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STUDIES ON INFORMAL FINANCIAL MARKETS IN BANGLADESH



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**THE LEATHER AND LEATHER PRODUCT INDUSTRY AND THE
INFORMAL CREDIT MARKET IN BANGLADESH**

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PREFACE

As in many developing countries, the informal financial markets in Bangladesh are alleged to provide the bulk of the credit needs of the economy, particularly to the small scale sector which has little access to the formal (institutional) sources of credit. Despite various attempts to control and regulate informal financial transactions, their scale and pervasiveness of operations have expanded unabated. In the long debate on the usefulness and the performance of the informal financial market operations, and associated issues like the determinants of interest rates, inter-linkages among transactions, etc., some have labelled the markets as usurious, as 'fettters on growth' while others have considered them as desirable adjuncts to the process of brisk growth in trade and commercial operations. Corresponding to these two views, two diametrically opposite policy frameworks are envisaged; the first aims at controlling and ultimately eliminating informal financial transactions while the second aims at expanding the fund flows and increasing the competitiveness in the informal sector. Both lines of arguments however agree that there are imperfections in informal financial markets and that the interest rates usually obtaining in these markets are on the higher side.

Despite the considerable operational significance of the issues involved, and the implications these have for developing an optimal policy environment, information on these markets in Bangladesh remain highly inadequate. The study on the informal financial markets in Bangladesh, conducted by the Bangladesh Institute of Development Studies (BIDS) and sponsored by the Asian Development Bank and the US-Agency for International Development (US-AID), attempts to fill-up this gap in information and analyse some select issues such as the growth and the structure of the markets, formation of interest rates, mobilisation and use-efficiency of resources. A series of case studies have been conducted under the project; all of them are now being reproduced as working papers. A survey to collect some primary

level information on the markets and the characteristics of lenders and to know more about the organizational aspects of informal finance gathering and distribution has also been conducted. The survey findings along with those of the case studies are being used to prepare an overview paper on the informal financial markets in Bangladesh.

This particular study on the role of informal financial markets in the leather and leather products industry finds a chain of credit relations between raw hide and skin dealers and the finished goods markets. Institutional sources of finance is not found to play an important role. More than two-thirds of the tanneries purchase their raw materials on credit, the duration of credit in most cases being 1-3 months with a modal interest rate of about 80 per cent per annum. Credit purchases at every production/trading stage seem to account for about 65-80 per cent of financing requirements. Cash credit is rather low in incidence, accounting for about 5-10 per cent of financing requirement, and coming mostly from friends and relatives. The study finds the market for credit to be highly segmented, and argues that "any mechanism aimed at providing cash credit to the entrepreneurs of the small enterprises must either charge high rates of interest compatible with the rates observed on credit purchases ... or channel funds to intermediaries who know the business well and can conduct credit sales of raw materials at lower implicit rates of interest". The study finds that the "risk premium" in interest rate is not very high, and suggests that the traders/producers can be organised "to serve as an efficient receiving mechanism for channeling funds from banks to the business".

Atiq Rahman
Project Director

I. INTRODUCTION

This study probes into the working of the urban informal financial market in Bangladesh with particular reference to its relevance in financing the leather/leather goods manufacturing industry and the leather/leather goods trade. The study is one of eight case studies initiated by the Bangladesh Institute of Development Studies (BIDS) with the financial assistance of USAID, Dhaka with a view to bringing out the principal features of the urban informal financial market in Bangladesh. Each case study as such is expected to assemble information on such aspects as size of the informal financial market in the particular line of economic activity considered, market segmentation, identification of lenders, categories of borrowers, nature of the relationship between borrowers and lenders, nature of credit operation, sources of funds, uses of funds, collaterals and level and structure of interest rates.

The broad objectives of the BIDS study on urban informal financial markets (IFM) are to examine:

- a) the role played by the urban IFM in providing financial support to urban small scale enterprises;
- b) the desirability of developing urban IFM for promoting the urban informal sector, particularly the small scale enterprises which have little access to formal sector institutions; and
- c) the modalities for promoting urban IFM, should such promotion be considered desirable.

In the light of these broad objectives, the specific objectives of this particular case study are to consider:

- a) size and trend of the activity in its various stages, viz. hides and skins curing, tanning, manufacturing of leather and leather products, and marketing of leather and leather products;

- b) geographic distribution/concentration of the activity;
- c) current production methods and rates of return from the activity; the various constraints and the extent to which lack of credit poses as a constraint;
- d) credit needs of the industry; differential needs of large, medium, small and cottage enterprises within the sector; the extent of institutional financing received; the problems of institutional credit delivery, particularly with respect to small and cottage enterprises;
- e) the extent of informal financing; the sources of credit; the terms of credit (explicit or implicit); the beneficial impact of the credit from the borrowers' point of view; the opportunity cost of funds from the lenders' point of view; the sources of such funds;
- f) the input-output chain from raw hides to hides and skins curing to tanning to leather and leather products manufacturing to sale in both domestic and foreign markets; informal financial tie-ups between the different links of the chain (e.g. deferred payments, payments in kind, etc.) and the premiums on credit and the implicit interest rates;
- g) the overall usefulness of the informal financial sector in promotion of this activity through provision of much needed funds not available from institutional sources; the prospects of developing the informal market in an appropriate way (e.g. through formal - informal sector tie-ups) so that it can perform a more efficient role in financing and developing the sector.

A study of this sort faces of course tremendous difficulties in terms of obtaining correct information since the sectors involved are not willing in most cases to reveal much about their financial dealings, particularly with respect to borrowing, and will not identi-

fy the lenders or speak much about interest rates for fear of losing such sources in the future. They are prone to exaggerate their working capital requirements, especially in so far as they believe that bank financing may be forthcoming to ease their working capital shortage; they are also prone to underestimate the extent of their income from the activity since they are afraid of facing tax problems. Nevertheless, in spite of all these problems, it is hoped that some light has been shed on the true state of affairs in view of the amount of 'inside information' gathered from informal discussions with 'key respondents' with whom some rapport was struck in the course of this investigation.

II. A BACKGROUND OF THE LEATHER/LEATHER PRODUCTS PRODUCING/TRADING ACTIVITIES IN BANGLADESH

Hides and skins curing and tanning and the manufacturing of leather and leather products both for domestic consumption and export constitute an important sub-sector of domestic industries contributing both to domestic consumption and to export. About 9% (Tk. 2499 million in 1985/86) of total export earnings of Bangladesh is accounted for by the export of hides and skins and leather and leather manufactures¹. The number of registered enterprises producing leather and leather products (excluding footwear) was 148 in 1984-85. Moreover there were 10 registered factories producing leather footwear in 1984-85. Together, these 158 enterprises represented about 4% of the total number of registered factories in the country. The enterprises realised a gross value of production of Tk. 1063 million, contributed Tk. 716 million in terms of gross value added, and generated employment for 2690 production workers in 1984-85².

The number of small-scale enterprises engaged in the manufacture of leather and leather products was about 105 in 1982. These include 74 tanneries, 12 leather footwear manufacturers, 2 enterprises producing suitcases and one producing belts, and 17 manufacturers of other leather products. These small enterprises contributed about Tk. 9 million in terms of value added and generated employment for 1303 persons.

Besides these, a large number of cottage industrial enterprises are engaged in curing hides and skins and manufacturing of leather products. In 1981, there were 483 such enterprises involved in hides and skins curing. In addition there were 137 tanneries, 69 enterprises producing various leather products (excluding footwear) and 1423 enterprises engaged in the production and repair of leather footwear. These cottage industries generated employment for 5154 persons. Production and repair of leather footwear alone accounted for the employment of 3442 persons.

TABLE II.1
 MANUFACTURERS/TRADERS INVOLVED IN LEATHER/
 LEATHER GOODS IN BANGLADESH

	No. of enterprises	Employment
<u>Manufacturers</u>		
Wet blue	140	1000
Crust leather	20	500
Finished leather	10	300
Finished leather (cottage units)	110	400
Leather footwear (medium and large)	10	754
Leather footwear (small and cottage units)	1200	7000
Other leather goods (all size)	50	250
<u>Traders</u>		
Wet blue (local market, not export)	5-8	30
Finished leather (wholesale market)	50-55	60
Leather footwear	35-40	100
Other leather goods (wholesale market)	15-16	40
<u>Middlemen:</u>		<u>Number</u>
Cowhide		500
Sheep and goatskin		300
Buffalo hide		25-30

More recent statistics on the number of enterprises and the employment generated therein are harder to obtain as there exists no recent census. Information obtained from the Bangladesh College of Leather Technology reveals the following statistics shown in Table II.1. There are about 330 leather and leather goods (excluding footwear) enterprises generating employment for 2450 persons and 1200 small and cottage level leather footwear enterprises providing employment to 7000 persons. There are also 10 registered leather footwear enterprises generating employment for 754 production workers³. Besides there are more than 100 trading enterprises dealing in wet blue and finished leather and leather goods. A large number of middlemen also operate in between the primary (village) sources and the traders.

The raw material/product flows and the different actors involved in leather/leather goods producing/trading are shown in Chart II.1. Raw hides and skins are procured at the primary (village level) source by collectors who perform elementary processing operations (such as salting) in order to preserve the hides and skins prior to disposal to itinerant fariyas or to large traders or directly to the large aratdars located at Posta in Dhaka or at Khatunganj in Chittagong. Fariyas also sell to traders who in turn sell to aratdars. A large proportion of the sales, from collectors to fariyas to traders to aratdars, is on credit basis, payments being made after a stipulated period of time with a premium on price being extracted on account of the deferred payment. Traders perform the useful function of grading the raw material into run and reject qualities before selling them at appropriate prices to the aratdars. The transmission of lots from collectors to aratdars takes a maximum of 15 days. This is also the usual duration of credit that is stipulated on credit sales at these levels.

The large aratdars at Posta handle most of the raw hides and skins available in the country. The aratdars sell the hides and skins to the tanneries or to large traders who in turn sell the

materials to the tanneries. Much of the sales are again on credit basis. The gradtars usually dispose of the raw materials within a week of procurement.

The tanneries, mostly located in the Hazaribag area, can be functionally classified as (i) wet blue producers, (ii) crust leather producers (producing both wet blue and crust) and (iii) finished leather producers. There are two large finished leather producers which process the hides and skins into the wet blue stage, the semi-finished crust leather stage and the finished stage mainly for export. There are also a large number of small and cottage level finished leather enterprises which cater mainly to the domestic producers of leather goods. More than 95% of the hides and skins processed are exported - about 60% in the wet blue form and 35% in the semi-finished crust leather form. Of the 5% of hides and skins processed into finished form, a part is exported while the remaining part services as an input into the domestic leather goods producing industries, a part of whose output is again exported.

The wet blue, crust and finished leather enterprises either export their product directly or sell to traders or exporters of leather. The finished leather producers sell mostly to traders who sell to the domestic footwear and other leather goods producing industries. Credit sales are involved at each stage. The centre of the finished leather trade is the Banshal area, where leather goods manufacturers buy finished leather from the traders on credit or cash basis.

The leather goods manufacturers sell their output to traders involved in export or to other traders involved in distribution to the domestic market. These (wholesale) traders sell to smaller wholesalers and scores of retailers who sell the goods all over the country. Credit sales are again dominant at each stage.

It has been observed that the principal actors in the leather/leather goods producing/trading activities depend to a large extent on the informal financial market for short term working capital financing. This is true particularly for the small and cottage industries which hardly have access to institutional financing. The principal mode of informal financing is via trade credit in the form of deferred payments for raw materials or products. Cash credit obtained from moneylenders, friends, relatives or other sources appears to be insignificant. With credit sales as the dominant method of informal financing, what we have is a highly segmented financial market in which the actors (borrowers and lenders) know the business and operate within its historically determined norms; the implicit rates of interest, while high, are not excessive, and certainly reflect implicit costs to lenders to a great extent. The informal credit system as practised, operates to the benefit of both borrowers and lenders and helps to keep the industry operational in a situation where working capital needs cannot be met from institutional sources.

The larger enterprises and the exporters, while having wider links with the formal credit institutions, also have their share of financing problems resulting from payment of export duties, withdrawal of the XPB system and stoppage of cash credit to the exporters by the commercial banks. The Bangladesh Tanners' Association has recently demanded a moratorium on bank loans to the exporters, extension of working capital to the exporters, and extension of loans by the commercial banks on liberal terms for importing new machinery for the tanneries.

The interests of the tanneries are looked after by the Bangladesh Tanners' Association which offers a common forum for the tanneries and voices the legitimate demands of the tanners. The Bangladesh College of Leather Technology imparts technical knowledge on various aspects of the leather business to a large number of students who

benefit enormously from the theoretical and vocational training that is offered. There is also a Common Finishing Facility Centre attached to the Bangladesh College of Leather Technology. The Centre is a project under IDA credit set up in order to provide leather processing facilities and technical services to the small and medium-sized tanneries on a commercial basis. Its effectiveness has so far been quite limited.

