



Challenges faced by the leather industry in Mongolia

EXECUTIVE SUMMARY

Mongolia's national strategies, such as "Vision 2050", "New Renaissance Policy", "Five-Year Basic Directions for the Development of Mongolia (2021-2025)", "Action Program of the Government of Mongolia (2020-2024)", "Mongolia Export", "Three Pillars of Development Policy", "White Gold", and the "New Cooperative" highlight the importance of strengthening value-added industries, including the leather sector, to support economic diversification and micro, small, and medium-sized enterprises (MSMEs) development[1]. However, while these efforts aim to promote inclusive and sustainable growth, the current national policies and strategies provided limited focus to the leather industry's potential role in climate action and resilience-building.

To explore opportunities for better integration of the sector into national climate frameworks, a barrier analysis was conducted by the Mongolian National Federation of Pasture User Groups (MNFPUG), leveraging the SCALA[2] programme's framework. The analysis focused on identifying constraints and entry points for engaging the private sector in improving the supply chain for raw materials, strengthening the enabling environment, and enhancing institutional coordination.

The findings reveal several overarching challenges that limit the sector's contribution to sustainable development:

- The participation of private sectors in climate-related planning processes remains limited, while awareness of climate risks and adaptation opportunities across the value chain is uneven.
- Institutional and regulatory mechanisms that support the adoption of environmentally responsible practices, including incentives and access to finance, are underdeveloped.
- Gaps in information systems, traceability, and coordination affect the quality, consistency, and transparency of leather and raw material supply.
- Misperceptions regarding the environmental impacts of the leather industry persist, underscoring the importance of improving environmental safeguards and public communication.
- Technical capacity and human resource development remain areas requiring further investment and support.

In response to these findings, a set of broad recommendations is proposed to support the sectors's contribution to national climate and development goals:

1. **Policy Alignment:** Strengthen the inclusion of relevant sectors such as leather in national climate strategies, including the NDC and the National Adaptation Plan (NAP), by identifying practical entry points and measurable targets that reflect the sector's development trajectory and sustainability potential.
2. **Investment Enablers:** Create a more conducive investment environment by considering mechanisms that can help mitigate risks for private sector engagement, including access to concessional finance, capacity support, and public-private collaboration platforms.
3. **Regulatory and Institutional Strengthening:** Enhance the coherence of legal and regulatory frameworks governing the sector, ensuring consistency with sustainable development priorities and alignment across ministries and levels of government.
4. **Value Chain Development:** Support improvements in supply chain management and traceability, with the aim of improving product quality, market access, and resource efficiency while reducing waste.
5. **Capacity Development and Knowledge Sharing:** Facilitate training and awareness-building for key actors, including producers, processors, and local institutions, to support the uptake of good practices and standards that contribute to environmental, social, and economic sustainability.
6. **Technology and Infrastructure Enhancement:** Encourage the modernization of production processes and infrastructure through context-appropriate innovations that improve resource use efficiency and environmental outcomes.

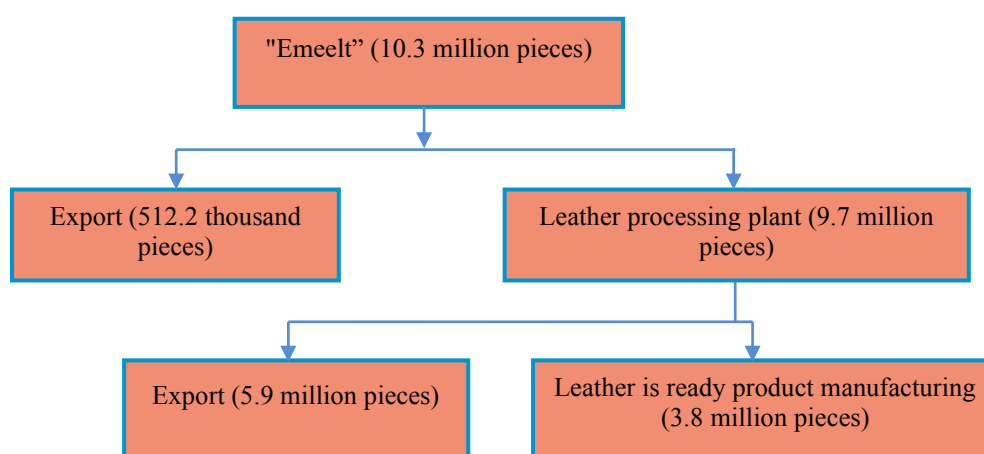
By addressing these interconnected barriers and opportunities, Mongolia can further unlock the potential of its leather industry as part of a resilient and climate-responsive development pathways. A balanced and inclusive approach, rooted in collaboration among public, private, and community stakeholders, will be essential to realizing this vision.

