



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

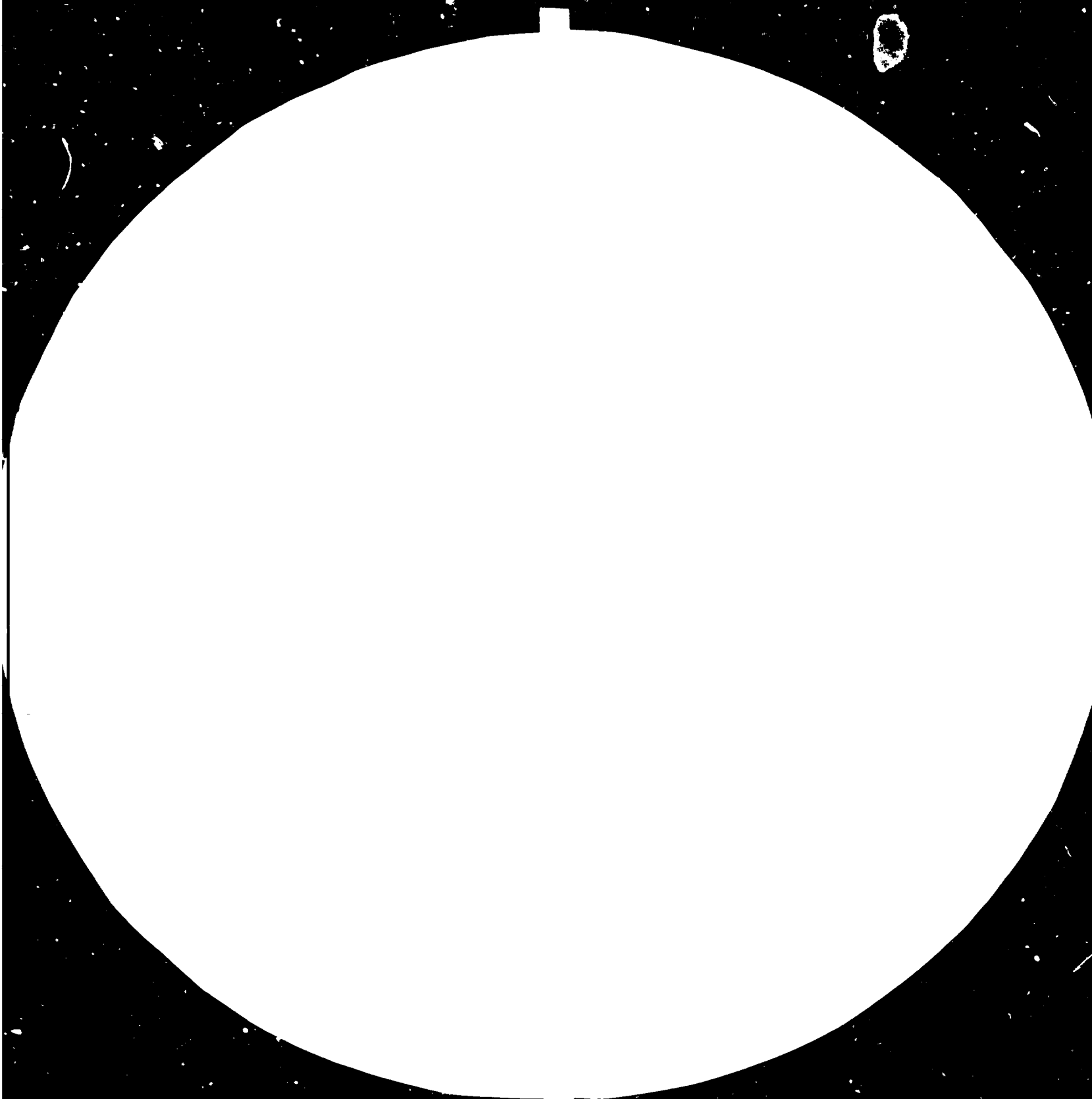
## FAIR USE POLICY

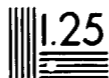
Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)





