

THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY FURNITURE SECTOR EXPORT STRATEGY 2014-2018



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**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
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

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

THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY FURNITURE

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

- **Mohammed Al Ryashi**
Palestinian Wood Industries Union
- **Ahmed Ahmed**
Al Barbrawi Company
- **Abdallah Barassi**
PalTrade
- **Ahmad Salama**
Modern Industrial Group
- **Nazeh Al Mashkarawi**
Al Mashkarawi Co.
- **Sami Fogo**
Fogo Co.
- **Hussien Abdel Salim**
Alquds Co.
- **Mohammed Mhana**
Issa Muhanna Co.
- **Zaki Hussien**
Al Barbrawi Company
- **Kamal Al Sa'afeen**
Kamal Co.
- **Wadah Bessisso**
Bessisso Co.
- **Mohammed Skaik**
PalTrade
- **Hatem Mughani**
Team Coordinator

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
- **Hatem Al-Mughani**
Team Coordinator in Palestine

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ACRONYMS

AFD	French Development Agency	MoFA	Ministry of Foreign Affairs
B2B	Business to Business	MoHE	Ministry of Higher Education
BIFMA	Business & Institutional Furniture Manufacturers Association	MoNE	Ministry of National Economy
CNC	Computer Numerical Control	NES	National Export Strategy
DAI	Development Alternatives Inc.	PCBS	Palestinian Central Bureau of Statistics
DFID	Department for International Development	PEC	Palestinian Export Council
ED	Economic Development	PFI	Palestine Federation of Industries
EU	European Union	PNA	Palestinian National Authority
FDI	Foreign Direct Investment	PoA	Plan of Action
FNMD	Facility for New Market Development	PSC	Palestinian Shippers' Council
FPCCIA	Federation of Palestinian Chambers of Commerce, Industry and Agriculture	PSI	Palestine Standards Institution
FSC	Forest Stewardship Council	SITC	Standard International Trade Classification
GTC	Gaza Training Centre	TQM	Total Quality Management
GIZ	German Society for International Cooperation	TSI	Trade Support Institution
HS	Harmonized System	TSN	Trade Support Network
ICT	Information and Communications Technology	TVET	Technical & Vocational Education and Training
IDB	Islamic Development Bank	UK	United Kingdom
ISO	International Organization for Standardization	UNRWA	United Nations Relief and Works Agency
ITC	International Trade Centre	USAID	United States Agency for International Development
MoE	Ministry of Education	WB	West Bank
MoF	Ministry of Finance	WIU	Wood Industries Union



Source: © PalTrade

EXECUTIVE SUMMARY

The Palestinian furniture industry was born more than 60 years ago when a small-scale furniture sector was established in the West Bank and Gaza. The signing of the Oslo peace accords in 1993 was a catalyst for its expansion and the sector recorded a growth of 33% in the period immediately following the accords.

CURRENT CONTEXT

The furniture sector is a well-established sector in the State of Palestine and it is characterized by strong workmanship skills combined with unique and high quality local design. The furniture sector production was valued at US\$188.9 million in 2011, having grown 127% from US\$83 million in 2006. This represents approximately 1.9% of total Palestinian GDP and 6.7% of total industrial output.

The Palestinian furniture sector can be segmented into four major categories: home furniture, office furniture, kitchen furniture and traditional furniture. The bulk of the sector's focus is on the home furniture category (46% of production), followed by office (17%) and kitchen furniture (17%). Traditional furniture, which is comprised of doors, windows, and other construction-related elements, makes up 15% of the sector's production. A minor portion of production is focused on rattan furniture and steel furniture products (3% and 2% respectively).

The Palestinian furniture sector is dependent on wood, given the paucity of wood in the State of Palestine. However, the furniture sector is one of the few NES priority export sectors in the State of Palestine that enjoys a positive trade balance. After an initial dip in early 2000 due to the effects of the second intifada, exports have outweighed imports by a factor of almost two in recent years. This represents the resurgence of the furniture sector in the West Bank, and also the gradual stabilization in the Gaza Strip.

EXPORTS PERFORMANCE

Exports only represent approximately 10% of the sector's production. In 2011, the total exports of the sector amounted to US\$57.8 million. Bedroom furniture, mattresses, seats, and office furniture constitute the main export products of the furniture sector. Sector exports grew at a rate of 77% (based on absolute values) between 2007 and 2011, almost double the rate of average global import rate growths.

There is an important concentration of furniture exports on a single destination. The vast majority of exports (99 percent) are concentrated on the Israeli market with minimal export volumes going to Jordan. It has been identified that the furniture export sector has been able to respond more effectively to buyers' requirements than other sectors in the State of Palestine since it is slightly better at maintaining longer export relationships.

The analysis indicates that a number of issues hamper and limit the export development and diversification of the Palestinian furniture sector. These constraints include restrictions on access to raw materials, limited mass production capabilities, outdated technical curricula for trainees, limited product diversification abilities and weak design capabilities. These important issues are further exacerbated by challenges such as significant challenges in procuring and maintaining capital equipment, inadequate quality infrastructure limiting compliance with international standards, limited knowledge of market requirements and limited availability of specific trade information.

OPTIONS FOR FUTURE DEVELOPMENT

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

**Strengthened furniture sector competing globally,
and formally supported and complemented
through an integrated industry.**

To achieve this vision, the strategy implementation will reduce binding constraints on trade competitiveness and capitalize on strategic options identified for the Palestinian furniture 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 furniture sector will focus on selected products in such target destinations as Israel and Jordan. 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 Algeria, Libya and Egypt.

To achieve efficiency gains in the furniture sector, the key structural changes to the value chain will include the developing synergies between the wooden furniture and traditional embroidery sectors in order to produce new export designs, supporting enterprises to have internationally recognized certifications, developing a service sector providing interior design and furnishing contracting services.

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 three strategic objectives, each spelling out specific sets of activities intended to address both challenges and opportunities facing the furniture sector in Palestine:

- Enhance the policy and institutional framework to create an enabling business environment and support effective development of the sector.
- Increase production performance through wide-ranging improvements in the TVET infrastructure, production capacities, and quality management architecture, as well as the technological and capital equipment base.

- Enhance the ability of enterprises to identify opportunities in international target markets through the provision of timely and relevant trade information.

TARGETS OF STRATEGY

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

- Increase by 50 % exports to Israel mainly through improved production techniques and increased quality in order to further penetrate this key market and differentiate Palestinian products.
- Increase by 15 % exports to Jordan through improved export processes to this market and planned enhancements of production performance to specifically satisfy and service this market.
- Diversify exports to North Africa with a specific target on Western Arab countries (Algeria, Libya, and Tunisia) as well as Egypt. At the end of five implementation period, it is anticipated that total new exports to Egypt will be worth 90 million of US\$ and the new exports to Western Arab countries will exceed 60 million of 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 furniture sector. Each institution mandated to support the export development of the furniture 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 furniture sector strategy within 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 (TSN) 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 strategy development process. This analysis results in the identification of all players, processes and linkages within the sector. The process served as the basis for analysing the current performance of the value chain and for deliberating on options for the 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 input providers, transportation service providers, packaging houses, and financial service providers, among others.

TSN analysis

The trade support network (TSN) comprises the support services available to the primary value chain players discussed above. It is constituted of policy institutions, trade support organisations, business services providers and civil society. 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 the 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 term 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.



Source: © <Sin datos de vínculo>. <Sin datos de vínculo>

INTRODUCTION

The furniture analysis and strategy presented in this document forms an integral part of the National Export Strategy of the State of Palestine. The furniture sector is a key, growing manufacturing sector in the State of Palestine, which is especially important during the current period of decline of the contribution of manufacturing to GDP. The sector's development has been difficult following the second intifada, but it is now rebounding thanks to easing of restrictions and some relocation of production. The skills and capacities of the sector to produce quality home, office and industrial furniture for clients are

essential for its continued export development. This document presents the expectations of the private and public sectors for the enhancement of the furniture sector in the State of Palestine. Without concerted efforts to address critical issues and identified market development opportunities, the sector's potential would remain untapped instead of leveraging its potential and capacity. The five year plan of action of the export strategy proposes realistic and achievable activities that will contribute to making the sector a leading export sector offering Palestinian furniture of quality to meet growing regional demand.

HISTORICAL OVERVIEW

The Palestinian furniture industry was born more than 60 years ago when a small-scale furniture sector was established in the West Bank and Gaza. The signing of the Oslo peace accords in 1993 was a catalyst for its expansion and the sector recorded a growth of 33% in the period immediately following the accords. Although the post-accord growth slowed to 9% by the late 1990s, the sector's enterprises continued to make significant advancements.

This period saw the establishment of many firms in both Gaza and the West Bank, along with advancements in design and manufacturing processes.¹ Product diversification took place and the sector's portfolio expanded to include new categories such as interior design, and hospitality and commercial furnishings.²

The economic and political turmoil that resulted from the second intifada and the later blockades imposed on Gaza

precipitated a marked deterioration in the sector's activity. As the furniture sector had been historically concentrated in Gaza, the blockade had a severe impact. In particular, the blockade led to severe shortages of raw materials and was responsible for the temporary or permanent closing of 80% of operations. Capacity utilization in working establishments dropped to 20%, and by 2007 the Gaza furniture industry only employed 100 of the sector's total 5,333 workers. The situation has spurred the movement of capital away from Gaza to other locations such as the West Bank and Egypt. The locus of the Palestinian furniture sector has relocated to the West Bank.

Despite such difficulties, the furniture industry in the State of Palestine experienced impressive growth, directly linked to the marked supply shortage of furniture in the State of Palestine and Israeli markets. Since the relaxation of Israeli measures in 2010 and an increased utilization of tunnels on the Gaza-Egypt border, the furniture sector in Gaza has slowly begun its recovery. It should be noted, however, that the recent clashes with Israel have again disrupted sector operations, although the full extent of the impact is still being assessed.

1. USAID-Development Alternatives Inc. (DAI) (2006). *Cluster Competitiveness Assessment: Eight Industrial and Services Clusters in Palestine*.

2. *Ibid.*

WHERE ARE WE NOW

STRUCTURE OF THE SECTOR

The furniture sector is a well-established sector in the State of Palestine and it is characterized by strong workmanship skills combined with unique and high quality local design. These skills qualify the Palestinian furniture to access medium and upper-medium niches of Western European and Gulf markets. Currently, the sector focuses on delivering a handful of niche products to Arab countries and the Gulf region. These products include dining room furniture, bedroom furniture, children's furniture and baby beds.³

Furniture producers are primarily small and medium size family businesses and workshops. Firms vary in size between factories employing more than fifty workers to small, home-based workshops operated by a handful of individuals. The sector was comprised of 2,954 firms

3. *Ibid.*

in 2011, 70% of which are located in the West Bank and 30% of which are in Gaza.⁴ The capacity of the sector has increased from 2006 to 2011, with a growth of 60% in the number of firms in the sector.

The majority of firms, however, are micro-enterprises that employ an average of three workers. Of all enterprises, 97% of them employ between one and nine workers, and only 3% employ between 10 and 50 workers.⁵ The Palestinian furniture sector currently employs 8,890 workers.⁶ This is an increase of roughly 67% from 2006 levels and is a testament to the strong rebound experienced by the sector after the second intifada.

4. PCBS (2011). *Economic indicators in the Palestinian territories of the activity of Industry*. PNA.

5. PalTrade (n.d.). *Palestine trade facilitation portal – The Palestinian wood furniture sector*. Available from <http://www.ptfp.ps/etemplate.php?id=210>. Accessed 17 June 2013.

6. PCBS (2011). *Economic indicators in the Palestinian territories of the activity of Industry*. PNA.

Table 1: *Palestinian furniture sector evolution 2006 – 2011*

	2006	2011
Number of firms	1 850	2 954
Employment	5 333	8 890
Production amount (US\$ millions)	83	188.9
Total value added (US\$ millions)	--	63.3
Percentage of value added	--	33.5
Gross fixed capital formation (US\$ millions)	--	2.3

Source: USAID-Development Alternatives Inc. (DAI) (2006). *Cluster Competitiveness Assessment: Eight Industrial and Services Clusters in Palestine*, and PCBS (2011). *Economic indicators in the Palestinian territories of the activity of Industry*. PNA.

The sector has organizational management through the Wood Industries Union (WIU) which has, mainly in Gaza, leveraged some of the sector's opportunities. This has served to organize a large number of firms in the cluster framework that encourages producers to leverage inter-firm relationships to capitalize upon emerging opportunities. Enterprises do, however, lack some specialized

skills, and their development is further hindered by their limited use of technology.⁷

7. USAID-Development Alternatives Inc. (DAI) (2006). *Cluster Competitiveness Assessment: Eight Industrial and Services Clusters in Palestine*.

