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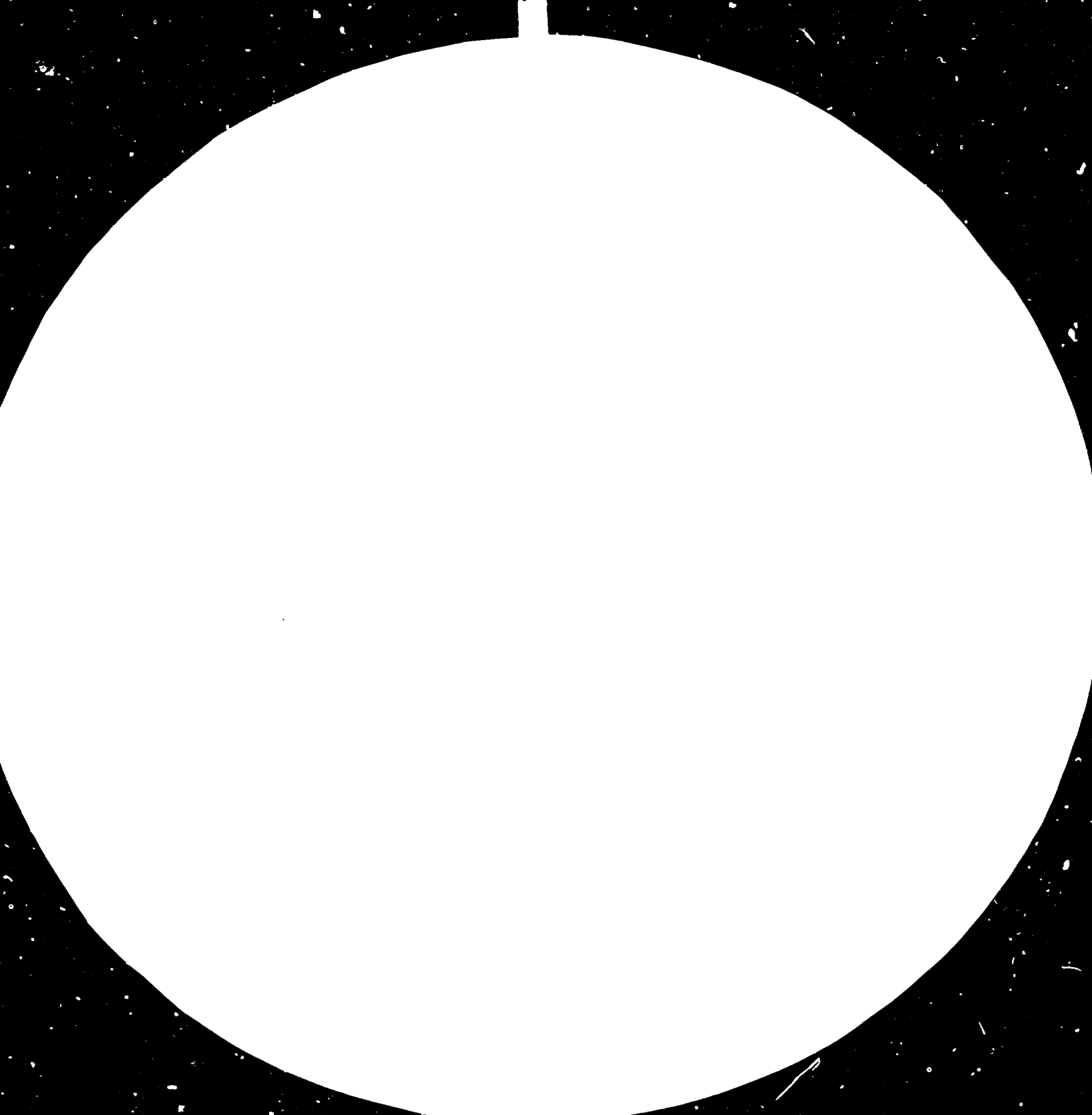
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"The Tenth Round Table of Developing Countries
Industrial Development and Co-operation among
Developing Countries from Small-Scale Industry
to the Transnational Corporations"

Zagreb, Yugoslavia, 15-17 September 1982

Construction of Shoe Factories in Algeria, *

By

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** IDC: Institute for Developing Countries.

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The Yugoslav business association "RUDIS" is composed of 40 members with over 90,000 employees. It was established in 1959 with the task to execute engineering in the construction of mining and industrial plants both at home and abroad. In the last 23 years it has executed more than 100 complex projects in 15 countries. About 80% of all the work "RUDIS" executes is carried out abroad. In recent years "RUDIS" has increased its activity in developing countries. "RUDIS" can carry out feasibility studies, provide basic tenders for executing works and execute works in the building of plants for mining and industry. The building of two factories for shoe production in Algeria which were contracted by "RUDIS" with Algerian partner "Société national des industries des peaux et cuirs" ("SONIPEC") is not only a contract about building of two factories but also a contract about wider co-operation, which includes a transfer of technology with simultaneous education of Algerian workers and a transfer of experience in production. This means, in fact, that rather than simply agreeing upon delivery of equipment and building of a factory, "RUDIS" committed itself to give "SONIPEC" all its knowledge.

