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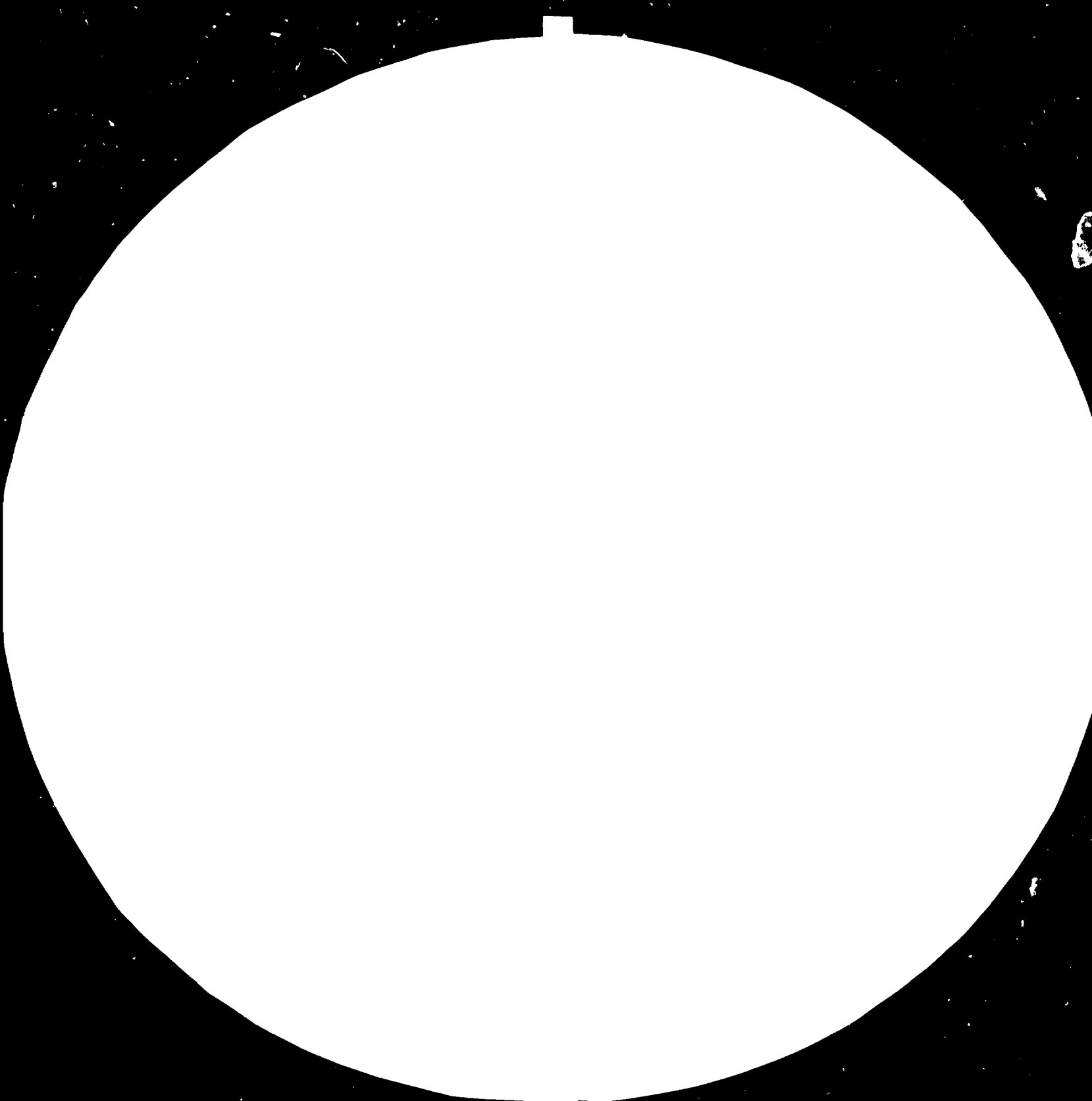
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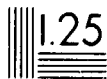


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MAJOR CONSIDERATIONS  
FOR  
INTERNATIONAL CO-OPERATION  
IN THE LEATHER AND LEATHER PRODUCTS INDUSTRY

DISCUSSION PAPER

PREPARED BY O.F. KRETZER.

