisticated markets, including Israel and Jordan, which offer stability and the potential for higher return on investments.

The risk posed to investors is typically mitigated by the use of investor guarantee funds such as the Multilateral Investment Guarantee Agency (MIGA). In the State of Palestine, either investors are not aware of existing mechanisms or they are dissuaded by the complicated processes involved in accessing them. Moreover, Palestinian enterprises have not taken adequate steps to attract international partners, partly because of the lack of information available to these enterprises on potential overseas partners, and partly due to the low awareness of the potential benefits of joint ventures.

Notwithstanding these influences, there are steps that Palestinian policymakers can take to improve FDI and technology transfer in the state. These include deploying a special incentive scheme for investment in the sector and encouraging joint ventures between foreign and Palestinian firms. There is an investment encouragement law,<sup>34</sup> but it does not contain specific clauses for incentivizing FDI in the footwear and leather sector. Joint venturing would increase accessibility of the sector's firms to international markets and technology by leveraging the foreign partner's distribution networks and connections and by ensuring that technology transfer is a prerequisite for the partnership.

## QUALITY CONTROL INFRASTRUCTURE IS WEAK AND NEEDS TO BE STRENGTHENED

There is an urgent need to improve the regulatory environment in the State of Palestine, specifically related to quality testing for the footwear and leather sector. There are currently no specialized testing facilities in the State of Palestine, and exporting enterprises wishing to use testing facilities to comply with market requirements must approach testing labs in either Israel or Jordan, resulting in increased costs. The absence of specialized testing labs is also harming the domestic footwear industry

due to poor quality imports that are currently flooding the Palestinian markets.

From a regulatory standpoint, the voluntary nature of domestic quality laws and regulations must be further deliberated upon, given the lack of compliance in the sector. As discussed earlier, despite the presence of 50 standards (all voluntary) in the sector, enterprises have not set up the necessary in-house infrastructure, including quality control departments.

There is also a need to gain international accreditation for Palestinian quality institutions such as PSI and testing labs, especially in the United States and EU. In the absence of such accreditation, enterprises remain at a competitive disadvantage internationally even if they conform to local standards.

## VISA RESTRICTIONS MAKE IT CHALLENGING TO ORGANIZE INTERNATIONAL TRADE FAIRS IN THE STATE OF PALESTINE

International trade fairs provide significant value in terms of facilitating marketplace exchanges and deal-making, but an important prerequisite for organizing such events is freedom of movement for participants. Such an event is challenging to organize in the State of Palestine because of the visa restrictions in place, due to which participants from Arab target markets are unable to attend.

## THE HIGH COST OF UTILITIES INCREASES THE FINANCIAL BURDEN ON ENTERPRISES IN THE SECTOR

The high cost of electricity and water supply is a cross-sectoral infrastructure issue across the various NES sectors. There is no local power generation in the State of Palestine and electricity is imported from Israel or Jordan. The cost of imported power is quite high. There is no differentiation in the tax system between industrial, commercial and residential usage.

Specific to the footwear and leather sector, there are no industrial areas that provide collocated enterprises with utilities at advantageous tariff structures. This is primarily driven by the limited government-backed schemes to develop and favour industrial development. In other sectors, cluster zones have been established but remain empty since there are no real incentives for national or foreign enterprises to invest in relocating.

Alternate energy sources such as solar power have shown some potential in the State of Palestine, however utilization remains relatively low. There is a need to incentivize the use of solar energy by increasing the availability

34. PIPA (n.d.). *Law on the Encouragement of Investment*. Available from PIPA: [http://www.pipa.gov.ps/investment\\_law.asp](http://www.pipa.gov.ps/investment_law.asp).

of solar panels, and/or through tax relief measures. It will be crucial to address this constraint on a priority basis, given that it constitutes an important portion of the operating cost structure of enterprises in the sector.

## THE BORDER-OUT GEAR (MARKET ENTRY)

### ACCESS TO THE SAUDI ARABIAN MARKET IS LIMITED DUE TO LIMITED ACCESS FOR OFFICIALS FROM SAUDI ARABIAN QUALITY MANAGEMENT AGENCIES TO VISIT THE STATE OF PALESTINE AND CONDUCT INSPECTIONS

Exporters face important logistical challenges in the case of the Saudi Arabian market. Even though the State of Palestine has signed the GAFTA (Greater Arab Free Trade Area) Agreement, it still does not have full access to Saudi Arabia's market for certain products, including the footwear sector, because of the limited access or willingness of Saudi enterprises and quality inspectors to enter the State of Palestine to verify production processes or enterprises<sup>35</sup>. The limited access is the result of denial of visas by Israeli authorities for inspectors to visit the State of Palestine and conduct pre-inspections as part of their quality management process.

### THERE IS A NEED TO INTRODUCE AN EXPORT PROMOTION FUND

There are no special export promotion schemes put in place by the Palestinian government as a means of spurring export development. The scheme could be funded through a variety of means and be available to cover a share of exporters' promotion costs. If such a scheme

35. Anecdotal evidence collected by ITC.

were in place, footwear and leather enterprises would be incentivized to participate in international fairs, trade shows and business to business meetings. This would increase the visibility of Palestinian footwear exporters in global markets.

### ACCESS TO RELIABLE AND TIMELY TRADE INFORMATION IS A SIGNIFICANT ISSUE ON BOTH THE DEMAND (ENTERPRISES) AND SUPPLY (INSTITUTIONS PROVIDING TRADE INFORMATION) SIDES

Trade information is a complex amalgam of requirements spanning market intelligence, export/import documentation, quality standards for target markets etc., and even information related to international trade exhibitions and other events. Lack of accessibility to trade information is a significant impediment for exporters in the sector, and takes on multiple dimensions.

Due to clarity issues in the mandate and roles of institutions related to trade information, there is redundancy of services provided on one hand and gaps in service delivery on the other. This results in insufficient cooperation for the collection, analysis and dissemination of market information to exporters in the footwear and leather sector. Even when the information is available, it tends to be outdated and poorly organized. There is also a need for trade institutions to improve outreach efforts to enterprises so they are aware of available services.

Gaps in trade information are not just an institutional (supply side) issue. Enterprises (demand side) in the sector that are seeking this information are frequently unaware of both appropriate sources of information and the benefits of having reliable trade information, and therefore do not proactively direct efforts to seek out sources. This is indicated in the low participation levels of these enterprises in international trade fairs which would facilitate the exchange of ideas and information, apart from the development of business linkages.

## Box 6: Overview of market entry issues

- Access to the Saudi Arabian market is limited due to limited access for officials from Saudi Arabian quality management agencies to visit the State of Palestine and conduct inspections.
- There is a need to introduce an export promotion fund.
- Access to reliable and timely trade information is a significant issue on both the demand (enterprises) and supply (institutions providing trade information) sides.
- Lack of professional and specialized marketing efforts in the sector lead to low exposure and visibility of footwear and leather products.





Source: © PalTrade

### LACK OF PROFESSIONAL AND SPECIALIZED MARKETING EFFORTS IN THE SECTOR LEAD TO LOW EXPOSURE AND VISIBILITY OF FOOTWEAR AND LEATHER PRODUCTS

Given the decline of the outsourcing model with Israel and the ongoing struggle to compete with Chinese footwear products in the domestic and regional markets, the Palestinian footwear and leather sector must exert greater promotion of its products in international markets.

Enterprises in the sector typically do not make significant investments in terms of marketing and promoting their products on the international stage. For instance, the majority of family-owned SMEs do not have a specific marketing function or a structured marketing plan in place. Enterprises also do not hire staff with specific marketing skill sets, as the marketing/business development role is split between existing staff. In this regard, there is a need for change management to take place within the sector.