In the course of negotiations, six project options were considered before the optimal one was chosen to satisfy

the investor's predictions about production needs, according to Algerian plans for shoe production and conditions regarding the location depending on labour availability, climate conditions, transportation possibilities and availability of energy and water. The requests for the quality of produced shoes and the financial means which the investors had at their disposal for construction of the factory were also considered. At the end, a project was chosen for a factory capable of producing 1.35 million pairs of shoes a year. Daily production would be 3,600 men's, 800 women's and 1,000 children's pairs of shoes. The factory will employ 685 workers and it, with facilities, will have an area of 13,000 square metres. Both factories are identical, each taking 24 month to be constructed. Normal production has to be reached 12 months after the completion of the projects. The Yugoslav firms, which are involved in the construction of the shoe factories, united into a consortium with equal responsibility to fulfil contract obligation. Division of labour inside the consortium is made according to the basic function and occupation of each member within the consortium. In that way, specialization is reached, which gives maximum security in ensuring that the work will be carried out at a high competent standard. At the same time, it provides the investor with greater security, because all members of the consortium are jointly responsible for carrying out works.

This division of responsibility is secondary, i.e. the members of the consortium are first of all responsible to the investor's demands, and only if the contractual

conditions are not fulfilled the compensation from the firm which caused this is asked for. The consortium manage the business association "RUDIS" through its firm "Rudis Engineering". The task of the main contractor, in this case "RUDIS", is to contact and combine the members of the consortium and to negotiate and execute the works. This means that the contractual partners are "RUDIS" and "SONIPEC". The remaining members of the consortium empower "RUDIS" to conclude the contract on their behalf with "SONIPEC". The technology for the factories in Alegria is provided by the Yugoslav footwear factory "PEKO" of Tržić, which has the experience in construction of production plants. It employs 4200 people and produces 3.7 million pairs of footwear a year. In 1981 "PEKO" exported 2 million pairs of shoes of which the bulk went to Western markets.

In the transfer of production experience it is envisaged that the experts from "PEKO" work in the factory for a period of one year. They have to assist "SONIPEC" managers to reach full capacity and to familiarize the workers with the production process. The managers of "SONIPEC" will familiarize themselves with "PEKO's" production process earlier, in "Peko's" production plants in Yugoslavia. They will come for specialization in "Peko's" factories for a period of 3-6 months. There they will work at the same posts they will later hold in the Algerian factories.

Besides, a certain number of workers will be educated in the Textile-Footwear Centre at Kranj, Yugoslavia. Here they will familiarize themselves with the same kind of

machines which were chosen for both new factories. This is the most that can be transferred from one contractual partner to the other. It is not difficult to create a project and to construct and equip a shoe factory. Most difficult is to transfer technology and knowledge, and this is the focal point of the contract.

For such co-operation knowledge was necessary on the part of the investor. "SONIPEC" is already an established shoe producer. Annual production of more than 12 million pairs of shoes shows that "SONIPEC" is a big producer. Co-operation with the Yugoslav consortium should improve the quality of its production.

Since "Peko" has to be aware of customers' tastes in developed countries, in order to sell its shoes in these markets, "SONIPEC" will also automatically get the pre-conditions for selling its shoes in these foreign markets. With the contract, the consortium obliged itself to give "SONIPEC's" experts consultations regarding production. In this way continuing co-operation between the two producers will be created and the possibility is provided to exchange experiences in both directions. With the wise use of such co-operation it will be possible, in the future, to coordinate production of both partners for expansion to third countries. This can be for joint sales on the markets of developed countries, as well as for building new factories in developing ones.

Apart from "Peko", other Yugoslav firms are, as members of the consortium, included in various construction and assembly works, as well as in carrying out the commercial part

of the contract. All non-Yugoslav technological equipment will be delivered and installed by a West German firm "Schön", of Pirmasens. This firm has already had contacts with "SONIPEC" for a number of years and it was included in the consortium at "SONIPEC's" suggestion. Both factories are sold on credit. The Yugoslav part of the equipment and works receives credit through the assistance of commercial banks which are also members of the consortium. They are led by the Bank of Ljubljana and the Yugoslav Bank for International Economic Co-operation from Belgrade.

The Yugoslav Bank, before granting credit, examines the profitability of the project. If the project satisfies the Bank's criteria, credit is granted. In that way, it is ensured that the projected construction of the two factories will be profitable because they have passed the control of both Algerian and Yugoslav financial institutions. Such kinds of operation are feasible only with a close co-operation between investors and executors. The co-operation during the planning stage is crucial. In discovering optimal solutions one should take into consideration the investors' experiences. In this way, construction of inadequate plants which do not correspond to the conditions of Algerian investors was prevented.

All data have to be precise, because incorrect data submitted in order to achieve a reduction in cost can have fatal consequences. Earlier co-operation between "SONIPEC" and "RUDIS" in negotiations and now during the construction stage has been good and it has ensured that the project is adjusted to actual needs and conditions.