2.8



3.2



4.5



6.3



MICROCOPY RESOLUTION TEST CHART  
NATIONAL BUREAU OF STANDARDS-1963-A  
STANDARD REFERENCE MATERIAL 2549  
APPROXIMATE TEST CHART NO. 2



13518



United Nations Industrial Development Organization

Distr.  
LIMITED

ID/WG.411/13  
11 April 1984

ENGLISH

Third Consultation on the Leather and  
Leather Products Industry

Innsbruck, Austria, 16-20 April 1984

PROSPECTS FOR SECTORAL PROGRAMME FINANCING IN THE  
LEATHER AND LEATHER PRODUCTS INDUSTRY \*

prepared by  
the UNIDO secretariat

\* This document has been reproduced without formal editing.

V.84-84931

CONTENTS

	<u>Page</u>
I. Introduction .....	2
II. Programme financing for the leather and leather products industry .....	3
III. Conclusion .....	5

## I. INTRODUCTION

1. One of the aspects raised in the issue paper no.1 is the problems and prospects for programme financing of the leather and leather products industry in developing countries. The point has been raised on the basis of four considerations relating to the sector:

- (a) In many developing countries, and especially in the least developed, a major source of external investment for industrial capital formation are external financial institutions, including the multilateral or regional development banking system. Yet the apparently low capital requirements of project financing in the leather and leather products industry usually places it below the project lending threshold of these institutions.
- (b) In some instances of industrial project financing by external institutions, the total project value has had to be increased in order to meet lending thresholds, with the resultant capacity, technological complexity and equipment being too great for the country's market demands, skills or raw material potential. Thus, inbuilt diseconomies have been incorporated in the plant, even before the realisation of the project.
- (c) Most industrial projects in the sector are not conceptualized within the agro-industrial framework of this sector. Thus, for example, one may witness the installation of tanning or footwear factories without due attention being given to investments in improving the production and basic recovery of hides and skins. This results in serious discontinuities in the development of the industry and in inefficiencies in industrial performance.
- (d) Finally, most developing countries have installed tanning capacity, although it is of vastly varying levels of quality. The major problem now confronting these countries is the improved utilisation and balancing of existing capacities, rather than the installation of new plant. With the exception of relatively self-sufficient developing countries, this would mean some degree of import of plant, equipment and production of know-how to balance existing production capacities. However, the demand for resources for this type of investment is unlikely to be fulfilled, due to the lending practises or criteria of most external financial institutions. In fact, these institutions are more oriented to financing new industrial capacities than the financing of revitalization/restructuring of existing capacities.

2. A solution to the deficiencies in investment which result from these factors may lie in formulating integrated national development plans for the sector and in the packaging of various types of finance into comprehensive agro-industrial investment programmes. The concept of programme financing, as such, is not new, but it is rarely implemented on a sector-specific basis.

The present paper examines the possible focus of programme financing for the leather and leather products industry and reviews its implications. Given the variety of situations and investment needs of developing countries in this sector, the paper does not offer solutions, instead it is intended to provide a basis for discussing the underlying concept and its applicability to the leather and leather products industry.

## II. PROGRAMME FINANCING FOR THE LEATHER AND LEATHER PRODUCTS INDUSTRY

3. There are two aspects to the programme financing concept. The first is investing in an integrated development of the sector by financing the development and availability of raw material supplies, along with meeting the fixed and working capital required for industrial capacities and the provision of credit for marketing the industry's output. The second aspect is in the revitalization/balancing of existing industrial capacities. The two need to be considered as distinct elements.

### Programme financing for integrated development of the sector

4. The integrated development of the sector would require coordinated financing of the development and recovery system for raw hides and skins, with the development of tanning and leather products manufacturing capacities. While the situation is highly different in different developing countries, as a result of different types and levels of infrastructure and installed industrial capacities, the broad financial implications are discussed in the ensuing paragraphs.