On the institutional side, sector associations do offer marketing support, albeit in limited capacity. These associations are constrained due to insufficient resources and technical capacity, and are unable to offer significant expertise.

### DEVELOPMENT GEAR

#### ENVIRONMENTAL DAMAGE CAUSED AS PART OF THE LEATHER TANNING PROCESS INCREASES THE RISK OF NON-COMPLIANCE IN INTERNATIONAL TARGET MARKETS

Tanning leather involves a complex process with chemical by-products/wastes which require careful treatment and disposal. In the State of Palestine, the lack of proper facilities and procedures available at tanning companies frequently leads to environmental damage. There is a need to improve infrastructure for the collection of hazardous waste at both tanneries and footwear factories.

Apart from the environmental hazards posed to areas near factories, this also places the overall sector at risk of non-compliance with regulations in international markets. There is a need to deploy and promote the use of infrastructure utilities to better manage industrial waste.

#### Box 7: Overview of development issues

- Environmental damage caused as part of the leather tanning process increases the risk of non-compliance in international target markets.



# WHERE WE WANT TO GO

The following vision has been developed towards the goal of increasing the export competitiveness of the Palestinian footwear and leather sector.

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## Palestinian made, creative and competitive

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The analyses conducted as part of the strategy development life cycle for the footwear and leather strategy discuss the myriad challenges facing the sector. Competition in both domestic and foreign markets is high; financial and technical input capacities are weak; and the organizational setup within the microenterprises that constitute the bulk of the sector is not conducive to developing exports.

The scope for improvements is immense, and extends across the value chain. In some cases, the scope involves strengthening of existing linkages, while in other

areas there is a need for structural modifications. Both of these dimensions of improvements must lead to either *market penetration* (increasing exports in existing markets), *product development* (increasing exports of new products in existing markets), *market development* (increasing exports of existing products in new markets), or *full diversification* (increasing exports of new products in new markets).

This future state is depicted and discussed in greater detail below.

Figure 9: Future value chain

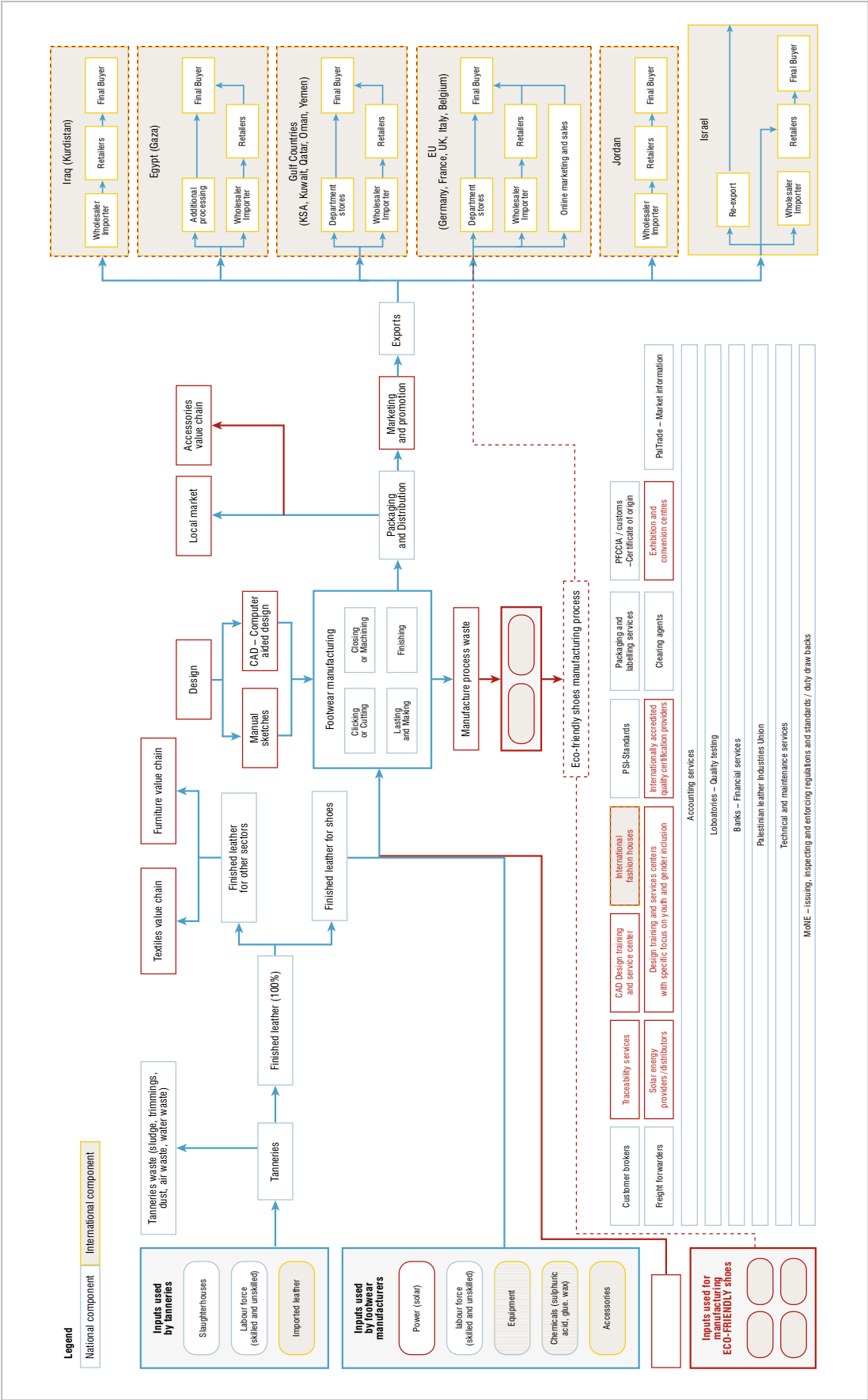


Table 13: Target markets for Palestinian footwear and leather in the short term

	Palestinian footwear exports (US\$ million) 2010	Annual growth of sector imports (all suppliers) (%) 2007-2011	Annual GDP growth estimates* (%) 2013-2017 Average
Israel	21.6	9	3.6
Jordan	0.5	13	4.2
Saudi Arabia	0.5	7	4.1
Kuwait	Negligible (.003)	8	3.4
Oman	Negligible (.009)	5	3.5
Qatar	No exports in recent years	39	6
Yemen	Negligible (.07)	-4	4.5
UAE	Negligible (.09)	9	3.2

**Source:** ITC calculations based on Comtrade data. Growth rate based on IMF estimates.

## MARKETS IDENTIFICATION

The following analysis is divided into two broad phases: one related to the immediate, short term perspective and the other related to the mid to long term outlook, by which time it is expected that a significant portion of the NES and sector Plans of Action (PoAs) will have been implemented. This phased approach is aimed at staging interventions in alignment with the evolving capacities of the sector's trade support institutions, and sector enterprises, as the NES implementation moves forward.

In the short term cultural affinity, bilateral geographical distances, and existing trade relationships form major criteria determining the markets for Palestinian footwear products. In the longer term, it is expected that the evolving capacities of Palestinian exporters – across multiple dimensions including quality management, supply capacities, product diversification, time to market efficiency, and marketing/branding, in conjunction with the improving business environment and export value chain improvements affected by the NES and sector PoA implementations – will allow exporters to target other markets in the medium to long term which seem hard to penetrate at the moment.