CURRENT SITUATION OF LEATHER INDUSTRY

As of 2022, a total of 19.9 million pieces of leather were produced in Mongolia. Of these, 10.3 million pieces, or 54 percent, were used for leather and raw material preparation. Additionally, 25.8 percent of the leather supplied to the market was used for finished leather products, while 74.2 percent was designated for export (raw and primary processing).[4] Some ongoing efforts by the Government are initiated in leather sector, for example, as part of the implementation of the "White Gold" national program, which was launched in 2024, it is estimated that the level of hides and skin processing will be increased from 30 percent to 50 percent, sales will increase from 57.8 billion to 900 billion MNTs, exports from 9.6 million to 22.4 million US dollars, and more than 3,000 new jobs will be created¹.

However, Mongolia faces significant challenges in achieving its climate targets and advancing industrial sustainability, particularly in agriculture and the leather sector. Moreover, there has been limited progress in the sector, with notable shortcomings in both policy implementation and sectoral practices. (Figure 1)

Figure 1: The current state of supply of leather and raw materials, including all type of skin (by pieces)²



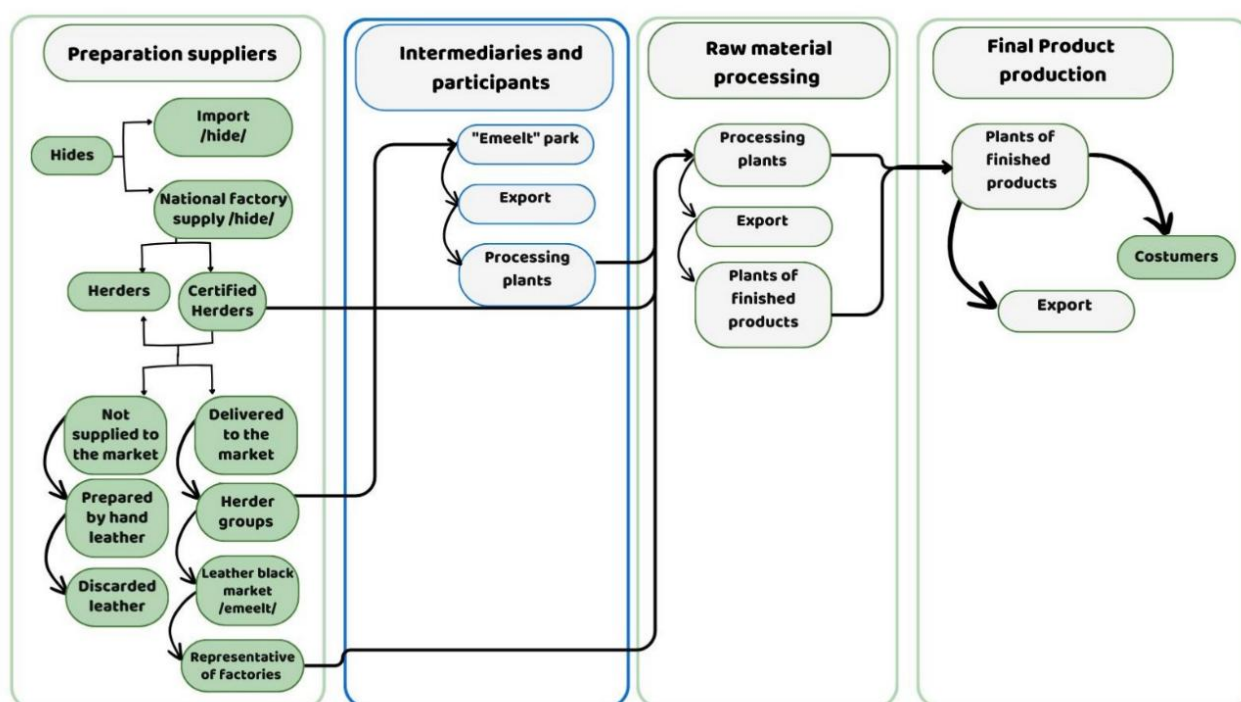
As Figure 2 illustrates, the current state of the value chain in the leather industry that includes four key segments and highlights the interconnectedness between them. However, none of the components of the value chain are fully developed, the connectivity between them remains weak, and the supply is unstable. Technical and validation meetings and discussions conducted within the framework of the barrier analysis have confirmed these issues from all perspectives.

