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UPGRADING PRODUCT RANGES AND QUALITY  
IN THE HUNGARIAN FOOTWEAR INDUSTRY

US/HUN/92/195

Report of the Evaluation Mission\*

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\* This document has not been edited.

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List of Acronyms

Council for Mutual Economic Assistance	COMECON
Light Industry Technical University	KMF
United Nations Industrial Development Organization	UNIDO

Summary of Conclusions and Recommendations

1. The current project was designed to strengthen the competitiveness of Hungarian footwear manufacturers by introducing shoe products of high quality while upgrading a range of production, quality control and marketing skills at selected factories. The project would also support a private company, BIMEO, to strengthen its quality testing and control capabilities (BIMEO was and remains the only company in Hungary providing these services to the leather and footwear industries). BIMEO would thus assist the industry in adhering to the quality specifications, both in products and processes, required under the ISO 9000 and other quality-related standards. Know-how transferred to the directly assisted firms would be disseminated through the subsector by means of a series of seminars. BIMEO would likewise play an ongoing role in disseminating knowledge acquired through the project. The project was designed in the context of major changes in recent years in the economic, financial and policy context facing footwear manufacturers in Hungary. These changes have abruptly exposed the industry to competitive pressures for which it was ill-prepared.
  
2. Implementation of the project has proceeded satisfactorily. The project has had a marked positive impact on the assisted companies. Quality control practices have been significantly improved and new designs effectively transferred. In some cases domestic and foreign sales as well as profitability have increased, a fact attributed to the project by the companies concerned. Interest from foreign companies in establishing joint venture arrangements with two firms was reported to have arisen as a result of the project. Simultaneously, the capability of the quality testing company to undertake quality testing and to prepare firms in this subsector for ISO 9000 certification has been improved. Improvements were also made to teaching programmes at two training institutions assisted by the project. A number of financial difficulties facing two companies were found to be due to factors that were either unforeseeable or largely outside the control of the project.

3. This report makes a number of recommendations with respect to: possible follow-up on the progress of the assisted companies and training institutions by BIMEO staff; the importance of monitoring the operation of BIMEO as an agent capable of disseminating project-related information (e.g. through the organization of quality assurance seminars, demonstrations on the manufacture of upgraded shoes, introduction of technical and quality assurance know-how in factories, preparation of training texts and other aids, etc.); the examination of measures to help address the industry's financial concerns, possibly through the establishment of a mutual credit guarantee association; areas and means through which further assistance might be sought - whether from sources within Hungary or through foreign cooperation - such as in marketing, joint venture negotiation.
  
4. This in-depth evaluation required a mission to Hungary during the period 7-19 May 1995. The mission was undertaken by Mr. Alistair Nolan (team leader), a UNIDO staff member with the Evaluation Section, and Ms. Marta Wieder, an independent expert on leather and footwear industries. The terms of reference of the in-depth evaluation are contained in annex 1. A list of persons contacted by the mission is provided in annex 2.

## Chapter 1

### Project Concept and Design

#### A. Socio Economic and Institutional Context

5. Manufacturers of footwear in Hungary operate in a market and policy context that has changed radically in recent years. These changes have included: The loss of markets in former COMECON countries and a rapid opening of the domestic market to foreign competition, resulting in a sharp decline in output and employment<sup>1</sup>; a related and pressing need to penetrate Western markets; a widespread shift from public to private ownership of footwear and other firms, and the removal of public subsidies to the industry. Furthermore, Hungary's macroeconomy has in recent years been characterized by recession, high levels of inflation, and high nominal and, more recently, real rates of interest. Real GDP fell significantly each year between 1990 and 1992, and consumer prices rose on average by 29 per cent per annum over the same period. Such economic and financial conditions have hindered the profitable operation of footwear and other companies.
  
6. The task faced by newly privatized firms of penetrating competitive Western markets has been, and remains, great, particularly as regards the achievement of high levels of product quality demanded by such markets. Marketing, finance, product development and other factors have also represented significant difficulties. Improving product quality likewise requires institutional support in the form of quality control and technical services to producers of footwear and suppliers of inputs. Such institutional support would assist the industry in adhering to the quality specifications, both in processes and products, required under the ISO 9000 and other quality-related standards.

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<sup>1</sup> Data from the Hungarian Central Statistical Bureau - reproduced in page 2 of the original project document - indicated a fall in footwear production of around 45% between 1989 and 1991.



B. The Project Document

7. To help address the problems described above, the project aimed to improve the competitiveness of Hungarian footwear manufacturers by introducing shoe products of high quality and upgrading a range of production, quality control and marketing skills at selected factories. At the time the project was designed, BIMEO Trading and Research Limited (hereafter BIMEO) was, and still is, the only institution providing quality testing and control services to Hungary's leather and related industries. The project would support BIMEO to strengthen its quality testing and control capabilities. The project document contained the following immediate objective:

"To assist the Hungarian footwear industry in becoming more competitive on the local and selected export markets by introducing high quality shoe products and an appropriate quality management system adopted by those supplying a reputable brand identity."

The project cost US\$ 884,000, exclusive of UNIDO support costs.

8. The project was to be implemented in two parts: Phase I and phase II. Phase I would aim to select those firms best suited to participate in the project. Contingent on the findings of phase I, phase II would provide direct support to the selected companies and BIMEO.
9. Under phase II of the project a subcontractor would, inter alia, perform material selection and testing, evaluate the technical capabilities of the counterpart firms, assist in the selection of styles, prepare and deliver prototypes, train technical staff of the assisted firms, initiate production of six prototypes at each factory, introduce improved shoe finishing as well as a quality and process control system at each plant, undertake quality control audits at a number of other footwear companies, assist BIMEO in establishing a third party quality certification system for footwear manufacturers.

prepare a final report and aid in the presentation of concluding seminars at each factory.

10. It was intended that knowledge transferred by the project would be disseminated to other footwear manufacturers in Hungary through a seminar held at each assisted company as well as a final project seminar in Budapest. Other Hungarian companies not directly supported by the project would be invited to attend these seminars. Indeed, the assisted companies made a written commitment to share knowledge acquired through the project with other Hungarian footwear producers. BIMEO would also assist in disseminating the technical information it acquired through the project. The project would support efforts to create awareness of the footwear produced under the project, including the presentation of products at international trade fairs.
  
11. The mission discussed the relevance of the project with managers of all the assisted companies. All the interviewed managers stated that inadequate quality control was a critical, if not the major, constraint affecting their companies at the time the project was prepared. While other constraints also existed, such as finance, managers did not consider these to be the most binding at the time.