Target markets are segmented along both existing and potential markets, for both the short term and medium to long term phases. Existing markets are those to which the State of Palestine already exports footwear and leather products, while potential markets include those markets that have experienced negligible to no flows in recent years.

### SHORT-TERM PHASE (0-3 YEARS)

In the short-term phase, the export development focus is on market penetration (deepening exports of existing products in existing markets), and product development

(facilitating exports of new products to existing markets). Table 13 shows target markets in the short term primarily comprise existing markets – Israel, Jordan, Saudi Arabia and the Gulf markets of Kuwait, Oman, Qatar, Yemen and the UAE.

#### ISRAEL

As indicated earlier, the State of Palestine's exports to Israel have declined 9% (absolute figures) since 2007 and a variety of factors, including structural changes to Israel's economy and the rising cost structure in the State of Palestine, has incentivized Israeli companies to implement the subcontracting business model in other countries instead, such as Egypt.

Despite this shift, the Israeli market will remain important to Palestinian footwear exporters at least in the short to medium term, functioning as an anchor while the sector strengthens its offerings and develops economies of scale. Israel is currently the top customer for Palestinian footwear products by a large margin and the bilateral distance advantages, coupled with strength of existing relationships (although gradually weakening), constitute a strong argument in favour of Israel as a target market.

#### JORDAN

Jordan is the State of Palestine's second largest customer for footwear products, and imports have grown annually at a high rate of 13% between 2007 and 2011. Additionally, the Jordanian economy is expected to grow at a moderately high rate of 4.2% annually between 2013 and 2017.

The growing Jordanian footwear industry and the high level of imports seeping into the Jordanian markets are



Source: © PalTrade

the key threats to Palestinian exporters. In this regard, the Agadir Agreement that joins Jordan, Tunisia, Morocco and Egypt holds significance. If the State of Palestine remains excluded from this agreement (see box 3) the competitiveness of Palestinian exports to Jordan will continue to decrease. On the other hand, there is significant opportunity for Palestinian export growth if the State of Palestine is included in the union.

The high population of the Palestinian diaspora in Jordan, the cultural similarities, and the bilateral distance advantage are attributes in favour of Palestinian footwear products in Jordan. Additionally, the expected decline of Syrian exports to Jordan in the next few years can serve as an opportunity for Palestinian exporters. For these reasons, a concerted market penetration strategy is recommended for the Jordanian market, whereby exporters will aim to strengthen existing relationships and distribution channels to effect greater export volumes of existing products.

HS 640510 (other footwear with uppers of leather or composition leather) and HS 640351 (other footwear with outer soles and uppers of leather, covering the ankle) are the two main categories of footwear products that have maintained success in the Jordanian market, and this must continue.

In addition to market penetration for existing products, there is scope for product development in the Jordanian market, through which new products are introduced by leveraging existing market delivery channels and promising import growth rates for those products. In this regard, it is recommended that exports of safety shoes (HS

640230 and HS 640110), to be used in construction sites and elsewhere, be increased. While current export volumes from the State of Palestine for this product are low, the high import growth rate for this product (HS 640110 – 14% annually between 2007 and 2011) is an indicator of the market size.

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#### SAUDI ARABIA

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Over the last decade, Saudi Arabia and Jordan have jockeyed for the second position as leading importers of Palestinian footwear products. The Saudi Arabian market has been restricted to limited access for Palestinian exporters in recent years owing to the restricted access for Saudi Arabian quality inspectors to travel to the State of Palestine to conduct inspections of facilities and products (discussed in greater detail in the four gears section). While these restrictions are expected to remain in the medium term, their impact can be minimized by Palestinian companies forging strong relationships with importers and sending samples for testing to importers in Saudi Arabia.

Products with high potential to Saudi Arabia, and other gulf countries include safety shoes (HS 640230 and HS 640110), slippers, sandals, and men shoes (HS 640590 and HS 640399).

The primary mode of market entry in the Saudi Arabian market will be market penetration. Palestinian exporters are already present in the market, and the focus will lie in capitalizing on existing relationships by ensuring supply and quality consistency.

## Box 8: Agadir Agreement and the State of Palestine

In 2009 the Palestinian cabinet took the decision to join the Agadir Agreement. At the 9th Union for the Mediterranean Trade Ministerial Conference in 2011, the State of Palestine was accepted as a member of the Agadir Agreement (in principle), which includes Morocco, Egypt, Jordan, and Tunisia. This Agreement opens the door for the State of Palestine to be part of the cumulation of origin with other members of the Agreement, targeting export of products to the EU market. In the future, more Arab states are expected to join the list of countries that have ratified the accord.

The European Institute for Research notes:

The accord aims at boosting the competitiveness of member countries and allowing their products into European Union (EU) markets, besides expanding cooperation, commercial exchange and free trade between the four participating states. The Agadir Agreement spectrum includes customs, services, certificates of origin, government purchases, financial dealings, preventive measures, intellectual property, standards and specifications, dumping and mechanisms to resolve conflicts. The Free Trade Zone will make up a market of more than 100 million people and a combined domestic product of nearly €150 billion.<sup>36</sup>

Although the State of Palestine has been admitted to the Free Trade Agreement in principle, the Agadir Agreement remains unratified by the Palestinian parliament, and therefore Palestinian exporters are unable to take advantage at the moment; however this holds important potential in the future.

36. Medea. (n.d.). Agadir Agreement. Available from <http://www.medeia.be/en/countries/arab-world-general/agadir-agreement/>.

### GULF MARKETS (EXCLUDING SAUDI ARABIA)

The Gulf markets, comprising Kuwait, Oman, Qatar, Yemen and the UAE, exhibit moderate to high import rates in the sector (except Yemen, which exhibits a negative annual growth rate for the 2007-2011 period). Cultural and geographical proximity to the Gulf markets is an important factor that can drive Palestinian exports to the region.

Safety shoes (HS 640230 and HS 640110), and slippers, sandals, men shoes (HS 640590 and HS 640399) are considered as high potential export products to the Gulf countries, in particular to Qatar and Oman. Given that Palestinian exporters have not exported these products to Gulf countries before, a concerted effort to establish relationships with distributors, and increasing exposure of exporters through specialized exhibitions, will be required.

Gulf markets offer significant opportunities for integration of regional and global value chains, enabled through the GAFTA Agreement, as well as the Agadir Agreement when more Gulf countries join in. Production arrangements with other footwear-producing GAFTA members could be developed so that Palestinian exporters either export parts of shoes or import components to produce the footwear product in the State of Palestine. This would result in increased volumes, and possibly open new markets in the EU.

### MEDIUM TO LONG TERM PHASE (3+ YEARS)

In the medium to long term phase, the focus of the sector will be on market development (exporting products to new markets) and diversification (exporting new products to new markets).

Two markets have been identified in this regard – the EU and Iraq. In the case of the EU, Palestinian footwear exports have been limited by an inability to manage quality requirements, and earlier export relationships (primarily with Germany) have declined to negligible amounts in recent years. As discussed below, the Iraqi market offers a compelling value proposition, with increasing stability and the expected decline of Syrian sector exports to the country.



Table 14: Target markets for Palestinian footwear and leather in the medium to long term

	Palestinian footwear exports (US\$ million) 2010	Annual growth of sector imports (%) (all suppliers) 2007-2011	Annual GDP growth estimates* (%) 2013-2017 average
Iraq	No exports in recent years	37	11
EU	Negligible (.04)	NA	1.2

Source: ITC calculations based on Comtrade data. Growth rate based on IMF estimates 2008-2012

\* International Monetary Fund

## IRAQ

The two driving forces for increased potential for Palestinian exporters in Iraq are the instability in Syria and the matching consumer preferences in Iraq, driven by cultural affinity between Iraq and the State of Palestine.