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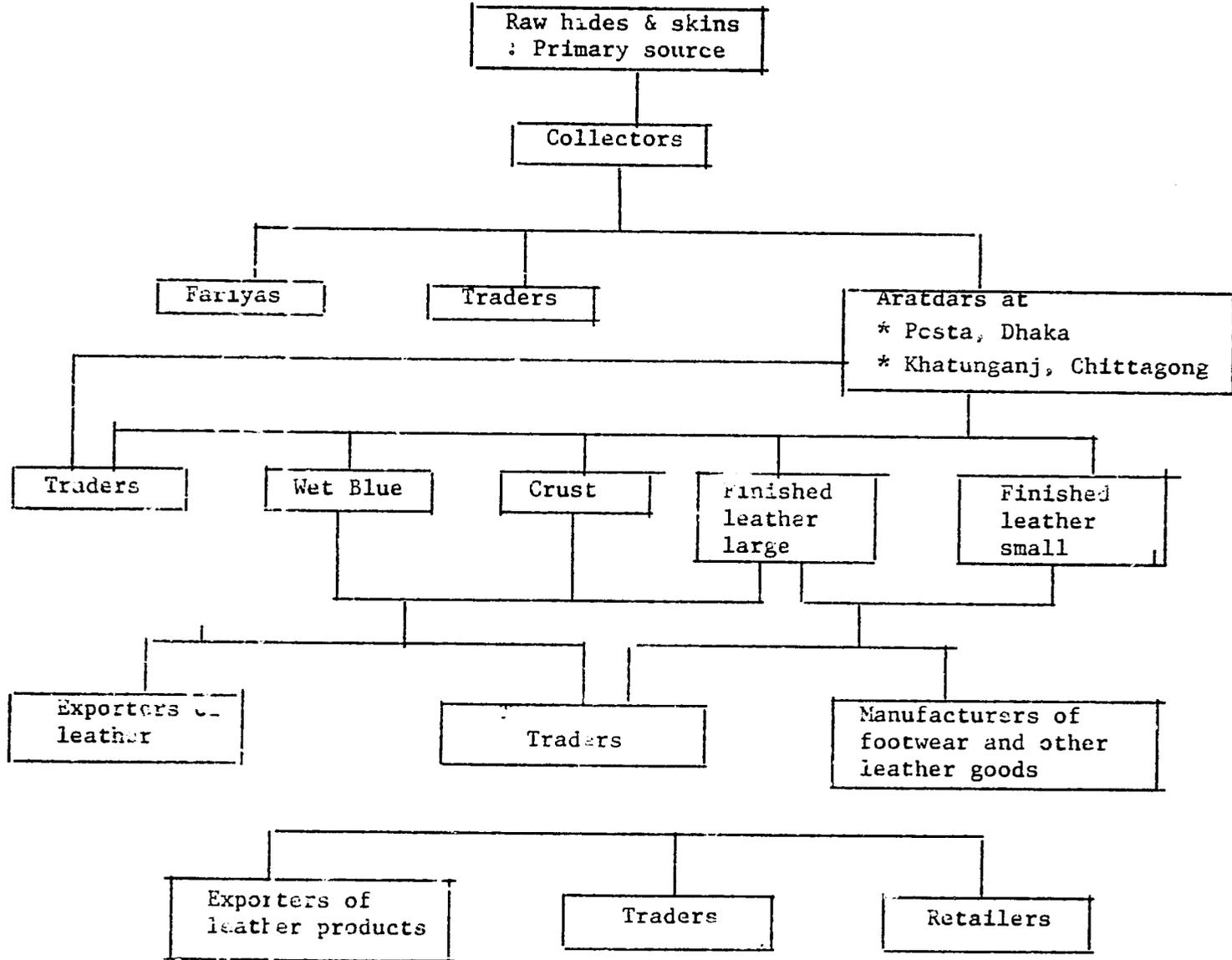


Chart II.1. Raw material/product flows in the leather/leather goods sector.

III. THE METHODOLOGY OF THE STUDY

The study methodology involved information gathering from personal interviews with a large number of actors involved in the activity. In view of the difficulties involved in obtaining information from the various actors, particularly with respect to financing aspects, the study has relied on an anthropological and participatory research method whereby the confidence of certain actors was gained through repeated meetings, and various bits of key information were obtained that helped to substantiate or modify or negate the survey information that was obtained.

A survey of 34 enterprises engaged in various stages of trading and manufacturing of leather and leather products was conducted. The sample includes 10 trading units involved in trading of hides and skins and leather and leather products, 14 units engaged in curing and tanning and 10 units engaged in manufacturing of footwear and other leather products. The sample representation is shown in Table III.1. The sample is representative of various sizes of units - large, medium, small and cottage. Appropriately designed questionnaires were used for the survey.

Available secondary sources were also scanned to obtain data on the overall position of the leather industry in Bangladesh. Moreover, information was obtained, on the basis of interviews, from such institutions as the Bangladesh Tanners' Association, the Bangladesh College of Leather Technology, and some banks involved in financing trade, exports and manufacture of leather and leather products.

TABLE III.1
THE SAMPLE REPRESENTATION

Enterprise Type ^{1/}	Sample size
<u>Manufacturers</u>	
Leather goods	10
Footwear	6
Other leather goods	4
Leather	14
Wet blue	8
Crust	5
Finished	1
Sub-Total	24
<u>Traders</u>	
Cowhide	4
Wet blue	2
Finished leather	2
Leather goods	2
Sub-Total	10
Total	34

^{1/} The enterprises have all been selected from the Dhaka area.

IV. THE TANNERIES OF DHAKA

The Sample

There are quite a large number of tanneries in Dhaka city (mostly located in the Hazaribag area) which procure hides and skins from aratdars (mostly in the Posta area) and other traders and process these upto various stages of manufacture. These enterprises cater both to domestic and foreign markets.

A sample of 14 enterprises was selected for study from the Hazaribag area of the city. The distribution of enterprises in the sample is shown in Table IV.1.

TABLE IV.1
DISTRIBUTION OF ENTERPRISES IN THE SAMPLE

	Small	Medium/ large	Total	%
Wet blue	6	2	8	57.14
Crust	1	4	5	35.71
Finished	1	-	1	7.14
Total	8	6	14	100.00
%	57.14	42.86	100	

Background of Entrepreneurs

The age and educational background of the entrepreneurs is shown in Table IV.2.

TABLE IV.2
AGE AND EDUCATIONAL BACKGROUND OF THE ENTREPRENEURS

Age	Education upto class V	Class VI to SSC	HSC & above	Total	%
20-30	-	-	2	2	14.29
31-40	1	4	-	5	35.71
41-50	2	2	1	5	35.71
51 +	1	1	-	2	14.29
Total	4	7	3	14	100.00
%	28.57	50.00	21.43	100.00	

None of the entrepreneurs in the sample was found to be illiterate. About 21 per cent of the entrepreneurs have education at the HSC level and above. Note that about 71 per cent of the entrepreneurs are between the ages of 31 and 50; of these entrepreneurs, 60% have education levels between classes VI and SSC and 10% have education above the HSC level. About 14 per cent of the entrepreneurs are relatively young, between 20 and 30 years of age; these entrepreneurs are also relatively better educated (education at or above the HSC level) and comprise about 67% of the entrepreneurs who have received such relatively higher education levels. The entrepreneurs of the larger enterprises in the sample are seen to be above

40 years of age, while 75% of the owners of the smaller enterprises are 40 years or less in age. Presumably the enterprises have expanded as the age and experience of the entrepreneurs have increased.

The entrepreneurs are mostly well experienced; about 57 per cent of the entrepreneurs have 10 years or more of experience in the business. This is shown in Table IV.3.

Note that all the crust leather producers in the sample have 10 years or more of experience in the business. The wet blue producers have a lesser extent of experience. About 63 per cent of the wet blue producers have less than 10 years of experience; it is noteworthy that these producers all operate small enterprises and 40 per cent of these entrepreneurs are relatively young (20-30 years age group) and relatively well educated (HSC and above). This would seem to suggest an influx of younger, relatively well-educated entrepreneurs into the leather tanning business.

The entrepreneurs have become owners of their present enterprises through inheritance or purchase or have directly founded their enterprises. The mode of acquisition is shown in Table IV.4.

With about 79 per cent of the entrepreneurs having purchased, founded or rented their enterprises, it would seem that most of the entrepreneurs are in the business by their own choice, presumably because of profits obtainable in the business, not simply because of a compulsion to carry on the family business. The 21 per cent of entrepreneurs who have inherited the business are all wet blue producers; the incidence of inheritance is not observed among crust or finished leather producers in the sample or among 63 per cent of the wet blue producers.

As to involvements of the entrepreneurs in other firms/businesses, it has been observed that the producers of wet blue leather do not have any other firms/businesses outside of hides and skins and leather; most however have involvements in raw hide marketing

TABLE IV.3
EXPERIENCE OF ENTREPRENEURS

No. of years of experience	No. of enterprises			Total	%
	Wet blue	Crust	Finished		
Upto 5	1	-	-	1	7.2
5 - 9.99	4	-	1	5	35.7
10 - 14.99	2	3	-	5	35.7
15 - 20.00	1	2	-	3	21.4
Total	8	5	1	14	100.0

TABLE IV.4
**MODE OF ACQUISITION OF THE ENTERPRISES BY
THEIR PRESENT OWNERS**

Mode of acquisition	No. of enterprises			Total	%
	WB	C	F		
Inherited	3	-	-	3	21.43
Purchased	4	4	-	8	57.14
Founded	1	1	-	2	14.29
Rented	-	-	1	1	7.14
Total	8	5	1	14	100.00

Note: WB: Wet blue, C: Crust, F: Finished.

or have aratdari at Posta and benefit from the vertical integration. Two crust leather producers in the sample have indicated outside involvements; one producer is initiating a textile industry, while the other has a chemical business.

Initial Capital

The amount of initial capital ranges from Tk. 5000 to Tk.10,000 for the wet blue producers; and from Tk. 2 lakhs to Tk. 40 lakhs for the crust leather producers. The small finished leather producer in the sample claims to have had an initial capital outlay of Tk. 2000 only. Initial capital outlay per enterprise is shown in Table IV.5.

All the entrepreneurs (except one large crust leather producer) claimed that they set up their enterprises with their own funds; they did not have access to borrowed funds from any source in setting up their enterprises. The crust leather producer who had borrowed money in setting up his enterprise had borrowed from a bank, the amount of borrowing being Tk. 16 lakh (of which Tk. 10 lakh was for acquisition of fixed assets and Tk. 6 lakh for working capital needs), his total initial capital being Tk. 20 lakh. His own capital of Tk. 4 lakh was obtained from his father.

The source of own funds in financing initial capital requirements has been stated to be personal savings, sale of assets, money procured from parents, etc. The sources of initial capital financing are shown in Table IV.6.

It appears from the above discussion that borrowing has not been a prominent factor in the financing of initial set-up of the enterprises. In fact, borrowing from informal sources has not figured at all in the matter of initial financing. The enterprises have mostly been set up with own funds, the source of funds being savings, sale of assets or parental money.

TABLE IV.5
INITIAL CAPITAL PER ENTERPRISE

	(Tk. 000)		
	Small	Large	All sizes
Wet blue	43.3	77.5	51.9
Crust	200.0	1587.5	1310.0
Finished	2.0	-	2.0

TABLE IV.6
SOURCES OF INITIAL CAPITAL FINANCING

Source of funds	No. of entrepreneurs				% of initial capital financed by				
	WB	C	F	Total	%	a	b	c	f
a) Savings only	6	1	-	7	50	100	-	-	-
b) Sale of assets only	-	-	1	1	7	-	100	-	-
c) Father's money only	1	-	-	1	7	-	-	100	-
d) a+c	-	1	-	1	7	17	-	03	-
e) a+b+c	1	2	-	3	22	36	31	33	-
f) Bank borrowing +c	-	1	-	1	7	-	-	20	80
	8	5	1	14	100				

Expansion in Fixed Assets

It appears that most of the enterprises have recorded some amount of expansion during the last three years. The expansion has been more prominent in the case of the large crust leather enterprises. While about 50 per cent of the wet blue enterprises recorded expansion, all the crust leather enterprises seem to have expanded significantly. All the crust leather enterprises expanded in terms of machinery and equipment (about Tk. 15 lakh per enterprise) while 60 per cent of these enterprises recorded expansion in building as well (Tk. 7.7 lakh per enterprise recording expansion in building; Tk. 4.6 lakh being the average for all enterprises). Expansion in fixed assets is shown in Table IV.7.

Both own funds and borrowed funds have figured in the financing of expansion capital. All the enterprises have used some amount of own funds to finance expansion, the source of own funds being reinvestment of profit in all cases except for one crust leather enterprise which used its profit from a side chemical business to finance the expansion partially.

Some of the enterprises have borrowed money both from institutional and informal sources to finance expansion. The average amount of borrowing per enterprise and the sources of borrowing are shown in Table IV. 8.

Borrowing from informal sources is again seen to be quite insignificant in the matter of financing expansion. Institutional loans are more pervasive, and the extent obtainable seems to increase with the size of the enterprise. It is noteworthy that the small finished leather manufacturers considered in the sample had no recourse to borrowed funds either from institutional or from informal sources.