20. JANUARY 1984.

Introduction.

Previous consultations of the Leather and Leather Products Industry have clearly identified the major problem areas in development and international co-operation in this sector.

Checklists, guidelines and manuals for contractual agreements have been elaborated which are valuable legal aids for those who are looking for international co-operation in the field of leather and leather products.

All publications stress the fact that it is difficult if not impossible to draft a legal definition of international industrial co-operation which would cover, in a general manner, all the requirements which this phenomenon may be called upon to meet.

This discussion paper has been prepared taking in consideration these publications ( see Annex I ) and the Checklists for Contractual Agreements in the Tanning and in the Footwear Sector between Enterprises from Developed and Developing Countries, prepared by the United secretariat in 1981/82.

This discussion paper is also based on experiences the author made himself in Iran, Brazil, the Philippines and Tanzania where he was involved in international co-operation partly as managing director of a footwear company of a

developed country looking for co-operation with a developing country, partly as consultant on projects of international co-operation undertaken by others. The objective of this discussion paper is to highlight potential solutions for problems in international co-operations and to advance discussions on a set of parameters for international co-operation in the Leather and Leather Products Industry.

Again it seems to be difficult if not impossible to prepare a "cooking book" full of recipes which, by following them precisely, lead to the wanted result. Conditions of political and economic nature vary to such a degree both in developed and developing countries that specific recommendations valid for every-body cannot be given.

However the discussion paper will try to distill in general terms some elements which may form a basis for mutually beneficial and stable co-operation.

## I Basic Considerations.

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As the legal aspects of international co-operation have been dealt with in numerous publications they are not dealt with here.

Experience shows that the very best contractual agreement is no guarantee for successful international co-operation.

Indeed international co-operation seems to be so difficult to establish that in many cases co-operation even between developed countries fail to reach the expected results and are given up after some time. International co-operation between partners from developed and developing countries can be assumed even more complicated and co-operation of a private firm from a developed country with a government owned industry in a developed country seems to be a nightmare to many entrepreneurs.

Despite all these reservations international co-operation is a must.

If we like it or not developed and developing countries have no choice but to co-operate in the leather and leather goods sector if they want to stay in or to join the business.

## II Reasons for International Co-operation.

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To run an industry successfully a whole bundle of items are necessary:

materials, machines, manpower, management, money and markets are some of them.

The Leather and Leather Products Industry in developed countries is looking for raw material, manpower and sometimes markets and they hope to find it in sufficient quantity and quality at competitive costs in developing countries.

Developing countries are often short of machines, management, know-how and markets and they hope to find it from a partner in a developed country.

So obvious reasons are to co-operate so difficult it seems to stimulate the co-operation.

## III Discouraging Factors for International Co-operation

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from the point of view of a partner from a developed country.

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### a) Lack of the necessary Industrial Environment.

Developing countries often overlook the fact that the Leather and Leather Product Industry needs a comprehensive approach in order to develop well.

The whole industrial environment must be suitable for this kind of an industry which involves so much international buying and selling.



Often the whole industry is unbalanced, communications are poor and transport facilities insufficient.

A heavy bureaucracy slows down the pace the industry needs. Raw materials like hides and skins which should be available plentiful are either not collected, exported for quick cash or of inferior quality.

Leather, the raw material for Leather Products is therefor scarce and overpriced as compared with world market prices.

Foreign currency is not available to import for example chemicals and other auxiliary materials which worsens the situation.

Machines, if they are available are not operational because there are no trained mechanics for maintenance, machinery is too sophisticated, spare parts are too expensive or there is even not enough electricity to run them or money to import the material the machines are designed for.

Skilled manpower like electricians, mechanics, designers, upper leather cutters, stitchers or office staff like accountants, purchasers, administrators, production planners and clerical staff are more scarce than in a developed country.

There is no industry to draw from in the neighbourhood. Experienced management has to be brought in and there

seems to be no local market because people do not wear footwear or they can not afford it.

b) Contra-productive Policies.

The conditions under which the Leather and Leather Goods Industry can prosper are also determined by government laws and policies.

The primateship of politics over economics has to be taken into account. Some developing countries interpret independence (a political term) as selfsufficiency in the field of economics which makes a foreign partner feel not very welcome.