The continued instability in Syria is expected to significantly impact export flows from the country, including within the footwear and leather sector. Iraq, one of Syria's most important customers in the sector, exhibited a 37% growth rate of imports for footwear products between 2007 and 2011. The country's GDP rate is expected to grow at an average rate of 11% annually between 2013 and 2017.

Previous missions to assess the footwear market in Iraq found potential for Palestinian exporters to penetrate the market, although the security situation prevented further exploration. Now that Iraq – and especially Kurdistan in the northern part of the country – is experiencing increasing stability, market penetration options can again be assessed. The northern region of Kurdistan, which is generally seen as more secure, and has been experiencing an economic boom in recent years, absorbs the bulk of imports. It is conceivable that, with increasing stability, the market for footwear products in Iraq will expand even further.

It is expected that with major Syrian industrial centres of footwear production such as Aleppo experiencing the brunt of the civil war, exporting businesses will suffer. With the assumption that Syrian footwear exports to Iraq will experience sharp drop-off rates in the near future, there may be some potential for Palestinian exporters to take advantage and develop export relationships in Kurdistan and other Iraqi markets.

While the State of Palestine does not currently export to Iraq, it does export (to other markets) select products which Syria exports to Iraq. Using this as a proxy for assessing the capacity of Palestinian exporters, the table below serves to identify at least three products (highlighted) which Palestinian exporters can potentially export to Iraq. Additionally, there is significant potential for Palestinian exports of safety shoes (HS 640230 and HS 640110) and military boots to Iraq.

The main distribution channels in the Iraqi market viable for Palestinian exporters will be agents and wholesale importers. Reaching retailers directly will not be viable in the short term.

As discussed earlier, capacity utilization in Palestinian footwear enterprises is low and does not exceed 30% in most cases, due to the lack of demand and existing customer relationships. A concerted effort to develop such relationships in Iraq will allow Palestinian enterprises to utilize their surplus capacity and result in overall growth of the sector.

Table 15: Main Syrian footwear exports to Iraq

HS code	Description	Syrian exports to Iraq (thousands) (2010)	Palestinian exports (all markets) (thousands) (2010)
640590	Other footwear	17,431	196
640399	Other footwear with uppers of leather	1,187	0
640620	Outer soles and heels, of rubber or plastics	605	429
640199	Other waterproof footwear with outer soles, uppers of rubber or plastic	252	15,096
640299	Other footwear with outer soles and uppers of rubber or plastics	177	0
640699	Parts of footwear, of other materials, other than wood	164	0

### Box 9: EU market trending towards eco-friendly shoes<sup>37</sup>

Based on EU rules and regulations, azo dyes, PCPs and nickel derivatives (all potential chemical carcinogens) are forbidden in leather found in imported goods. PETA (People for the Ethical Treatment of Animals) has lobbied hard in the leather goods industry, to the extent that some buyers refuse to order shoes made with Indian leather, particularly in Germany. For some years the EU has been pushing for an eco-label to be used on all footwear signifying its ethical and non-polluting origins. This is a voluntary code at present. It is a law and requirement in the EU market that each pair of shoes must have a pictogram on them identifying what materials the uppers, linings and soles are made from. This is to stop the practice of passing off some materials as real leather.

37. Agreement, T. U. (2009). *Comprehensive sector study regarding the opportunities of Complementarities and Industrial Integration in the Leather and Shoes Sector in the Member Countries of the Agadir Agreement*. Amman, p. 9.

#### EUROPEAN UNION (EU-27)

The €49 billion footwear market (EU-27) has reached a fair degree of maturity, and local production has been gradually declining in the face of low-cost imports from mainly Asian countries such as China, Viet Nam and India. Given the high degree of saturation by Asian importers in the EU, it is unlikely that Palestinian exporters will be able to compete on the basis of volume or price. Instead there is potential to succeed by finding specific niches and focusing on competing on quality aspects.

The distribution channels in the EU market are mainly the department stores and wholesalers.

The main markets of interest in the EU are Germany, the United Kingdom of Great Britain and Northern Ireland, and Belgium. In the past, Palestinian exporters have been able to penetrate the German market, however the survivability rate has been low due to inability of exporters to manage quality and supply consistency.

Two important attributes in the EU markets are *innovation and added value*.<sup>38</sup> It is in this regard that the potential for exporting eco-friendly footwear has been identified for the State of Palestine. These products are currently not manufactured in the State of Palestine and will constitute a diversification strategy. The sub-value chain depicting the development of eco-friendly footwear products is discussed below, and also shown in the future value chain. The production process would involve reusing waste products that are currently discarded, and thus has an environmental dimension as well.

38. CBI (2011). *CBI Market Survey – Footwear*, p. 21.

## STRUCTURAL IMPROVEMENTS TO THE VALUE CHAIN

### INCREASE FOCUS ON THE GENDER DIMENSION

The role of women will be strengthened along two important links in the value chain – the design process and the marketing and communication area. As discussed throughout this analysis, design has an important bearing on the sector's products' ability to meet consumer tastes and preferences. This also serves as an important weakness due the lack of Computer-Aided Design skills in the sector. While Palestinian designs are considered to be of high quality, the handmade aspect does not allow designers to keep up to date with latest trends. In this regard, trained women designers could make a valuable addition, provided the adequate provision of TVET infrastructure, including design training, centres with specific focus on training female students.

Marketing and communication are critical to the exporting process, and greater inclusion of women in the marketing process, as well as account management responsibilities with potential/ existing international clients, can be a route to increasing the role of women in the sector.

### IMPROVE TVET INFRASTRUCTURE

As discussed above, the footwear and leather sector is lacking in sophistication of designs that are in tune with the latest global trends. As part of addressing this constraint, improvements in the TVET infrastructure will be required, and will include the upgrading of curriculum and infrastructure at training institutions. Other aspects of the improvements will include enhanced linkages with international fashion houses and TVET institutions.

Specifically, collaboration opportunities in Italy and Israel have been identified.

### DEVELOP AN ECO-FRIENDLY FOOTWEAR SECTOR

The development of an eco-friendly footwear sector has been identified as an important opportunity (through the NES consultations) to develop a niche for Palestinian footwear products in EU-27 target markets.

The leftovers of the leather used in current manufacturing processes can be transformed into two high value added products through a waste treatment process – shoe in-soles and glue material – which in conjunction with other eco-friendly products such as recycled wood, vegetable dyes (and dyed leather), organic cotton, and crepe, could be used to develop an eco-friendly footwear product which can be targeted at the EU market. There is a growing demand in the EU market for such products. The development of new production lines for eco-friendly shoes could also contribute to improving the environmental impact of the industry in the State of Palestine.

Based on the above, this approach has been identified by the sector team as having potential and will be further investigated to realize the potential and feasibility of implementation.

### STRENGTHEN LINKAGES WITH THE ICT SECTOR

The State of Palestine's ICT sector – which is another NES priority sector – is characterized by a relatively high level of entrepreneurial activity, which can be leveraged to meet the footwear and leather sector's needs in certain areas. One of these includes the requirement to develop specialized software for costing, design and product management for enterprises in the sector.