TABLE IV.7
EXPANSION IN FIXED ASSETS FOR ENTERPRISE

	% of enterprises recording expansion	Amount of expansion of capital (Tk. 000)			Total
		Building/structure	Machinery and equipment	Business fund	
Wet blue	50	-	-	-	1559
Crust	100	460	1516	-	1976
Finished	100	-	-	25	25

TABLE IV.8
SOURCES OF BORROWING AND THE AMOUNT OF BORROWING PER ENTERPRISE
IN THE FINANCING OF EXPANSION CAPITAL

	(Tk. 000)			
	% of enterprises borrowing from		Average amount of borrowing per enterprise <u>a</u>	
	Institutional sources	Informal sources	Institutional sources	Informal sources
Wet blue	37.5	12.5	775	6
Crust	40.0	-	1100	-
Finished	-	-	-	-

Note: a/ Averaged over all sample enterprises in each class.

Fixed Investment Costs

Fixed investment costs include cost of land, building, machinery, tools and equipment and miscellaneous other costs. Land and building are owned by the entrepreneurs in most of the cases. About 12.5 per cent of the wet blue enterprises are housed in rented buildings. Of the 87.5 per cent of wet blue enterprises having own land and building, 57 per cent have semi-pukka structures while 43 per cent have kutchha structure, the average value of semi-pukka and kutchha structures being Tk. 6 lakh and Tk. 30,000 respectively. All the crust leather enterprises have their own land and building; 20 per cent have pukka structures valued at Tk. 10 lakh per enterprise while 80 per cent have semi-pukka structures valued at Tk. 8.75 lakh per enterprise. Details regarding cost of land and building are shown in Table IV. 9.

Costs of machinery, tools and equipment amount to Tk. 19.83 lakh per enterprise on average for crust leather enterprises (Tk. 24.09 lakh for the large ones and Tk. 2.8 lakh for the small ones) and Tk. 1.67 lakh per enterprise for wet blue enterprises. Other miscellaneous fixed cost elements amount to Tk. 53,000 for crust leather and Tk. 10,000 for wet blue enterprises. Details of all fixed cost elements are shown in Table IV.10.

Capacity Utilization

The industry faces distinct peak and non-peak periods. The peak period comprises a span of 3 months after the Qurbani Eid when the large inflow of hides and skins is brought in for processing. For crust leather enterprises, the remaining 9 months comprise the non-peak period. For the small wet blue producers, it seems that on average there is no production altogether for about 2 months of the year, so that remaining 7 months comprise the non-peak period. For the larger wet blue enterprises, there is no idle period so that

TABLE IV.9
COSTS OF LAND AND BUILDING PER ENTERPRISE

	% of enterprises having own land and building	Area of land (decimal)	Present market value of land (Tk. in lakh)	Per enterprise					
				% of enterprises in (a) having structures			Average value (Tk. in lakhs) of structures		
				P	SP	K	P	SP	K
Wet blue	97.5	9.66	12.14	-	57.1	42.9	-	6.00	0.30
Crust	100.0	10.15	26.20	20	80.0	-	10	0.75	-
Finished	-	-	-	-	-	-	-	-	-

Note: P: Pukka; SP: Semi-Pukka; K: Kutcha.

TABLE IV. 10
FIXED COST PER ENTERPRISE

	Per Enterprise (Tk. in lakh)					
	Wet Blue			Crust Leather		
	Small	Large	All Sizes	Small	Large	All Sizes
Land	7.80	23.00	12.14	9.0	30.50	26.20
Building	1.18	9.50	3.56	5.0	10.0	9.00
Machinery, tools & equipment	1.04	3.25	1.67	2.0	24.09	19.83
Other Misc.	0.09	0.13	0.10	0.5	0.54	0.53
Total fixed Cost	10.11	35.80	17.47	17.3	65.13	55.56
Total fixed cost (excluding land & building)	1.13	3.30	1.77	3.3	24.63	20.36

the non-peak period comprises 9 months. For the small finished leather producers, 2 months prior to Eid comprises the peak period. Peak and non-peak periods are depicted in Table IV.11.

On the basis of information regarding the number of days per month worked by the enterprise during peak and non-peak periods and the corresponding number of hours worked per day, it was possible to calculate the number of hours worked per year by the enterprises in each category. This is shown in Table IV.12. If we take 4800 hours a year (300 days, 16 hours per day) as our notion of full capacity utilization, it would seem that the large crust leather producers are utilizing capacity quite well, while the smaller wet blue producers are operating at a low capacity utilization rate. If we consider the 3 months peak period only, the number of hours worked during this period comes to 1520 for crust leather enterprise and only 1001 for a wet blue enterprise. That is, wet blue producers work for only 66 per cent of the time worked by the larger crust leather producers. This would seem to indicate greater working capital shortfall for wet blue producers which limits their ability to exert themselves to the full during the peak months. The situation is worse during the non-peak months with wet blue enterprise working for only 45 per cent of the time worked by the crust leather enterprises. Informal sources substantiate the opinion that the shortage of working capital is to blame for the under-capacity utilization of the wet blue enterprises. All the entrepreneurs in the sample complained in fact of severe working capital problems.

Consumption of Raw Materials

The principal raw material for the tanneries is cowhide. Other raw materials are buffalo hide and goat and sheep skin. Peak and non-peak consumption levels and the annual value of consumption at current levels of capacity utilization are shown in Table IV.13.

TABLE IV.11
PEAK AND NON-PEAK PERIODS

	No. of peak months	No. of non-peak months	No. of months with no production
Wet blue	3	6.75	2.25
Crust	3	9	-
Finished	2	10	-

TABLE IV.12
CAPACITY UTILIZATION

	Peak months		Non-peak months			Capacity utilization rate(%)
	No. of days per month	No. of hours per day	No. of days per month	No. of hours per day	No. of hours per year	
Wet blue	21.00	15.25	14.44	13.31	2290	40
Crust	20.00	10.10	23.40	13.63	4391	92
Finished	26.50	14.00	21.00	11.00	3052	64

Consumption of Other Inputs

Other inputs comprise mainly of chemicals needed to process the leather. Chemicals are needed both at the wet blue stage and at the crust stage. Use of chemicals per enterprise is shown in Table IV.14.

TABLE IV.13
CONSUMPTION OF RAW MATERIALS PER ENTERPRISE

	Consumption per month in				Annual value of consumption (Tk. in lakh)
	Peak		Non-peak		
	Cowhide (Pcs)	Goat/ sheep skin	Cowhide (Pcs)	Goat/ sheep skin	
Wet blue					
Small	1417	-	1000	-	56.45
Large	7500	-	5000	-	374.06
All sizes	2030	-	2000	-	135.05
Crust					
Small	500	-	400	-	29.10
Large	14100	16500	13375	13750 ^{a/}	950.81
All sizes	11300	6600	10700	5500	766.31
Finished					
Small	50	80	35	50 ^{b/}	-

Note a/ Applies to 50 per cent of the large crust leather enterprises.
b/ Refers to buffalo hide.

Main Sources of Raw Materials Purchase

Raw hide is purchased mainly in Posta and sometimes directly from Rajshahi, Durgapur and Dinajpur. Chemicals are mainly procured from the Hazaribag area of Bhaka. Purchases are made from aratdars (some tanneries have their own arats in Posta). A few enterprises purchase raw materials from intermediate raw hide traders (wholesalers or retailers). Purchases are effected about 3 to 6 times per month. Frequency of purchase of chemicals is often higher.

TABLE IV.14
USE OF CHEMICALS PER ENTERPRISE

	Quantity (kg) per month in		Annual value (Tk. in lakhs)
	Peak	Non-peak	
Net blue			
Small	207	147	1.50
Large	1096	730	9.06
All sizes	429	293	3.59
Crust			
Small	199	157	2.03
Large	6007	6360	77.66
All sizes	5485	5120	62.53
Finished			
Small	200	175	2.15

Employment and Wages

On average about 6 persons are employed per enterprise in wet blue enterprises and 23 persons in crust leather enterprises. Employment and wages are shown in Table IV.15.

The proportion of casual workers is high, about 70 per cent of total number of workers in wet blue enterprises and 62 per cent in crust leather enterprises. For the small finished leather enterprise considered in the sample, all the 4 workers are casual workers. Workers are usually paid on a piece rate basis.

TABLE IV.15
EMPLOYMENT AND WAGES PER ENTERPRISE

	No. of workers			Annual wage bill (Tk.)
	Permanent	Casual	Total	
Wet blue				
Small	1.2	2.0	4.2	33,420
Large	11.0	6.5	17.5	216,375
All sizes	4.4	3.1	7.5	79,163
Crust				
Small	1.0	10.0	11.0	106,500
Large	0.75	15.5	26.25	453,750
All sizes	6.8	14.4	23.2	304,300
Finished				
Small	-	4	4	30,000

Miscellaneous Operating Costs

Miscellaneous operating costs include payments for electricity, spares, rent, and costs of transport and repair and maintenance. Such costs amount on average to Tk. 2.5 lakhs annually for wet blue enterprises and Tk. 8.9 lakhs for crust leather enterprises. Details are shown in Table IV.16.

Output and Output Disposal

Output consists of wet blue and crust leather in the case of the crust enterprises, wet blue in the case of wet blue enterprises and finished leather in the case of the finished leather enterprises. Annual value of output per enterprise is shown in Table IV.17.

The industry is geared mainly to foreign markets with leather (both wet blue and crust) being exported to countries such as Italy, China and Holland. For the wet blue and crust enterprises, there is almost 100 per cent export of the produce. The small finished leather enterprises are geared to the domestic market and sell mostly to wholesalers.

Cost and Returns

Cost and returns are depicted in Table IV.18. The figures are based on Tables IV.13 to 17. The figures for cost of raw materials and chemicals have been adjusted to reflect the higher prices corresponding to credit purchases. Details of such credit purchases will be provided later.

It can be seen that profitability is quite high for the leather tanning enterprises. If cash credit were available to the entrepreneurs to finance purchases of raw materials and chemicals, profitability would have been higher. As it stands, large premiums have to be paid on credit purchases of raw materials and chemicals.

TABLE IV. 16

Miscellaneous Monthly Operating Costs per Enterprise

(Tk. 000)

	Wet blue			Crust			
	Small	Medium	All Sizes	Small	Medium	All Sizes	
Electricity	7.09	16.00	9.32	1.5	22.80	21.24	
Spares	-	-	-	0.8	2.90	2.43	
Repair and maintenance	0.40	3.50	1.18	1.8	3.23	6.94	
Transport	1.22	2.25	1.48	2.2	18.63	15.34	
Rent	3.72	9.25	5.10	1.1	10.70	3.78	
Others	3.16	6.00	3.87	2.7	24.00	19.74	
Total	Monthly	15.59	37.0	20.95	10.1	87.25	74.52
	Annual	187.08	444.0	251.40	121.2	1047.12	894.24

TABLE IV. 17

Annual Value of Output Per Enterprise

	Annual value of output (Tk. in lakh)
Wet blue	
Small	64.88
Large	425.25
All Sizes	154.97
Crust	
Small	34.94
Large	1210.61
All Sizes	975.43

TABLE IV. 18

	(Tk. in lakh)			(Annual basis)		
	Wet blue			Crust leather		
	Small	Large	All Sizes	Small	Large	All Sizes
Value of output	64.88	425.25	154.97	34.94	1210.61	975.48
Cost						
Raw materials	59.00	387.84	141.21	30.25	1031.61	831.34
Chemicals	1.53	10.05	3.66	2.07	79.01	63.62
Labour	0.33	2.16	0.79	1.07	4.54	3.84
Other	1.87	4.44	2.51	1.21	10.47	8.94
Total Cost	62.73	404.49	148.17	34.60	1125.63	907.74
Value Added	2.48	22.92	7.59	1.41	89.52	71.58
Gross Profit	2.15	20.76	6.80	0.34	84.98	67.74

TABLE IV. 19

Working Capital Requirements and Availability Per Enterprise

	(Tk. in lakh)			
	R	R'	A	% shortfall $= \frac{R' - A}{R'}$
Wet blue	80	37	13	65
Crust	348	227	139	39

Working Capital

Working capital requirements and current availability were assessed from responses obtained from the entrepreneurs of the surveyed enterprises. The requirements were grossly overstated by the respondents possibly to make an impression about their dire need for working capital financing. Working capital requirements as considered by the respondents (R) and requirements as calculated on the basis of three months running costs (R') based on current capacity utilization rates are shown in Table IV.19 along with the estimated current availability (A).

Working capital calculated on the basis of average stock of inputs and output, cash in hand, work in progress, cash outstanding on sales and liabilities on input credit indicate available working capital of Tk. 13 lakh for a wet blue enterprise, Tk. 139 lakh for a crust leather enterprise and Tk. 4.8 lakh for a small finished leather enterprise. On this basis, the shortfall in working capital amounts to 65 per cent for wet blue enterprises and 39 per cent for crust leather enterprises. The wet blue enterprises are smaller and face greater working capital problems.

All the entrepreneurs stated that shortage of working capital is the major problem facing them. While the existing shortfall is responsible for under capacity utilization, the current availability is dependent to a great extent on the system of credit purchases of materials which involve payments of premiums over the cash price that amount implicitly to the payment of high interest rates on credit. The entrepreneurs would therefore welcome cash credit on easy terms from banks or other financial institutions. As it stands, such working capital financing is not available to most of the entrepreneurs.

Financing Modalities

A look at Table IV.18 reveals that payments for raw materials (i.e. hides and skins and chemicals) comprise the major element of total costs of production. In both the cases of wet blue enterprises and crust leather enterprises, raw materials and chemicals account for about 97 to 98 per cent of total costs with hides and skins alone accounting for 92 to 96 per cent of total costs of production and 93 to 97 per cent of total input (raw materials plus chemicals) cost. This is shown in Table IV.20.