## Chapter 2

### Project Implementation

#### Phase I

##### Output 1

12. As noted above the project was to be implemented in two phases. Phase I would select companies best suited to receive assistance through the project. Sixteen companies had originally requested inclusion in the project. Seven of these failed to satisfy preconditions contained in the project document (such as on the company's financial standing, the technical level of managerial and other staff, and the condition of machinery and equipment). The remaining nine firms were visited in April 1993 by a team of four persons comprising the UNIDO backstopping officer and staff from the subcontractor, Bally International (Switzerland), and BIMEO. The team evaluated the companies visited according to a number of criteria, including: product range, the availability of equipment and trained staff, plant layout, quality standards, the skills of management, the level of unemployment in the vicinity of each plant, and the ability of each company to provide a contribution in-kind to the project. Only private and domestically-owned companies would be assisted. In this way the team selected three firms: Record (at Szeged), Alba (at Székesfehérvár), and Ber-Fer (at Rakamuz). To guard against the possible withdrawal from the project of any of these firms two alternate companies were also chosen, these being Robert (at Szombathely) and Pannonia (at Kanizsa). Financial difficulties affecting the Alba company during project implementation led to the inclusion of the Robert firm. As noted above, BIMEO had previously been selected as the body to receive support in operating an upgraded quality testing and control system for the subsector. All of the selected companies were privately owned.
  
13. The findings from the exploratory activities undertaken during Phase I were presented in a report of the backstopping officer dated 14 June

1993.<sup>2</sup> The report is clear in its presentation of the criteria used to select companies to benefit from the project. However, the mission considers that more detailed information should have been provided in the report on how each of the chosen companies actually rated on the criteria employed in their selection. Some additional items of information on the companies concerned might also have been included, such as on their debt positions. Companies were questioned in broad terms about their financial condition. The Phase I report also stated, with regard to the selected companies, that "their economic condition - for Hungarian standards - is acceptably stable". However, the mission feels that this statement and the questioning of companies concerned should have been more precise, especially given that the potential for financial problems is referred to in the "Risks" section of the project document (sensitive financial information could still remain confidential, and known only to project administrators).

#### Phase II

14. Following submission of the findings of phase I the Swiss Government agreed to fund phase II of the project. Phase II began in September 1993. BALLY International received the subcontract to provide assistance to the selected Hungarian firms and BIMEO.

#### Output 2

15. Output 2 is described in the project document as follows:

"Three Hungarian shoe manufacturing plants capable of producing footwear meeting the quality requirements of international markets having renewed product range, (re)trained managerial and marketing staff".

The companies assisted were, initially, Alba, Ber-Fer and Record. As

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<sup>2</sup> "Report on the Assessment and Selection of Manufacturing Units for Transferring High Quality Footwear Manufacturing Technology", Ferenc Schmel, 14 June 1993. BALLY International also prepared a report on the technical and human resources of BIMEO.

stated above, owing to financial difficulties arising at Alba during the project it was decided to include the Robert company in the technical assistance programme. Despite its financial problems, the Alba factory did receive the full range of assistance activities. Under this output, three tanneries supplying leather to the footwear industry were also assisted. These were: Pécsi Borgyár, Simontornyai Borgyár RT, and Nívó Borfeldolgozóipari kft.

16. Beginning in November 1993, all of the activities required to achieve output 2 were performed by BALLY International and BIMEO as per the project document and the terms of the subcontracts. These activities included performing material selection and testing, evaluating the technical capabilities of the counterpart firms, assisting in the selection of new styles at Bally headquarters, preparing and delivering prototypes, training technical staff of the assisted firms, initiating production of six prototypes at each factory, introducing improved shoe finishing as well as a quality and process control system at each plant, carrying out study tours for selected factory workers and supervisors, introducing new products at the assisted factories, and undertaking follow-up missions to ensure the sustainability of project results (a list of study tours and trade fairs attended by project beneficiaries is given in annex 3. Study tours 1, 2, 4, and 5 were directly related to the achievement of output 2). Copies of Bally International's quality control manual - translated into Hungarian by BIMEO - were also left at each of the assisted factories.

### Output 3

17. Output 3 is described in the project document as follows:

"Up-to-date information and guidelines on producing high quality footwear meeting market requirements."

At the time this evaluation took place all but one of the activities required for the production of this output had been performed. The single remaining activity is the final project seminar scheduled for 20 June 1995. The evaluation mission could verify that preparations for

this seminar are advanced and thorough. Study tours 8 and 9 (see annex 3) were undertaken in connection with the production of output 3.

18. Knowledge transferred by the project was to be disseminated to other footwear manufacturers in Hungary through a seminar to be given at each of the assisted companies. Seminars were undertaken at three of the assisted factories. The first seminar took place in December 1994, with the remaining two held in March 1995. Companies not directly supported by the project were invited to attend the seminars. Table 1. provides summary information on the companies, institutions and number of attendees at each seminar.
19. In all, thirty-six companies and seven training colleges and schools were invited to the factory seminars. Invitations were sent by mail and by telephone. The mission contacted five companies which had been invited to the seminars but which did not attend. The purpose of contacting these firms was to enquire why they had not participated. These five companies were: Eva Ltd.; Victoria Ltd.; Apollo Ltd.; Derby Ltd.; and Sabaria Ltd. In each case the reason given for non-attendance was that constraints on the time of employees made attendance impractical. All of these companies had received invitations at least two weeks prior to the seminars.
20. The mission questioned BIMEO staff as to why no more than thirty-six companies had been invited to the seminars. The answer given was that the invited firms were considered to be those most likely to develop the capability to produce high-quality footwear.
21. The factory seminars involved lectures during one day given by staff of Bally International. Representatives of companies which had not been directly assisted were able to inspect the changes in factory quality control practices introduced by the project as well as the new shoe designs. Documentation on the lecture subjects was made available to companies and institutions attending the seminars. All interviewees expressed satisfaction with the quality of the seminar presentations. BIMEO also prepared a summary of the seminars. This summary was published in the industry journal *Bór-és-Cipotechnika*.