### INCREASE CAPACITIES OF THE TANNING SECTOR AND STRENGTHEN LINKAGES WITH THE TEXTILES AND FURNITURE SECTORS

Approximately 96% of the tanned leather produced in the State of Palestine is supplied to the footwear sector and the remaining 4% is supplied to the textiles and garments sector. Growth in production capacity of the tanning sector could serve to improve the feeder links to the textiles and garment sector, and also allow linkages to develop with the furniture sector for developing products such as furniture covers, etc.

### SPUR DEVELOPMENT OF A NATIONAL ACCESSORIES VALUE CHAIN

The clothing and fashion sector uses various components and accessories such as belts, bags, bracelets, etc. in the manufacturing process. These accessories are mostly imported. The development of a local accessories manufacturing subsector, which would gradually develop and reduce the reliance on imported accessories, is an option that has been put forward by the sector team as having potential. This subsector could also be tied to the tourism sector through indirect linkages.

### STRENGTHEN LINKAGES BETWEEN THE FOOTWEAR, AND TEXTILES AND FASHION, SECTORS

The footwear industry necessarily has strong linkages with the fashion industry, denoted by seasonal changes in styles and models. Connecting the design of footwear to fashion trends would allow for better marketing and would align the sector with international consumer tastes and preferences. In this regard direct linkages with international fashion houses worldwide, as well as improved linkages with the Palestinian Leather Industries Union and PalTrade, will be the goal.

### IMPROVE ENVIRONMENTAL SUSTAINABILITY OF SECTOR OPERATIONS

To improve the compliance of the sector with Palestinian and international quality standards and regulations, the future perspective will include mechanisms such as implementing the ISO 14000 environmental management certification in the sector. This certification provides the management of companies and external stakeholders with assurance that environmental impact is being measured and improved. This initiative would help to differentiate sector products by demonstrating reduced water usage or even reutilization of wastewater – activities that are aligned with international market trends for greener products.

# HOW WE GET THERE

## STRATEGIC OBJECTIVES

As discussed below, four strategic objectives<sup>39</sup> have been identified in order to realize the overall vision for the sector:

***The first strategic objective aims to drive improvements at the policy and the regulatory levels so as to develop a business environment that supports innovation and investment in the sector.***

This goal will be broadly achieved through operational objectives and related activities to improve quality controls of imported and exported products, strengthen institutional support to the sector, reduce certain costs of production, and improve trade information availability to the sector.

***The second strategic objective aims to build the capacity of sector enterprises to be able to satisfy key buyer requirements in their main target markets, with particular focus on supply consistency and quality management.***

This goal will involve operational objectives and related activities to improve product design and quality, enhance the business skills of sector enterprises, increase the supply and marketing capacity of the sector, reduce dependency on imports, and raise the necessary capital to grow the sector.

***The third strategic objective focuses on improving coordination levels in the sector, among enterprises as well as enterprise associations, so as to improve collaboration and encourage pollination of best practices.***

This goal will be reached through the operational objectives and related activities meant to strengthen the sector's union and its services to members, and

through the promotion of the sector at the national level.

***The fourth strategic objective is focused on affecting market-side improvements, specifically on market development and diversification, in order to intensify as well as diversify the sector's client base.***

This will be accomplished through operational objectives and related activities that build market entry capacity, enhance the utilization rate of trade agreements by sector companies, strengthen market development in current markets, offer new products to current markets, and attract global and regional clients to the State of Palestine.

These strategic objectives are structured around a specific set of activities that are intended to address the wide range of issues confronting the footwear and leather sector. Independent, yet mutually supporting, activities will bolster specific areas of weakness. The coordinated resolution of such issues and the realisation of opportunities will serve as the foundation for achieving the strategic objectives and, ultimately, the cross-sector vision.

Each of the strategic objectives relies upon a set of operational objectives. The operational objectives are intermediate achievements that must be reached in order for the strategic objectives to be met. At the most basic level the operational objectives are realized through the implementation of various concrete activities, each of which serves to support a specific priority area within the competency of the relevant operational objective. Ideally, each activity will be translated into a project of its own. To this end, the donor alignment column in the PoA is provided so that donors may select activities that are in line with their own competencies, thereby facilitating the conversion of activities into real-life initiatives.

39. See sector strategy Plan of Action for more details.

## IMPORTANCE OF COORDINATED IMPLEMENTATION

The broad range of activities, together with the complex nature of integrated intervention, requires careful implementation that efficiently directs resources and monitors results at both the micro and macro levels. To this end, the Palestinian Export Council (PEC) will be established in order to facilitate the public-private partnership to elaborate, coordinate, and implement the National Export Strategy. In particular, PEC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders. Within this framework, the implementation of the footwear and leather strategy also falls within the purview of PEC.

Such efforts will involve directing donor, private, and public sector organizations towards the various NES priorities in order to avoid duplication and guarantee maximum impact. Responsibilities will also include monitoring the results of activities and outputs, while at the same time recommending policies that could serve to enhance the realization of the strategic objectives. With a 360 degree view of progress, the council will be best placed to manage funding and provide regular reports to donors and stakeholders. Moreover, PEC will play a key role in recommending revisions and updates to the strategy so that it continues to evolve in alignment with the State of Palestine's changing needs.

## IMPLEMENTATION PARTNERS – LEADING AND SUPPORTING INSTITUTIONS

A number of institutions will play a key role in the implementation of the plan of action for the footwear and leather sector. These are institutions that have the overall responsibility for successful execution of the strategy, as well as support institutions that are active partners but not leading institutions.

As the apex institution of the sector the PLIU will have a key stake in the implementation of the strategy. To that effect a key activity will be to build the capacity and resource base of the union in order for it to successfully lead the implementation of a series of activities.

PIPA will have a number of important activities to lead as the main agency mandated with attracting investment to the State of Palestine. As indicated earlier, investment and joint ventures are considered a key element for upgrading the productive and design capacities of the sector.

PSI will take a leading role in strengthening the quality management framework for the footwear and leather industries. This will be critical to better regulate the Palestinian market as well as ensure the sector companies can effectively comply with target market requirements. This role is key to improving the survival rates of export relationships.

As the main private sector member associations comprised of exporting enterprises, PalTrade and PFCCIA will occupy a key role in a wide variety of activities, especially those that involve a lot of coordination between the private sector and other entities. They will be integral to the implementation of activities directly related to trade and enterprise enhancement such as, for example: provide technical training and assistance, gather market data, and organize trade missions to target markets.



# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY

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## STRATEGIC PLAN OF ACTION



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Strategic objective 1: Develop a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the sector.									
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.1. Improve quality control of imported and exported leather products	1.1.1. Establish an accredited independent testing lab for both imports control and exports quality accreditation according to specified standards at PSI (the standards exist and they are of high quality at PSI): » Identify the required standards to be tested; » Identify the required testing equipment; » Design the required proposal for the lab; » Identify target donors for funding.	3	Enterprises	Testing lab equipment in place.	Testing results for products are delivered.	PSI	MoF, HCCI, PLIU, PSI, PalTrade		Budget for shoes and leather testing lab only is 750 000. Budget for integrated testing lab is 3 000 000
	1.1.2. Impose technical regulations for the footwear and leather sector (part of the voluntary standards developed at PSI are to be identified as the mandatory technical regulations to control imports and quality of local production) on imports and local production: » Identify the set of minimum standards to be considered as technical regulations; » Lobby with related private sector organizations to issue such technical regulations, mainly to MoNE.	3	Enterprises	Set of technical regulations issued by the government.	Technical regulations adopted and implemented on imported products.	PSI	MoNE, PLIU		50 000
1.2. Ensure business and trade-related support organizations are supportive of sector development.	1.1.3. Develop the institutional capacity of PSI to better contribute to improving the quality infrastructure for the footwear and leather sector. There is a wealth of technical knowledge at PSI; the issue has always been proper quality infrastructure, structure, the management of the actual mandate of PSI as a regulatory body, and the need to create a proper accreditation body. (This is one of the cross-sector issues for quality infrastructure.): » Improve the leadership capacity and the executive leadership capacity of PSI; » Design the overall quality infrastructure of the State of Palestine, with a clear mandate for PSI as a regulatory body. Focus efforts towards performing its mandate with a particular emphasis on the footwear sector.	3	PSI and enterprises	Leadership training delivered to top PSI management. Quality infrastructure in place.	At least all department managers are trained and examined to pass the training. Quality infrastructure adopted by the cabinet for implementation.	PSI, MoNE	PalTrade, cabinet		350 000
	1.2.1. Review regulatory environment in terms of the mandate and the different roles the Palestinian Leather Industries Union, PalTrade, Chambers of Commerce and other related institutions are supposed to play to support the footwear sector. (Who should be responsible for: technical capacity development of enterprises; export promotion; lobbying and advocacy on behalf of the sector etc.? These are the different roles that should be specified in detail.) Clarify the mandate of each trade support organization and its roles: » Identify the different trade service and support organizations that serve the footwear sector; » Identify the different services needed to be extended to the footwear sector (as described in the NES) and assign roles as described.	3	TSIs and enterprises	Regulatory framework on related mandates is issued.	TSIs related to the footwear sector are implementing their mandates. At least 10 more new services are delivered to footwear sector enterprises. Services delivered to the footwear sector.	PSCC	PFCCIA, cabinet		150 000

Strategic objective 1: Develop a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the sector.

Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.2. Ensure business and trade-related organizations are supportive of sector development.	1.2.2. Institutionalize the Private Sector Coordination Council (PSCC) to better serve and advocate the interests of the private sector, and contribute to role identification and avoid overlaps among organizations; Develop the strategic plan of the Coordination Council; Assign a permanent secretariat for the Council; Design the governance system of the Council.	2	PSCC and enterprises	Strategic plan, governance system of the Council and permanent secretariat are in place.	75% of the KPI in the strategic plan achieved.	PSCC	PFCCIA, cabinet		250 000
1.3. Reduce production costs	1.3.1. Advocate in favour of specialized industrial areas for the footwear industry to allow, among other issues, mass utilization of utilities and hence reduction of input costs and better planning. 1.3.2. Ensure mechanisms such as special incentive schemes are established for renewable energies utilization in the footwear sector.	3	Enterprises and local community	Bidding for feasibility study is out. Incentive legislation in place.	Feasibility study in place ready for implementation. At least 10 enterprises are using renewable sources of energy.	HCCI PLIU	PLIU, PFI, PFCCIA HCCI, Palestinian Energy Authority (PEA), MoNE, MoF	850 000 for advocacy campaign and feasibility study	50 000
	1.3.3. Implement a study to investigate the feasibility of establishing an electricity generation company in the southern area of the West Bank. This is a cross-cutting project which is designed to reduce the current cost of electricity, provided the project is feasible and the footwear sector would be among the beneficiaries.	1	Enterprises and local community	Feasibility study in place.	Decision to either proceed or call the project off is made.	Consulting company	PEA, MoNE, HCCI		500 000
1.4. Improve trade information availability and accessibility	1.4.1. Establish a network of market intelligence points in target markets for detailed analysis and updated information on sector business trends. This should be done with specialized organizations or private sector companies. The system could be managed by PFCCIA. Proper dissemination of collected information should be carried out in a very transparent way for all enterprises and stakeholders in the footwear sector by regular bulletins, reports, workshops, specialized training, and other related mechanisms as deemed appropriate. This should be checked for cross-sector needs in similar markets: » Identify target markets for the footwear sector where market intelligence points are to be established; » Identify the proper form of cooperation and the party to work within the targeted markets; » Design systematic dissemination mechanisms for footwear sector enterprises to benefit from collected information; » Identify information to be collected from targeted markets by intelligence points.	3	Enterprises	At least one market intelligence point is identified in each of the targeted markets.	At least 30 enterprises benefited from these intelligence points and accessed new markets or increased their share in existing markets.	PFCCIA	MoNE, PLIU, PFI, PalTrade		750 000

Strategic objective 1: Develop a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the sector.									
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.4. Improve trade information availability and accessibility	1.4.2. Improve the capacity of TSIs that are involved in market intelligence points such as PFCCIA, PalTrade, and SLU, to better collect standards and requirements of target markets and disseminate them to enterprises in the footwear sector through regular bulletins, specialized workshops, training, and other mechanisms as deemed appropriate:	3	Enterprises	Units to deal with market intelligence points are established in at least three TSIs.  At least one staff member of each related TSI is trained.  Systems of information dissemination are established.	At least 50 enterprises benefited from the established units.  At least 100 enterprises receive information on regular basis.	PFCCIA,	MoNE, PSI, PalTrade		550 000
	» Establish special units or dedicated staff to deal with market intelligence points;								
	» Deliver training to staff members on the proper use of and communication with intelligence points;								
	» Deliver training to staff members on designing systematic tools for information dissemination.								
	1.4.3. Design training programs in the field of international agreements, pre and post evaluation, their analysis, benefits and utilization; and introduce a special mechanism to disseminate information by regular bulletins, reports, workshops, specialized training and other related mechanisms to maximize utilization of such agreements.	2		Deliver at least one training on each international agreement for better utilization.	Each participant is tested to pass the training course.	MoNE & PalTrade	PFCCIA, PFI, PLIU		300 000
	1.4.4. Design and implement training programmes for enterprises in the footwear sector to improve their capacity to collect, analyse and utilize market-related information to specify their own target markets and segments:	3	Enterprises	Deliver the training course twice a year.	At least 50 enterprises enrol in the training annually.	PalTrade	PLIU, HCCI		250 000
	» Identify the scope of the training in detail and design a professional ToR;								
	» Identify consultants to deliver training;								
	» Identify the target group of enterprises which are export-oriented or have the potential for export.								

Strategic objective 2: Build the supply and quality capacities of the sector to respond to buyer requirements in order to penetrate and diversify in international markets.								
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support
2.1. Improve product design and quality	2.1.1. Establish a professional CAD training and service centre for the footwear industry, ensuring it is properly networked with international training institutes to deliver such services and capacity. Introduce fee-based design services from the CAD centre to footwear enterprises.	3	Enterprises	CAD centre is established.	Enterprises from the sector benefited from the centre and at least 20 designers are trained in the first batch.	HCCI & Shoes and Leather Union (SLU)	HCCI, PPU, MoNE, MoF	350 000
	2.1.2. Establish a network with international designers to offer new, innovative designs for local manufacturers and increase awareness of the impact on business: » Conduct awareness workshops to footwear enterprises on the impact on business of utilizing such a service; » Identify a list of international designers or design houses that are willing to cooperate with the Palestinian market to provide such services and create a roster; » Negotiate proper deals with them on an annual or seasonal basis; » Negotiations could be done on an individual basis or through the SLU.	3	Enterprises	International designers' network and connections are developed.	At least 10 enterprises are connected to international designers and design houses.	PLIU	PalTrade, HCCI	250 000
	2.1.3. Introduce training on finishing and quality production to footwear enterprises: » Identify a training institute or personnel to deliver training.	3	Enterprises	Training course delivered and representatives from 75% of the enterprises participated.	Practical exam on course skills with pass and fail levels.	PLIU	PalTrade, related training institutes	100 000
	2.1.4. Improve enterprises' awareness of global trends through increased participation in international events on latest trends and materials. This needs to coincide with increased dissemination of information on these events, raised awareness of the value of these events, and a specific mechanism to encourage and support participants.	2	Enterprises	Representatives of at least 15 enterprises annually participate in international events.	At least five of the participating enterprises introduce new trends to their products.	PalTrade	HCCI, PLIU	350 000