It would appear therefore that the main burden of financing relates to the financing of purchases of raw materials and chemicals. It has been observed that cash credit either from institutional or from informal sources plays an insignificant role in the financing of such purchases. Own funds (primarily reinvestment of profits) and credit purchases comprise the major sources of working capital financing. Hides and skins are purchased mainly from aratdars in Posta while chemicals are purchased from producers and wholesalers in the Hazaribag area. Purchases are also made from intermediate raw hides and skins traders (wholesalers or retailers) who also provide scope for deferred payments. Purchases are made about 3 to 6 times per month. The high frequency of purchase is due to the shortage of cash for buying raw materials; for credit purchases, sellers prefer to provide small lots at a time, with fresh supplies being offered or not depending on the repayment performance. The practice serves the purpose of reducing risks for the suppliers and ensures a better repayment rate. It also leads to a situation whereby the entrepreneurs transact with more than one supplier at a time, getting small lots from cash supplier; this increases costs of production further. The problem is particularly acute for the smaller producers who make simultaneous purchases of small lots from a number of source including retailers and also pay higher premiums on the credit purchases. While this may be justified from the suppliers' point of view considering the higher risks involved, it reduces the

TABLE IV. 20

Proportion of Total Costs Accounted for by Various Cost Elements

	(Percentage)					
	Wet blue			Crust		
	Small	Large	All Sizes	Small	Large	All Sizes
Raw materials	94.05	95.88	95.30	87.43	91.65	91.58
Chemicals	2.44	2.49	2.47	5.98	7.02	7.01
Labour	0.53	0.53	0.53	3.09	0.40	0.42
Others	2.98	1.10	1.70	3.50	0.93	0.99
Total Costs	100.00	100.00	100.00	100.00	100.00	100.00

TABLE IV. 21

Price of Raw Material

	(Tk. per piece)			
	Peak		Non-Peak	
	Cowhide	Goat and Sheep	Cowhide	Goat and Sheep
Cash price	487	95	577	100
Credit price	527	115	621	115

profitability of the small tanneries and keeps them dependent on credit purchases for working capital financing. The need for an efficient credit delivery mechanism whereby smaller producers can obtain access to credit financing at the same terms as larger producers without involving higher risks on the part of the raw materials suppliers is obvious.

Average prices of raw materials (faced by all the enterprises) are shown in Table IV.21. Prices vary depending on whether the peak or non-peak period prevails and whether cash or credit purchases are made. In the case of credit purchases, the seller adds a premium to the input price.

It appears that the price of cowhide is about 18.5 per cent higher in the non-peak period compared to the peak period. The premium on credit is 8.21 per cent over the cash price in the peak period and 7.63 per cent in the non-peak period in the case of cowhide and 21 per cent and 15 per cent for goat and sheep skin in the peak and non-peak periods respectively.

A disaggregated picture of monthly cash and credit purchases per enterprise in peak and non-peak periods is provided in Table IV.22. The table also shows the annual value of purchases and the total premium paid on account of credit purchases.

The proportion of raw material bought on credit, the premium on credit, the duration of credit and the implicit interest rates are shown in Table IV.23. Notice that the implicit interest rates, averaged over all enterprises, lie between 23 and 102 per cent. The variation in rates of interest is due to the variation in the duration of credit for different borrowers. Considering modal cases, the duration of credit is 1 month for wet blue producers and two months for crust leather producers, implying an interest rate of about 78 per cent, which appears to be in line with the rates on credit purchases in other subsectors of the economy. It is interesting to note, however, that interest rates as low as 23 per cent are available to some producers.

TABLE IV. 22

Cash and Credit Purchases of Raw Materials Per Enterprise

	Quantity (Nos)				(Tk. in lakh)	
	Monthly Cash purchase		Monthly Credit purchase		Annual value of purchases	Total premium paid ^{b/}
	Peak	Non-Peak	Peak	Non-Peak		
Wet blue						
Small	431.05	306.63	985.95	701.37	59.00	2.55
Large	2250.00	1500.00	5250.00	3500.00	387.84	13.78
All Sizes	885.79	604.97	2051.96	1401.03	141.21	2.36
Crust						
Small	50.00	40.00	450.00	360.00	30.25	1.15
Large						
CF ^{a/}	4465.47	4235.86	9634.53	9139.14	936.50	-
GS ^{a/}	2612.78	2177.31	5637.23	4697.69	95.11	-
Total	-	-	-	-	1031.61	81.00
All Sizes	-	-	-	-	831.34	65.03

Note: ^{a/} CF : Cowhide; GS: Goat and Sheep Skin

^{b/} Total premium paid is the difference between annual value of purchases and the annual value of consumption shown in Table IV. 13.

TABLE IV. 23

Credit Purchases of Raw Material and Implicit Interest Rates

	Proportion of raw material bought on credit (%)	Premium on credit (%)		Duration of Credit (Months)	Annual Implicit rate of interest (%)
		Peak	Non-Peak		
Wet blue	59.69	5.63	6.42	1 - 3	23 - 78
Crust	72.66	12.77	9.73	1 - 4	30 - 155
All enterprises	70.83	8.38	7.69	1 - 4	23 - 102

In addition to hides and skins, the tanneries purchase large quantities of chemicals that are used to process the hides and skins. Purchases are made usually from the Hazaribag area. Credit purchase of chemicals is the usual practice. Monthly cash and credit purchase per enterprise in peak and non-peak periods is shown in Table IV.24. About Tk. 4 lakh worth of chemicals are purchased annually by wet blue enterprises while the crust leather enterprises purchase about Tk. 64 lakhs worth of chemicals annually. These values incorporate the premium that are paid on account of credit purchase, Tk. 0.07 lakh in the case of wet blue and Tk. 1.09 lakh in the case of crust leather enterprises.

About 40 to 60 per cent of requirements of chemicals are bought on credit by the different enterprises. The price of chemicals is on average about Tk. 100 per kg. when cash purchases are made. In the case of credit purchases, a premium of Tk. 2 to Tk. 5 per kg. has to be paid. The usual duration of credit is 2 to 3 months. The proportion of chemicals bought on credit, the premium on credit, the duration of credit and the implicit interest rates are shown in Table IV 25.

The chemical dealers are clearly very lenient in charging premium on their credit sales. Tanneries are seen to purchase on average about 60 to 70 per cent of their requirements on credit. Implicit interest rates are seen to range from a nominal 6 per cent to about 61 per cent. In the modal case, a premium of Tk. 2 per kg. and a duration of credit of 1 month is seen to prevail, so that the implicit interest rate is about 24 per cent.

Repayment of credit on credit purchases of raw materials and chemicals is in cash terms in all the cases. Clearly the sellers of raw hides and chemicals are not interested in selling the processed output. Hence the practice of repaying in output (at a discounted price) is absent.

TABLE IV. 24

Cash and Credit Purchases of Chemicals Per Enterprise

	Quantity (Kg)				(Taka in lakh)	
	Monthly Cash purchase		Monthly Credit purchase		Annual value of purchase	Total premium paid
	Peak	Non-Peak	Peak	Non-Peak		
Wet blue						
Small	62.1	44.1	144.9	102.9	1.53	0.03
Large	323.6	255.5	712.4	747.5	10.05	0.19
All Sizes	142.5	97.0	286.8	195.8	3.66	0.77
Crust						
Small	49.8	39.8	149.3	119.3	2.07	0.04
Large	2258.9	2671.2	3648.1	3688.8	79.01	1.35
All Sizes	2297.1	2144.9	3188.3	2974.9	63.62	1.09

TABLE IV. 25

Credit Purchases of Chemicals and Implicit Interest Rates

	Proportion of chemicals bought on credit (%)	Premium on credit (Tk/Kg)	Duration of credit (months)	Annual implicit rate of interest (%)
Wet blue	68.75	2 - 5	1 - 3	8 - 61
Crust	61.40	2	2 - 4	6 - 12
All Enterprises	65.92	2 - 5	1 - 4	6 - 61

Credit Sales of Output

Many enterprises sell on credit to exporters who pay for the product after realizing their export proceeds. The practice is common among the small wet blue producers and the small finished leather producers. The small wet blue producers sell on credit to intermediaries who in turn export the goods. About 33 per cent of the small wet blue enterprises sell only on cash basis; about 17 per cent sell partly on cash and partly on credit while about 50 per cent sell wholly on credit basis. A 8 to 10 per cent premium on price is charged when selling on credit basis. The duration of credit is between 1 and 4 months. The implied implicit interest rates range from 24 per cent to 122 per cent. In the usual case, the duration of credit is about 2 months which implies an interest rate of 40 per cent. The interest rates on credit sales of output are relatively low because the smaller producers in need of quick cash do not have much bargaining power. The larger wet blue enterprises and the crust leather enterprises seem to sell their output directly against cash payments; the practice of selling output on credit basis is almost absent among this group. Part of the reason is their ability to obtain cash credit from banks against export orders, as will be seen in the next sub-section.

Cash Credit

Shortage of cash is stated to be the main reason for buying raw materials and other inputs on credit. Many entrepreneurs, particularly those operating the small enterprises, have stated that personal loans are difficult to come by while credit purchases can easily be made. It is noteworthy that none of the small wet blue enterprises have had access to institutional credit. On the other hand, the large wet blue enterprises and the crust leather enterprises all receive bank financing to finance working capital needs. The duration of credit is usually 2 to 3 months, the credit being

recovered by the bank when the export proceeds are realized. Credit is obtainable continuously with every export consignment, the average size of loan taken by the large crust leather enterprises being about Tk. 40 lakhs.

The large wet blue and crust leather enterprises have recourse to bank financing and reported that they do not take recourse to loans from informal sources. On the other hand, the small wet blue and finished leather enterprises do borrow from informal sources. About 80 per cent of the enterprises in this size group reported taking recourse to the informal credit market. The loans are taken whenever needed and are used to service working capital needs. Loans are taken from friends and relatives or from moneylenders. The latter are not moneylenders in the conventional sense of the term but have been identified as businessmen who lend surplus funds for short durations against stipulated rates of interest.

The amount of loans taken by the enterprises from informal sources vary from Tk. 35,000 to Tk. 70,000, the duration of credit varying from 1 to 6 months (2 to 3 months in the case of borrowing from moneylenders). Apparently no interest is charged on loans provided by friends and relatives. This is of course quite typical; the favours are usually returned through provision of interest-free credit to the lenders when they themselves are in need. (Thus many of the small wet blue producers have stated that they lend occasionally to friends and relatives, the number of loans being about 3 to 4 times per year, the average amount being Tk. 54,000 and the duration of credit, 1 to 4 months). The (businessmen) moneylenders, on the other hand, do charge interest, the charges varying from 64 per cent to 96 per cent annually.

The entrepreneurs of the small enterprises have stated that they are unable to obtain bank loans on account of lack of collateral. Collateral is not required in borrowing from friends and relatives. In borrowing from moneylenders, some sort of security is often needed. About 33 per cent of the entrepreneurs have stated that they have obtained loans from informal sources without offering any collateral on the basis of security provided by influential people.

V. MANUFACTURERS OF FINISHED LEATHER GOODS

The Sample

Finished leather goods produced in Bangladesh include a variety of items such as footwear (shoes, boots, sandals, etc), suitcases, handbags, ladies' bags and purses, wallets, and leather jackets and trousers (produced mainly for export). There are about 50 leather producers in the country employing about 250 persons, while there are 1200 enterprises producing footwear in particular, these units employing about 7000 persons.

A sample of 10 leather goods enterprises was selected in the Dhaka area. While 4 of these enterprises are producers of leather goods in general, 6 are producers of footwear only. Table V.1. shows the distribution of enterprises in the selected sample.

Background of the Entrepreneurs

The age and educational background of the entrepreneurs is shown in Table V.2.

None of the entrepreneurs in the sample is illiterate; 40 per cent have education upto the class V level while 70 per cent have education upto the SSC level. It is noteworthy that the 40 per cent of entrepreneurs who have education only upto the class V level are all owners of the relatively smaller enterprises and are all 40 years or less in age; the medium and large enterprises are owned by entrepreneurs who are all above 40 years in age and have education above the class VI level - 3 of these entrepreneurs (i.e. 50 per cent) have education above the HSC level and have obtained Diploma in Leather Technology as well.

All the entrepreneurs are well experienced in the business; about 56 per cent of the entrepreneurs have more than 10 years of experience. This is shown in Table V.3.

TABLE V. 1

Distribution of Enterprises in the Selected Sample

	Small	Medium	Large	Total	%
Footwar	4	-	2	6	60
Other leather goods	1	2	1	4	40
Total	5	2	3	10	100
%	50	20	30	100	

Note: The size of enterprises was categorised according to the size of total fixed cost (excluding land and building) as follows: small - upto Tk. 1 lakh, medium - Tk. 1 to 10 lakh, large - above Tk. 10 lakh.