Figure 1: Contribution of manufacturing to Palestinian GDP 2008 – 2011

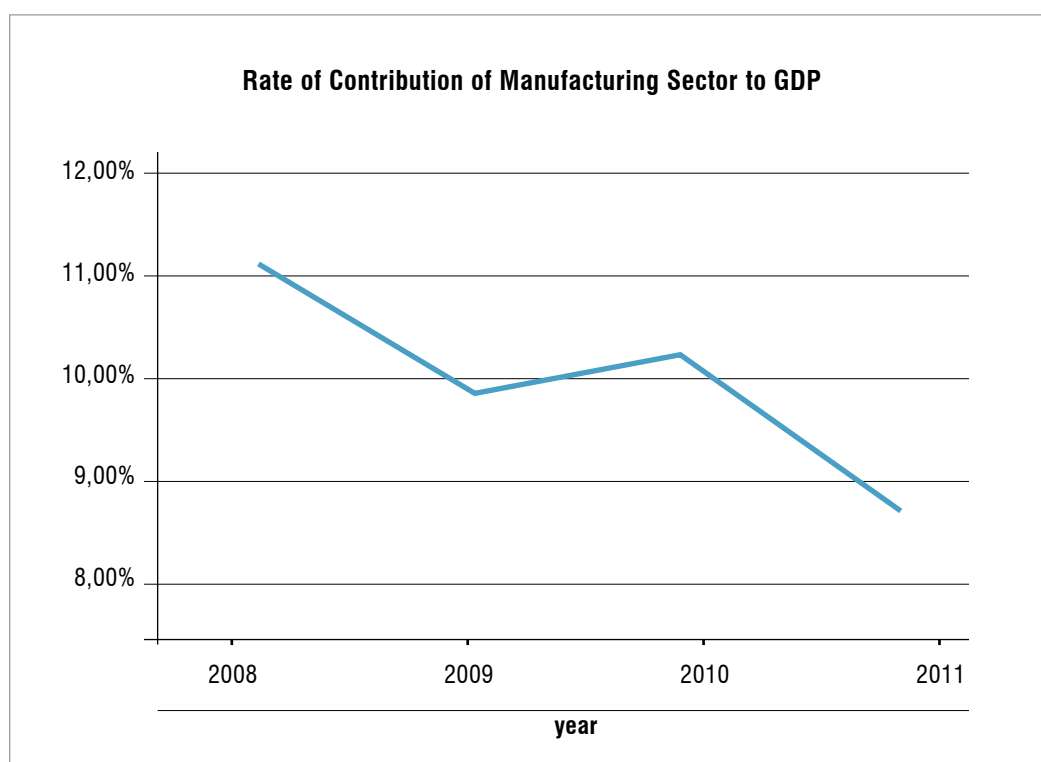
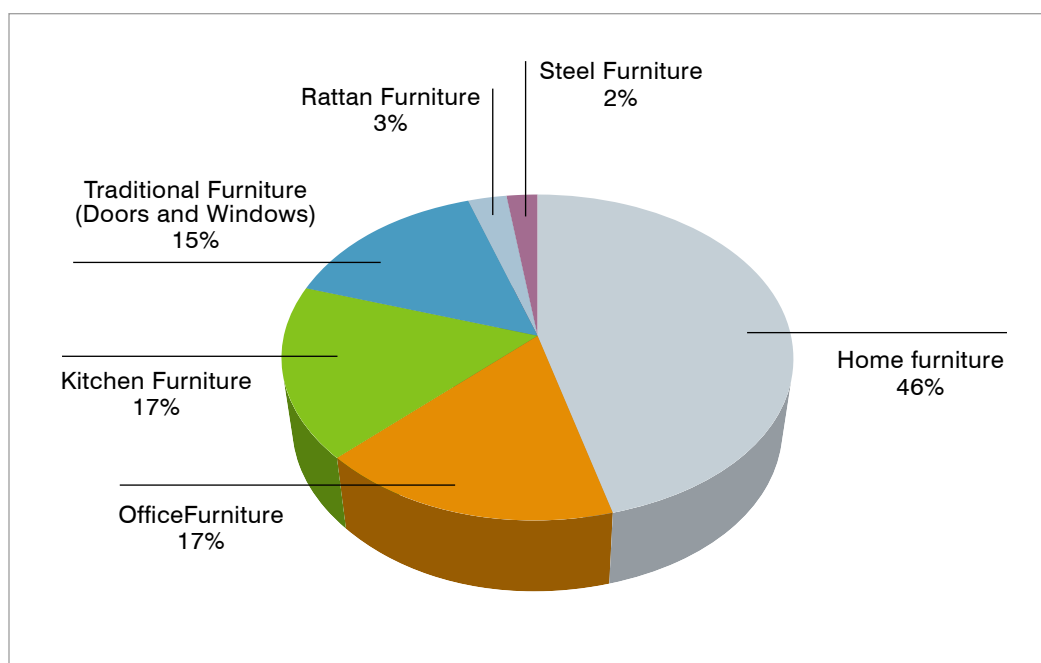


Figure 2: Sector production 2011



Source: Provided by WIU as an internal analysis



Source: © PalTrade

PRODUCTION

Sector production was valued at US\$188.9 million in 2011, having grown 127% from US\$83 million in 2006.⁸ This represents approximately 1.9% of total Palestinian GDP and 6.7% of total industrial output.⁹ Total value added in the same year was US\$63.3 million, and the percentage of value added was 33.5%.¹⁰

The strong growth of the sector is especially important because manufacturing in general has continued to decline as a proportion of GDP in the State of Palestine: 8.7% in 2011 versus 11.1% in 2008.

The Palestinian furniture sector can be segmented into four major categories: home furniture, office furniture, kitchen furniture and traditional furniture. Figure 2 demonstrates the diverse range of products that the sector produces. As can be seen in Figure 2, the bulk of the sector's focus is on the home furniture category (46% of production), followed by office (17%) and kitchen furniture (17%). Traditional furniture, which is comprised of doors, windows, and other construction-related elements, makes up 15% of the sector's production. A minor portion of production is focused on rattan furniture and steel furniture products (3% and 2% respectively).

8. PCBS (2011). *Economic indicators in the Palestinian territories of the activity of Industry*. PNA; and USAID-Development Alternatives Inc. (DAI) (2006). *Cluster Competitiveness Assessment: Eight Industrial and Services Clusters in Palestine*.

9. PCBS (2011). *Economic indicators in the Palestinian territories of the activity of Industry*. PNA.

10. *Ibid.*

Production can be further detailed by sub-product: household furniture, accessories, contract furniture, and support industries. Household furniture comprises home and kitchen furniture and includes products for the kitchen, living room, bedroom, dining room, and infants. Accessories include products such as knobs, escutcheons, handles and plates. This subsector, which adds significant value to manufactured products, is only recently emerging in the State of Palestine. Locally produced accessories are available in both standard and custom designs featuring constructed steel, aluminium, copper, chrome, and nickel. Contract furniture includes furniture used in hotels, restaurants, schools, etc. The support industry subsector involves support manufacturing for foam, fabrics, cushions, mattresses, paints and miscellaneous metalwork.

VALUE CHAIN OPERATIONS¹¹

PRE-PRODUCTION AND INPUTS SOURCING

The furniture sector's value chain is both resource and labour intensive, and it begins with the design process and the acquisition of the necessary material inputs. This step in the value chain is responsible for roughly 81% of aggregate costs. The direct sourcing of inputs is mostly

11. Information in this section has been primarily extracted from USAID-Development Alternatives Inc. (DAI) (2006). *Cluster Competitiveness Assessment: Eight Industrial and Services Clusters in Palestine*.



Source: © Eva Bartlett/IPS.. Furniture on display at the trade show in Gaza.

achieved through imports, with few additional impediments other than those faced by most sectors in the State of Palestine.

As in most goods manufacturing, furniture production is required to evolve with changing consumer needs and styles. As such, furniture manufacturers need to adopt new styles to fulfil changing consumer demands. At the moment this step in the value chain is hindered by the absence of adequate professional design services.

PRODUCTION

The next step is operations and development, which comprises 6% of the value chain's aggregate costs. In this phase, enterprises engage in manufacturing, assembly, and testing. Production in wood working, pigment and painting, upholstery and assembly involves reliance on hand tools and, to a lesser extent, machinery, semi-automatic processes, and CNC machinery.

DISTRIBUTION

Goods then move through a step of value-added services in the outbound stage. Responsible for 2.5% of aggregate costs, this stage sees to packaging. The next step,

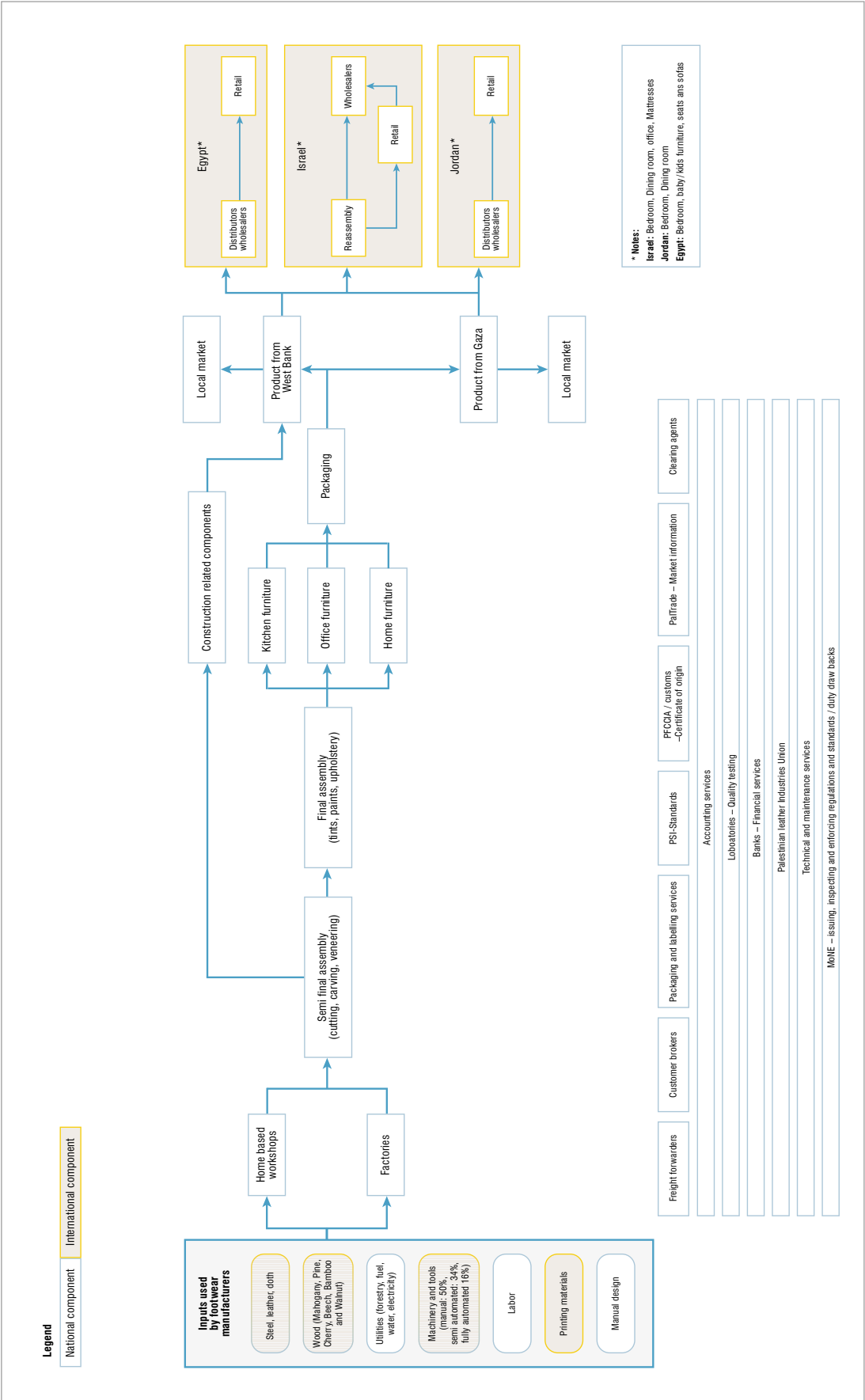
marketing and sales, involves both direct sales as well as promotional activities. Products are distributed through wholesale and retail channels as well as showrooms and tenders. A number of tools are leveraged in marketing, including brochures, catalogues, company profiles, showrooms and trade fairs. It should be noted, however, that the use of these tools requires improvement. This step in the chain is responsible for 1% of aggregate costs.

SERVICES AND SUPPORT

The last stage of the value chain is services and support. It comprises 5.2% of total costs and involves shipping the products to their destination as well as training and providing after-sales support. It should be noted that general overhead comprises 4.3% of total costs.

A number of institutions provide support to enterprises throughout the value chain. These include commercial entities such as insurance companies, shipping companies, local banks, and inputs suppliers. Further support is provided by PalTrade, WIU, MoNE, together with a variety of other associations and institutions.

FIGURE 3: CURRENT VALUE CHAIN



SECTOR IMPORTS

Imports in the furniture sector are primarily production inputs, as well as imports to support the booming construction sector in the State of Palestine.