Table 1. Companies, Institutions and Number of Participants  
Attending Factory Seminars

Companies and training institutions	Shoe Finishing Seminar (Ber-Fer 15/12/94)	Technology and Quality Control Seminar (Turul 09/03/95)	Marketing and Training Seminar (Robert 30/03/95)
Alba		1	1
Ber-Fer	8	4	
Bonyhad Shoe Factory	2		
BIMEO	1	2	2
Kallux Ltd.	1		
Kiskunfelegyhaza Shoe Company	1		
Leather Processing High School	2	5	1
Lebok Ltd.		1	
Lemuria Ltd.		1	
Majsa Ltd.	3	3	3
Mezocsat Shoe Company	1		
Michael Ltd.		1	
Modinno	4		
Pantonet		2	
Pemu Shoe Factory	2	2	
Portico	1	2	2
Robert			5
Salgo Ltd.		1	1
Sympatic Ltd.		1	
Technical College of Light Industry	1	1	2
Tisza Shoe Factory		2	
Training College Gyoma		14	
Training College Martfu		1	
Training College Rakamuz	2		
Training College Tiszaujvaros	2	2	
Turul	4	3	
Turul Kontakt Ltd.		1	
Number of Participants	35	48	16
Number of Companies and Institutions	15	18	7

Output 4

22. Output 4 is described in the project document as follows:

"A well functioning quality control laboratory capable of carrying out duties related to third party certification"

All of the activities required for the achievement of this output were performed according to the project document and the terms of the subcontract for Bally International. Study tours 6 and 7 (see annex 3) were undertaken in this connection. Bally also gave advice on how BIMEO should operate as a private company, for example on an appropriate fee structure to be charged for BIMEO's services.<sup>3</sup>

Output 5

23. Output 5 is described in the project document as follows:

"Disseminated information of third party certification and principles of total quality control in the footwear industry"

All activities required for the achievement of this output have been performed as per the project document and the terms of the subcontracts. Audits of the quality control procedures and other operations were performed by the subcontractors in two companies: Turul Cipó (at Gyomaendrőd) and Pannonia (at Nagykanizsa). The audit-related documentation was reviewed by the mission and was found to be clear and well presented. Training of quality control specialists on third party certification and total quality management was undertaken in Hungary during October and November 1994. Trainees came from BIMEO, Alba, Robert, Ber-Fer and the Light Industry Technical University (KMF).

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<sup>3</sup> Since 1992 BIMEO has operated as a private company, belonging formerly to the public Research Institute of the Leather and Leather Products Industries (BCK).



24. The project has also funded efforts to create awareness of the footwear produced as a result of the project. These efforts include the presentation of products at international trade fairs. Such presentations were made at the International Leather and Shoe Week held in Budapest in March and September 1994. The mission also reviewed a number of attractive brochures prepared through the project illustrating the new designs of shoe now produced.
  
25. Overall, the terms of the subcontract for Bally International were fulfilled satisfactorily. In some instances Bally experts even went beyond the terms of the subcontract, such as in the provision of curriculum related advice and other assistance to the Leather Processing High School. The subcontracted work performed by BIMEO was also appreciated by company representatives. Factory managers likewise expressed appreciation for the work of the project backstopping officer.
  
26. Finally, in addition to the training given to staff of the six above-mentioned firms, training was also provided for persons from a number of other companies. These companies were Salgo (training in marketing), Modinno Ltd. (marketing), Moltan Ltd. (marketing), and Lebok Ltd. (production management). Training in production management was also given to staff of the Leather Processing High School.

Chapter 3Project Results and Achievement of ObjectivesA. Outputs(i) The Upgrading of Production at Three Tanneries

27. Three tanneries were directly assisted by the project (Pécsi Borgyár, Simontornyai Borgyár RT, and Nivó Borfeldolgozóipari kft). The tanneries confirmed that their ability to produce higher quality leather had been improved. This occurred primarily as a result of increased knowledge of raw materials and chemical inputs testing parameters.
28. Tannery and other sources stated that production of higher quality leather requires the import of higher quality raw material and chemical inputs. This has a marked effect on price. Various tanneries quoted the price of the higher quality leather at between 45 to 60 Deutschmarks equivalent per square meter, with regular quality leather selling at around 35 Deutschmarks equivalent per square meter. The mission was informed that production of high quality leather for the footwear industry represents only a small proportion of total tannery output. The relatively small quantities involved, combined with the additional work required, mean that tanneries are not always keen to produce the higher quality leather. When they do, they often prefer to sell for export. Shoe factory managers stated that tanneries sometimes request the factories to purchase raw materials for the tanneries. Few shoe factories have the financial resources to do so, owing to the high costs and collateral requirements of working capital loans. Some shoe factory managers also complained of delays in deliveries of high quality leather from the tanneries. Mention was also made of a general consumer preference for foreign, particularly Italian, leather (although BIMEO quality tests show the domestic product to be of at least as high a quality).

(ii) Improved Quality Control Practices and Expanded Product Range in Three Factories

29. Four factories received direct assistance under the project: Alba, Ber-Fer, Record and Robert. The mission visited the Alba, Ber-Fer and Robert factories, viewed each operation in the production of footwear and discussed with management and factory workers the changes in quality control and other practices brought about by the project.
30. The mission did not visit the Record factory. Record has recently entered into liquidation, with machinery, equipment and the factory site now for sale. It should be noted that Record appears to have gone into liquidation for reasons that were outside the control of the project and largely unforeseeable. According to the former factory President, payment was not made on two large contracts for sales to two countries in Eastern Europe. The shipments of goods, made towards the end of 1993, were also not recovered. The resulting losses placed the company in a state of insolvency.
31. The mission found that the project has had a marked positive impact on the remaining three assisted companies. Quality control practices have been significantly improved and new designs effectively transferred. The nature of the assistance given and the suggested changes in quality control in each factory are summarized in the following paragraphs.
32. The mission inspected changes at the Alba factory brought about by the project. Improvements were seen with regard, *inter alia*, to knife storage, the use of a tool for smoothing the cutting block, back-seam stitching, the material used as a stiffener and how this is applied, machine layout and production organization. Six Bally footwear models have been introduced. The company has also developed its own versions of the Bally models using lower-priced raw materials. A large part of the workforce received on-the-job training, and the acquired skills are used consistently. Management expressed satisfaction with the quality and usefulness of the training given. Bally's quality control manual, translated into Hungarian by BIMEO, was left with the company.

Reference to the manual and other project-related documentation has become a part of standard company practice.

33. The Alba management was unable to identify indicators of improved company performance stemming from the project (such as increased sales). However, at such an early date after the assistance this should not be taken as a negative sign, and should also be viewed against the performance of the subsector as a whole (while data on sales are not available for the entire project period, anecdotal information suggests stagnant or falling sales for the subsector as a whole). The company is currently experiencing financial difficulties. A lack of working capital temporarily halted production during the project period, causing the planned factory seminar at Alba to be held instead at Turul Cipo Ltd. However, management did not consider finance the most critical problem at the start of the project. Furthermore, these financial difficulties do not appear to have stemmed from changes in the financial environment (corporation tax <sup>4</sup>, real interest rates, etc.) over the course of the project. The company's difficulties appear to be related to a combination of a high level of previous debt, and, possibly, shortcomings in marketing<sup>5</sup>, along with the more widespread problems of intense import competition and contraction of traditional export markets.<sup>6</sup> Alba has nevertheless benefitted technically from the project, and is in a better position to address its problems than would otherwise have been the case.
34. At the Robert factory improvements by comparison with pre-project operations were seen in a number of areas. Improvements were seen with regard, inter alia, to leather quality checking, how leather is split according to specifications, the skiving of uppers components, the

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<sup>4</sup> Corporation tax actually fell during the last three years, from 40% to 25% or 18% depending on whether a company reinvests or not.