TABLE V. 2

Age and Educational Background of Entrepreneurs

Age	Education	Number of Entrepreneurs			Total	%
		Upto Class V	Class VI to SSC	HSC and above		
20 - 30		2	=	=	2	20
31 - 40		2	-	=	2	20
41 - 50		-	2	2	4	40
51 - 60		-	1	1	2	20
Total		4	3	3	10	100
%		40	30	30	100	

TABLE V. 3

Experience of Entrepreneurs

No. of years of experience	No. of entrepreneurs			Total	%
	Small	Medium	Large		
0 - 10	3	1	-	4	44.5
11 - 20	1	1	-	2	22.2
21 - 30	1	-	2	3	33.3
Total	5	2	2	9	100.0

TABLE V. 4

Fixed Cost Per Enterprise

(Tk. 000)

	Footwear		Other Leather Goods			All Leather Goods			All Sizes
	M	L	S	M	L	S	M	L	
Land	-	3750	-	-	3000	-	-	3167	-
Building	3	2500	-	30	1200	3	30	1850	-
Machinery	9.5	1252.5	10	237.5	1540	9.7	237.5	1340	465
Tools and equipment	26.25	1025	0.1	4	2250	21.0	4	1067	331
Other Misc. Misc.	5.25	250	0.5	4.5	500	3.7	4.5	333	102
Total fixed cost	44	8777.5	10.6	326	6390	37.4	326	7765	-
Total fixed cost (excluding land and building	41	2527.5	10.6	296	3190	34.4	296	2748	398

Of the 45 per cent of entrepreneurs who have 10 years of experience or less, 75 per cent are owners of small enterprises. Again, of the 33 per cent of entrepreneurs who have more than 20 years of experience, 67 per cent are owners of large enterprises. This seems to indicate that larger enterprises are owned by relatively more experienced (and, as seen earlier, by relatively more well-educated) entrepreneurs.

Some of the entrepreneurs have other businesses as well. 2 of the respondents claimed to own tanneries as well while 1 claimed to have some other unspecified business. It is noteworthy that the 2 respondents who own tanneries are both large leather goods manufacturers, their raw materials procurement is made easier and their profits enhanced on account of the vertical integration. Both have 30 years of experience in the leather business. Both have HSC level education and have Diploma in Leather Technology as well; both are above 50 years of age.

As to how the entrepreneurs became owners of their present enterprises, it seems that only 10 per cent of the entrepreneurs inherited their enterprises, the other 90 per cent either purchased, founded or rented their present enterprises. 50 per cent of the enterprises in the sample have been rented from others by their present entrepreneurs; of these 80 per cent are small enterprises. This could be indicative of the fact that small enterprises are not doing too well and be indicative of the fact that small enterprises are not doing too well and their owners have found it better to rent them out to new new venturesome entrepreneurs rather than run them themselves. This is borne out by the fact that 60 per cent of the entrepreneurs who have rented their enterprises have less than 10 years of experience in the trade. None of the large enterprises in the sample have been inherited or rented.

Fixed Investment Costs

The 30 per cent of enterprises in the sample considered as large enterprises are all using their own land and building; the rest operate on rented premises. Average area of land used by the large enterprises is about 26 decimals per enterprise with the value of land per enterprise at current prices being about Tk. 32 lakh. Buildings are invariably pukka, cost of building for the large enterprises being about Tk. 13.5 lakh per enterprise. For the medium and small enterprises using rented premises, an initial payment (advance) has to be paid for the rented space and a monthly rent is given. Average amount of advance that has to be paid comes to about Tk. 30,000 per enterprise (for medium) and Tk. 3,000 per enterprise (for small enterprise). Rental is about Tk. 2,000 per enterprise (medium) and Tk. 640 per enterprise (small).

Machinery, tools and equipment consist of sewing machines, form a and small tools costing about Tk. 24.15 lakh per enterprise for large enterprises, Tk. 2.9 lakh per enterprise for medium sized enterprises and Tk. 31,000 per enterprise for small enterprises. The smaller enterprises do not operate complex machinery but employ manual processes using simple tools and equipment. Table V.4 lists the various fixed cost elements for the sample enterprises. Note that fixed cost per enterprise comes to about Tk. 34,000 for small enterprises, Tk. 3 lakh for medium and Tk. 23 lakh for large enterprises producing leather goods.

The respondents were asked about the initial capital they had put into their enterprises and the mode of financing. The amount of initial capital involved seemed to have ranged from Tk. 5,000 to Tk. 15 lakh in the case of leather goods and from Tk. 5,000 to Tk. 3.25 lakh in the case of footwear. The average amount of initial capital for the sample enterprises is shown in Table V.5. It appears that the total initial capital is about Tk. 10,000 for small

TABLE V.5
INITIAL CAPITAL PER ENTERPRISE

	(Tk. 000)					
	Small		Medium		Large	
	O	B	O	B	O	B
Footwear	10.00	-	NA	NA	25	200
Other leather goods	10.00	-	27.5	-	1500	-

Note: O = Own funds, B = borrowed funds.

TABLE V.6
EXPANSION CAPITAL

Type of enterprise	Amount fo expansion capital per enterprise			
	No. of enteri- ses that have expanded	Machinery, equipment (Tk. 000)	Business fund	Total
Footwear	2	500	15	515
Other leather goods	1	-	25	25
All leather goods	3	333	18	351

enterprises, Tk. 29,000 for the medium-sized enterprises, and Tk. 2.25 lakh for a large footwear enterprise and Tk. 1.5 lakh for a large leather goods enterprise. Initial capital was funded from own funds or from borrowed funds. All the entrepreneurs stated that the source of own capital is own savings. One respondent had of course inherited his enterprise and had put in Tk. 5,000 of his own money (from savings) into the business as initial capital.

Only the large enterprises seem to have recourse to funds borrowed from institutional sources in setting up their enterprises. About 67 per cent of the large enterprises (20 per cent of the total number of enterprises) have had recourse to borrowed funds, the average amount of borrowing by the borrowing enterprises being about Tk. 2 lakh. Borrowing has represented about 86 per cent of the total initial capital for the two enterprises (both large footwear manufacturers) who have had access to institutionally borrowed funds. Borrowing from informal sources has not figured at all in the matter of financing initial capital for setting up the enterprises.

Only 30 per cent of the enterprises seem to have recorded any expansion in fixed assets during the last 3 years. The number of enterprises reporting expansion and the amount of expansion capital per enterprise is shown in Table V.6.

For the enterprises who have expanded (30 per cent of all enterprises), the average amount of expansion capital is seen to be about Tk.3.5 lakh, 95 per cent of which represent an expansion in machinery and equipment and 5 per cent an expansion in business fund.

The source of expansion capital has been stated to be reinvestment of profit in most of the cases. Borrowed funds (from institutional sources) have been observed only for cases which had recourse to institutional borrowing in setting up their enterprises. Since such cases are infrequent, it follows that borrowing has not figured prominently in the financing of expansion capital. It is interesting

to note that one large footwear enterprise which had borrowed Tk. 3 lakh from a bank as initial capital had recourse to another Tk. 5 lakh of credit to finance expansion. Such cases are however quite infrequent.

Capacity Utilization

In the case of footwear enterprises, two months prior to each Eid are periods of peak sales; the remaining 8 months can be considered as the non-peak period. In the case of other leather goods, there are no distinct peak and non-peak periods; sales are roughly even throughout the year. The level of operation of the enterprises is shown in Table V.7

Notice from Table V.7 that the leather goods enterprises are all fairly well utilized throughout the year. If we take 300 days a year and 16 hours per day as our notion of full capacity, then full capacity utilization amounts to 4800 hours of work per year. (For the small enterprises utilizing mainly manual processes, this can be reduced to 2400 hours per year; the table shows the corresponding capacity utilization rates in brackets). The leather goods enterprises operate in that case at 50 per cent of capacity. In particular, the footwear enterprises operate at about 57 per cent of capacity with the smaller ones being more effectively utilized. The other leather goods enterprises are operated more intensively, at about 62 per cent, with utilization increasing with the size of the enterprises. In particular, the large other leather goods enterprises are seen to operate at 75 per cent of capacity. These enterprises are mostly export-oriented and face a steady demand for their product throughout the year. They also have recourse to working capital financing from institutional sources. The smaller enterprises, on the other hand, are geared to local markets, face uncertain and fluctuating demand for their products and have difficulties in raising working capital requirements. Consequently, capacity utilization is on the lower side.

TABLE V.7
CAPACITY UTILIZATION

	Peak months		Non-peak months		No. of hours per year	Capacity utilization rate (%)
	No. of days per month	No. of hours per day	No. of days per month	No. of hours per day		
Footwear						
Small	23.75	12.00	19.50	11.00	2850	60 (79)
Large	25.00	8.00	25.00	8.00	2400	50
Other Leather goods						
Small	25.00	8.00	25.00	8.00	2400	50 (67)
Medium	21.25	11.75	21.25	11.75	2996	62
Large	30.00	10.00	30.00	10.00	3600	75
All leather goods						
Small	24.00	11.20	20.60	10.40	2789	50 (78)
Medium	21.25	11.75	21.25	11.75	2996	62
Large	26.67	8.67	26.67	8.67	2775	58
All sizes	24.25	10.55	22.55	10.15	2854	60

Note: Figures in brackets correspond to the rates corresponding to notional full capacity at 3600 hours per year.

Consumption of Raw Materials and Accessories

The main raw material used by the footwear and other leather goods enterprises is finished leather, while accessories used are chain, buttons, thread, gum, lining, monogram, zipper, fitting materials, insole, rubber, chemicals, solution, etc. Value of raw materials (finished cowhide, buffalo hide, goat and sheep skin) and accessories per enterprise per month on average throughout the year is shown in Table V.8. About 14,261 sq. ft. of finished cowhide, 5200 sq. ft. of buffalo hide and 1000 sq. ft. of goat and sheep skin are used on average per month by each enterprise. Credit purchases of raw materials are the usual practice as will be seen in details later.

Main market places for purchase of raw materials and accessories are Hazaribag, Bangshal and Sadarghat. Hazaribag is the principal centre for purchases of finished leather while Bangshal is the main centre for accessories. Purchases are made from wholesalers in most cases, with the frequency of purchase being 7 to 8 times per month for the footwear makers and 5 to 9 times per month for the other leather goods manufacturers.

Employment and Wages

The industry offers employment to a large number of workers, about 25 workers per enterprise in footwear and 14 workers per enterprise in other leather goods. Casual workers predominate. Employment and wages are shown in Table V.9.

About 80 per cent of the workers are casual workers. On average, about 21 workers are employed per enterprise with an average monthly wage per worker of Tk. 2140. Workers are usually paid on piece rate basis.

TABLE V.8

AVERAGE MONTHLY CONSUMPTION OF MAIN RAW MATERIALS
AND ACCESSORIES PER ENTERPRISE

	(Tk.)	
	Value of monthly consumption per enterprise	
	Raw materials	Accessories
Footwear		
Small	68,578	-
Large	27,80,000	-
Other leather goods		
Small	6,750	-
Medium	1,01,500	-
Large	13,60,000	-
All leather goods		
Small	53,121	17,452
Medium	1,01,500	25,000
Large	23,06,667	2,11,983
All sizes	7,30,861	77,321

TABLE V.9
EMPLOYMENT AND WAGES PER ENTERPRISE

	No. of workers			Monthly wage bill (Tk.)
	Permanent	Casual	Total	
Footwear				
Small	-	5	5	5,455
Large	15	50	65	1,62,154
Other leather goods				
Small	-	2	2	2,000
Medium	4	3.5	7.5	7,333
Large	-	40	40	45,000
All leather goods				
Small	-	4.4	4.4	4,923
Medium	4	3.5	7.5	7,333
Large	10	46.7	56.7	1,34,588
All sizes	3.8	16.9	20.7	44,305

Miscellaneous Operating Costs

Miscellaneous operating costs include payments for electricity, spares, repairs and maintenance costs, transport, rent, etc. Monthly costs per enterprise for all leather goods come to about Tk. 3,490 for small enterprises, Tk. 7325 for medium enterprises and Tk. 23,150 for larger enterprises. This is shown in Table V.10

Output

Output consists of boots, shoes, sandals, etc. for the footwear enterprises and bags, belts, suitcases, handbags, jackets, trousers, etc. for the other leather goods enterprises. Monthly value of output per enterprise is shown in Table V.11.

Some of the large footwear manufacturers produce boots for the Army, BDR, Police and Ansars on order basis throughout the year and thus have a guaranteed sales outlet. Other footwear manufacturers produce shoes and sandals which they sell mostly to wholesalers for distribution to the domestic market. About 30,000 boots are supplied each year by the 2 large footwear makers in the sample; small footwear makers produce about 185 pairs of shoes and 150 pairs of sandals per month.

Output disposal is to wholesalers in the domestic market and to Army, BDR, Police, Ansar etc. in the case of footwear; and retailers, wholesalers and foreign importers in the case of other leather goods. The export market serves as a major outlet for the products of the larger other leather goods manufacturers. For the small other leather goods manufacturers all the output is sold to wholesalers for distribution in the domestic market. Medium sized and large producers sell on average about 20 per cent of their output in the export market while the remaining 80 per cent is sold mainly to wholesalers in the domestic market.

TABLE V.10
MISCELLANEOUS COSTS OF PRODUCTION PER ENTERPRISE

	Monthly costs (Tk.)		
	Small	Medium	Large
Electricity	-	600	1400
Spares	-	500	750
Repairs	750	225	1167
Transport	600	1250	3333
Rent (including water & gas)	640	2000	1500
Others	1500	2750	15000
Total	3490	7325	23150

TABLE V.11
MONTHLY VALUE OF OUTPUT PER ENTERPRISE

	Monthly value of output (Tk. 000)
All leather goods	
Small	94.00
Medium	237.75
Large	3356.17
All sizes	1101.40

Costs and Returns

Costs and returns are shown in Table V.12. Only the aggregate picture for all leather goods (footwear and other leather goods) is presented. It appears that profitability is quite high for the leather goods manufacturers. Gross profits range from Tk. 1.8 lakh for small enterprises to Tk. 11.6 lakh for medium sized enterprises to Tk. 31.6 lakh for large enterprises.