Transfer of profits might be impossible, imports bound to a license system uncertain.

Import taxes on materials necessary for products to be exported are excessive and not refunded in case of export, which makes the product non competitive.

Policy making is often split up between different ministries having different targets and priorities.

Policies can change quickly and put the foreign partner into an awkward position and depriving him from earning the fruits of his efforts.

c) Contra-productive Traditions.

Many developing countries have rural traditions still governing day to day life.

Time has a different meaning in these countries.

The willingness to plan ahead is not developed.

There is no competitive spirit.

Managers try to avoid changes because new things are frightening them.

Doing nothing means doing nothing wrong.

People are not used to industrial work where one has to fulfill certain tasks in a certain time.

They had no time to develop some kind of industrial behaviour.

Instead of a relation of 1 staff to 8 - 10 workers sometimes the relation is 1 to 3 and the administration is too a heavy burden for industry.

Managers and staff are rather recruited for political and family reasons than for qualification. (Nepotism)  
Corruption is wide spread. Machines are bought because of a commission someone receives but not because they are needed.

Services are delayed unless commissions are paid.

To possess something seems to be more important than to run it profitably.

In some countries religious beliefs hamper production in tanneries and leather good factories.

#### IV. Main Actions required of Developing Country Governments.

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Governments should coordinate policies in order to balance raw material availability and recovery with tanning capacity and manufacture of leather products.

They should commit themselves to supply sufficient foreign currency to import what is needed for the industry.

There should be no import taxes on supplies necessary for production.

All administrative acts should be done without delay. Governments officials should feel as servants to the industry not as their masters.

Profits of foreign partners should be transferable.

Proper transportation and communication facilities should be available.

Living conditions in industrial areas should compare favorable with those elsewhere (housing, food supplies, medical services, roads.)

Water and energy should be supplied in necessary quantities.

Monoculture of one industry branch should be avoided and a mixture of different industries has to be aspired.

A national training programme should be installed to teach basic technics in all crafts.

A nationwide management development programme should enhance the availability of industrial managers.

An industry board in which government and industry is represented should assure close cooperation between government and industry.

Fair salaries should be paid to limit corruption.

Companies should be controlled properly and management should be commended or fired according to performance.

Private investments in production and distribution should be encouraged to build up competition.

Export offices for select export markets should be opened to study the market and establish contacts with potential buyers.

V. Main Actions required of Developing Countries Enterprises.

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Companies need realistic plans for production, supplies and capital needs.

Capacities should be adapted to conditions.

Idle machinery should be sold.

Wrong machinery should be exchanged.

A long term maintenance plan should keep machinery operational.

A training scheme should improve skills of the labour force.

A management development programme should give opportunities for promotion from within.

Industriousness and discipline have to be encouraged.

Local materials and other supplies to save foreign currency have to be found.

Government must be advised about the needs of the industry.

## VI. Types of International Industrial Co-operation.

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### a) Contractual Agreements.

A wide variety of alternative forms of international co-operation are possible.

The more action (as described under IV and V) has been taken, the more advanced forms of co-operation can be thought of.

Also the laws of a country determine the kind of co-operation which is possible.

In the beginning contractual agreements might be the only way to start international co-operation.

Among others management contracts, know-how contracts or product development contracts are known for co-operation in the sphere of technology.

Contracts for co-operation in the field of production may range from relatively simple operation to very elaborate and specialized production.

Characteristic for contractual agreements is the fact that the foreign partner is not involved with any kind of risk capital neither in cash nor in machines or equipment.

### b) Equity Agreements (Joint Ventures)

Arrangements for equity participation demand a high degree of confidence of one partner in the other partner.

It is suitable where long-term close bindings are intended and the attitude of the developing countries government is favorable towards foreign investment.

A simple but well functioning industrial environment should be available.

Most likely a partner from a developed country prefers co-operation in the form of contractual agreements for a longer period of time before he enters into an equity agreement.

#### VII. Finding the Right Partner.

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Regardless which kind of agreement for international co-operation is chosen to find the right partner is the most important element for success.