<sup>5</sup> Of management's own choice, staff from the company did not attend the study tour on marketing.

<sup>6</sup> An indication of the severity of the subsector's financial circumstances is that, including Record, three of the nine companies visited by the Phase 1 mission have since become bankrupt.

moistening of uppers before grimping, the choice of material used as a stiffener, the stiffener moulding operation, and the layout of the assembling workshop. All operators in this plant have attended in-plant training. The training was considered thorough and clear and the skills acquired are consistently applied. In addition to the production of six footwear models transferred from Bally, the mission was shown how skills learned during the project allowed improvements to the company's own models. Management at Robert noted that the higher quality product requires higher quality and more expensive raw material, and therefore sells at a higher price. Additional marketing efforts are thus required to sell the higher quality product.

35. The company received and uses Bally's own quality control manual, translated into Hungarian, as well as documentation specific to each process, such as the quality checking of raw materials. All of this documentation is used on a regular basis. Management noted that despite relatively high quality levels at the Robert factory prior to the project (60% of operatives are skilled) Bally experts identified quality problems which the company itself had not recognized as such.
36. The Robert company has recently had discussions with a foreign potential joint venture partner. Management attributes the interest of the potential partner to the higher level of product quality brought about by the project. The level of sales has also risen by about 2% to 3% above the pre-project level. This year sales are expected to rise by 4% to 5%. Management considered that improved sales are attributable to the project. This sales growth comes at a time when the share of the domestic market held by Hungarian firms has fallen due to competition from imports.
37. At Ber-Fer improvements by comparison with pre-project operations were seen with regard, *inter alia*, to leather quality checking in the warehouse (formerly the factory workers themselves decided whether leather was acceptable or not), quality checking in the stitching department, changes in the thickness and width of the skiving, the type and angle of the skiving foot, back-seam stitching, the type of needle used, the way in which lining is introduced in the moccasin, the

sequence of operations for production of the moccasin upper, the use of reinforcement, the use of explanatory diagrams and information in the factory, the systematization of input requirements, the use of a forming device in assembling, the use of hot air and a spray gun for finishing, and plant layout (the new factory building was only completed during 1994). As with the other assisted firms, Ber-Fer management considered the quality of training to be high and of great value. The acquired skills are employed consistently throughout the factory. In addition to its 70 employees, the company has around 20 trainees. Bally experts provided assistance in formulating the training programme to be taught at Ber-Fer. The quality control manual and other documentation received from Bally International are referred to on a regular basis by staff of the factory. Six new shoe models were transferred to Ber-Fer. The mission was able to compare shoes produced before and after the project, and could note significant quality and design improvements.

38. Ber-Fer management asserted that the company name is now much more widely known as a result of the project. Sales in 1994 rose to around 60,000 pairs of shoes, up from 50-55,000 in 1993, with average shoe quality and price also rising. There are ten more employees than in 1993. The mission viewed documentation for two large recent orders from foreign wholesalers. Management attributed these orders to changes in product quality resulting from the project. The factory does not at present have the capacity to supply all its orders. The company is seeking joint venture partners, although on account of inexperience management is somewhat apprehensive about the joint venture negotiation process. Interest in possible joint venture arrangements has been shown by at least one foreign company.
39. Workers, supervisors and managers at all the assisted factories commented on how beneficial it had been to see advanced quality control procedures in operation at the Bally factory. Some valued the study tours as highly as the direct training, noting that they had gained confidence that such a quality control system could be implemented once they had seen it themselves. The point was also made that access to the Bally factory, or to factories of other similarly reputed firms, would

be unlikely outside the context of a technical assistance project. The visits to the Bally factory appear to have been an important element in the improved quality consciousness reported at all the assisted factories.

40. One last point deserves mention in this section. While Record has gone into liquidation since receiving assistance, the effectiveness of that assistance was evidenced by the fact that the company won some significant orders for new models introduced by the project. The company's own models were also upgraded and production of women's shoes was initiated. Articles on the success of the project at this factory were published in the industry journal *Bor-és-Cipotechnika*. While precise figures could not be obtained, the former Cooperative President reported that a number of the 200 former employees of the firm had gone to work in other shoe manufacturing companies in the Szeged area.

(iii) Improved Quality Control Practices at Two Audited Factories

41. Under output 5 two additional factories were chosen for the implementation of quality control audits. The two factories were Turul Cipo Ltd (at Gyomaendröd) and the Pannonia Cooperative (at Nagykanizsa). The mission visited the Turul plant and spoke by telephone with the President of Pannonia, as well as interviewing BIMEO staff involved in the quality control audits. The audits themselves consisted of a review of factory operations and some direct assistance.
42. The quality control audit at Turul began in March 1995. At the Turul factory improvements were seen by comparison with pre-project operations with regard, *inter alia*, to the type of insole material used, the skiving operation, the stiffener material used, back-seam stitching, the density of stitching, the use of the last during assembling, the introduction of a forming device to prolong retention of shoe shape, the use of hot air during finishing, and the introduction of a storage area for semi-finished products. Suggestions were also made for machine purchases (such as for back-seam rubbing). Management affirmed that quality control had been a key constraint

affecting the plant. An audit report was prepared by the Bally experts, and all of the suggestions made are applied today. The company also received a copy of Bally's quality control manual. Company management expressed their wish for more prolonged direct assistance. While the mission inspected the above-mentioned improvements in quality practices, it also saw a number of areas where further changes are required, such as in the organization of the stitching department and the assembling operation.

43. The mission interviewed Mr. Laszlo Szladovits, President of the Pannonia Cooperative. Mr. Szladovits confirmed that Bally experts had checked every operation at the Pannonia factory and made suggestions for improvements. Bally also prepared quality control audit documentation. Mr. Szladovits attended study tours in December 1994 (on marketing) and May 1995 (on manufacturing organization and management), and found both tours valuable. The information acquired during the audit and study tours is applied in the production process.