Price is the most significant determinant of leather quality in both the tannery industry's processing and the production of end-user products. The existing situation is complex, and due to the lack of connectivity between the value chain segments, it is not possible to supply quality hides and skins on a regular basis [5].

¹ ["White Gold" National Movement will be implemented – The President's Office of Mongolia](#)

² Barrier Analysis Report on "Identify the role of the private sector engagement in leather industry in improving the supply chain system of raw materials with efforts enhancing incentive scheme and organizational structure"

Figure 2: Status of the leather supply and value chain



The herders, who are the primary producers of raw materials, account for only a small share of the sector's raw material supply. Leather production and supply are seasonal, with herdsman selling their hides and skin in bulk to local middlemen, who then distribute it to processing plants. This separation levels of production, supply, and processing limits opportunities for mutual benefit, quality enhancement, and increased output in the sector.

Therefore, in order to support a sustainable supply chain and minimize waste in the manufacturing process, it is essential to streamline the supply chain by reducing the number of stages and making it as integrated, efficient, and quality-focused as possible. In addition, to enhance cross-sectoral coordination, it is essential to expand and accelerate the supply flow from the meat industry to the leather industry. For example, herders collaborate with respective herders' cooperatives to slaughter livestock in industrial manner for market supply, while selling the hides and skin directly to processing plants. This approach helps reduce skin damage and increase their value. One of the key drivers of this initiative is the "New Cooperative" movement and commercial banks have reported that investment loans exceeding 700 billion MNT could be issued under the program in 2024, with the livestock sector's contribution to the domestic economy expected to triple from the current 10%.³

MAIN CHALLENGES

The following significant challenges are faced by the leather industry in Mongolia:

Policy barriers: Weak policies supporting export-oriented production, a lack of alignment between the leather sector and climate change strategies, and minimal participation in the development of national climate policy documents, such as the NDC and the National Adaptation Plan (NAP).

³ [New Cooperative Movement](#)

Financial barriers: Low investment, unstable prices, limited domestic and foreign investment, high inflation, and fluctuating market prices.

Technical barriers: Lack of new technologies and methodologies, insufficient adoption of sustainable technologies, and a shortage of skilled human resources.

The leather value chain faces several other barriers and challenges:

- The low flow of information about market demand hinders effective, market-driven production.
- Not all herders are able to obtain leather subsidy.
- Although many national standards exist, the lack of proper implementation hinders improvements in raw material quality.
- Natural disasters and economic crises negatively impact the supply and quality of leather.
- Technological innovation in the sector is insufficient, and the lack of skilled human resources exacerbates this issue.
- A limited understanding of the leather sector's role in reducing greenhouse gases may further obscure the sector's challenges.

To address these issues and improve the situation in the sector, it is essential to implement sustainable pastoral livestock practices at herder households and introduce Leather Working Group (LWG) standards at the processing plant level step by step. This approach will reduce carbon emissions from the sector, enhance the supply chain by adding value to raw materials, and increase overall sectoral production.

MAIN FINDINGS

The understanding and awareness of the objectives of the NDC and the roles of stakeholders in achieving them are very limited among herders and leather industry participants. Therefore, it is crucial to organize information dissemination and awareness-raising initiatives. Issues such as raw material quality in the leather industry, preparation and supply processes, processing technology, the industry's human resources, and the activities of scientific institutions are not sufficiently addressed in the current NDC.

The negative environmental impact of the leather industry, particularly concerning waste, is becoming increasingly critical. It is crucial to develop and implement new mechanisms to address this issue in alignment with international agreements. So far, about 3,000 herder households have adopted the Responsible Nomads (RN)⁴ code of practice for sustainable development standards at the producer and supplier levels, while the international LWG protocol has been introduced in two factories only. Despite some progress, domestic industry standards are outdated and require updating, with poor implementation levels. In addition to the leather sector's exclusion from the green taxonomy, access to loans for small and medium-sized producers is limited. This indicates that the sector is not receiving adequate attention in terms of policy, implementation, and financing, and herders are not fully benefiting from their leather subsidy.

RECOMMENDATIONS

1. **National Climate Strategies:** To enhance the contribution of the leather industry to climate ambitions and actions, incorporating targets and indicators related to the sector would jumpstart the drive towards climate mitigation and adaptation potentials. Additionally, an implementation strategy should be developed to provide guidance and roadmap to align incentives and support mechanisms to accelerate the transition. Other considerations such as sustainable livestock standards, human resource capacity, and energy and resource efficient practices, should also be incorporated into national climate strategies. An example of leather production indicators and proposed implementation activities have been formulated, Table 1, that can be incorporated into the national climate strategies including the NDC.