Strategic objective 2: Build the supply and quality capacities of the sector to respond to buyer requirements in order to penetrate and diversify in international markets.									
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.5. Raise awareness within the footwear and leather sector of the culture and impact on enterprises' business of joint ventures and FDI.	2.5.1. Design awareness-raising campaigns and training programs on the benefits of joint ventures and FDI to enterprises to improve the marketing and market access capacity of the footwear enterprises. The main objective of joint ventures and FDI is to introduce new marketing concepts and support export capacity, rather than providing financial support.	3	Enterprises	Conduct awareness-raising campaigns with at least 35 participants each.	One joint venture realized	PIPA	HCCI, PLIU		50 000
	2.5.2. Design an awareness-raising programme to inform export-oriented companies of existing International Guarantee Mechanisms in the State of Palestine (MIGA and others).	3	Enterprises	Conduct awareness-raising campaign and at least 100 companies are aware of the facility.	Signed contracts for at least one enterprise which benefited from the facility.	PIPA	HCCI, PLIU		50 000
2.6. Develop new techniques and mechanisms to enhance the development of the sector	2.6.1. Introduce an export subsidy line or export support mechanisms for the footwear sector.	3	Enterprises	Export support mechanism is in place with the required funding of \$500 000 as a first stage.	Signed contracts for at least 20 enterprises which benefited from the mechanism in the first year of establishment.	PalTrade	MoF, MoNE, PLIU		500 000
	2.6.2. Introduce export insurance mechanisms or funds specific to the footwear sector: » Investigate similar international models; » Design a programme that is tailored to the benefit of the footwear sector. This could be looked at as a cross-sector service from PalTrade; » Facilitate such a programme through PalTrade.	2	Enterprises	Export insurance mechanism is in place.	Signed contracts of at least 20 companies which benefited from the mechanism.	PalTrade	MoF, MoNE, PLIU		150 000
	2.6.3. Explore new tanning technologies, techniques and materials to improve tanned leather quality for improved footwear products: » SLU should facilitate the tanneries to subcontract consultants to investigate the existence of similar materials.	2	Tanning enterprises	Consultants contracted to perform the search.	Search results are delivered to all tanneries.	Tanneries and consulting company	PLIU		100 000
	2.6.4. Explore options and feasibility to manufacture footwear industry inputs, such as accessories and glue, locally: » A group of enterprises should hire a consultant, facilitated by the SLU, to investigate the feasibility of manufacturing footwear accessories and glue.	2	Enterprises	Perform feasibility study and make a sound investment decision.	Implement feasible projects.	Private sector companies, consulting company	PLIU		350 000

Strategic objective 3: Strengthen the sector and its coordination to improve its reactivity to global markets and trends.								
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes
3.1 Strengthen the Shoes and Leather Union and expand its services	3.1.1 Develop the strategic plan and business development model of the SLU and identify gaps for institutional capacity building: » Identify a consultant to perform this task; » Secure the required funds	3	SLU and enterprises	Strategic plan in place and implemented.	KPI is achieved.	PLIU	PFI, MoNE	GIZ project
	3.1.2 Facilitate designing training courses on footwear business management, international marketing, production management, preventive maintenance management, costing, financial management, etc., all tailored to the needs of the footwear sector enterprises by sector associations (SLU) to create technical services for members. Make proposals to secure funding from different donors.	3	Enterprises	The SLU delivered training courses to members. At least 150 participants annually.	Participant sheets and fees paid to SLU.	PLIU	MoNE, HCCI, PFI	400 000
	3.1.3 Strengthen the advocacy and lobbying capacity of the SLU through introducing negotiation skills, and the advocacy and lobbying process. » Design a proposal to introduce an advocacy unit at the SLU with the required funding; » Approach interested donors for funding to install the unit; » Introduce a training programme on negotiation skills for members of the board of directors of the SLU.	2	SLU and enterprises	The advocacy unit is in place.	At least one position paper delivered annually.	PLIU	PFI, MoNE	200 000
3.2 Promote the sector at the national level	3.2.1 Improve the institutional capacity of the Consumer Protection Agency (CPA) to better advocate on consumer health related to footwear: » Draft the strategic plan of the CPA; » Introduce an identified set of services to consumers.	1	CPA and consumers	Strategic plan in place.	KPI is delivered as designed.	CPA	MoNE, MoH	50 000
	3.2.2 Integrate SLU efforts with national campaigns implemented by PFI, MoNE and other related organizations to promote footwear sector products and inform citizens of the quality of local products and their competitiveness: » Direct participation in the campaign; » Involvement in the design of campaigns; » Securing required funds for campaigns from footwear enterprises to have more influence on campaigns.	2	Enterprises	Campaigns conducted regularly.	Increase local share of the market by 20%.	PLIU	MoNE, PFI	50 000

Strategic objective 4: Strengthen market development and diversification efforts to expand the sector's client base and market share.

Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes	Estimated costs (US\$)
4.1 Improve market entry capacity	<p>4.1.1 Design intensive training for enterprises in the footwear sector participating in exhibitions and trade missions on international best practices and techniques (presentation skills, negotiation skills, costing skills, bargaining skills, etc.) to maximize the benefits to enterprises of such events:</p> <ul style="list-style-type: none"> <li>» Design the ToR for each training course identified;</li> <li>» Identify a list of qualified consultants/firms or individuals to perform similar training.</li> </ul> <p>4.1.2 Design a specialized internship programme, in cooperation with universities, to create professionals in the field of international marketing specific to the footwear sector:</p> <ul style="list-style-type: none"> <li>» Identify target universities (PPU, Hebron University, Bethlehem University, etc.);</li> <li>» Identify companies to employ interns.</li> </ul>	3	Enterprises	Training course delivered to enterprises' representatives participating in exhibitions (at least one representative from each enterprise).	On the job evaluation through monitoring performance in exhibitions.	PalTrade	PLIU, HCCI, PFI		200 000
4.2. Improve the utilization rate of trade agreements by sector companies	<p>4.2.1 Improve government interventions towards endorsing and utilizing international trade agreements (Agadir and similar) to facilitate market access to companies:</p> <ul style="list-style-type: none"> <li>» Create a joint task force composed of the government, the SLU, PalTrade and the Chamber of Commerce to address the need to follow up on specific issues or trade agreements with the government.</li> </ul>	2	Enterprises	Task force in place to improve government intervention.	At least three effective interventions are executed by the government as a result of the task force work and follow up.	MoNE	PLIU, PFCCIA		100 000
4.3. Strengthen market development in current markets (market penetration)	<p>4.3.1. Target the Jordan market:</p> <ul style="list-style-type: none"> <li>» Identify gaps resulting from the Syrian industry deterioration in order to fill them;</li> <li>» Implement market research on models and trends in the market;</li> <li>» Prepare to participate in a specialized exhibition in Jordan.</li> </ul> <p>4.3.2. Target Gulf countries markets (KSA, Kuwait, UAE) (market penetration)</p> <ul style="list-style-type: none"> <li>» Implement market research on models and trends in the market to identify opportunities for existing products or identify new products to produce and market;</li> <li>» Identify required market standards and technical regulations for better market penetration;</li> <li>» Identify the proper distribution channels (chain stores and wholesalers) through either market research or an identified market intelligence point;</li> <li>» Design a trade mission to the aforementioned targeted markets;</li> <li>» Prepare to participate in a specialized exhibition in the aforementioned targeted markets.</li> </ul>	3	Enterprises	Market research in place. At least one annual participation in exhibitions in Jordan.	Increase in exports to the Jordanian market to reach 20% of total exports.	PLIU	PalTrade, MoNE, PFCCIA		250 000
		3	Enterprises	Market research in place. At least one annual participation in exhibitions in each targeted country.	Increase market share in the KSA to 20% of total exports. Penetrate the other Gulf markets as 10% of total exports.	PFCCIA	PLIU, PalTrade		450 000