(iv) Improved Capability at BIMEO for Quality Testing and for Preparing Companies for ISO 9000 Certification

44. Bally experts were generally satisfied with the materials testing equipment used by BIMEO. Suggestions were made for the purchase of a small number of items (such as a permeability tester), which were then bought by BIMEO with its own resources. Bally experts suggested changes in the way the existing equipment was used, provided supporting documentation in this regard, and illustrated Bally's own quality testing practices. BIMEO staff considered that their pre-project quality testing system was somewhat similar to that transferred by Bally. BIMEO staff are satisfied that they now have all relevant information with which to test high quality materials. After the assistance had been provided, tests performed on raw materials in both the Bally and BIMEO laboratories yielded very similar results. The changes at BIMEO brought about by the project were published in the industry journal.



45. The capability of BIMEO to prepare firms in this subsector for ISO 9000 certification has also been strengthened. BIMEO was able to provide ISO 9000 services prior to the project. The quality control standards previously implemented by BIMEO were known in Hungary as 45001, and were similar to the ISO 9000 norms. BIMEO staff worked with and learned from the Bally experts who provided ISO 9000-related advice to the assisted companies. The Ber-Fer, Robert and Alba companies all received ISO 9000 services from BIMEO during the project to help prepare them for receipt of an ISO 9000 certificate.
46. There are a number of institutions in Europe qualified to provide ISO 9000 certification. TuV Rheinland is one of these institutions, and works in the leather and other subsectors. TuV accepts that BIMEO prepares companies for receipt of the certificate, for which it awards the final authorisation. For the companies concerned, receiving this preparation from BIMEO is much less expensive than if the preparatory work were done by TuV or other similar foreign institutions. BIMEO now also offers fee-based training in quality control making use of knowledge acquired during the project.
47. To award ISO 9000 certificates itself, BIMEO would require ISO 9000 accreditation from TuV. Preparation for this accreditation can be had through a number of companies and institutions such as the U.K. Shoe and Allied Trade Research Association. At present BIMEO considers such preparation prohibitively expensive.
48. In connection with the financial standing of BIMEO - which bears on project sustainability - it is noted that the company is currently experiencing some difficulties. In part, this situation reflects the financial constraints of the entire subsector, which has led to a fall in demand for many fee-based services. The company's short- to medium-term finances appear to hinge on the size of the rent BIMEO will pay for its premises. This problem may be alleviated by assistance from the Ministry of Industry. A decision on this matter is expected shortly.

(v) Other Project Results

49. Some results were achieved beyond those foreseen in the project document. Staff from a number of companies not identified in phase I (or the project document) attended study tours. Training and other assistance was also provided to KMF and the Leather Processing High School. Teaching staff from both institutions attended study tours and factory seminars. Bally experts also visited the Leather Processing High School, gave advice on the curriculum and advised on the operation of the small production facility at the School. The School's training programme has been modified as a result of these contacts. A KMF representative stated that lessons learned during the project will also be applied to the KMF's educational programme. Four training colleges also attended factory seminars.<sup>7</sup>
50. A KMF representative informed the mission that KMF will organize a seminar in September 1995 to which all training colleges will be invited. KMF plans to use this opportunity to transfer the curriculum and training materials acquired through the project. Improved teaching of the industry's future workforce in secondary and tertiary institutions, if realized, would constitute an important additional benefit of the project.

(vi) Constraints Reported By the Assisted and Audited Factories

51. A number of problems affecting the assisted and audited companies were reiterated by interviewees. While the task of this in-depth evaluation is not to assess the status of the subsector, some of these constraints are mentioned here as they are relevant to possible follow-up measures.

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<sup>7</sup> There are approximately fifteen training colleges throughout the country teaching a general curriculum. KMF, the Leather Processing High School and the Martfu Leather Processing High School are the only institutions providing industry-specific education and training.

52. Many firms stated a need for assistance with marketing, although the project went some way to addressing this requirement.<sup>8</sup> The mission noted that many producers have a passive attitude to marketing. For many firms marketing is undertaken largely through attendance at two trade fairs in Budapest in spring and autumn. Orders for the following half year are expected from these fairs. However, marketing should be continuous and some risks may need to be taken in the form of expenditures on travel to fairs abroad, the distribution of free samples, the publication of appropriate advertising material, etc.. There are various private consulting firms in Hungary which could give further assistance in various aspects of marketing.<sup>9</sup>
53. Many producers complained that the quality of imported chemical inputs often varied. This acts as a constraint on the production of footwear of a high and standard quality. The mission was informed that a number of trading companies will provide quality testing services for the goods they import.<sup>10</sup> This fact, if not widely known, might be brought to the attention of companies at the final project seminar.
54. Some of the visited factories reported significant financial constraints. This problem appears to stem from a number of sources:

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<sup>8</sup> The last factory seminar and one study tour dealt with marketing, while attendance at trade fairs and production of sales brochures through the project will have provided some additional marketing experience.

<sup>9</sup> For example:

Marketing Centrum  
1065. Budapest VI.Nagymezo U.21;

Kopconsult Kft.  
1052. Vaci Utca 17;

Kopint-Datorg Kft  
1081. VII.Csokonai U.3.

<sup>10</sup> For example, Portico Trading and Consulting Company, 1139, Budapest XIII, Frangepan U.15-19.

High nominal and real rates of interest on bank loans<sup>11</sup>; high levels of loan security demanded by banks<sup>12</sup>; a short repayment period for working capital loans; the pressure on margins from intense import competition, and in some instances the burden of debt to public institutions inherited from the period when the economy was centrally planned. Some problems may also have their origin in the nascent character of the private sector financial institutions.<sup>13</sup> Furthermore, many suppliers and purchasers previously extended credit to the shoe factories, but have now ceased to do so. The mission noted that there appeared as yet to be no collective initiatives from within the industry to address the problem of access to working capital, such as through mutual credit guarantee associations. Among the firms approached, the use of public credit guarantee funds, from the Credit Guarantee Company, appears limited. Further investigation on how to initiate and expand such schemes may be beneficial.<sup>14</sup>

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<sup>11</sup> Reported nominal rates ranged from 33% to 40%. Current inflation estimates vary, but may be in the region of 25% per annum.

<sup>12</sup> Reported to range from 15% to well over 200% of the loan amount.

<sup>13</sup> One factory reported technical difficulties at its bank in opening a letter of credit.

<sup>14</sup> The existence of credit guarantee funds and mutual guarantee systems stems from the high level of risk perceived by banks in lending to small businesses as a result of their inability to provide the required collateral. Such funds and systems can help reduce bank transaction costs (by reducing expenditures on assessing and obtaining collateral) which are high in proportion to the amounts lent to small-scale firms. Guarantee funds usually have public support and are designed to cover all or part of the losses incurred when borrowers default on loans. In some cases a fund is not established, but an undertaking is given by government to reimburse losses made by banks. The funds themselves may be capitalized by governments, regional authorities, banks, membership associations or through borrower fees.