#### (a) The hides and skins sector

5. The investment requirements in this sphere are mainly in the slaughter and recovery system. In addition to physical infrastructure such as abattoirs and storage/preservation depots, an investment has also to be made in extension services for pre-mortem hide improvement and improvements in flaying and curing practises. The latter investments are in training and the enhancing of know-how. In general, the investment is long term agricultural investment, and in the infrastructure of the hides and skins economy. Furthermore, it is probably composed of local currency requirements in most developing

countries. For this, long term agricultural and infrastructural investment, governmental sponsorship and/or direct participation in the financial aspects would be necessary, and, as has been mentioned before, much of the investment required would be in local currency.

(b) The tanning sector

6. This is in the domain of conventional industrial project financing. From the programming aspect, it would be necessary to balance the specification of tanning plant and equipment with the existing and envisaged supplies of raw materials and market specifications. From the financial aspect, a critical constraint that needs to be overcome is that external financing is more readily available for investments in physical assets, but an equally great (if not greater) investment component is in initial training and working capital for the acquisition of inputs. The implications of programme financing for the tanning sector would require the combination of investment in fixed capital assets, with the working capital and training investments for the sector.

(c) The leather products industry

7. The needs appear to be similar to those of the tanning sector, with the main exception lying in the diversity of products, technologies and sizes/types of plants which need to be specified in relation to the quality of raw materials and markets available to the sector.

Implications

8. Regardless of the nature of ownership in the industry and of the prevailing patterns of trade between the different components of this agro-industrial chain, the governments of developing countries would have to take a coordinating role in programme preparations, its management and financing. The critical areas for governmental actions are identified below:

- (a) The government would need to initiate programme preparation, based on a assessment of existing raw materials, targeted availability over the short, medium and long terms, and the feasible industrial transformation of these raw materials over the short, medium and long terms. In relation to industrial capacity, it would be necessary to specify requirements of infrastructure, fixed assets, trained manpower and basic industrial inputs.



- (b) As a counterpart to the preparation of the programme, the government would be required to specify the suitable investments over the short, medium and long terms for each of the investment components entailed by the development programme, and to negotiate the coverage of these investment needs with finance obtained from various institutions.
- (c) Thirdly, the government would need to evaluate the cost effectiveness of the development and investment programmes as a whole in order to facilitate its evaluation by the financing bodies concerned.
- (d) Finally, the government would need to manage the investment programmes, whether through its direct financial involvement or through the existing financial structure in the country.

Programme financing for the revitalization of existing industrial capacities

9. It has been observed that most developing countries have installed industrial capacities in the sector, but this capacity is sometimes underutilized due to a shortage of hard currency working capital, to obtain the necessary industrial inputs and/or equipment to balance and modernize existing capacities. In this instance programme financing would be more modest in scope and investment requirements, although it would be of significant impact. The revitalization programmes for existing capacities would require the implementation of six steps:

- (a) An evaluation of the sector's rated and actual performance on the basis of installed capacities;
- (b) Identification of the main technical constraints on achieving increased performance of installed capacity;
- (c) Specification of investments in additional equipment, technical services and other imported inputs;
- (d) Assessment of the total foreign exchange and domestic currency investment required;
- (e) Assessment of the economic benefits which may be achieved through revitalizing and balancing existing plants;
- (f) Negotiation of financial resources for revitalizing the industrial capacities in question.

III. CONCLUSION

10. This brief note has touched upon the financial implications of two major constraints that affect the performance of the leather and leather products

industry in developing countries, i.e. the absence of co-ordinated sectoral programming and the absence of capital to sustain the functioning or rehabilitation of existing industrial capacities. It may be worthwhile for the Third Consultation to examine the possible advantages of integrated sectoral programming and to deliberate upon the usefulness of the UNIDO secretariat in assisting developing countries in the formulation of sectoral development programmes and providing assistance to secure programme financing for such approach to the development of the leather and leather products industry.