Strategic objective 4: Strengthen market development and diversification efforts to expand the sector's client base and market share.									
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes	Estimated costs (US\$)
4.3. Strengthen market development in current markets (market penetration)	<p>4.3.3 Target the German market (market diversification). Currently, individual enterprises attempt to enter the market with no mass success. Market diversification is the right approach:</p> <ul style="list-style-type: none"> <li>» Implement market research on models and trends in the market;</li> <li>» Identify required market standards and technical regulations for better market penetration;</li> <li>» Identify the proper distribution channels/chain stores through either market research or an identified market intelligence point;</li> <li>» Design a trade mission to Germany targeting an identified list of chain stores for better, in-depth understanding of market requirements;</li> <li>» Prepare to participate in a specialized exhibition in Germany.</li> </ul> <p>4.3.4. Target the Iraqi/Kurdish market (market diversification):</p> <ul style="list-style-type: none"> <li>» Design a trade mission to the market for better, in-depth understanding of market requirements.</li> </ul>	3	Enterprises	<p>Market research in place.</p> <p>At least one annual participation in an exhibition in Germany.</p> <p>At least one trade mission annually is conducted.</p> <p>Identify the right distribution channels.</p>	<p>Penetrate the German market and at least five companies become exporters to Germany, verified by export contracts.</p>	PFCCIA	PalTrade, PLIU, MoNE		550 000
4.4. Develop new products to current markets	<p>4.4.1. Introduce new products for niche markets:</p> <ul style="list-style-type: none"> <li>» Eco-friendly shoes – EU (Germany, UK), and USA in the longer term: <ul style="list-style-type: none"> <li>– Identify the size of the market and market segment through market research;</li> <li>– Identify the required standards, styles, etc.;</li> <li>– Identify proper marketing channels, e.g. internet.</li> </ul> </li> <li>» Military boots – Iraq, KSA, UAE: <ul style="list-style-type: none"> <li>– Track government bidding for military boots in targeted markets;</li> <li>– Identify previous specifications and competing companies;</li> <li>– Make official visits to relevant government officials ahead of time to introduce the quality of the product.</li> </ul> </li> <li>» Work boots – UAE, Iraq, KSA, Oman, Qatar: <ul style="list-style-type: none"> <li>– Identify the size of the market and market segment through market research;</li> <li>– Identify the required standards and specifications according to the type of industry;</li> <li>– Identify proper marketing channels, e.g. specialized wholesalers for work boots, bidding for government works, direct contacts with major contractors or industries, through business associations, etc.</li> </ul> </li> </ul> <p>4.4.2. Target the Gulf market in safety shoes (product diversification)</p> <ul style="list-style-type: none"> <li>» Implement market research on market requirements and standards;</li> <li>» Identify the proper distribution channels for this specific market and product;</li> <li>» Design a trade mission to the Gulf targeting identified distribution channels for better, in-depth understanding of market requirements;</li> <li>» Prepare to participate in a specialized exhibition in the area.</li> </ul>	2	Enterprises	<p>New products developed and exported to targeted markets.</p>	<p>At least one enterprise starts to export eco-friendly shoes to Germany and the UK.</p> <p>At least three companies start to export military boots to KSA, Iraq and the UAE.</p> <p>At least three enterprises start to export work boots to Iraq, Oman, Qatar, and the UAE.</p> <p>All verified by export contracts and deals.</p>	PLIU	PalTrade, PFCCIA		500 000
		3	Enterprises	<p>Market research in place.</p> <p>Distribution channels identified.</p> <p>At least three enterprises participate in specialized exhibitions.</p>	<p>At least three enterprises start to export safety shoes to Gulf markets (KSA, Iraq and the UAE) verified by export contracts and deals.</p>	PFCCIA	SLU, PalTrade, MoNE		500 000



Strategic objective 4: Strengthen market development and diversification efforts to expand the sector's client base and market share.									
Operational objective	Activities	Priority 1=Low 2=Med 3=High	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes	Estimated costs (US\$)
4.5. Attract global and regional clients to the State of Palestine	4.5.1 Establish an exhibition and convention centre in Hebron to serve across sectors: >> Design a proposal with proposed services and venues in the convention centre; >> Identify a list of interested donors for funding; >> Approach donors with endorsement from MoNE and the Ministry of Planning and Development to support the project.	3	Enterprises	Proposal designed, and donors approached for funding.	Funding secured for establishment.	PFCC/A	PaTrade, PFIU, MoNE		250 000 Required funding is around 3 500 000 for the convention centre excluding the price of land, which is already available and dedicated for that purpose.

# ANNEX 1:

## LIST OF STAKEHOLDERS

Name	Organization	E-mail
Tareq Abu El Filat	Palestinian Leather Industry Union	tareq388@yahoo.com
Ibrahim Jabareen	Palestinian Standards Institution	ijabareen@yahoo.com
Hamdi Za'tary	Al Tawfiq Co.	N/A
Abd Abu Rajab	Al Worod Co.	alworood2004@yahoo.com
Awni Julani	First Shoes Co.	N/A
Abeed Al Za'tary	Al Waleed Co.	wztamer@yahoo.com
Adel Al Za'tary	Palestinian Leather Industry Union	N/A
Dalal Abu Hamed	Ministry of Labour	dalalhamdan_72@hotmail.com
Asma'a Al Haj Hamd	Ministry of Labour	a_asmaa005@yahoo.com
Raed Al Zighaier	Blue Co.	N/A
Hamzeh Abu Dab'at	Palestinian Leather Industry Union	N/A
Shaban Natsheh	Palestinian Leather Industry Union	shabannatsha@yahoo.com
Kamel Al Zighaier	Al Ramah Al Masieah Co.	nipes_diamond@hotmail.com
Ismail Sharif	HCCI	pr@hebroncci.org
Jawad Herbawi	Team Coordinator	jsayyedh@gmail.com
Baha Sartawi	Ministry of Labour	bahasartawi@hotmail.com
Mazen Zghier	HCCI	mazen@royal.ps
Jawdi Abu Rageb	Glad Baby Co.	jawdiaburajab@yahoo.com
Farhat Siaj	Tossetti Shoes	tossettishoes@yahoo.com
Zeyad Fadel	Ministry of National Economy	Zeiad62@yahoo.com
Rami Zughear	Golf & Horse Co.	info@golf-horse.com
Fdel Natsheh	Naboli	naboly_f@hotmail.com
Ghandi Al Za'al	Palestinian Leather Industry Union	
Ameer Haboub	Palestinian Leather Industry Union	
Adel Zatari	Al Walid Co.	wztamer@yahoo.com
Mohammed Atawenih		
Faten Alomlah		
Omar Syaj	Tossetti Shoes	tossettishoes@yahoo.com

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