Most producers depend on local importers to provide the required wood, while some producers import directly. Besides wood, other imports in the sector are paints, stains and accessories from Italy, Germany and China, and textiles from Turkey.¹²

IMPORTS OF PRODUCTION INPUTS

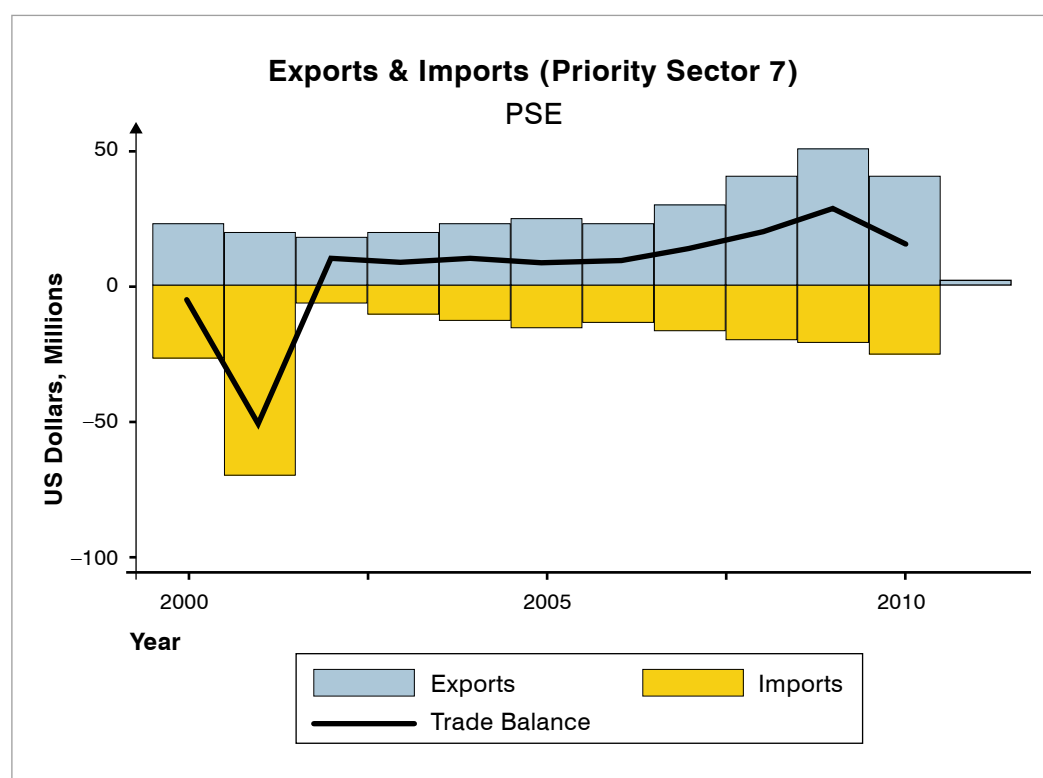
The main import of the Palestinian furniture sector is wood, given the paucity of wood in the State of Palestine. The main types of imported wood are mahogany, pine, cherry, beech, bamboo, and walnut. The main sources of imported woods are Eastern European countries (Romania, Germany, the Russian Federation, Montenegro and Serbia). Wood products such as plywood, laminated board and chipboard are mainly imported from Eastern European countries (Romania, Germany, the Russian Federation, Montenegro and Serbia) while lesser amounts are imported from Brazil.

POSITIVE TRADE BALANCE

As indicated in Figure 4, the furniture sector is one of the few NES priority export sectors in the State of Palestine that enjoys a positive trade balance. After an initial dip in early 2000 due to the effects of the second intifada, exports have outweighed imports by a factor of almost two in recent years. This represents the resurgence of the furniture sector in the West Bank, and also the gradual stabilization in the Gaza Strip.

12. PalTrade (2008). *Market Share Assessments*, p. 43.

Figure 4: Trade balance in the Palestinian furniture sector 2000-2010



Source: ITC calculations based on Comtrade SITC Revision 3 data

Table 2: *Leading global importers of furniture products*

Rank	Importers	Value imported in 2012 (US\$ thousand)	Growth in value between 2007 and 2012 (%) (absolute growth)	Share of world imports (%)
	World	153 478 486	10.9	100
1	United States of America	39 514 951	4.6	25.7
2	Germany	13 381 566	18.2	8.7
3	France	8 546 823	1.1	5.6
4	United Kingdom	7 528 247	-22.3	4.9
5	Japan	7 016 666	32.2	4.6
6	Canada	6 866 226	13.1	4.5
7	Switzerland	3 413 813	13.6	2.2
8	Russian Federation	3 398 591	121.7	2.2
9	Belgium	3 154 243	-16.6	2.1
10	Netherlands	3 116 151	-11.4	2.0

Source: ITC calculations based on Comtrade data

Table 3: *Leading global exporters of furniture products*

Rank	Exporters	Value exported in 2012 (US\$ thousand)	Growth in value between 2007 and 2012 (%) (absolute growth)	Share in world exports (%)
	World	160,249,313	23.5	100.0
1	China	56,736,056	108.9	35.4
2	Germany	12,680,443	8.9	7.9
3	Italy	10,887,679	-19.8	6.8
4	Poland	8,695,695	12.5	5.4
5	United States of America	7,799,349	18.5	4.9
6	Mexico	5,959,697	30.7	3.7
7	Viet Nam	4,929,057	108.4	3.1
8	Canada	3,989,244	-26.7	2.5
9	France	2,770,865	-27.8	1.7
10	Malaysia	2,673,366	8.3	1.7

Source: ITC calculations based on Comtrade data

Table 4: *Value and growth of Palestinian furniture exports 2007-2011*

HS Code – 4 digits	Product label	Exported value 2011 (US\$ thousand)	Growth by value of Palestinian exports (%) (absolute values)	Annual growth by value of world imports (%) (absolute values)
			(2007-2011)	(2007-2011)
HS 9401, HS 9402, HS 9403, HS 9404	All Palestinian furniture exports	57 880	77	40.3

Source: ITC calculations based on Comtrade data



Source: © PalTrade

GLOBAL MARKETS

The furniture sector is composed of the following Harmonized System (HS) code combinations:

- HS 9401: seats (except barber, dental, etc.), and parts;
- HS 9402: medical, surgical, dental or veterinary furniture etc.;
- HS 9403: other furniture and parts thereof;
- HS 9404: mattress supports, articles of bedding etc.

GLOBAL IMPORTS

The global market for furniture stood at US\$ 153.4 billion in 2012, reflecting a growth in value of 11% between 2007 and 2012. The United States of America is the leading global importer of furniture products, and currently accounts for more than 25% of all global imports. The European Union (EU), primarily Germany, France and the United Kingdom of Great Britain and Northern Ireland, occupy the other leading positions. Japan rounds off the top five.

Among the top ten importers, Germany, Japan, Canada, Switzerland and the Russian Federation reflect import growth rates higher than the global averages, and the Russian Federation in particular exhibits a significantly high growth rate. The United Kingdom, Belgium and the Netherlands exhibit negative growth rates, indicating declining imports.

GLOBAL EXPORTS

China is the leading global exporter of furniture products, accounting for 35% of global exports in 2012, and reflecting a growth rate well over the global average. Germany, Italy, Poland and the United States are the other leaders among the top five exporting group. Among the top ten exporters, Viet Nam exhibits an export growth rate similar to that of China (108%). Italy has exhibited a decline in terms of export growth when 2007 and 2012 absolute figures are compared.

THE STATE OF PALESTINE'S EXPORT PERFORMANCE

Exports only represent approximately 10% of the sector's production. In 2011, the total exports of the sector amounted to US\$57.8 million. Sector exports grew at a rate of 77% (based on absolute values) between 2007 and 2011, almost double the rate of average global import rate growths.

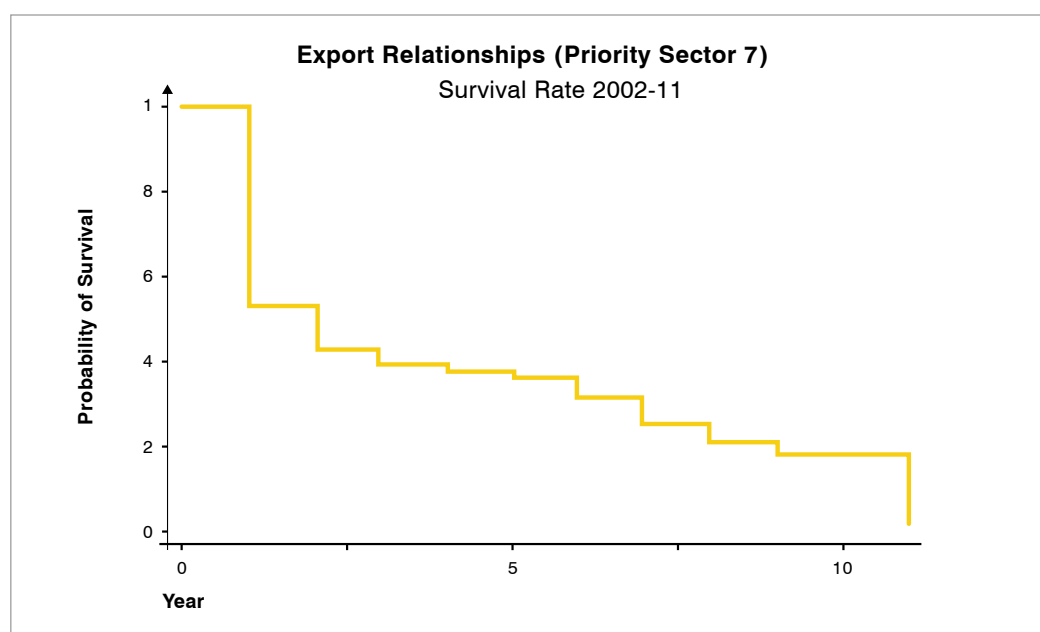
Table 5 indicates the main export products of the Palestinian furniture sector. Bedroom furniture, mattresses, seats, and office furniture constitute the main export products. As is evident, Israel is the main customer for Palestinian furniture products, followed by Jordan, which imports a much smaller percentage.

Table 5: Export products and markets for furniture products (HS6 level)

Code	Product label	Exported value in 2011 (US\$ thousand)	Main target markets
940350	Bedroom furniture, wooden, n.e.s.	13 793	Israel (13 786)
940429	Mattresses of other materials	13 741	Israel (13 741)
940161	Seats, with wooden frames, upholstered	8 911	Israel (8 911)
940130	Swivel seats with variable height adjustment	5 381	Israel (5 381)
940310	Office furniture, metal, n.e.s.	5 047	Israel (5 047)
940370	Furniture, plastic, n.e.s.	3 245	Israel (3 245)
940421	Mattresses of cellular rubber or plastics, whether or not covered	2 647	Israel (1 897) Jordan (750)
940340	Kitchen furniture, wooden, n.e.s.	2 562	Israel (2 560)
940330	Office furniture, wooden, n.e.s.	808	Israel (808)
940490	Articles of bedding/furnishing, n.e.s., stuffed or internally fitted	759	Israel (711) Jordan (44)

Source: ITC calculations based on Comtrade data

Figure 5: Export survival for HS 9401, 9402, 9403, 9404



Source: ITC calculations based on Comtrade SITC Revision 3 data



Source: © PalTrade

COMPETITION IN TARGET MARKETS

Palestinian goods compete locally with products from the United States, Italy, China, and Turkey. Nonetheless, local products are able to distinguish themselves with their features and quality. Moreover, simpler logistics and more readily available after-sales service often provide local producers with a competitive advantage over foreign entrants. On the international market, Palestinian enterprises face competition mainly from Malaysia, Turkey and Indonesia. Again, however, in face of the competition Palestinian exporters benefit from tax-free arrangements facilitated by almost all Arab countries.¹³ The main competitors for Palestinian furniture in Israel are Italy, Belgium, Spain, Scandinavia and the United States. Internationally, the competitors are Turkey, Malaysia and Indonesia.

Export relationships in the Palestinian furniture sector have exhibited low survival rates as indicated in figure 5. An export relationship in the sector has a 52% chance of survival after the first year, reflecting a steep drop. After the first year, the probability of an export relationship surviving drops gradually to 20% by the eighth year of operation. Even if these numbers indicate a challenge for exporters to maintain lasting export relationships, they are more positive than for other sectors in the State of Palestine. The slower drop after the first year indicates that those clients initially pleased with the products are willing to pursue the relationship. Thereafter, the furniture sector has been able to respond more effectively to buyers' requirements than other sectors in the State of Palestine.

These figures can also reflect the turmoil that has affected the Palestinian furniture sector since 2002, especially in Gaza, where the bulk of the sector infrastructure was

destroyed in the second intifada, the subsequent unrest and the economic/military embargo. Between 2002 and 2011, most of the export relationships were unable to survive past the first year, which explains the sharp drop shown in Figure 5.