⁴ The RN is a national standard known as MNS 6891:2020, which includes sustainable indicators across five different areas of animal husbandry.

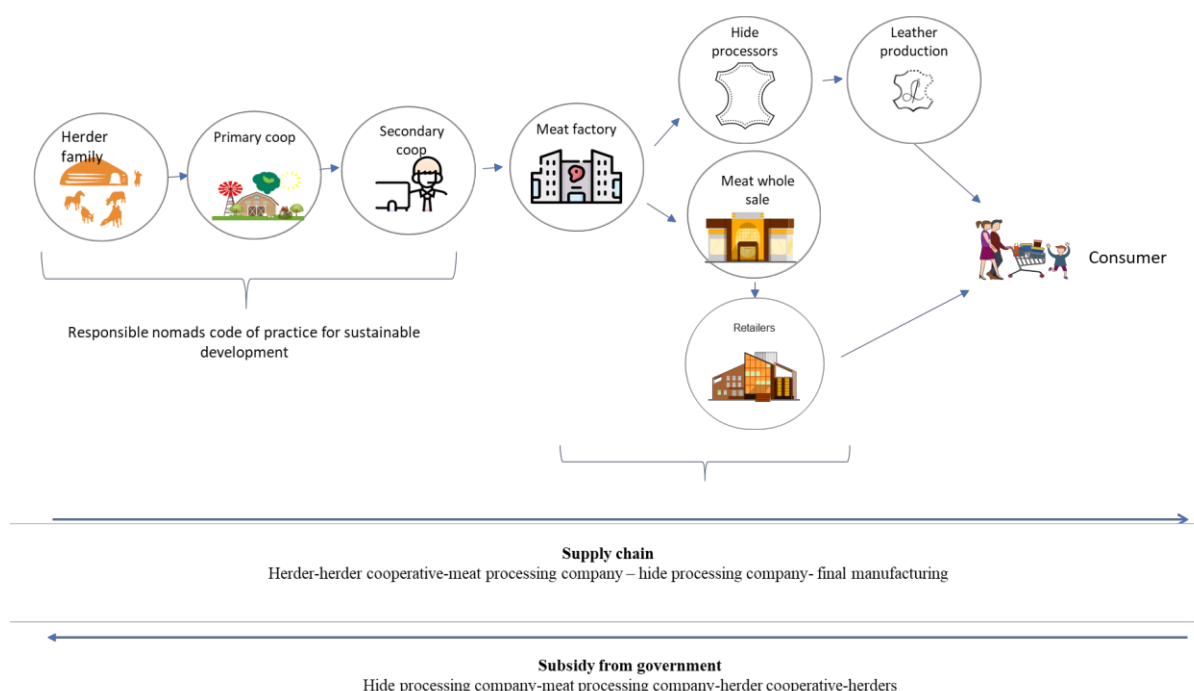
Table 1: The tannery indicators suggested to integrate into the NDC⁵

ACTION					TO ENHANCE THE POLICY, IMPLEMENTATION, AND ACTIVITIES FOR LIGHT INDUSTRY			
Production		Improve the hide and skin quality			Reduce energy and water usage, decrease numbers of micro companies			
Indicators		Quality has improved			The consumption of electricity and water has decreased, and waste management has improved.			
Targets by years	2026	The number of graduates trained in tannery increased up to 30	Implementation of sustainability standards at the herder household level, including 1,000 herders		One processing industry obtains Leather Working Group (LWG), one processing industry shift to renewal energy source (solar panels)			
	2027	The number of graduates trained in tannery increased up to 60	Implementation of sustainability standards at the herder household level, including 2,000 herders		2 processing industry obtain LWG, 2 processing industry shift to renewal energy source (solar panels)			
	2028	The number of graduates trained in tannery increased up to 100	Implementation of sustainability standards at the herder household level, including 3,000 herders		3 processing industry obtain LWG, 3 processing industry shift to renewal energy source (solar panels)			
Organizers		Ministry of Food, Agriculture and Light Industry (MOFALI) & Ministry of Environment and Climate Change (MECC)	MOFALI		MOFALI			
Co-actors		Mongolian University of Life Science	Local government, private sector, NGOs, herders' organization and cooperatives		Local government, private sector, NGOs, herders' organization and cooperatives			