Working Capital

Shortage of working capital appears to be a major problem for most of the enterprises. The entrepreneurs meet their working capital requirements from reinvested profit, credit purchases of raw material, and from short-term credit obtained from institutional or informal sources. There remains a large shortfall in relation to requirements which access to cash credit could resolve. The entrepreneurs feel that provision of credit by the banks on easy terms would lead to increase in capacity utilization and higher profitability.

Available working capital was calculated on the basis of average stock of inputs and finished products, cash in hand, amount outstanding on sales and liabilities on input credit. Working capital availability was calculated at about Tk. 43,450 for small enterprises, Tk. 31,000 for medium and Tk. 21 lakh for large enterprises. The large enterprises cater to export markets supplying such items as leather jackets and trousers, ladies' bags, etc. and in the case of footwear enterprises, supply boots in bulk to Army and BDR. Working capital availability (A) and requirements (R) calculated on the basis of costs of raw materials and accessories and other operational costs for one month based on current capacity utilization rates are shown in Table V.13.

TABLE V.12
COSTS AND RETURNS FOR ENTERPRISE
(ANNUAL BASIS)

	(Tk. in lakh)			
	Small	Medium	Large	All sizes
Value of output cost	11.20	28.53	402.74	132.17
Raw materials	6.30	12.18	276.00	88.66
Accessories	2.09	3.00	25.44	9.28
Labour	0.59	0.88	16.15	5.32
Others	0.42	0.88	2.78	1.22
Total cost	9.48	16.94	321.17	104.40
Value added	2.39	12.47	16.15	5.32
Gross profit	1.80	11.59	81.57	27.69

TABLE V.13
WORKING CAPITAL REQUIREMENTS AND AVAILABILITY PER ENTERPRISE

	R	A	% shortfall $= \frac{R - A}{R}$
Small	79,000	43,450	45
Medium	1,41,167	80,975	43
Large	26,76,417	20,79,000	22

Working Capital Financing

Credit Purchase of Raw Materials and Accessories

The value of raw materials and accessories constituted 89 to 94 per cent of total cost of production, and financing these purchases comprises the main burden of financing for the enterprises concerned. It appears that credit purchases of raw materials and accessories comprise the principal method of short-term financing. Other financing instruments are reinvested profits and cash credit obtained from institutional or informal sources. The role of cash credit is, however, quite limited. Raw materials are procured on credit from the tanneries in Hazaribag and also from traders (wholesalers and retailers) dealing in finished leather.

The proportion of finished leather bought on credit is shown in Table V.14 for the different types of enterprise. Note that the medium and small enterprises depend to a much greater extent on credit purchases than do the large enterprises. This is understandable in view of the fact that the large enterprises (especially the export-oriented ones) have access to bank financing in view of their larger contacts and ability to provide the needed collateral.

The sellers of finished leather add a premium to the price when selling on credit. The value of sales comprises then the amount of credit offered while the premium represents the implicit interest on credit. Prices of finished leather when sold on cash basis vary according to the quality of the leather and are shown in Table V.15,

About Tk. 2 is added to the price of finished leather when sales are made on deferred payment basis. The duration of credit varies from 15 days to 90 days depending on the particular arrangements agreed upon by the transactors. Implicit annual interest rates vary from 41 to 243 per cent. However the usual duration of credit is 45 or 60 days, so that implicit interest rates vary from

TABLE V.14

CREDIT PURCHASE OF RAW MATERIALS

	Proportion of finished leather bought on credit (%)	
	Cowhide	Buffalo hide
Footwear		
Small	68.75	-
Large	37.50	45.00
Other leather goods		
Small	50.00	-
Medium	-	-
Large	-	-
All leather goods		
Small	65.00	
Medium	-	
Large	37.50	45.00
All sizes	54.70	45.00

TABLE V.15

PRICES OF FINISHED LEATHER

	Price (Tk./Sft.)
Cowhide	
Low grade	20 - 30
Medium grade	30 - 40
High grade	40 - 45
Buffalo hide	35 - 40
Goat and sheep skin	40 - 45
Sole leather	60 / lb.

61 to 81 per cent for most transactions. In general, the smaller enterprises face shorter durations of credit (and hence higher implicit interest rates); they are therefore forced to transact more frequently compared to the large enterprises in order to meet their requirements of raw materials.

In the case of accessories, credit purchases are again common. The monthly consumption of accessories, and the proportions of cash and credit purchase and the duration of credit are shown in Table V.16.

TABLE V.16
CASH AND CREDIT PURCHASE OF ACCESSORIES PER ENTERPRISE
(ALL LEATHER GOODS)

	Value of monthly consump- tion(Tk.)	Cash % of total	Purchase Value (Tk.)	Credit % of total	Purchase Value (Tk.)	Duration of credit (months)
Small	17,452	42.5	7,417	57.5	10,035	1 - 2
Medium	25,000	37.0	9,250	63.0	15,750	1 - 2
Large	2,11,983	53.0	1,12,351	47.0	9,632	1 - 2

The premium on credit that is usually charged is Tk. 2 on every Tk. 100 worth of purchases. The implicit rate of interest varies then from 12 to 24 per cent annually. Since smaller (and hence manageable) sums are involved in the purchase of accessories, charging too high a premium would simply lead to a situation where manufacturers strain harder to make cash purchases. Consequently the implicit rate of interest reflects mostly transaction costs on the part of the sellers.

Most of the respondents (90 per cent) stated that repayment of credit is in cash. For 10 per cent of the respondents, repayment is partly in cash and partly in output. Upto 50 per cent of repayment in output terms has been observed. In such cases there is a discount on output price amounting to about Tk. 5 per sq. ft. which implies an implicit interest rate of about 68 to 135 per cent depending on the duration of credit (1 month or 2 months).

Credit Sales of Output

About 50 per cent of the leather goods producers reported selling output on credit. The incidence of credit sales of output is more pronounced in the case of footwear manufacturers - 67 per cent of the footwear manufacturers reported selling to wholesalers on credit, while only 25 per cent of the other leather goods manufacturers sell on credit. In fact all the small footwear manufacturers sell output, wholly or partly, on credit. The duration of credit varies from 15 days to 3 months depending on particular cases, but in general a 2 months duration is common. While information on the premium on output price resulting from credit sales could not be obtained from all sources, some sources indicated that the premium is often as much as Tk. 24 per pair of shoes, which given an average price of Tk. 175 per pair, indicates a mark-up of 13.71 per cent or an implicit rate of interest of 83.4 per cent per year.

Cash Credit

About 70 per cent of the entrepreneurs surveyed did not have access to institutional loans. 3 of the entrepreneurs (2 large and 1 medium) had taken working capital loans from nationalized commercial banks (NCB) but were unwilling to reveal any information about the loans. Only one entrepreneur provided some information - he had taken loans twice within the last 3 years from Islami Bank; the amount of each loan being Tk. 50,000 (obtained as cash finance against work order); the duration of loan was 2 months. The loans have been repaid. It is interesting to note that 2 of the 3 respondents who reported receiving loans from NCBs had earlier received loans from the same NCBs for setting up their enterprises; their subsequent receipt of working capital loans reflect their relation with the banks in question.

Most of the respondents reported that they do not take loans from informal sources; information was possibly being suppressed. Again, it appears from knowledgeable sources that direct informal cash borrowing is not very significant in any case. Trade credit comprises the major source (for most, the only source) of informal finance. One respondent reported taking loans, whenever needed, from friends and relatives, the amounts involved being Tk. 30,000 to Tk. 50,000, the usual duration of credit being 3 to 5 months. All previous loans have been cleared and the current amount due (Tk. 50,000) refers to the last loan taken. The entrepreneur mentioned that no rate of interest is charged on these informal loans. While no interest is paid, 40 per cent of the respondents suggested that borrowing is reciprocal; they, in turn, provide interest-free loans to friends and relatives whenever they are in need of short-term financing. The loans are given out 2 to 3 times per year (one respondent claims that he provides loans to others 8 to 10 times a year), the duration of credit ranging from 2 to 5 months for the different cases (one entrepreneur claims that he provides loans to friends and relatives and there is no specified repayment date). Informal

credit, either given or taken, is repaid in cash. The 4 entrepreneurs who stated that they take recourse to such informal borrowing and lending emphasized on the fact that they would like to have access to bank loans but that lack of collateral is the main reason for their not being able to secure institutional loans.

It can be noted that 3 of the above-mentioned 4 respondents (engaging in borrowing and lending money informally) stated that they have often received loans from informal sources on the basis of security provided by influential third parties. It would appear that these respondents have taken loans from parties other than friends and relatives, and that possibly interest was involved. It is also clear that they do not wish to reveal the identity of the lenders or any detail regarding the transactions. All the entrepreneurs clearly stated, however, that the loans they have taken from informal sources have helped them to increase the profitability of their enterprises; clearly the loans were used for financing working capital needs of their enterprises.

The categories of informal lenders other than friends and relatives remain therefore still quite vague, although it could be discerned that some moneylenders are at work. One such lender was identified as an importer of cement; he lends money to the respondent in question on account of his long-term association with him; presumably he utilizes short-term surplus funds for his lending operations, thereby earning rates of interest higher than the rates offered by banks on short-term fixed deposits. It is clear, however, that such transactions are confined to parties that know each other well, or are connected by an influential third party who knows either party well and can vouch personally for the borrower.

Not much of additional information could be obtained regarding the extent and modalities of informal cash borrowing and lending. It remains true, however, that such cash credit is not very important in the financing of leather products manufacturing. Credit sales provide the most important route whereby informal credit is channeled to the entrepreneurs. The providers of credit being the leather manufacturers or leather traders, it becomes clear that the informal credit market, in so far as it relates to the leather goods industry, is a highly segmented market with its own norms and rationality that appears to function rather well.

VI. THE RAW HIDES AND SKINS TRADERS

The large traders in raw hides and skins operate arats in the Posta area of Dhaka and handle most of the raw hides and skins trading in the country. The channel of distribution of hides and skins from the primary sources in rural Bangladesh to the arats at Posta is as follows. Collectors buy hides and skins from the primary sources and perform elementary processing operations such as salting. Fariyas buy the hides and skins from the collectors (usually on credit) and sell to the traders. Traders in turn sell to the arats in Posta (and, in smaller measure, to the Khatungang arats in Chittagong). These aratdars sell the materials to the tanners either directly or through other traders.

In this section, the aratdars and traders at Posta and their activities with respect to procurement of raw hides and skins, storage and disposal will be considered. In the sample, 4 Posta traders were interviewed. They are all quite experienced in the trade, their experience ranging from 5 to 40 years. Their trading operation is their full-time occupation; none of the traders have any other business. About 75 per cent of the businesses were inherited by their present owners; only in 25 per cent of the cases were the trading enterprises founded by their present owners.

The average amount of initial capital utilized by each trader is about Tk. 20,000. Borrowing has not figured prominently in the financing of initial capital; only 1 trader had borrowed money to finance initial cost (Tk. 10,000 or 20 per cent of his total initial cost); the borrowing was from informal sources (presumably from friends or relatives since he claims not to have paid any interest). The source of own initial capital funds has been personal savings in all the cases in which inheritance has not figured; otherwise, money obtained from parents has been utilized.

About 75 per cent of the entrepreneurs had expanded their business in the last 3 years, the expansion being in stocks, the average amount of expansion being about Tk. 1.33 lakh.

The business faces distinct peak and non-peak periods. The peak period is between 2 and 3 months; these are the months following the Qurbani Eid; the remaining months of the year comprise the non-peak period.

Procurement of Hides and Skins

Hides and skins are purchased directly from primary sources and also from middlemen. This is shown in Table VI.1. It appears that the dependence on middlemen is reduced during the non-peak period when the traders increase the extent of their direct procurement from the primary producers.

The traders pay for their purchases in cash or credit. On average, in peak periods, about 52 per cent of payments are on cash basis and 48 per cent on credit basis. There are of course traders who operate purely on cash basis and others who operate purely on credit basis. Split between cash/credit payments is shown in Table VI.2. Credit purchases are less pronounced during non-peak periods.

TABLE VI.1
PROCUREMENT OF HIDES AND SKINS

Source	Peak	Non-peak
Primary source	33.33	60.00
Middlemen	66.67	40.00

TABLE VI.2
CASH/CREDIT PAYMENTS FOR RAW MATERIALS

	% of payments in cash	% of payments in credit
Peak	51.67	48.33
Non-peak	70.00	30.00

TABLE VI.3
VALUE OF PURCHASES PER ENTERPRISE

	Value of purchases per month in		Annual value of purchases (Tk.)
	Peak	Non-peak	
Cash	59,420	50,400	6,27,350
Credit	55,500	21,600	3,44,150
Total	1,15,000	72,000	9,71,500

On average, purchases of hides and skins amount to about Tk.1.15 lakh per trader per month in peak periods and Tk. 72,000 per trader per month in non-peak periods, or Tk. 9,71,500 per trader per year. Credit purchases are frequent; about 75 per cent of the entrepreneurs buy all or part of their procurement on credit basis. As seen earlier, about 48 per cent of payments are on deferred basis in peak periods and 30 per cent in non-peak periods. On average, about Tk. 56,000 worth of credit is taken each month by each trader in peak months and about Tk. 22,000 in non-peak months. Cash and credit purchases are shown in Table VI.3.