THE INSTITUTIONAL PERSPECTIVE

Trade support institutions (TSIs) are institutions that have an interest in, and bearing on, the sector's export development. Broadly, the trade services institutions providing important services to the Palestinian furniture sector can be categorized in the following areas:

- Policy support network
- Trade services network
- Business services network
- Civil society network

Tables 6 to 9 identify the main TSIs whose service delivery affects the furniture 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 in the context of the service delivery of the TSI relative to the furniture sector. In other words, the assessment was conducted based stakeholders' evaluation of TSIs from the perspective of how well they serve the furniture sector stakeholders.

POLICY SUPPORT NETWORK

These institutions represent ministries and competent authorities responsible for influencing or implementing policies and regulations in the State of Palestine.

13. USAID-Development Alternatives Inc. (DAI) (2006). *Cluster Competitiveness Assessment: Eight Industrial and Services Clusters in Palestine*.

Table 6: *Palestinian furniture sector policy support network*

Policy support network					
Name	Function/role	Coordination*	Human capital**	Financial sustainability***	Advocacy****
Ministry of National Economy (MoNE)	<p>The Ministry of National Economy is responsible for the furniture sector for:</p> <ul style="list-style-type: none"> • Standards and regulation enforcement • Duty draw back payment • Release of financial guarantee • Industrial licence • Renewal of industrial operating licence • Verification of name • Certification of a Certificate of Origin • Re-exporting transactions • Certified Exporter certificates 	H	M	H	H
Ministry of Planning and Administrative Development (MoPAD)	<p>The role of the Ministry is to lead cross-sector planning; to develop comprehensive development policies with the participation of all relevant Palestinian institutions; and to coordinate and support sector planning in the concerned ministries and institutions so as to ensure their consistency with the comprehensive cross-sector approaches and plans.</p>	M	M	L	L
Ministry of Higher Education (MoHE)	<p>MoHE has the overall responsibility of supervising the education system in the State of Palestine including schools, colleges and universities. It is also responsible for overseeing Technical Vocational Education Training (TVET), which includes vocational schools, vocational-technical training centres (VTCs), and technical colleges.</p>	L	M	L	H

* Coordination with other TSIs: measures the strength of this institution's linkages with other institutions as well as the beneficiaries of their services (in particular, the private sector) in terms of collaboration and information sharing.

** Human capital: assesses the general level of capability of this institution's staff in terms of their training, and responsiveness to the sector stakeholders.

*** Financial resources: assesses the financial resources/capacity available to the institution to provide service delivery in an efficient manner.

**** Advocacy: the efficacy of this institution's advocacy mechanisms, and how well/frequently this institution disseminates important information to the sector.

TRADE SERVICES NETWORK

These institutions or agencies provide a wide range of trade-related services to both government and enterprises. They support specific aspects of trade and are concerned with the delivery of trade and export solutions to both public and private sectors.

Table 7: *Palestinian furniture sector trade services network*

Trade services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestinian 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 furniture 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	L	H	H
Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA)	The Federation's main task is to help local chambers of commerce and their members to 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 FPCCIA is a lobbying and advocacy institution for the private sector.	H	M	L	H
Palestinian Standards Institution (PSI)	PSI is considered the sole body responsible for issuing Palestinian standards, by providing accreditation for labs, granting the quality mark for products, and signing cooperation and mutual recognition agreements with other countries to facilitate trade.	L	L	L	L
Wood Industries Union (WIU)	WIU was established in October 1999 to improve the local furniture industry and structure the organizational development, market linkages and policy management of the sector. WIU capacity has developed significantly during the last few years to become recognized as the furniture sector representative in the State of Palestine, and the reference point for this growing industry.	H	L	L	M
Palestinian Federation of Industries (PFI)	The 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.	H	L	L	M

Table 8: *Palestinian furniture sector business services network*

Business services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestinian Shippers' Council (PSC)	The Palestinian Shippers' Council addresses the urgent needs of Palestinian importers and exporters arising from the protracted conflict, and supports the Palestinian National Authority's reform and long-term trade development efforts. PSC is committed to strengthening Palestinian shippers' capacities through collective negotiations, cooperative agreements, advisory services, training workshops, study tours, tailor-made services, and providing up-to-date information.	M	L	L	M

Table 9: *Palestinian furniture sector civil society network*

Civil society network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Gaza Training Centre (GTC), United Nations Relief and Works Agency (UNRWA)	The Gaza Training Centre provides training in carpentry. The centre teaches market-relevant skills to help Palestinian refugee youth find employment after graduation, and reduce high levels of refugee unemployment.	L	H	L	L

Table 10: *Perception of Palestinian trade support institutions in the furniture sector– influence vs. capability*

		Capacity of institution to respond to sector's needs	
		Low	High
Level of influence on the sector	High	<ul style="list-style-type: none"> Ministry of Planning and Administrative Development Federation of Chambers of Commerce, Industry and Agriculture (PFCCIA). 	<ul style="list-style-type: none"> Ministry of National Economy (MoNE) Wood Industries Union (WIU) Palestinian Federation of Industries (PFI)
	Low	<ul style="list-style-type: none"> Palestinian Standards Institution (PSI) Ministry of Higher Education (MoHE) Palestinian Shippers' Council (PSC) 	<ul style="list-style-type: none"> Palestinian Trade Centre (PalTrade) Gaza Training Centre (GTC) UNRWA

BUSINESS SERVICES NETWORK

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

CIVIL SOCIETY NETWORK

These institutions are not explicitly engaged in trade related activities. They are often opinion leaders representing interests that have a bearing on the country's export potential and socioeconomic development.

PERCEPTION OF PALESTINIAN TRADE SUPPORT INSTITUTIONS IN THE FURNITURE SECTOR – INFLUENCE VS. CAPABILITY

Table 10 details a classification of trade support institutions supporting the furniture sector. The classification represents the perception of stakeholders regarding the level of influence and capacity of each institution to respond to exporters' needs.

There are three institutions considered as having strong influence and capacity for the development of the furniture sector. The Wood Industries Union and Palestinian Federation of Industries, as the main representatives of the sector, are deemed capable of, and influential in, representing the interests of their members. The Ministry of National Economy, as the main governmental body, is also considered capable of supporting the sector through developing policies, facilities and support.

The Ministry of Planning and Administrative Development and the PFCCIA have influence on the sector through the role of coordination and planning, as well as the provision of services in support of the private sector. Nevertheless, these institutions could benefit from a strengthening of their capacities to deliver services effectively to this sector.

As a key institution for the export development of the furniture sector, the Palestinian Trade Centre (PalTrade) is perceived as capable but not really influential for the

sector. This confirms the value of PalTrade as a technical institution serving the market development needs of the sector. Similarly, the Gaza Training Centre (GTC) has the capacity in Gaza to respond to the training requirements of the sector. Other key institutions such as PSI, PSC and MoHE are seen as important for the sector's development but currently lack both the capacity and the influence to guide the sector's development effectively.

ANALYSIS OF DEVELOPMENT ACTIVITY IN THE SECTOR

The analysis of ongoing development activities in the furniture sector is relevant insofar as it serves to identify the main thrusts of the various development actors and their initiatives, while also identifying duplications, gaps and areas of neglect. The latter is especially important as identified gaps will be further analysed, and addressed through specific interventions in the sector's strategic plan of action (PoA).

Table 11: Current development projects in the Palestinian furniture sector

Project	Status	Funding agency / lead implementer	Expected areas of intervention
• Needs Assessment and Development Plan for the Furniture Sector in the Gaza Strip	2012 – 2015	WIU, PFI, GIZ and PalTrade	• Increase the availability of skilled workers and technicians; improve management practices; increase the capacities and quality standards of furniture producers; improve domestic market share; establish access to new international markets; improve access to finance; and strengthen the role of the Wood Industries Union within the sector.
• Private Sector Cluster Development Project	2012 – 2015	AFD / FPCCIA	• Strengthen the competitiveness of local companies, and especially SMEs, in order to increase their market share in the local market and/or explore new markets for export through: • Support to the structuration of productive sectors/subsectors with high potential; • Improvement of public-private dialogue.
• Private Sector Development Programme	2007 – 2013	GIZ	• Technical assistance to the private sector - training and capacity-building.
• Palestine Facility for New Market Development	2013 – 2018	World Bank (UK-DFID)	• Grants and advice for small and medium size Palestinian businesses to enter new markets.
• Assessment and Verification of 400 Private Sector Entities	2012 – on-going	Islamic Development Bank	• Revitalize the industrial sector by replacing and repairing damaged industrial assets; • Build capacities for the private sector while at the same time opening up new markets through participation in trade exhibitions and missions, and the enhancement of product quality and competitiveness.
• Palestinian Community Assistance Programme	2011 – on-going	Mercy Corps	• Improve the future of Palestinians living in Gaza through integrated social and economic relief and recovery.

A number of donor and development programmes have contributed to strengthening the Palestinian furniture sector.

- The Needs Assessment and Development Plan for the Furniture Sector in the Gaza Strip (2012 – 2015) has been developed by WIU, PFI, GIZ, and PalTrade. This plan proposes to increase the availability of skilled workers and technicians; improve management practices; increase the capacities and quality standards of furniture producers; improve domestic market share; establish access to new international markets; improve access to finance; and strengthen the role of WIU within the sector. The WIU plan for 2011 also contributed to bolstering the sector. In particular it promoted participation in internal and external exhibitions and trade missions, while at the same time promoting enhanced technical training and increased exports to new markets.
- AFD's Private Sector Cluster Development Project (2012–2015) is being executed by the Federation of Palestinian Chambers of Commerce, Industry and Agriculture. This programme seeks to organize and facilitate the coordination of capacities by helping the private sector to identify common challenges, create partnerships, and structure collective projects. Moreover, it aims to focus on building economic intelligence in order to develop new competitive advantages.
- GIZ's Private Sector Development Programme (2007–2013) provides technical assistance to the private sector in the form of training and capacity-building. It also seeks to enhance international outreach, while at the same time strengthening organizational support within the private sector.
- The World Bank's (UK–DFID) Palestine Facility for New Market Development (2013–2018) project will take a holistic approach towards developing market opportunities that will involve encouraging both domestic and foreign market penetration, as well as the stimulation of enhanced enterprise capacities, innovation, and competitiveness. Work will be done to help promote first time exporters, and the local market for business development services will be strengthened.
- The Islamic Development Bank is administering three projects aimed at assessing and rebuilding damaged infrastructure and re-establishing market linkages. The first, the Assessment and Verification of 400 Private Sector Entities project (2012–ongoing), will assess damaged assets in preparation for compensation and replacement that will help rebuild private sector assets. The Rehabilitation of Damaged Industrial Sector Facilities project (2011–2013) seeks to revitalize the industrial sector by replacing and repairing damaged industrial assets. Finally, the Re-linking the Palestinian Economy in the Gaza Strip with the Arab Region project (2011–ongoing) seeks to build capacities for the private sector, while at the same time opening up new

markets through participation in trade exhibitions and missions and the enhancement of product quality and competitiveness.

- Additionally, USAID (United States Agency for International Development) is implementing its Palestinian Community Assistance Programme (2011–ongoing) through Mercy Corps. Among other goals, the project seeks to rebuild infrastructure and train contractors and engineers on management and construction issues.

KEY AREAS TO FOCUS ON

The work of development agencies has thus far touched upon a number of vital issues aimed at increasing both capacities and competitiveness of the sector. There are, therefore, a number of areas that must be further addressed by the wider donor community:

- A key success factor will be the alignment of initiatives towards a common objective of the sector. The stakeholders of the sector, with the technical partners, need to ensure the various projects are aimed at improving the structure and development of the furniture sector, as per its roadmap;
- The strengthening of WIU in its capacity to respond to the requirements of members in Gaza as well as in the West Bank is seen as a key factor for ensuring the sector develops in a coherent and consistent manner. This area of focus is also linked to strengthening the public-private dialogue for enhancing the performance of key support services for the sector, namely TVET, quality requirements and clustering;
- Modernization of sector production and design techniques is also considered a key priority for the sector's export development. Adequate arrangements should be supported to facilitate the sector's transition towards higher quality and volume production.

Box 2: Overview of supply-side issues

- Restrictions on raw materials for use in the sector constrains the productive capacity of enterprises.
- Poor mass production capabilities stemming from lack of experience, and production lines unsuitable for high volume orders.
- TVET institutions providing services to the sector are characterized by outdated curricula.
- Limited product diversification in the sector affects the ability of enterprises to cater to specific target markets.
- Weak design capabilities.
- A sustained decrease in economic activity within the Gaza Strip has adversely affected skills levels in the sector.
- Enterprises in the West Bank face significant challenges in procuring and maintaining capital equipment.