- Enhancement of the Legal Framework:** First, it is crucial to clarify the legal framework for investment mechanisms that will support the further development of the leather industry. A public-private partnership policy should be developed to assist small and medium-sized producers. Additionally, there is a need to progress the agricultural exchange, improve the leather and raw material control system, integrate the leather traceability system with other relevant systems, and update industry standards in alignment with applicable laws. It is also essential to formulate clear, coherent policies and decisions that promote socially and economically sustainable, environmentally friendly leather production, along with export-oriented policies directed at the leather industry.
- Standardization:** The focus should be on establishing a national sustainability standard for the leather sector, introducing the "Responsible Nomads Code of Practice for Sustainable Development" at the herder household level, and integrating the raw material traceability system with the leather traceability system. By implementing this practice, which support sustainability across five key areas at the herder levels, and adopting the LWG protocol in the leather industry, the sector will be able to supply certified quality products to international markets. To obtain LWG certification, it is essential to have cohesive regulations and policies, as well as greater access to low-interest loans (Figure 3). The supply chain of leather is shown in Figure 3, and in alignment with meat processing regulations, it is advisable to follow the order: herders - herders' cooperatives - meat factories - leather factories - final product manufacturers. This sequence will improve the quality of the leather, and it is also recommended to introduce quality-based subsidy in this order.

⁵ Developed on the basis of surveys, discussions and interviews conducted by the Mongolian National Federation of Pasture User Groups (MNFPUG).

Figure 3. Sustainable Leather Industry Scheme⁶



4. **Financial Incentives:** To develop the leather industry, it is crucial to include it in the green taxonomy of banking associations. Clear financial incentives should be created to encourage private investment in climate change adaptation, aligning private sector interests with national climate goals, and supporting public-private partnerships. The government should provide relevant incentives and discounts to factories that implement the LWG standard, as well as to herders' cooperatives that meet the requirements for good practices. This approach will boost the production of high-quality, export-oriented products, integrate the leather industry with the meat industry, reduce damage caused during the skinning process, and ultimately improve the overall sustainability of the industry. Its needed to link with financial bank's factoring investment.
5. **Capacity development:** Promote public-private partnerships by introducing and implementing international best practices through capacity-building programs. This will enhance collaboration, improve industry standards, and foster sustainable growth in the sector.
6. **Industrial Park and Supply Chain:** Enhancing the operation of the Emeelt⁷ Industrial Park and reforming the policy and legal framework will help overcome current challenges and align with the long-term goals of sustainable development. Additionally, to reduce skin damage, it is essential to activate the supply chain from meat processing companies to the leather industry, ensuring a more efficient and integrated process.
7. **Technological Improvement:** It is essential to introduce advanced technologies and innovations, including energy-efficient equipment, gray water technology, and effective waste management systems that have been successfully implemented in other industries across the country.

⁶ Based on the Sustainable Nomads Standard and developed by Mongolian National Federation of Pasture User Groups.

⁷ "Emeelt" is a centralized market site near Ulaanbaatar for purchase/primary processing and re-supply of livestock raw materials and produces (hides, skins, cashmere, wool, meat and other by-products) purchased from herder households of all provinces.

AUTHORS

ScD. Erdenebaatar Batjargal, Consultant, MNFPUG
Dr. Burmaa Dashbal, Executive director, MNFPUG
Dr. Itgel Byambaa, Consultant, MNFPUG
Altantuya Davaasuren, Consultant, MNFPUG
Tserendolgor Jargalbold, Consultant, MNFPUG

EDITORS

Krib Sitathani, Regional Coordinator for Asia Pacific Climate Promise and SCALA, UNDP
Saruul Dolgorsuren, National Project Coordinator, Climate projects, UNDP
Zolzaya Sambuunjam, SCALA project, Technical Officer, UNDP
Undarmaa Khurelbaatar, SCALA project, Training Associate, UNDP

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Scaling up Climate Ambition on Land Use and Agriculture through Nationally Determined Contributions and National Adaptation Plans (SCALA), funded by the German Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV) through the International Climate Initiative (IKI). SCALA responds to the urgent need for increased action to cope with climate change impacts in the agriculture and land use sectors. The twenty-million euro programme will support at least twelve countries in Africa, Asia and Latin America to build adaptive capacity and to implement low emission priorities.

Country support includes strengthening policies, adopting innovative approaches to climate change adaptation and removing barriers related to information gaps, governance, finance, gender mainstreaming and integrated monitoring and reporting. To achieve this shift, the programme will engage the private sector and key national institutions.

SCALA supports countries to develop the capacity to own and lead the process to meet targets set out in their National Adaptation Plans and Nationally Determined Contributions under the Paris Agreement, and to achieve the Sustainable Development Goals. The SCALA initiative builds on another FAO-UNDP led programme, Integrating Agriculture in National Adaptation Plans (2015-2020) which is currently phasing out.

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UN House, UN Street-14, Sukhbaatar District,
Ulaanbaatar-14201, Mongolia

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