Clearly, credit purchases form a dominant source of working capital financing for the traders. Credit purchases are made both from primary sources and from middlemen. Whenever credit purchases are made, a premium on price has to be paid. The usual duration of credit is 15 to 90 days depending on the relationship between the transactors involved. Average prices of cowhide and buffalo hide on cash and credit purchases are shown in Table VI.4.

Given the premium on credit and the average duration of credit (60 days), the implicit annual rates of interest can be calculated. These are shown in Table VI.5.

For making cash payments, the traders assert that they use their own funds generated from their business. They do not have recourse to cash credit from institutional sources, and do not normally seek any informal credit. In rare cases, borrowing from friends and relatives have been made; in these cases, no interest payments are involved and the duration of credit is upto 6 months. No collateral is involved.

TABLE VI.4
PRICES OF HIDES AND SKINS (PER PIECE)

	(Tk.)					
	Peak			Non-peak		
	Cash price	Credit price	Premium on credit	Cash price	Credit price	Premium on credit
Cowhide	300	350	50	400	475	75
Buffalo hide	450	400-500	30-50	475	500-520	25-45

TABLE VI.5
PREMIUM ON CREDIT AND IMPLICIT ANNUAL INTEREST RATES

	(%)			
	Peak		Non-peak	
	Premium	Rate of interest	Premium	Rate of interest
Cowhide	16.67	101	10.75	114
Buffalo hide	6.67 -11.11	41-60	5.26- 9.47	32-50

Other Operating Costs

Procurement of hides and skins constitutes the main cost element for these trading enterprises. Other cost elements comprise payment of wages and salaries, rent, transport cost, cost of chemicals, and miscellaneous other costs. These are shown in Table VI.6

Sales of Hides and Skins

The annual value of sales amounts to about Tk. 11.45 lakh on average per enterprise. Sales are made to tanneries directly or to middlemen. Credit sales are frequent. A premium on credit is involved with the credit price higher than the cash price. In sales to the small tanneries, credit sales of upto 100 per cent are often made. On average, about 50 per cent of sales to the small tanneries is on credit with an average duration of credit of 2 months. In sales to the large tanneries, 75 to 80 per cent of total sales are often on credit basis. The duration of credit varies, and is 20-40 days for some, 1-3 months for others and even 6 months in some cases. The typical duration of credit is 1-2 months. The sales prices of hides and skins are shown in Table VI.7.

Given a duration of credit of from 1 to 2 months, the implicit rates of interest charged on credit sales can be calculated. These are shown in Table VI.8. In the case of cowhide purchases, interest rates range from 65 to 130 per cent for different borrowers during the peak period and from 48 to 96 per cent during the non-peak period. For purchases of buffalo hide, the range is from 66 to 131 per cent during peak and 55 to 111 per cent during the non-peak period.

TABLE VI.6
OTHER OPERATING COSTS PER ENTERPRISE

	(Annual basis)
	Tk.
Wages & Salaries	9060
Rent	2000
Transport	3950
Chemicals	1000
Other	700
Total	10,310

TABLE VI.7
SALES PRICES OF HIDES AND SKINS

	(Tk. per piece)			
	Cash sales		Credit sales	
	Peak	Non-peak	Peak	Non-peak
Cowhide	325-375	450-500	350-425	475-550
Buffalo hide	500-520	530-570	550-580	500-620

Profitability

Sales of hides and skins amount on average to Tk. 11,45,000 annually. Given the cost elements outlined previously, the gross profitability per enterprise can be shown. This is depicted in Table VI.9

Working Capital and Financing

The traders considered that their main problem is shortage of working capital. Available working capital calculated on the basis of average stock of hides and skins, cash in hand, and amount outstanding on sales and liabilities on input credit comes to Tk. 72,800 per enterprise. If working capital requirements are calculated on the basis of 45 days stock of raw materials, required working capital comes to Tk. 1,20,000 at current operational levels. The shortfall leads the traders to make more frequent purchases with attending increases in cost. Availability of cash credit would allow them to be less dependent on credit purchases (and the corresponding payment of high interest rates); moreover, they could increase the average size of stocks and be less affected by price fluctuations. As seen already, credit purchases constitute the principal means of working capital financing. Cash credit from institutional sources is not available, while dependence on cash credit from informal sources is minimal.

TABLE VI.8
 IMPLICIT ANNUAL RATES OF INTEREST ON CREDIT SALES

	Peak	Non-peak
Cowhide		
Premium (%)	10.71	7.09
Rate of interest (%) ^{a/}	67.00	64.00
Buffalo hide		
Premium (%)	10.70	9.09
Rate of interest (%) ^{a/}	67.00	74.00

Note: (a) Assuming an average duration of credit of 45 days.

TABLE VI.9
 COSTS AND RETURNS PER ENTERPRISE

	(Annual basis)
	Tk.
Value of sales	11,45,263
Cost of raw material	9,71,500
Other operational costs	10,310
Total cost	9,89,810
Gross profits	1,55,453

VII. THE LEATHER AND LEATHER GOODS TRADERS

There are a large number of traders who deal in leather and leather goods connecting the tanneries and the leather goods manufacturers or the exporters, and the leather goods manufacturers and the domestic consumers. 6 traders were considered in the sample, 2 dealing in leather goods, 2 in finished leather and 2 in wet blue leather.

Of the 2 leather goods traders considered, one is a dealer in footwear (with 50 years of experience) and the other in suitcases (with 6 years of experience). The footwear trader owns and operates a plastic factory as well while the other trader has no other occupation. The 2 finished leather traders have 5 and 13 years of experience respectively and none of them have any other business or occupation. As to the wet blue traders, both are B. Com. degree holders and each has about 3 years of experience. Average age of the 6 traders is about 37, average level of education given by number of years of schooling is 8.5, and average number of years of experience is 13.83 years.

None of the traders have inherited their firms. The enterprises were either purchased, founded or rented as shown in Table VII.1.

Average amount of initial capital per trader is about Tk. 97,000. This is shown in Table VII.2

For all the traders, savings serve as the source of initial capital. Money obtained from parents and sale of assets provides additional sources of own capital for some of the enterprises. It is interesting to note that borrowed funds obtained by the wet blue traders were procured from non-institutional sources.

All the traders surveyed had undertaken expansion during the last 3 years. Average amount of expansion capital (used in expansion of stock) was Tk. 20,000 for the finished leather traders and Tk.

TABLE VII.1
MODE OF ACQUISITION OF ENTERPRISE

Mode of acquisition	% of enterprises
Inherited	0
Founded	17
Purchased	17
Rented	65
	100

TABLE VII.2
INITIAL CAPITAL PER TRADER

Type of trader	Sources		(Tk.)
	Own funds	Borrowed funds	Total initial capital
Leather goods	9,500	-	9,500
Finished leather	5,300	1,000	6,300
Wet blue	50,000	2,25,000	2,75,000
All traders	21,600	75,333	96,933

62,500 for the finished goods traders. One of the wet blue traders had undertaken a very large expansion - Tk. 50 lakh in business fund and Tk. 38,500 in stock. One finished goods trader had also undertaken an expansion of premises valued at Tk. 2,50,000.

Peak and Non-Peak Period

Peak trading time comprises about 1 month for the finished leather traders, and 2 months for the finished goods traders and 3 months for the wet blue traders. The wet blue trading is mainly done in peak time.

Raw Material Purchases

On average, a finished leather trader purchases 840 sq. ft. of leather per month during the peak period and 150 sq. ft. of leather per month during the non-peak period. Value of purchases amount to Tk. 2.3 lakh annually. A wet blue trader purchases 5,000 and 1,200 pieces of wet blue leather per month during the peak and non-peak periods respectively, the annual value of purchases amounting to Tk. 140.9 lakh. Quantity and value of purchases per enterprise are shown in table VII.3

The finished goods traders buy the finished goods directly from the manufacturers. The finished leather traders are also seen to purchase their stocks directly from sole leather and leather manufacturers. The wet blue traders purchase stocks from the tanneries; some buy from middlemen as well.

Operational Costs

Annual operating costs incurred by the traders amount to Tk. 24,000, Tk. 17,000, Tk. 1,89,000 per trader for finished goods

TABLE VII.3
QUANTITY AND VALUE OF RAW MATERIAL PURCHASE PER ENTERPRISE

	Peak		Non-peak		Annual value (Tk.)
	Qty.	Value (Tk.)	Qty.	Value (Tk.)	
Finished goods	-	1,39,914	-	50,764	0,67,460
Finished leather	1600 sft.	40,102	900 sft.	17,000	2,27,102
Wet blue	5000 pcs.	26,25,000	1200 pcs.	6,90,000	140,65,000

TABLE VII.4
OPERATING COSTS PER ENTERPRISE

	(Tk.)		
	Finished goods trader	Finished leather trader	Wet blue trader
Wages & Salaries	16,800	6,000	73,500
Electricity	900	-	25,000
Rent	2,400	5,500	20,000
Transport	1,000	1,200	4,350
Repairs	-	-	6,000
Chemicals	1,000	-	50,000
Others	1,200	4,200	10,000
Total	24,100	16,900	1,00,050

finished leather and wet blue traders respectively. Such costs are shown in Table VII.4.

Sales

The annual value of sales amount to about Tk. 9.5 lakh for a finished goods trader, Tk. 2.9 lakh for a finished leather trader and Tk. 148.5 lakh for a wet blue trader. The finished goods traders sell directly to retailers. The finished leather traders sell to finished goods manufacturers or to traders. The wet blue traders sell to the tanneries (crust and finished), traders involved in wet blue export, or export the leather directly. The value of sales per enterprise is shown in Table VII.5.

Costs and Returns

Costs and returns are shown in Table VII.6. Gross profit amounts to Tk. 58,000 for leather goods traders, Tk. 46,000 for finished leather traders and Tk. 6 lakh for wet blue traders.

Working Capital

Available working capital at current levels of operation was calculated as Tk. 2.3 lakhs for a finished goods trader, Tk. 76,000 for a finished leather trader and Tk. 9.1 lakh for a wet blue trader. The duration of stock is 15-30 days for the finished good and finished leather traders while it is 15-90 days for the wet blue traders.

TABLE VII.5
VALUE OF SALES PER ENTERPRISE

	Sales per month in		(Tk.)
	Annual value		of sales
	Peak	Non-peak	
Finished goods	-	-	9,49,500
Finished leather	40,905	21,997	2,09,772
Wet blue	30,00,000	6,50,000	140,50,000

TABLE VII.6
COSTS AND RETURNS PER ENTERPRISE

	(Annual basis)			(Tk.)
	Leather goods trader	Finished leather trader	Wet blue trader	
Value of sales	9,49,500	2,09,772	140,50,000	
Costs				
Raw material	0,67,430	2,27,102	140,05,000	
Other costs	24,100	16,900	1,00,050	
Total costs	0,91,530	2,44,002	142,73,050	
Gross profit	50,012	45,770	5,76,150	

Credit Purchase

The traders finance a large part of their working capital requirements through credit purchases. The proportion of raw material bought on credit by the different traders is shown in Table VII.7.

Table VII.7 shows that credit purchases comprise a significant proportion of total value of purchases. The prices are of course adjusted upward when credit purchases are made. The duration of credit is seen to be about 15 to 30 days which is about the time needed for roll-over of stock. The system seems to work quite well. Default cases are almost non-existent. The prices of raw material under cash and credit terms are shown in Table VII.8.

The amount of credit purchases made by each trader and the total premium paid on account of credit purchases is shown in Table VII.9.

The rates of interest paid on credit purchases can be calculated on the basis of the premium on credit and the duration of credit. This is shown in Table VII.10. The usual duration of credit is about 30 days so that the implicit interest rates are 90 to 95 per cent for finished leather traders and 105 to 115 per cent for wet blue traders.

Credit Sales

Credit sales are frequent. The footwear traders sell about 70 per cent of their output on credit, the duration of credit being 1 to 3 months while the suitcase traders sell solely on cash basis. About 90 per cent of the sales of finished leather traders are on credit basis, the duration of credit being 1-3 months. The prices of finished leather and wet blue leather on cash basis and credit basis are shown in Table VII.11.

TABLE VII.7
CASH/CREDIT PAYMENTS FOR PURCHASES

	(%)			
	Peak		Non-peak	
	Cash	Credit	Cash	Credit
Leather goods	10	90	5	95
Finished leather	50	50	75	25
Wet blue	20	80	40	60

TABLE VII.8
PRICES PAID BY TRADERS FOR FINISHED LEATHER AND WET BLUE LEATHER

	Cash		Credit	
	Peak	Non-peak	Peak	Non-peak
	Finished leather (Tk./Sft.)	23.97	19.10	25.64
Wet blue (Tk./pc.)	525.00	575.00	575.00	625.00

TABLE VII.9
AMOUNT OF CREDIT PURCHASES OF RAW MATERIALS PER TRADER

	Amount of credit purchases per month/1 in		Premium paid annually
	Peak	Non-peak	
Finished goods	1,25,023	55,026	-
Finished leather	20,051	4,250	5,062
Wet blue	21,00,000	3,45,000	6,70,000

1/ This equals the quantity of credit purchase valued at cash prices and thus provides the amount of credit extended per month.