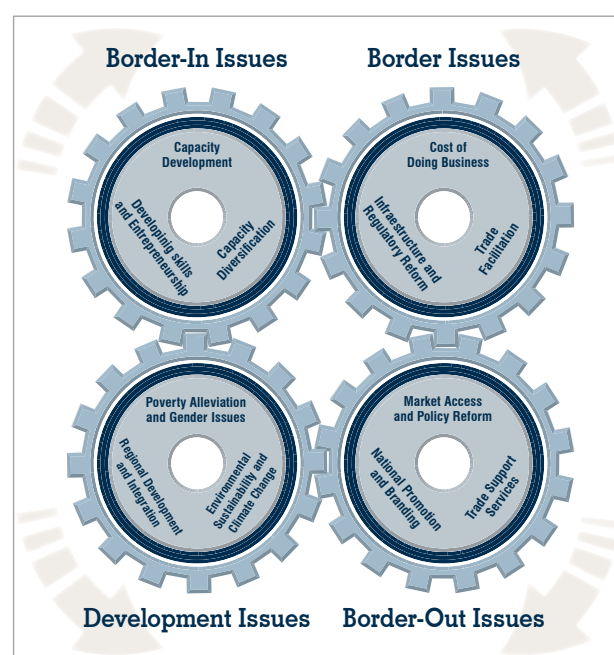
EXPORT COMPETITIVENESS ISSUES

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

- **Supply-side issues** affect 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 the regulatory environment, administrative procedures and documentation, infrastructure bottlenecks, certification costs, Internet access and cost of support services.
- **Market entry** constraints 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 majors constraints that are currently the main export competitiveness bottlenecks in the furniture sector in the State of Palestine. However, the assessment also explores issues limiting socioeconomic spillovers of exports to the larger society:

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



RESTRICTIONS ON RAW MATERIALS FOR USE IN THE SECTOR CONSTRAINS THE PRODUCTIVE CAPACITY OF ENTERPRISES

While the West Bank fares better than Gaza in terms of accessing raw materials for the furniture sector, it also faces significant constraints. These primarily stem from Israeli restrictions on the importation of certain items, and in some cases from the high bureaucratic burden of the paperwork involved in facilitating these transactions; and the instability of crossings and access points materials have to pass through considering the closures and delays, as well as the customs fees and VAT rates imposed on raw materials.

POOR MASS PRODUCTION CAPABILITIES STEMMING FROM LACK OF EXPERIENCE, AND PRODUCTION LINES UNSUITABLE FOR HIGH VOLUME ORDERS

Established capability for mass production allows manufacturers to leverage economies of scale. However, this requires significant investment in developing efficient supply chains and production lines. Typically, firms in the Palestinian furniture sector have little experience in mass producing high quality products owing to the lack of experience in dealing with high volume customers. The lack of capital available to develop production lines capable of mass production is also a reason that sector stakeholders have low capabilities in terms of managing high volume orders. Meanwhile, mass producers such as China have been successful in flooding regional and Palestinian markets with high volume, low quality products.

In some aspects, this represents a circular problem. Given the sector's focus on the domestic market, and its general inability to penetrate foreign markets other than Israel successfully, the apparent business case for making investments to improve volumes is weak for enterprises. However it is also true that aspiring Palestinian furniture exporters will not be able to establish long-term business relationships successfully in the absence of these investments.

TVET INSTITUTIONS PROVIDING SERVICES TO THE SECTOR ARE CHARACTERIZED BY OUTDATED CURRICULA

The curricula of vocational training institutions providing support to the Palestinian furniture sector are outdated and not in line with international standards. Skills development in the sector primarily occurs through apprenticeships and other forms of experiential on-the-job mechanisms. This is partially a result of inadequate policy focus on the state of vocational education in general. The dialogue between the wood industries and the training institutes is not formally established to ensure training programmes remain adapted to industry's needs.

LIMITED PRODUCT DIVERSIFICATION IN THE SECTOR AFFECTS THE ABILITY OF ENTERPRISES TO CATER TO SPECIFIC TARGET MARKETS.

A key characteristic of a competitive industrial sector is product diversification, which allows the sector to position its brand internationally, cater to trends and consumer preferences specific to target markets, and to weather

downswings in a particular product (by distributing the risk across the product portfolio). In this regard, the Palestinian furniture sector is marked by limited product diversification.

Historically, the small size of the domestic market, coupled with trends in consumer preferences, has reduced the viability of product diversification. Steady demand from the top two consumer segments – the public sector (office furniture including desks, chairs, shelves etc.), and the private sector (household and kitchen furniture) – coupled with low existing capacities of firms, diminished their case for product diversification.

Another contributing factor is that enterprises have extensive experience in developing and exporting *specific* products to selected target markets, as a result of which they possess limited technical expertise in developing other products. The main competitive strength of the sector is the expertise (manual) of workers in manufacturing handcrafted beechwood furniture. Beechwood is the main type of raw material that is relatively easy and economical to procure, and has been the main wood-based raw material used in the sector for decades. Consequently, firms in the sector possess relatively limited technical skills related to other raw materials.

Finally, product diversification necessitates investments to develop different production lines. Enterprises are frequently unable to procure the investment capital for facilitating these changes.

WEAK DESIGN CAPABILITIES

For the furniture sector, cutting edge design capabilities are a critical prerequisite for competing with success in global markets. Designs that are in touch with the latest international trends (or at least in pace with popular trends in the particular target market) have a higher chance of attracting and retaining consumer attention.

Palestinian designs, while exuding quality, are generally dated, repetitive, and do not cater to target market requirements. To an extent, the reasons for this important weakness are apparent. First, most designs are hand-made, and enterprises do not use design software such as computer aided design, commonly used as the primary design tool in competitor countries. This is both due to lack of knowledge and training in terms of using the tools, and also because of financial considerations. Second, the relative isolation imposed due to travel restrictions has limited the influx of new design ideas and international trends into the State of Palestine. Third, the sector has undergone significant structural realignment since 2000, resulting in the proliferation of microenterprises comprised of 1-5 workers. This segment has typically not focused on international markets owing to a mentality of aiming

to survive in the challenging operating environment. The focus therefore has been relegated to the domestic market, where design quality is not generally the key success factor. Finally, information flow is an issue owing to the challenges faced by TSIs active in the sector. There is a need to increase the efficacy of support services dealing with trade information - global market trends, latest design and technological developments etc.

A SUSTAINED DECREASE IN ECONOMIC ACTIVITY WITHIN THE GAZA STRIP HAS ADVERSELY AFFECTED SKILLS LEVELS IN THE SECTOR

Skills development in a sector is directly proportional to the level of productive activity occurring in the sector over a sustained period of time. In Gaza, the political and economic instability over the last several years has led to drastic production and employment drops in the sector, and this is reflected in the paucity of skilled labour in Gaza. Skilled workers have migrated to other sectors as a means to earn a livelihood. An increase in Gaza-based production through clustering or enhancing production methods would contribute to reversing this trend.

ENTERPRISES FACE SIGNIFICANT CHALLENGES IN PROCURING AND MAINTAINING CAPITAL EQUIPMENT

For an industrial sector like furniture, access to capital equipment and an efficient maintenance supply chain to service the equipment are essential requirements for managing scalability and quality in the sector's products. The Palestinian furniture sector faces a variety of challenges in accessing machinery and tools. Currently, approximately 50% of enterprises use manual labour, approximately 34% use semi-automated machinery, and only 16% use fully automated machinery.

The economic and military blockade imposed on Gaza since 2006 has extended to the movement of capital equipment into the territory. The slight easing of restrictions in the last two years has been reversed after the brief conflict with Israel in December 2012. While the tunnels at the Gaza-Egyptian border have relieved the shortage of essential goods to an extent, it is unlikely that the smuggling activity extends to procuring capital equipment for the furniture sector.

Supply of capital equipment in the West Bank through Israel is difficult due to complicated procedures imposed by Israeli authorities for importing equipment. There is a shortage of equipment agents and distributors within the West Bank. Furthermore, the choice of equipment available to enterprises in the State of Palestine is limited by the brands available in the Israeli market.

Procuring after-sales services is also challenging. Apart from the shortage of maintenance personnel in the West Bank, maintenance staff from Israel are often unwilling or unable to travel to the West Bank owing to logistical challenges. There is also a shortage of spare parts in the West Bank.

THE CLOSURE OF KARNI TERMINAL IS A SIGNIFICANT IMPEDIMENT FOR FURNITURE MANUFACTURERS IN GAZA

Prior to the closure of the Karni (Al Montar) crossing, the bulk of Gazan products used to flow through it. The delays and costs incurred due to cumbersome procedures at the crossing were offset by the proximity of the crossing to industrial areas in which the majority of furniture firms were based, reducing transportation costs. The Karni crossing was also capable of absorbing heavy goods traffic. The crossing is no longer open and a new crossing has been established. The replacement is far from industrial areas, and is also not qualified for high capacity goods flow, effectively resulting in significant delays as well as adding to transportation costs.

Box 3: Overview of business environment issues

- The closure of Karni terminal is a significant impediment for furniture manufacturers in Gaza.
- Inadequate quality infrastructure contributes to the sector's lack of compliance with international standards.
- There are high costs and delays associated with transportation of product.
- Investment into the sector is hindered by challenging security considerations.

INADEQUATE QUALITY INFRASTRUCTURE CONTRIBUTES TO THE SECTOR'S LACK OF COMPLIANCE WITH INTERNATIONAL STANDARDS

Compliance with international standards is a prerequisite for developing export competitiveness. Sector firms are frequently unfamiliar with international standards and consequently the process involved in gaining compliance with them. The lack of internationally accredited Palestinian quality certification institutions is one of the reasons. Certification institutions do exist but comply with Palestinian standards, which in some cases are not on a par with international standards. In this regard, greater impetus is required by the Palestinian Standards Institute, in partnership with the Wood Industries Union, to promote awareness of global quality standards pertaining to the furniture sector. Also, the limited footprint and interaction of the Micro, Small and Medium Enterprise-based furniture sector in international markets has denied them the exposure to global quality standards.

THERE ARE HIGH COSTS AND DELAYS ASSOCIATED WITH TRANSPORTATION OF PRODUCT

Enterprises in the furniture sector struggle with high costs associated with transporting their goods to the border and beyond. Depending on the point of origin and destination (Gaza/West Bank/Israel), the product may be required to be unloaded and loaded several times during the trip for thorough security checks. These incur costs, delays and in some cases damage to the product. In the West Bank, the large numbers of internal checkpoints also result in delays.

The high cost of fuel has also contributed significantly to transportation costs for enterprises in the sector. It is estimated that fuel costs constitute up to 2% of the total cost of production.

INVESTMENT INTO THE SECTOR IS HINDERED BY CHALLENGING SECURITY CONSIDERATIONS

Investments – both domestic and international – can be an important lever for spurring growth in a sector. Foreign Direct Investment (FDI) is especially important in cases

like the State of Palestine, where sectors operate on a low technological base. FDI is accompanied by the inflow of technology, expertise and best practices into the sector.

Investments in the Palestinian furniture sector have been hampered by the continued political uncertainty and unrest in the region. Even domestic investors have been treading cautiously so as to safeguard their capital. There is therefore an urgent requirement for encouraging FDI and local investments in the sector. The Palestine Investment Promotion Agency and the Palestine Investment Fund should take a more active role in attracting specific investments for the sector.

LIMITED KNOWLEDGE OF MARKET REQUIREMENTS HAMPERS MARKET DEVELOPMENT

In terms of market entry, there are weaknesses on both the institutional and enterprise levels. At the enterprise level, firms possess limited awareness of trends in regional and international markets. More specifically, there is limited understanding regarding the segmentation of consumers and buyers, as well as the critical buyer requirements in specific target markets. A very small percentage of firms in the sector develop dedicated marketing plans with resource allocations, so their marketing and business development activities are very ad hoc.

LIMITED AVAILABILITY OF SPECIFIC TRADE INFORMATION LIMITS THE DEVELOPMENT OF NEW PARTNERSHIPS

The bulk of the information and services provided to the sector are generic in nature and there is a requirement to develop a strong, industry-specific information base focused on collecting and disseminating information such as market-specific export procedures, market trends and opportunities etc. TSIs must also work hard to strengthen international networks and linkages for Palestinian furniture sector firms. Recent efforts to strengthen these networks include a PalTrade mission to facilitate entry for Palestinian firms (and products) to a furniture fair in Jordan. There is an urgent need to scale up such efforts.

Box 4: Overview of market-entry issues

- Limited knowledge of market requirements hampers market development.
- Limited availability of specific trade information limits the development of new partnerships.

WHERE WE WANT TO GO



Source: © PalTrade

OPTIONS FOR FUTURE DEVELOPMENT

The following vision has been developed towards the goal of increasing the export competitiveness in the Palestinian Furniture sector.

“ Strengthened furniture sector competing globally, and formally supported and complemented through an integrated industry. ”

The Palestinian furniture sector has made an impressive turnaround in recent years. While the industry in Gaza is still severely incapacitated, the industry in the West Bank has grown rapidly. Significant challenges exist for the sector, ranging from sourcing of raw materials to logistical impediments in moving goods, to high competition in target markets. However, opportunities in existing and new target markets make a compelling case for strengthening the value chain.