Credit guarantee associations have a similar purpose to guarantee funds but a different method of operation. Here a common guarantee for a loan to a single borrower is provided by members of the association. Risk is thus spread over the association members. An advantage of this system, used widely in France and Italy, is that evaluation of the loan risks may be done more effectively by association members working in the same industry, while peer pressure may help effect repayment. Associations can also negotiate with banks for favourable loan rates. In France

B. Achievement of the Immediate Objective

55. The immediate objective of the project was stated in the project document as follows:

"To assist the Hungarian footwear industry in becoming more competitive on the local and selected export markets by introducing *high quality shoe products* and an appropriate quality management system adopted by those supplying a reputable brand identity."

The project has had a positive effect on the competitiveness of the directly assisted and audited firms. In some instances this has been evidenced by increased sales and profitability following the introduction of new models and improved quality control practices.

56. It is more difficult to quantify the impact of the project on the subsector as a whole. Firstly, much of the most recent subsectoral data on investment, production, sales and trade is from 1993 only (prior to project implementation). Even if available information were current, making inferences about the impact of the project from subsectoral data would be problematic. For example, it would be difficult to separate effects stemming from the project from those due to broader economic and policy issues. At the aggregate level, there is also no mechanical or fixed relationship between training inputs and productivity improvements, which might allow a yardstick for the assessment of expected improvements in competitiveness. Furthermore, education, a part of this project, is typically a long-gestating investment, the results of which are likely to materialize in the medium-term. BIMEO's upgraded services will also be provided over a prolonged period of time.

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such associations re-insure the loans. There are various possible institutional arrangements which such associations can take, although a key issue is the size of the group. Size may affect an association's ability to screen proposals and the magnitude of the guarantees offered.

57. Notwithstanding the problems of quantifying impact, it can be noted that direct and indirect exposure to the project has been significant, especially among some of the industry's more advanced firms, and that all the company-level information indicated that knowledge acquired through the project would augment competitiveness (other things being equal). In addition to direct assistance and auditing provided to a total of six companies, representatives of an additional five firms have benefited from training abroad. In all, twenty firms attended at least one of the project's factory seminars, and twenty-one companies have been able to inspect the work of the project at the factory level.<sup>15</sup> Representatives of six training bodies have also had direct contact with the project, and training programmes at two key institutions have been improved. All purchasers of the main industry journal have had the opportunity to learn of the project, and all producers in the subsector will be invited to the final seminar in June 1995. In addition, BIMEO will act as a focal point for knowledge transferred through the project, which will be disseminated through the industry according to the demand for BIMEO's services. Furthermore, improved quality testing and control capabilities at BIMEO may have industry-wide effects. The mission also noted some informal flows of information about the project among a number of producers. For example, factory visits had been arranged by managers of other factories independently of the planned project activities. Lastly, due to the introduction of new footwear models on the Hungarian market a demonstration effect may occur amongst those firms which did not participate in the project. To avoid losing market share, some of these firms may decide (or be compelled) to upgrade their own competitive standing. These firms will be able to approach BIMEO for project-related information. In conclusion, some significant steps have been taken towards meeting the project's immediate objective.

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<sup>15</sup> Figures from the Ministry of Industry and Trade show that in 1993 there were 287 shoe manufacturing firms, 80% of which had below 300 employees. Many of these "firms" are in fact little more than workshops. Some 13% of firms are under liquidation.

58. An assessment was also made of the project's strategy whereby, with the aim of assisting a subsector, a small group of firms is supported so that these may act as poles for the diffusion of skills. Such a strategy raises issues of equity and effectiveness. The question of equity is raised as some firms are placed in a stronger competitive position than others, at least over the short-term. The issue of effectiveness is raised primarily because assisted firms may wish to guard acquired information from potential competitors, and because the mechanisms for transferring know-how from the assisted firms to other companies in the subsector may be weak. As regards the equity issue the mission considers the following observations relevant:

- An alternative strategy - providing support to training and education institutions alone - might have been considered more equitable, in the sense of providing broader access to project benefits. However, the concrete nature of the project's results, as well as its widespread and important demonstration effect, would not have been realized through such a strategy. Moreover, the problems facing this subsector were (and are still) pressing, and as such required external support likely to have an impact in the near-term. Such a near-term impact would not have been achieved through support to training and education institutions alone.
- A second means of addressing the equity issue - providing direct assistance to a much larger number of firms - would have been impractical and costly.
- The issue of equitable access to project benefits has been addressed to a degree through the project's support to training and education institutions, and through current and possible future knowledge dissemination to other firms in the subsector.

As regards the effectiveness of the project strategy, the mission observed a high degree of openness among the directly assisted firms to other companies wishing to inspect the work of the project. This openness was formalized through the factory seminars. While the

transfer of know-how through seminars is admittedly a much weaker mechanism than direct assistance, such seminars, and the project's aforementioned demonstration effect, should spur firms to acquire the know-how in quality control transferred to BIMEO (and the training institutions). It is thus felt that, within the unavoidable limitations of the chosen strategy, reasonable provision has been made in the project for ensuring effectiveness. In summary, for the reasons stated in this paragraph, the mission considers the project's underlying strategy to have been appropriate.<sup>16</sup>

C. Contribution to the Achievement of the Development Objective

59. The development objective of the project was described in the project document as follows:

"The long term objective is to contribute to the adaptation of the Hungarian industry sector to meet the world market requirements."

As seen from the preceding sections of this report, the project has contributed to an improvement in the ability of a number of footwear firms to meet international quality norms, as well as an improvement in subsector-wide quality testing capabilities. As such, a contribution to the development objective has been made.

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<sup>16</sup> In a similar vein, the question might be asked "Is it best to assist companies already placed to do well?" The mission considers that if the underlying project strategy is accepted, then it is certainly preferable to assist companies in which the investment of project resources is most likely to yield returns.



#### Chapter 4

##### Conclusions

60. The relevance of the project was confirmed.
61. To date, the implementation of the project has been performed satisfactorily.
62. The project has had a marked positive impact on the assisted companies. Quality control practices have been significantly improved and new designs effectively transferred. In some cases domestic and foreign sales as well as profitability have increased, a fact attributed to the project by the companies concerned. Interest from foreign companies in establishing joint venture arrangements with two firms was reported to have arisen as a result of the project.
63. The capability of the quality testing company to undertake quality testing and to prepare firms in this subsector for ISO 9000 certification has been improved.
64. The project's strategy - whereby a small group of firms is supported so that these may act as poles for the diffusion of skills in the subsector - was considered appropriate.
65. Setbacks affecting the financial standing of two companies were found to be due to factors that were either unforeseeable or largely outside the control of the project. In this connection, it is noted that financial difficulties affect many producers in the subsector, and that the "Risks" section of the project document recognized this fact. Nevertheless, it would have been preferable for financial information to have been explicitly included in the Phase I report on the selected companies. The Phase I report did state, with regard to the selected companies, that "their economic condition - for Hungarian standards - is acceptably stable". This statement required further elaboration.