In addition to a good reputation, the know-how, the necessary financial strenght, marketing power in the right markets etc. the following hints might be usefull:  
The partner from a developed country should be actively producing in the sector his co-operation is asked for.  
Setting up a tannery asks for co-operation with a tanner.  
Setting up a footwear factory asks for a footwear manufacturer.

In both cases one should not go for some one selling tanning or shoe machinery. Objectives might not be compatible.

If one wants to export immediately an enterprise with a strong brand might not be the right partner.

In the beginning inferior quality of your product may hurt the reputation of his brand.

If the potential partner from a developed country wants to sell your production in his market you may have less profit than selling in your local market, which might be less competitive than his.

When ever you choose the wrong partner he or you will be disappointed after a short time and the co-operation will break up.

There are firms offering the services you may need as consultants. Some are good some are not.

Try to get a good team which is working together for some years. Groups of individuals picked up in the labour market for your project may have different experiences and opinions and do not form a real team. You may end up with a non-consolidated operation.

Make sure that the people you get have the backing of an organization (a home base) where they can ask advice from. The know-how your partner has agreed to give to you is in the heads of his collaborators.

They are specialized and know parts of what you want to acquire. Look therefor for people with broad experience rather than for highly specializes persons.

A good foreman might be better for your purposes than an engineer.

Have what you want to have properly documented in manuals.



Emphasize the necessity for training of your people otherwise your partner's team will run the business while your people stand aside.

People who worked very good in the frame-work of their company in a developed country may feel lost working for you and get useless. Reasons are the climate, being separated from their families and friends, language problems, lacking the support they are used to.

A lack of educational background can be responsible for this. Prevent frequent change of personnel.

A partner who can give you all this might be the right one.

VIII. Elements which form a Basis for Mutually beneficial

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and stable Co-operation.

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- . An industry-minded government policy.
- . Protection against inflation.
- . A constructive Union-system.
- . Flexibility in hiring and firing of management and experts.
- . Speaking the same language.
- . Learning to know each other by working together on a small scale basis (contractual agreements on specific tasks) before entering into comprehensive co-operation (joint venture)
- . Realisme, which does not expect too much in a short period of time.
- . Veracity and honesty.

- . Competitive attitude.
- . Flexibility to adapt agreements to changing conditions at any time.
- . Realistic investment policy. No prestige oriented investments.
- . Co-operative attitude.

#### IV. Parameters for International Co-operation.

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- . A return-on-investment period of not more than four years.
- . A government guaranty for the protection of foreign capital including the possibility to repatriate the capital of a foreign investor at any time.
- . Free transfer of profits.
- . A try-out period of five years within which period the part (shares) of the foreign partner has to be bought by the local partner if wanted so by the foreign partner at a price agreed upon in advance.
- . Arbitration which can settle disputes definitely within six month time.
- . A time table including all actions to be taken by governments and / or firms of developing countries.
- . Clear and realistic terms of reference.
- . Compatibility of objectives.
- . Proper logistics and communications.
- . Safe and suitable living conditions for foreigners.
- . A foreign partner used to the kind of political system your economy is involved in.

ANNEX I.

Publications of the United Nations Economic Commission  
for Europe.

Guide for Use in Drawing up Contracts to the International  
Transfer of Know-How in the Engineering Industry.

Guide on Drawing up Contracts for Large Industrial Works.

Analytical Report on Industrial Co-operation among ECE  
Countries.

A Research Note on Industrial Co-operation as a Factor  
in the Growth of East-West European Trade, published in  
the Economic Bulletin for Europe, Vol.21, No.1

Publications of the United Nations Conference on Trade  
and Development.

Innovations in the Practice of Trade and Economic Co-opera-  
tion between the Socialist Countries of Eastern Europe  
and the Developing Countries.

Publications of the United Nations Industrial Development  
Organization.

Contract Planning and Organization.

Manual of the Establishment of Industrial Joint-Venture  
Agreements in Developing Countries.

Guidelines for Contracting for Industrial Projects in  
Developing Countries.

Draft Checklist for Contractual Agreements in the  
Footwear Sector Between Enterprises from Developed and  
Developing Countries.

Draft Checklist for Contractual Agreements in the Tanning  
Sector Between Enterprises from Developed and Developing  
Countries.