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 *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 6: FUTURE VALUE CHAIN

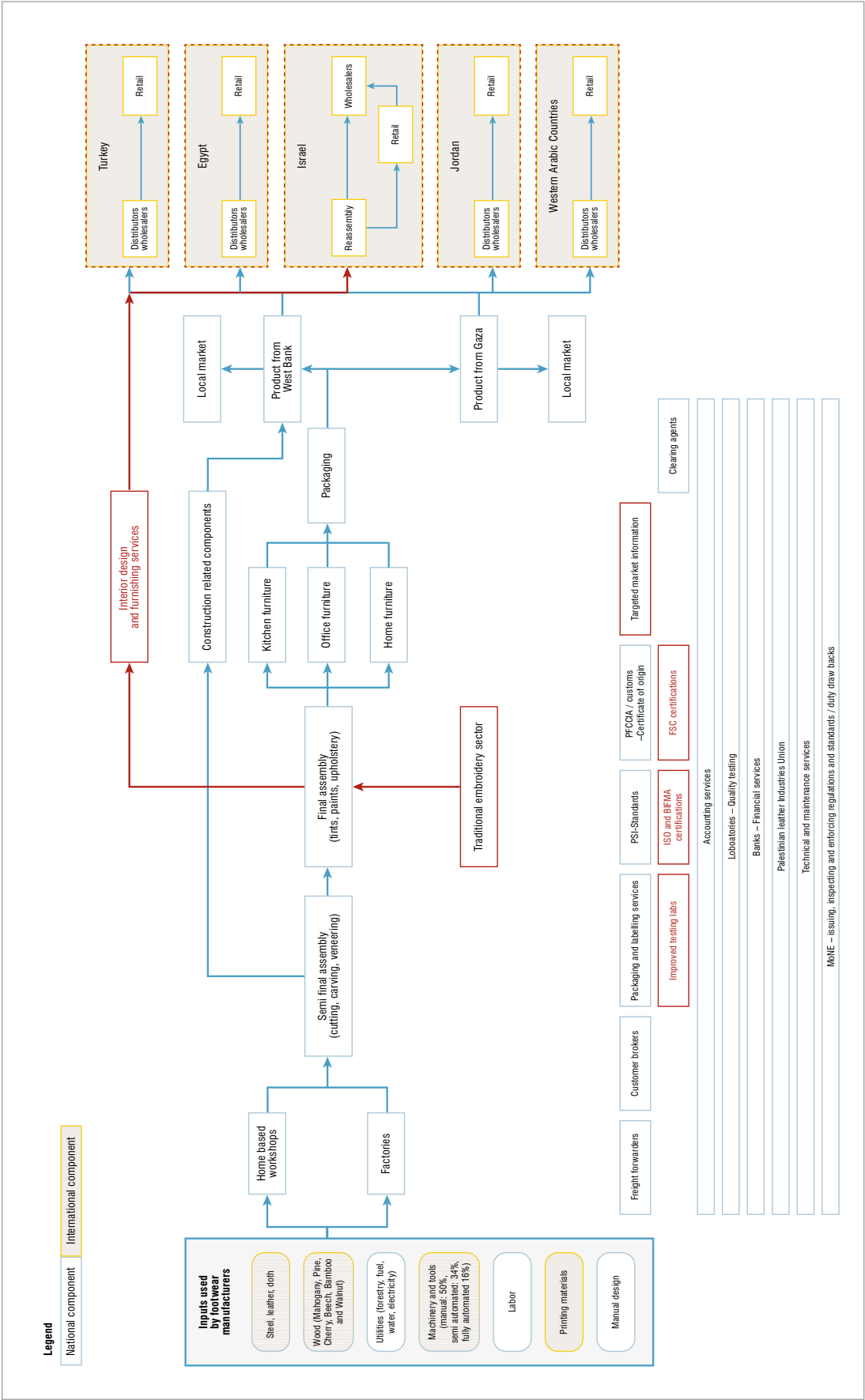


Table 12: *Palestinian furniture products with export potential in the short term*

Target market	Market segment	Product	Distribution channel	Palestinian furniture exports to market (US\$) (2010)	Annual growth of sector imports (%) (all suppliers) 2008-2012	Annual GDP growth estimates (%) 2013-2017 average
Israel	Households and businesses	<ul style="list-style-type: none"> • Bedroom furniture (wooden) (HS 940350) • Dining room furniture (wooden) (HS 940360) • Mattresses (HS 9404) • Office furniture (HS 940330) 	Wholesalers	40 562 000	8	3.6
Jordan	Households	<ul style="list-style-type: none"> • Bedroom furniture (HS 940350) • Dining room furniture (HS 940360) 	Distributors	709 000	12	4

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 PoA 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.

Note: The products listed under the short term section will also hold export potential in the medium-long term, unless otherwise specified.

SHORT-TERM PHASE (0-3 YEARS)

ISRAEL

Population growth and increased urbanization have driven the growth of furniture consumption in Israel. Demand for wooden bedroom furniture, wooden dining furniture and mattresses is especially high. These products are primarily consumed by medium income households. The demand for office furniture is also on the rise in Israel. The main demand is segmented by public services and the private sector (universities, companies, schools and other businesses).

Palestinian furniture exporters have been able to capitalize on this growth trend and have developed strong relationships with Israeli wholesalers. The geographical proximity has helped in the development of these relationships. In the short term, it is expected that these



Source: © José M. Ruibérriz.

relationships will stay strong, and there is significant potential for further market penetration.

In order to enhance the chances of Palestinian furniture competing with other imported furniture in Israel, the following considerations will be important:

- Improve production quality;
- Develop modern, stylish furniture designs;
- Improve mass production capabilities to decrease production costs.

JORDAN

The high demand for bedroom and dining room furniture in Jordan is expected to grow in the near future. The cultural familiarity and the familiarity with Palestinian designs/furniture products in Jordan present a strong opportunity for Palestinian enterprises to capitalize on the demand. The geographic proximity also offers opportunities to the Palestinian furniture sector.

Table 13: Palestinian furniture products with export potential in the medium-long term

Target market	Market segment	Product	Distribution channel	Palestinian furniture exports to market (US\$) (2010)	Annual growth of sector imports (%) (all suppliers) 2008-2012	Annual GDP growth estimates (%) 2013-2017 average
Western Arabic countries (Algeria, Libya and Tunisia)	Households	<ul style="list-style-type: none"> • Wooden bedroom furniture (HS 940350) • Wooden dining room furniture (HS 940360) • Mattresses (HS 9404) 	Wholesalers	0	67	N/A
Egypt	Households	<ul style="list-style-type: none"> • Wooden bedroom furniture (HS 940350) • Wooden dining room furniture (HS 940360) • Mattresses (HS 9404) 	Wholesalers	15 000	9	4.86

Source: ITC calculations based on Comtrade data; growth rate based on IMF estimates.

MEDIUM-LONG TERM PHASE (3+ YEARS)

WESTERN ARAB MARKETS (ALGERIA, LIBYA, AND TUNISIA)

The Western Arab countries are significant importers of furniture goods. Recent missions from Gaza to these countries have highlighted the high potential brought about by reconstruction needs. Additionally, imported furniture commands a high price premium in these markets. Palestinian exporters from Gaza have reported recent successes in establishing export relationships with Tunisia through sales of bassinets.

In this regard, opportunities exist through market diversification options in which existing products are exported to new markets. Products with high potential include bedroom furniture (wooden) (940350), dining room furniture (wooden) (940360) and mattresses (9404). The primary distribution channel will be through wholesalers, mainly targeting the household market segment.

EGYPT

The Egyptian market is a potential market considering the geographic closeness and the large population. There is significant interest among consumers in European furniture styles produced in the State of Palestine at competitive prices. Products with export potential include bedroom furniture (wooden) (940350), dining room



Source: © PalTrade

furniture (wooden) (940360) and mattresses (9404), by targeting households through distributors.

The following considerations will be key in terms of realizing the export potential of Palestinian furniture to Egypt:

- Improve mass production capabilities to decrease production cost;
- Improve trade networks to facilitate trade and improve distribution channels through targeted markets.

Box 5: Overview of structural improvements to the furniture sector value chain

- Integrate wooden furniture and traditional embroidery sectors to produce products with high export potential.
- Supporting enterprises in the furniture sector to become certified in key internationally recognized certifications.
- Develop a services sector providing interior design and furnishing contracting services, aligned with the furniture sector.
- Forest Stewardship Council (FSC) standards or equivalent criteria.

STRUCTURAL IMPROVEMENTS TO THE VALUE CHAIN

INTEGRATE WOODEN FURNITURE AND TRADITIONAL EMBROIDERY SECTORS TO PRODUCE PRODUCTS WITH HIGH EXPORT POTENTIAL

The wooden furniture and traditional embroidery value chains can be linked to develop complex wooden furniture products that showcase renowned Palestinian embroidery designs. Such products would have high export potential. Implementation would require enhanced designs, both for the furniture and the traditional embroidery value chains, to result in integrated designs for the new products. Collaboration between the design units of wooden furniture manufacturers and embroidery units will be key. The furniture production lines would need to be adapted to manage production of high quality wood furniture integrated with embroidery.

SUPPORT ENTERPRISES IN THE FURNITURE SECTOR TO BECOME CERTIFIED IN KEY INTERNATIONALLY RECOGNIZED CERTIFICATIONS

Securing certification from BIFMA (Business and Institutional Furniture Manufacturers Association), and ISO 9000 certification would enhance the recognition of Palestinian furniture products in target markets by signalling (to importers) the capability of the exporters to ensure quality of products. A capacity-building programme will be launched with the following broad steps:

- Identify current and potential exporters (manufacturers) interested in seeking certification;
- Assess needs of individual participants through a gap analysis exercise;
- Support manufacturers for BIFMA and ISO 9000 certification through targeted interventions.

DEVELOP A SERVICE SECTOR PROVIDING INTERIOR DESIGN AND FURNISHING CONTRACTING SERVICES, ALIGNED WITH THE FURNITURE SECTOR

Considering the opportunities presented by the low bilateral distances between the State of Palestine and Israel, there is potential for Palestinian service providers to offer interior design and interior furnishing contracting services areas in the Israeli market. There is a high growth of Israeli contractors considered as distributors that provide these services to consumers (offices, hotels, showrooms, restaurants, apartments, villas, etc.). There is potential for Palestinian furniture providers to diversify and tap into this growing market in Israel.

FOREST STEWARDSHIP COUNCIL (FSC) STANDARDS OR EQUIVALENT CRITERIA

Over the last few years there has been a growth in private standards globally. The wood and furniture sector is no exception. The Forest Stewardship Council (FSC) standard (label) promotes a connection between the forest and the end user, ensuring that products with the FSC label uphold principles and criteria which bring the highest social and environmental benefits.¹⁴ As private labels are new non-tariff measures imposed on producers and exporters, it will be important for Palestinian exporters to stay attuned to these new requirements.

14. Forest Stewardship Council (n.d.). *Our Impact*. Available from <https://ic.fsc.org/importance-of-forest-stewardship.349.htm>. Accessed 19 June 2013.



Source: © PalTrade

HOW WE GET THERE

STRATEGIC OBJECTIVES

The following three strategic objectives have been identified in order to realise the overall vision for the sector.

1. ***Enhance the policy and institutional framework to create an enabling business environment and support effective development of the sector.***

This objective will be realized through the following initiatives:

- Strengthen the capacities of the Wood Industries Union (WIU) so as to effectively position it as a core coordination body for development in the sector;
- Enact new (and rationalise existing) policies/regulations for enhancing the sector's performance;
- Enable sector clustering through development of relevant policies and infrastructural platforms, such as industrial zones, in order to reduce operating costs, provide improved logistical support for enterprises, and assist with business development.

2. ***Increase production performance through wide-ranging improvements in the TVET infrastructure, production capacities, and quality management architecture, as well as the technological and capital equipment base.***

This objective will be realised through the following initiatives:

- Strengthen the human capital pipeline providing trained workers and technicians for the sector;
- Improve business management skills at the enterprise level;
- Improve design capacities in line with current global trends;
- Strengthen the quality management framework at both enterprise and institutional levels;
- Increase accessibility to production inputs and equipment to improve efficiency and quality of production.

3. ***Enhance the ability of enterprises to identify opportunities in international target markets through the provision of timely and relevant trade information.***

This objective will be realised through the following initiatives:

- Increase provision of quality trade information to current/potential exporters;
- Strengthen marketing/promotion capacities of sector enterprises.

IMPORTANCE OF COORDINATED IMPLEMENTATION

The broad range of activities, together with the complex nature of integrated intervention, requires careful implementation involving efficient allocation of resources and monitoring of results at both the micro and macro levels.