66. A number of difficulties relevant to the project affect producers in the industry and might be ameliorated through initiatives from the industry itself and, in some instances, external cooperation. These include issues of marketing, joint venture negotiation, and finance.

## Chapter 5

### Recommendations

67. Should there be any unspent project funds following the final seminar, it is suggested that an allocation be made to allow BIMEO staff to visit the assisted companies in six-months after the final project seminar so as to follow-up on the implementation of transferred quality control know-how. BIMEO could also visit training colleges to see how training material is being incorporated into the teaching programme.
68. At the forthcoming final project seminar The Association of Leather and Shoe Industries and the Light Industry Association of Hungary should be encouraged to examine possible collective measures to begin to address the industry's financial concerns, possibly through the establishment of a mutual credit guarantee association.
69. The services of management consultancy firms in Hungary could be employed by the industry to help address marketing concerns. The rates charged by international management consultancy firms may be prohibitive for many individual firms. However, The Association of Leather and Shoe Industries, or the Light Industry Association of Hungary might be encouraged to organize seminars on this subject with costs to be defrayed, wholly or in part, through an attendance fee. Further assistance in marketing might also be sought through external cooperation.
70. The possible need for assistance in joint-venture negotiation should be raised at the final project seminar. In this connection it is noted that UNIDO has organized programmes of training in a range of issues relating to joint-venture negotiation in a number of developing countries (and also operates a programme of foreign investment promotion). These training programmes last around five days and make use of manuals and documentation, prepared by UNIDO, which can also be used independently of the tuition. Producers might also be encouraged

to contact the Hungarian Joint Venture Association.<sup>17</sup>

71. It may be beneficial for a follow-up mission of the project backstopping officer to visit BIMEO six-months to one year after completion of the project. This is considered important for three reasons: (1) BIMEO can play an important role in disseminating project-related information through the provision of fee-based services (e.g. on the organization of quality assurance seminars, demonstrations on the manufacture of upgraded shoes, introduction of technical and quality assurance know-how in factories, preparation of training texts and other aids, etc.); (2) At the same time, like many other companies, BIMEO is experiencing serious financial constraints which may or may not be alleviated in the coming months, depending in large part on an outstanding decision concerning the rent the firm will have to pay for its premises; (3) BIMEO does not have a long experience as a training institution. For these reasons it would be important to monitor BIMEO's progress as an agent capable of effectively disseminating project-related and other know-how.
  
72. Finally, it is important to note that the recommendations offered here relate to issues raised during evaluation of the project, and do not constitute an attempt to define the future assistance needs of the entire subsector.

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<sup>17</sup> H-1012 Budapest I., Kuny Domokos U.13-15.  
Tel./Fax: 156-0728

## Chapter 6

### Lessons Learned

73. In economies undergoing a transition to a market-based system industry often has to adapt to changes at many levels. These may include changes external to the firm, in policies, institutions, financing, and markets, and related changes within the firm, such as in accounting methods, production management, marketing and quality control practices. The experience of this project suggests that to assist firms in facing systemic change technical cooperation projects should, where practical, not be limited to a single subject such as technology, but adopt as broad and as integrated an approach as possible. So in certain circumstances it may be advantageous, for example, to address issues of industrial finance simultaneously with technical constraints at the factory level.
  
74. The strategy of the current project involved assisting selected firms on a pilot basis in a given subsector so that these might act as poles for the diffusion of know-how and skills in that subsector. The project strategy also entailed supporting an institution providing industry-wide services (BIMEO). It would appear justified to replicate this project strategy, mutatis mutandis, in this and other subsectors in other countries undergoing systemic transition (such countries may include not only those moving from a centrally planned to a market-based model, but also those changing from a protected to a more open economic system). In addition to the impact on the assisted firms, the project strategy permits the achievement of a demonstration effect in the short-term, which is necessary where pressures to effect short-term change are great. The strategy can also be justified on equity grounds if support is also given to an institution (or institutions), private or public, which is close to the end-users and which will act as an agent to disseminate know-how transferred by the project throughout the subsector (as with BIMEO). Equity considerations can also be addressed, as in the current project, through simultaneous support training bodies and seminars at the assisted factories (although the latter is

a much weaker mechanism for transferring know-how and is probably most useful as a means of publicizing the project).

Terms of ReferenceAn In-Depth Evaluation of the Project UC/US/HUN/92/195  
"Upgrading Product Ranges and Quality in the Hungarian Footwear Industry"I. BackgroundProject Objectives

Manufacturers of footwear in Hungary operate in a market and policy context that has changed radically in recent years. These changes include: The loss of markets in former COMECON countries and a rapid opening of the domestic market to foreign competition, resulting in a sharp decline in output and employment; a related and pressing need to penetrate Western markets; a widespread shift from public to private ownership of footwear and other firms, and the removal of public subsidies to the industry. Furthermore, Hungary's macroeconomy has in recent years been characterized by recession, high levels of inflation, and high rates of interest. Real GDP fell significantly each year between 1990 and 1992, consumer prices rose on average by 29 per cent per annum over the same period, and the average lending rate in 1992 was 33.1 per cent. Such economic and financial conditions hinder the profitable operation of footwear and other companies.

The task which faces newly privatized firms of penetrating competitive Western markets is great, particularly as regards the achievement of high levels of product quality. Marketing, finance, product development and other factors also represent significant difficulties. Improving product quality likewise requires an institution able to provide quality control and technical services to producers of footwear and related items. Such a body would assist the industry in adhering to the quality specifications, both in products and processes, required under the ISO 9000 and other quality-related standards. BIMEO Trading and Research Limited currently provides quality control services to Hungary's leather and related industries, and is to be supported under this project.

To help address the problems described above, the present project aims to improve the competitiveness of Hungarian footwear manufacturers by introducing shoe products of high quality and a range of production and marketing skills. The original project document contained the following immediate objective:

"To assist the Hungarian footwear industry in becoming more competitive on the local and selected export markets by introducing high quality shoe products and an appropriate quality management system adopted by those supplying a reputable brand identity."

A second, and slightly overlapping, objective was included in the terms of reference for the subcontractor, and reads as follows;

"Assist the Hungarian footwear and related industry subsector in achieving quality standards required for reliable and stable export to industrialized countries, paying special attention to upgrading the local quality testing laboratory (BIMEO) to create suitable conditions

for cooperation with advanced leather products suppliers in Europe."