TABLE VII.10
IMPLICIT ANNUAL RATES OF INTEREST PAID ON CREDIT PURCHASES

	Premium on credit (%)		Duration of credit (days)	Annual rates of interest (%)	
	Peak	Non-peak		Peak	Non-peak
Finished leather	7.42	7.62	15-30	90-100	93-105
Wet blue	9.52	0.70	15-30	116-232	106-212

The implicit rates of interest on credit sales can be computed on the basis of the premium on credit and the duration of credit. These are shown in Table VII.12.

Cash Credit

Cash credit does not seem to be very important in financing working capital requirements. All the traders use own funds generated from the business in defraying cash expenses. In a few cases only, funds borrowed from friends and relatives have been used in emergency situations. While no interest has been charged on most of these loans, interest rates varying from 20 to 25 per cent has been observed in a few cases.

TABLE VII.11
SELLING PRICES OF FINISHED AND WET BLUE LEATHER

	Cash sales		Credit sales	
	Peak	Non-peak	Peak	Non-peak
Finished leather (Tk./sft.)	29.11	24.33	30.42	25.56
Wet blue (Tk./pc.)	600.00	650.00	650.00	700.00

TABLE VII.12
**IMPLICIT ANNUAL RATES OF INTEREST RECEIVED BY
TRADERS ON CREDIT SALES**

	Premium on credit (%)		Duration of credit (days)	Annual rates of interest (%)	
	Peak	Non-peak		Peak	Non-peak
Finished leather	4.50	5.47	30-90	13-55(27)	22-67(33) ^{a/}
Wet blue	0.33	7.69	45-60	51-60	47-62

Note: ^{a/} Figures in brackets refer to the implicit interest rates based on a 60 day duration of credit which is the usual case.

VIII. CONCLUSION

The study reveals a broad picture of informal credit transactions in the hides and skins/leather/leather goods trading/producing activities in Bangladesh. Shortage of cash for meeting working capital needs (particularly the purchase of raw materials at every stage) has been found to be a major problem facing the various actors involved. As it is, working capital requirements are met from own funds (principally reinvestment of profits), credit purchases of raw material and other inputs, and cash credit from institutional/informal sources. The principal method of financing appears to be via the route of credit purchase of raw materials. Cash credit from institutional sources is available only to the large tanneries and leather goods manufacturers who export the bulk of their product and are able to obtain cash credit financing against export orders. The smaller tanneries and the traders do not have access to institutional loans. Their cash credit requirements are met from own savings (principally reinvested profit), money obtained from parents, and occasionally money borrowed from friends and relatives or money-lenders (who are really businessmen lending out surplus funds for short duration). Cash credit from informal sources is, however, not very prominent as a means of working capital financing.

From the raw hides and skins dealers at Posta to the finished goods market or finished leather market, there exists a chain of credit relations that appear to be quite well established. The tanneries purchase about 70 per cent of their raw materials requirements of credit from aratdars at Posta or from intermediaries, the duration of credit being about 1 to 3 months and the implicit interest rate being as high as 155 per cent in many cases (the modal rate being about 80 per cent). They also purchase about 60 to 70 per cent of their requirements of chemicals from producers/traders in Hazaribag paying interest rates of upto 60 per cent. The finished leather goods enterprises purchase about 55 per cent of their requirements of finished leather (cowhide) on credit with implicit annual

rates of interest on credit purchases varying from 60 to 80 per cent. They also buy accessories on credit with implicit interest rates varying from 12 to 24 per cent.

From the traders' standpoint, the Posta traders purchase 30 to 50 per cent of their stocks of hides and skins on credit from other traders (who in turn procure them from primary sources or from district level traders) paying rates of interest of 100 to 114 per cent on their purchases. They in turn sell from 50 to 80 per cent of their stock on credit to the tanneries/intermediaries charging a rate of interest of about 90 per cent on their credit sales. (These accord roughly with the statements provided by the tanneries).

The tanneries export the bulk of their product. They do so either directly or through traders (exporters). Wet blue traders purchase wet blue leather from the tanneries for sale to domestic crust and (large) finished leather enterprises or for export. These traders are seen to purchase about 60 to 80 per cent of their stocks on credit from tanneries, paying implicit annual interest rates between 105 and 115 per cent. They in turn sell a part of their stocks on credit obtaining interest rates varying from 47 to 60 per cent. These sales are usually made to the domestic crust leather and finished leather enterprises. The wet blue traders make large profits from their trading operation. Being large and well-established enterprises, they are able to finance most of their working capital requirements through credit purchases; they obtain such credit easily, and are able to generate large profits even after paying substantial premiums on the credit purchases.

The large tanneries producing finished leather export most of their produce, while the small finished leather tanneries produce mostly for the domestic market. The supplies of the latter are purchased by traders in finished leather who in turn sell to other traders or directly to finished leather goods enterprises in the country. The traders dealing in finished leather make 25 to 50 per cent

of their purchases on credit paying implicit annual rates of interest between 90 and 95 per cent. They in turn sell about 90 per cent of the finished leather to finished leather goods producers on credit charging annual rates of interest between 25 and 35 per cent.

Finally, there are a large number of finished goods traders who purchase leather goods (footwear and other leather goods) from the leather goods manufacturers for sale directly to retailers. Not much could be ascertained regarding their activities, but informed sources report that a large proportion of credit purchases and sales is also involved in this operation.

Credit purchases at every stage seem to account for about 65 to 80 per cent of financing requirements. The importance of cash credit is low on account of the fact that cash credit from institutional sources is limited only to large manufacturers and is not available to traders or to the large number of small manufacturers. There being no moneylenders in the conventional sense of the term (the few identified moneylenders are businessmen who know the concerned parties quite well and are willing to lend surplus funds for short durations against stipulated rates of interest, usually quite reasonable), sources of cash credit comprise friends and relatives who are willing and able to help in times of need by providing interest-free loans. However, taking such loans involves a reciprocal burden on the borrower, he too has to come to the aid of the friend or relative when the latter is in need of funds.

With cash credit accounting for 5 to 10 per cent of financing requirements at the most, the remaining 10 to 30 per cent of requirements are met from own funds (principally reinvestment of profit, often money obtained from parents, and sometimes sale of assets). The small entrepreneurs feel very strongly about the need to have access to working capital loans from institutional sources. However, with the credit purchases/sales system being well-established, it has often been observed in other sectors (e.g. handlooms) that provi-

sion of working capital funds by banks at low rates of interest leads often to diversion of funds to other uses, leaving the proportion of credit purchases unchanged. Hence any mechanism aimed at providing cash credit to the entrepreneurs of the small enterprises must either charge high rates of interest (compatible with the rates observed on credit purchases, albeit somewhat lower), or channel funds to intermediaries who know the business well and can conduct credit sales of raw materials at lower implicit rates of interest (through a cash purchase financed by bank and credit sale mechanism) or can make direct cash loans at rates of interest higher than the bank rates to cover costs of transaction and risks. Under the current system, it appears that with the market being highly segmented and with the parties knowing each other well, the default rate is low, so that the risk premium need not be high. That the risk premium varies inversely with the size of enterprise is clear from the fact that the larger enterprises enjoy the benefits of larger credit procurements from a single source at any time while paying the same (or lower) premium and enjoying a higher duration of credit. An 'outside' lending agency would be likely to face higher risks of default and would, therefore, not be able to operate without charging significantly high rates of interest, both to cover higher transactions costs and higher risks. Given the fact that those involved in the leather business (producers and traders) all seem to have some education and are all well-experienced in the business (more than 10 years of experience in a large number of cases), it is conceivable that groups of traders/producers can be formed to serve as an efficient receiving mechanism channelizing funds from banks to the business. This would serve to lower risks and transactions costs for the banks, so that a modified interest rate structure with rates between current credit purchase/sale rates and the rates charged by banks could emerge for the borrowers.

NOTES

1. See 'Annual Export Receipts, 1985-86', Statistics Dept., Bangladesh Bank.
2. 1986 Statistical Year Book of Bangladesh, Bangladesh Bureau of Statistics, Dec. 1986, pp. 445, 460.
3. 1986 Statistical Year Book, op. cit. p. 460.

Study on Urban Informal Financial Market

INDICATIVE TERMS OF REFERENCE

LEATHER AND LEATHER PRODUCTS AND THE INFORMAL FINANCIAL MARKET IN BANGLADESH

About 11 per cent (Tk. 2199 million in 1983/84) of total export earnings of Bangladesh is accounted for by the exports of hides and skins, and leather and leather products. Hides and skins curing and tanning and the manufacturing of leather and leather products (both for domestic consumption and export) constitute an important subsector of domestic industries. The number of registered enterprises producing leather and leather products (excluding footwear) were about 150 in 1983/84, and these represented about 4% of the total number of registered factories in the country. The enterprises realized a gross value of production of Tk. 986 million, contributed Tk. 201 million in terms of value added, and generated employment for about 2800 persons. Besides, a number of large enterprises are engaged in the production of leather footwear. In 1981-82, there were 15 such enterprises providing employment for 1121 persons.

The number of small-scale enterprises engaged in the manufacture of leather and leather products were about 105 in 1982. These include 74 tanneries, 12 leather footwear manufacturers, 2 enterprises producing suitcase and 1 producing belts, and 17 manufacturers of other leather products. The small enterprises contributed about taka 9 million in terms of value added and generated employment for 1303 persons.

Besides these, a large number of cottage industrial enterprises are engaged in curing hides and skins and manufacturing of leather products. In 1981, there were 483 such enterprises involved in hides and skins curing. In addition there were 137 tanneries, 69 enterprises producing various leather products (excluding footwear) and

1423 enterprises engaged in the production and repair of leather footwear. These cottage industries generated employment for 5154 persons. Production and repair of leather footwear alone accounted for the employment of 3442 persons.

While not much is known at the moment of the extent of dependence of the principal actors in this activity on the informal financial market, preliminary queries have revealed that there is a large measure of such dependence, particularly for the cottage and small industries which hardly have access to institutional financing. The larger enterprises and the exporters, while having wider links with the formal credit institutions, have also their share of financing problems resulting from payment of export duties, withdrawal of the XPB system and stoppage of cash credit to the exporters by the commercial banks. The Bangladesh Tanners Association has recently demanded a moratorium on bank loans to the exporters, extension of working capital to the exporters, and extension of loans by the commercial banks on liberal terms for importing new machinery for the tanneries.

In the light of the above scenario, a study of the leather and leather products industry is likely to yield rich dividends in terms of understanding the working of the informal financial market in the country. The study would help provide an assessment of the credit requirements of the sector and the extent to which the informal financial market contributes to these needs. It would help delineate informal credit linkages between rural enterprises engaged in hides and skins curing and the urban tanneries (situated mostly in Dhaka), between leather producers and the manufacturers of leather products, and between the latter and the exporters. The study would endeavour to assess the extent of financial dependence and the limitations imposed on the growth of the activity because of a lack of institutional credit link-ups may prove costly, the importance of developing informal financial markets would be highlighted and the costs of informal credit could then be seen in proper perspective.

Methodology

The study methodology would involve the researchers obtaining information from personal interviews with a large number of agents involved in the activity including manufacturers of leather and leather products, domestic traders and exporters. Additional information will be obtained from the Bangladesh Tanners Association, the Bangladesh Cottage of Leather Technology, and from banks involved in export financing. An appropriately designed questionnaire will also be used to obtain information from various enterprises -- tanneries, leather footwear enterprises, and manufacturers of other leather products. About 35 enterprises are expected to be covered by these questionnaires.

Specific TORs of the Study

The TORs of the study include inter alia:

1. Size and trend of the activity in its various stages, viz. hides and skins curing, tanning manufacturing of leather and leather products, and marketing of leather and leather products in both domestic and international markets;
2. Geographic distribution/concentration of the activity;
3. Current production methods and rates of return from the activity; the scope for improvement of production methods; the various constraints and the extent to which lack of credit poses as a constraint; the incremental return from easing of the supply of credit;
4. Credit needs of the sector; differential needs of large, medium, small and cottage enterprises within the sector; the extent of institutional financial received; the problems of institutional credit delivery, particularly with respect to small and cottage enterprises;

5. The extent of informal financing; the sources of credit (with a look at possible formal-informal sector linkages in this respect); the terms of credit (explicit or implicit); the beneficial impact of the credit from the borrowers point of view; the opportunity cost of funds from the lender's point of view; the sources of such funds;
6. The input-output chain from raw hides to hides and skins curing to tanning to leather and leather products manufacturing to sale in both domestic and foreign markets; informal financial tie-ups between the different links of the chain (e.g. deferred payments, payments in kind, etc.) and the implicit premiums on credit;
7. The historical trend of informal credit supply in this activity; and the scope for expansion of the activity and the corresponding incremental need for credit, whether such credit can be supplied from institutional sources (in that case, the delivery mechanism and the costs of administering such to be considered) or whether the informal market should be developed in an appropriate way;
8. The perspectives of the sector in relation to other sectors; a consideration of equity and efficiency aspects.
9. Concluding remarks and recommendations.