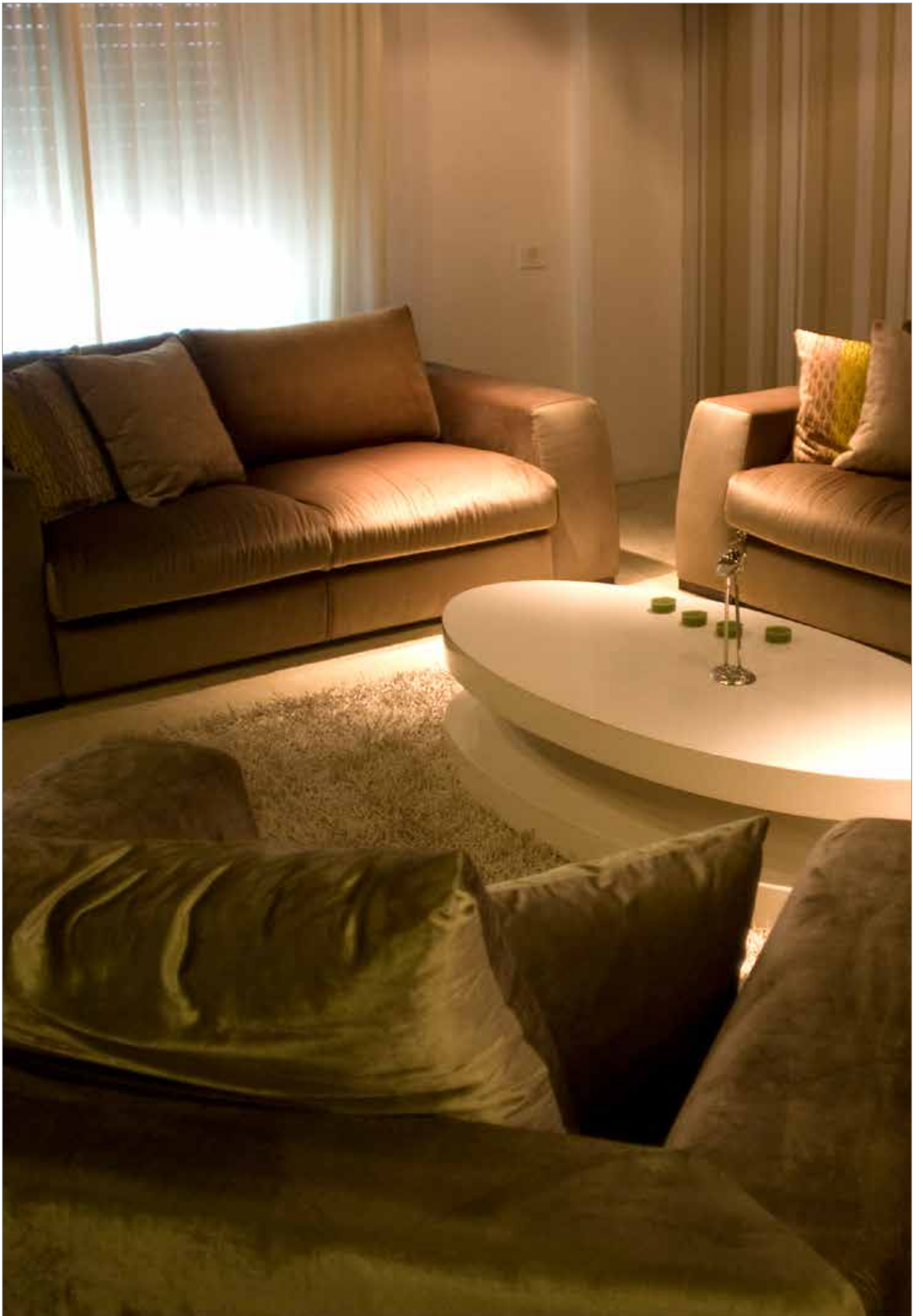
To this end, the Palestinian Export Council (PEC) will be established in order to facilitate the public-private partnership in elaborating, coordinating, and implementing the National Export Strategy. In particular, PEC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders. Within this framework, the implementation of the furniture strategy will fall within the purview of PEC.

Specific efforts will be directed towards involving donor, private, and public sector organizations in 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, PEC 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 furniture sector, as illustrated in the TSI section and the PoA. 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. Each institution mandated to support the export development of the furniture sector is clearly identified in the strategy plan of action.



THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY

PLAN OF ACTION



Strategic Objective 1: Enhance the policy and institutional framework to create an enabling business environment and support effective development of 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 Strengthen WIU to coordinate the development of the sector effectively.	1.1.1 Find new premises in the West Bank (WB) for WIU and increase the membership of WB furniture manufacturers in order to benefit from WIU services and facilities. Improve WIU's performance in Gaza by improving its capacity and departments, and providing required equipment.	3	Palestinian wooden furniture manufacturers	» Find a new premises for WIU in WB.	» Evidence of a licensed premises of WIU in WB	WIU	» Palestinian Federation of Industries (PFI) » MoNE » PFCCIA	» Economic Development Programme – GIZ	45 000
	1.1.2 Increase the number of WIU members in WB and Gaza to include all furniture manufacturers, in order to widen the membership base of the union and strengthen its role in representing and supporting the Palestinian furniture sector: » Get government authorization to handle all licensing procedures through WIU, which will lead to all furniture manufacturers becoming members of WIU. » Initiate an awareness-raising campaign about the role of the union.	3	Palestinian wooden furniture manufacturers	» WIU is licensed by the government to represent furniture manufacturers. » Number of WIU members exceeds 2 000 members in WB and Gaza within three years.	» Official documents from MoNE verifying that WIU represents furniture sector manufacturers » More than 2 000 membership applications are valid and annual membership fees are paid for 2 000 members	WIU	» Ministry of National Economy (MoNE) » PFCCIA	» GIZ	10 000
	1.1.3 Improve WIU governmental authorization for creating industrial facilities based on sector needs, which will lead to decreasing production costs and improving competencies, as well as prioritizing facilitation of critical sector needs such as: » Improve electrical supply for manufacturers by organizing continuous provision of electricity during daily working hours in industrial areas (especially for Gaza); » Give furniture manufacturers a tax exemption on fuel; » Mitigate taxes and VAT for manufacturers.	3	Palestinian wooden furniture manufacturers	» Signing MOUs between WIU with MoNE and related parties to initiate providing industrial facilities.	» Signed MOUs between WIU, MoNE and related parties to mentioned industrial facilities	WIU	» MoNE » Palestinian Energy and Natural Resources Authority » Ministry of Finance (MoF) » PFCCIA		25 000
	1.1.4 Improve internal policies and regulations of WIU, considering transparency and coordination of services and procedures in the West Bank and Gaza, to be monitored by the Ministry of the National Economy to ensure that all members are benefiting from WIU's utilities.	3	Palestinian wooden furniture manufacturers	» Development of WIU certified rules of procedures.	» WIU rules of procedures certified by MoNE and related parties	WIU	» MoNE » PFI	» Economic Development Programme – GIZ	
	1.1.5 Establish new strategy and development plans for WIU to: » Improve WIU capacity; » Improve members services; » Improve social and business networks with stakeholders; » Develop periodic assessments for sector needs; » Negotiate with related parties for facilitating sector needs; » Classify manufacturers; » Address crossing procedures & limitations.	3	Palestinian wooden furniture manufacturers	» Development of WIU five year strategy and actions plans.	» Strategic plan and action plans	WIU	» PFI » MoNE	» EDP-GIZ » FNMD-DFID » EDP-IDB	30 000
	1.1.6 Improve the WIU's role in enhancing the capacities of local vocational training and education centres and schools in order to contribute to improving curriculums, educational systems and methodologies – with reference to variations in manufacturers' needs and consideration of industry trends and potential – which will lead to bridging the gap between the capabilities of vocational organizations' graduates and the real needs of furniture manufacturers. This will take place through the gathering, and subsequent provision, of information on manufacturer's vocational training needs to be considered by vocational education and training schools and centres.	3	» Vocational training centres » Labourers » Palestinian wooden furniture manufacturers	» Vocational needs assessment performed by WIU every two years and distributed to vocational educational centres.	» Assessment reports every two years	WIU	» MoNE » Ministry of Education (MoE) » Ministry of Higher Education (MoHE)	» TVET – EU	

Strategic Objective 1: Enhance the policy and institutional framework to create an enabling business environment and support effective development of 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 Enact new policies and regulations to enhance the sector's performance.	1.2.1 Develop a policy that regulates working in industrial firms in order to prevent employment of workers not certified by vocational schools and centres, which will improve the performance and quality of furniture manufacturing.	2	Graduates of vocational education Palestinian wooden furniture manufacturers	Policy developed and considered by MoNE.	Conditional licensing of manufacturers considered by MoNE	MoNE	» Ministry of Labour » WIU » PFI		
	1.2.2 Develop a policy that regulates the ability to enter the furniture manufacturing industry by considering development of criteria for new furniture manufacturers based on qualifications, capabilities, size of investment and specialization of industry. This will ensure that the entrance of new manufacturers will complement the current capacity of the sector.	1	Palestinian wooden furniture manufacturers	Policy developed and considered by MoNE.	Conditional licensing of manufacturers considered by MoNE	MoNE	» WIU » PFCCIA		
	1.2.3 Develop policies that ensure intellectual property rights over furniture manufacturers' products and designs, in order to improve design outputs and encourage diversification of designs.	3	Palestinian wooden furniture manufacturers	Evidence of local design registration facility in MoNE.	Evidence of MoNE documents certifying registration of designs and protective procedures against transgressions	MoNE	» WIU		
	1.2.4 Develop a policy to regulate furniture imports, using special criteria in order to support domestic production and create a suitable balance between furniture imports and domestic production.	3	Palestinian wooden furniture manufacturers	Evidence of national furniture protection policy.	Limitations imposed on furniture importing permits	MoNE	» WIU » PFCCIA		
	1.2.5 Attract international insurance corporations to invest in the State of Palestine and provide global export insurance services for facilitating export processes and decreasing rates of risk, considering local circumstances.	2	Palestinian wooden furniture manufacturers	National insurance agencies have become agents for international insurance corporations.	Local furniture manufacturers are benefitting from international insurance on export transactions	PIF	» PalTrade » Palestinian Shippers Council (PSC) » Local insurance companies		
1.3 Enable sector clustering through significant policy and infrastructural actions.	1.3.1 Develop joint industrial zones in areas bordering on neighbouring countries (Egypt and Jordan): » Conduct research and studies for possible and feasible joint industrial zones; » Negotiate with neighbouring countries to develop agreements; » Negotiate with the Israeli party for improvement of trade agreements.	1	Palestinian wooden furniture manufacturers	Evidence of industrial zones on border areas with Egypt and Jordan.	Number of furniture manufacturers producing in joint industrial areas and freely exporting their products into neighbouring countries.	MoNE	» Ministry of Foreign Affairs (MoFA) » Palestinian Industrial Estate and Free Zone Authority	-	-

Strategic Objective 2: Increase production performance through wide-ranging improvements in the TVET infrastructure, production capacities, and quality management architecture, as well as the technological and capital equipment base.									
Operational objectives	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\$)
2.2.1 Ensure availability of trained workers and technicians for the sector.	2.2.1.1 Create a specialized technical vocational training and qualification centre owned and managed by the Wood Industries Union in Gaza, in order to cover the shortage of vocational training centres in Gaza, and to complement the mission of vocational training centres and improve vocational and certification opportunities based on critical furniture manufacturers' technical needs. The centre will become an income generation source for WIU.	3	» Palestinian wooden furniture manufacturers » Specialized technicians	Evidence of specialized technical vocational training and qualification centre owned and managed by WIU in Gaza.	50 highly qualified technicians of furniture production graduating annually from the specialized WIU vocational centre	WIU	» Universities	» TVET	1 800 000
	2.2.1.2 Ensure all vocational training centres are certified by the Ministry of Education.	3	» Palestinian wooden furniture manufacturers » Vocational training centres » Vocational students	All vocational training centres are certified by the Ministry of Education.	Certification documents from the Ministry of Education at all vocational training centres.	MoE	» MoHE » WIU » Vocational Training Centres	» TVET	
	2.2.1.3 Create sustainable maintenance services by improving available technicians' capacity to cover all sector maintenance and development needs through advanced specialized training missions by major international furniture machinery developers and manufacturers.	3	» Palestinian wooden furniture manufacturers » Maintenance technicians » Maintenance service providers	Availability of sustainable, high quality maintenance required by the furniture industry.	Certification documents for 30 technicians by major furniture machinery producers	WIU	» International furniture machinery developers and manufacturers	» FNMD - DAI » EDP – GIZ » IDB	200 000
2.2.2 Improve accessibility to required inputs, equipment and raw materials for efficient, quality production.	2.2.2.1 Facilitate the accessibility and entrance of inputs of the furniture industry through government level negotiations: » Negotiate with the Israeli party for easing the security procedures imposed on the importation of machinery, to facilitate machinery and related spare parts imports. » Negotiate with the Israeli party to facilitate the entry of experts for machinery installation, maintenance and development missions. » Negotiate with the Israeli party for easing the security procedures imposed on imports of raw materials.	2	» Palestinian wooden furniture manufacturers	Meetings and negotiations with Israeli party for facilitating the entrance of machinery and experts.	New agreements with Israeli party for facilitating the entrance of machinery and experts	MoNE	» WIU » Israeli Party » PalTrade		
	2.2.2.2 Improve the weak mass production capabilities of Palestinian furniture manufacturers. As most manufacturing firms are classified as small or medium size firms, subcontracting within the cluster could be a suitable solution. This would necessitate improving the outsourcing management capabilities of local producers.	1	» Palestinian wooden furniture manufacturers	Contracting between furniture manufacturers for integrated outsourcing.	Contracts between manufacturers	Palestinian wooden furniture manufacturers	WIU		
2.2.3 Increase the production capacity and sophistication of the sector.	2.2.3.1 Support the modernisation of the sector through the integration of automated machinery and equipment acquired through dedicated financial facilities using long term, low interest loans.	3	Palestinian wooden furniture manufacturers	Availability of long-term, low interest loans for new machinery supplies provided through financial institutions.	20 furniture manufacturers have improved production capacity through integration of new automated machinery	Banks and financial institutions	» WIU » MoNE		

Strategic Objective 2: Increase production performance through wide-ranging improvements in the TVET infrastructure, production capacities, and quality management architecture, as well as the technological and capital equipment base.									
Operational objectives	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\$)
2.3 Increase the production capacity and sophistication of the sector.	2.3.2 Establish a venture capital agency to support the integration of automated machinery and equipment.	2	Palestinian wooden furniture manufacturers	Initiating a venture capital investment agency dependent on international investors	20 furniture manufacturers benefited from venture capital and improved industry investment, with positive achievements in sales and production capacities	MoNE	» Palestine Investment Promotion Agency		
	2.3.3 Establish a pilot programme for modernizing design and production techniques in collaboration with the ICT sector (both WB and Gaza).	2	Palestinian wooden furniture manufacturers	Pilot project implemented for 10 manufacturers for improving performance by integrating ICT into production.	10 furniture manufacturers have integrated ICT into management and production processes	Palestinian Information Technology Association of Companies	» WIU » PFI » Software developers » Palestinian wooden furniture manufacturers	» BD – GIZ	30 000
	2.4 Strengthen the business skills of enterprises.	2.4.1 Provide business skills capacity-building for manufacturers in: » Management: planning, administration, production management, storage, mass production capabilities; » Finance: costing, pricing, financial management; » Quality: quality management, quality certifications, quality standards & assurance; » Marketing: sales, customer relationship management, promotion.	3	Palestinian wooden furniture manufacturers	A capacity-building programme implemented for furniture manufacturers.	50 furniture manufacturers certified and qualified for managing production using modern production standards	WIU	» PFI, » Consultancy services providers » BD – GIZ » FNMD – DAI » PCAP – Mercy corps	200 000
2.5 Ensure the quality of production in the sector.	2.4.2 Improve performance of enterprises by providing consultancy services for six months to manage implementing internal systems improvements. Most furniture manufacturers are family businesses and based on purely technical backgrounds, with very poor managerial and development visions, so there is considerable internal resistance to development in this area.	3	Palestinian wooden furniture manufacturers	Six months of consultancy services provided for 40 furniture manufacturers for improvement of internal systems and production performance.	Indications of more than 20% improvement in production capacity by 40 furniture manufacturers	WIU	» Consultancy services providers, Palestinian wooden furniture manufacturers	» BD – GIZ » FNMD – DAI » BD – IDB	100 000
	2.5.1 Improve and modify Palestinian production, industry and quality standards through re-activating the Palestinian Standards Institution and improving its efficiency and role in improving quality standards. Develop Palestinian furniture standards manuals with reference to international production certifications: » Create a committee of experts (from furniture producers, PSI and production quality experts) to complete the mission; » Review existing standards; » Compare with recent international standards that match export orientation; » Create a new document for furniture production standards.	2	Palestinian wooden furniture manufacturers PSI	Re-activation of the Palestinian Standards Institution and development of a Palestinian furniture standards manual.	Official booklet of Palestinian furniture standards	PSI	» Local & international quality certifiers » WIU » PFI » MoNE	IDB	100 000

Strategic Objective 2: Increase production performance through wide-ranging improvements in the TVET infrastructure, production capacities, and quality management architecture, as well as the technological and capital equipment base.									
Operational objectives	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 Ensure the quality of production in the sector.	2.5.2 Provide training to furniture producers (and sub-contractors) on good manufacturing processes and quality management. Improve awareness of, and capacity for, developing quality management systems for furniture producers (included in the capacity-building programme).	2	Palestinian wooden furniture manufacturers	A capacity-building programme is implemented for furniture manufacturers.	50 furniture manufacturers certified and qualified for managing production using modern production standards	WIU	» PSI » Local & international quality certifiers » Palestinian wooden furniture manufacturers	» BD – GIZ » FNMD – DAI » BD – IDB	
	2.5.3 Improve producers' abilities to comply with international production certifications (ISO, TQM, etc.).	2	Palestinian wooden furniture manufacturers	40 Furniture manufacturers certified with ISO or TQM certifications.	40 documents of TQM and ISO certifications for 40 furniture manufacturers are valid	WIU	» PSI » Local & international quality certifiers	» BD – GIZ » FNMD – DAI » BD – IDB	600 000
2.6 Strengthen the design capacity and quality of the sector.	2.6.1 Establish a furniture Technical Centre to demonstrate new procedures, techniques, models and all related information for furniture producers: » Gather information about new furniture designs and industrial techniques and distribute through a monthly magazine. » Manage provision of all related global catalogues and magazines to be available for local furniture manufacturers' information and use.	3	Palestinian wooden furniture manufacturers	Availability of active WIU Technical Centre Unit.	» Validity of semi-annual magazine » Availability of latest versions of furniture catalogues	WIU	» Universities		40 000
	2.6.2 Develop a design unit qualified to provide high standards of modern design services through WIU.	2	Palestinian wooden furniture manufacturers	Availability of active WIU - Design Unit	Sales achieved through selling modern designs	WIU	» Interior design – academic organizations	» BD – GIZ » FNMD – DAI » BD – IDB	40 000
	2.6.3 Initiate an annual furniture design contest to improve design competencies.	2	Palestinian wooden furniture manufacturers	Annual design contest held.	Modern, inspiring designers won the contest prize	WIU	» PalTrade	» BD – GIZ » FNMD – DAI » BD – IDB	20 000

Strategic Objective 3: Enhance the ability of enterprises to identify opportunities in international target markets through the provision of timely and relevant trade information.									
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\$)
3.1 Provide sector stakeholders with quality trade information on potential markets	3.1.1 Raise awareness regarding export procedures, considering potential countries for trade exchange through awareness-raising activities and workshops for furniture producers.	2	Palestinian wooden furniture manufacturers	Development of Export Procedures Manual and conducting several workshops on export procedures.	Availability of Export Procedures Manual	PalTrade	WIU » PFCCIA » MoNE	Economic Development (ED) – EU	30 000
	3.1.2 Organise awareness-raising sessions on annual international furniture trade flows, using annual reports published by international trade agencies, to indicate international trends and find potential for Palestinian furniture exports.	3	Palestinian wooden furniture manufacturers	Number of international furniture trends and flow of trade workshops conducted by WIU.	Sheets of annual furniture trade flow developed and provided to furniture manufacturers	PalTrade	MoFA » WIU » PFCCIA » MoNE	FNMD » ED – GIZ » ED – EU	10 000
	3.1.3 Develop specialized penetration studies to assess potential markets for business and trade relations (Egypt, Libya, Tunisia, and Algeria).	1	Palestinian wooden furniture manufacturers	10 market assessment and penetration studies for furniture sector developed.	Availability of documents and reports of 10 market assessment and penetration studies	PalTrade	WIU » PFCCIA » MoNE		500 000
3.2 Strengthen the promotional capacity of the sector.	3.1.4 Review the Paris Protocol for direct trade relations between the State of Palestine and neighbouring countries: » Re-evaluate the Paris Protocol and find weaknesses limiting direct trade opportunities with neighbouring countries and find possible options for improving the agreement; » Negotiate with neighbouring countries and related parties to create new agreements; » Consult with international parties to assist efforts to develop and sign a new agreement with Israel.	2	Palestinian wooden furniture manufacturers	Negotiations with Israeli party for trade facilitation	Modified agreement facilitating Palestinian trade movement	MoNE	MoFA, » PalTrade		
	3.2.1. Develop trade networks and business relationships through finding trade representatives in potential countries for initiating trade exchange.	3	Palestinian wooden furniture manufacturers WIU	Improved trade relations with potential countries through activating the role of commercial attaché.	Activated trade relations through commercial attaché in potential countries	MoFA	PFCCIA » WIU » PalTrade	BD – GIZ » FNMD – DAI	
	3.2.2 Initiate a programme for managing trade missions & B2B trips to potential markets: » Use results of market penetration studies to target markets; » Contact Chambers of Commerce and industrial unions to organize trips; » Manage B2B trips into potential markets to assess the potential for trade relations.	3	Palestinian wooden furniture manufacturers	Five trade missions to five potential markets.	Business relations and trade movements with five markets are taking place	PalTrade	WIU » MoNE » PFCCIA » PFI	BD – GIZ » FNMD – DAI	250 000

Strategic Objective 3: Enhance the ability of enterprises to identify opportunities in international target markets through the provision of timely and relevant trade information.								
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
3.2 Strengthen the promotional capacity of the sector.	3.2.3. Initiate Palestinian marketing and distribution agencies located in a neighbouring countries (Egypt & Jordan) with permanent showrooms and high stock amounts for promoting and distributing Palestinian furniture in a way that avoids temporary limitations imposed on local furniture.	3	Palestinian wooden furniture manufacturers	Palestinian marketing and distribution agency is initiated and active in Egypt.	Showroom and warehouse for Palestinian furniture in Egypt	PalTrade	» PFCCIA » WIU	» BD – GIZ » FNMD – DAI
	3.2.4. Manage and organise participation in regional and international furniture exhibitions; » Use results of market penetration studies to target potential markets; » Contact Chambers of Commerce and industrial unions to arrange the participation of Palestinian furniture manufacturers; » Manage and facilitate Palestinian furniture manufacturers' participation in regional exhibitions as exhibitors, and in international exhibitions as visitors.	3	Palestinian wooden furniture manufacturers	Contribution to five regional exhibitions for 10 furniture exhibitors per exhibition	Business relations and trade movements with five markets are taking place	PalTrade	» PFCCIA, » WIU, MoNE » MoFA	» BD – GIZ » FNMD – DAI
3.3 Enhance market development	3.3.1. Initiate exports of bedroom and dining room furniture and mattresses to Libya, Tunisia and Algeria, to be distributed through wholesalers and targeting mainly households, depending on B2B missions managed by PalTrade to initiate market and business relationships with wholesalers and distributors.	3	Palestinian wooden furniture manufacturers	Export of mentioned items to Libyan market takes place.	Trade movement to Libyan market is taking place	PalTrade	» WIU, PFCCIA » MoNE	» BD – GIZ » FNMD – DAI
	3.3.2. Initiate exports of bedroom and dining room furniture and mattresses to Egypt, targeting households through distributors.	3	Palestinian wooden furniture manufacturers	Export of mentioned items to Egyptian market takes place.	Trade movement to the Egyptian market is taking place	PalTrade	» WIU, PFCCIA » MoNE	» BD – GIZ » FNMD – DAI
	3.3.3. Initiate interior design and interior furnishing contracting services in the Israeli market.	3	Palestinian wooden furniture manufacturers	Provision of interior design and interior furnishing services to the Israeli market.	Interior design and interior furnishing services are being supplied to the Israeli market	PalTrade	» WIU, PFCCIA » MoNE	» BD – GIZ » FNMD – DAI

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APPENDIX 1: LIST OF STAKEHOLDERS

Mohammed Al Ryashi	Palestinian Wood Industries Union	khya_84@hotmail.com
Ahmed Ahmed	Al Barbrawi Company	ahmed9_2009@hotmail.com
Abdallah Barassi	PalTrade	aalbarassi@PalTrade.org
Ahmad Salama	Modern Industrial Group	info@mig-pal.com
Nazeh Al Mashkarawi	Al Mashkarawi Co.	N/A
Sami Fogo	Fogo Co.	sami.fogo@hotmail.com
Hussien Abdel Salim	Alquds Co.	hussein_m_s@hotmail.com
Mohammed Mhana	Issa Muhanna Co.	hmood-8@hotmail.com
Zaki Hussien	Al Barbrawi Company	ahmed9_2009@hotmail.com
Kamal Al Sa'afeen	Kamal Co.	N/A
Wadah Bessisso	Bessisso Co.	w.bessisso@hotmail.com
Mohammed Skaik	PalTrade	mskaik@PalTrade.org
Hatem Mughani	Team Coordinator	hatemziad@gmail.com