#### Project Implementation

The project has been implemented in two parts: Phase I and phase II. Phase I aimed to select those firms best suited to participate in the project. Contingent on the findings of phase I, phase II would provide direct support to the selected companies and BIMEO.

Sixteen companies had originally requested inclusion in the project. Seven of these failed to satisfy preconditions established in the project document. The remaining nine firms were visited in April 1993 by a team of four persons comprising the UNIDO backstopping officer and staff from Bally International (Switzerland) and BIMEO. The team evaluated the companies visited according to a number of criteria, including: Product range, the availability of equipment and trained staff, plant layout, quality standards, the skills and absorptive capacities of management, the level of unemployment in the vicinity of each plant, and the ability of each company to provide a contribution in-kind to the project. Only private and domestically-owned companies would be assisted. In this way the team selected three firms: Record, Alba and Ber-Fer. To guard against the possible withdrawal from the project of any of these firms two alternative companies were also chosen, these being Robert and Pannonia (Kanizsa). Financial and technical difficulties affecting the Alba company during implementation led to the inclusion in the project of the Robert firm. BIMEO had previously been selected as the counterpart body to operate a quality control and management system for the subsector.

Following submission of the findings of phase I the Swiss Government agreed to fund phase II of the project. Phase II began in September 1993. BALLY International received the subcontract to provide assistance to the selected Hungarian firms and BIMEO. Under the terms of the subcontract, BALLY International would, inter alia, perform material selection and testing, evaluate the technical capabilities of the counterpart firms, assist in the selection of styles, prepare and deliver prototypes, train technical staff of the assisted firms, initiate production of six prototypes at each factory, introduce improved shoe finishing as well as a quality and process control system at each plant, assist BIMEO in establishing a third part certification system for footwear manufacturers, prepare a final report and aid in the presentation of concluding seminars to be held at each factory. Most of the above activities have been completed.

It was intended that knowledge transferred by the project would be disseminated to other footwear manufacturers in Hungary through a seminar held at each assisted company. Other Hungarian companies not directly supported by the project would be invited to attend these seminars, the first of which would be held in December 1994 or January 1995. Indeed, the assisted companies made a written commitment to share knowledge acquired through the project with other Hungarian footwear producers. Similarly, BIMEO will distribute the technical information it acquired through the project. The project will also fund efforts to create awareness of the footwear produced as a result of the project. These efforts include the presentation of products at international trade fairs. Such a presentation was made at the International Leather and Shoe Week held in Budapest during September 1994.



## II. Scope, Purpose and Methods of the Evaluation<sup>18</sup>

The purpose of this in-depth evaluation (IDE) is to assess the impact, relevance, effectiveness and efficiency of the work performed under project UC/US/HUN/92/195 "Upgrading Product Ranges and Quality in the Hungarian Footwear Industry".

The evaluation will require one mission to Hungary with a duration of approximately two weeks. The mission would comprise a staff member from UNIDO's Evaluation Section and a footwear expert. The mission would visit BIMEO, three of the assisted companies and one or more firms not directly assisted by the project but which should have benefited from knowledge of the project's achievements gained at the closing seminars.

Four days of prior desk research and briefing would be required of the expert. The expert would be briefed either at UNIDO Headquarters or in Hungary. One further week of the expert's time would be needed to assist in consolidating and writing up the findings of the mission.

The evaluation mission will undertake the following specific tasks, assessing the project with regard to:

- the quality of teaching and teaching materials; the degree to which newly-acquired skills are employed; the number of persons trained;
- the technical documentation transferred by the project;
- changes in product range and quality at each firm;
- changes in the system of quality control at each factory;
- changes in company performance (has the project had a distinguishable impact on company sales, financial standing, number of employees, etc.);
- the operational modalities and status of the quality control system

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<sup>18</sup>In accordance with the provisions of the UNDP Policies and Procedures Manual (PPM), the primary purposes of an in-depth evaluation include the following:

- (a) To assess the achievements of the concerned projects against their objectives and expected outputs, including a re-examination of project design, which will include an assessment as to whether:
  - (i) The problems the projects were supposed to address were clearly identified and the approaches were sound;
  - (ii) The beneficiaries and the end users of the results of the projects were properly identified and are/were served by the projects;
  - (iii) The objectives and outputs were related explicitly, precisely and in terms that are verifiable;
  - (iv) The objectives were achievable and whether the relationship between the objectives, outputs, activities and inputs of the projects were clear, logical and commensurate with the time and resources available.
- (b) To identify and assess the factors that have facilitated the achievement of the objectives of the projects concerned, as well as those factors that may have impeded the fulfilment of the objectives.

- established at BIMEO;
- the extent to which skills have been transferred to other companies not being assisted directly;
  - the advantages and disadvantages of the project's underlying concept whereby, with the aim of assisting a subsector, a small group of firms is supported so that these may act as poles for the diffusion of skills and knowledge to other firms;
  - any other developments brought about by the project (e.g. indications of joint venture interest, possible follow-up measures, etc.)
  - from the above, the extent to which the immediate objective of increasing the competitiveness of Hungarian footwear manufacturers has been attained;

Recommendations will be made as appropriate in relation to any of the issues mentioned above.

### III. Composition of the Mission

The mission will be composed of a UNIDO staff member and an expert with extensive experience in the manufacture of footwear and related products and with knowledge of Hungarian conditions. The expert will have experience in the operation of plant level and third party quality control systems.

### IV. Consultations in the Field

The mission will maintain close contact with the government organizations concerned and the plants assisted directly or indirectly by the project.

### V. Timetable and Report of the Mission

It is expected that the mission and related work will begin towards the end of the project, some time in early to mid-1995. The total duration of the exercise, from commencement of work by the staff member to submission of the evaluation report, will be in the order of five to six weeks. The evaluation report will conform to the standard evaluation report format indicated in the Director-General's Bulletin 106.

Annex 2List of Persons Contacted

<u>Company/Institution</u>	<u>Person(s) contacted</u>
Alba	Imre Mészárovcics (Managing Director)
Apoilo Ltd.	Péter Huszka (Managing Director)
Ber-Fer Ltd.	Beregnyei Imre (Managing Director)
BIMEO	András Braun (Managing Director)
	István Szabó
	Dr. Murlasits Gyuláne
Derby Ltd.	Péter Szatmán (Managing Director)
Eva Ltd.	Julianna Balog (Managing Director)
KAEV Trading	Tibor Eichinger (Director)
Leather Processing High School	András Kovács (Director)
Light Industry Technical University	Márta Farkas (teacher)
Ministry of Industry and Trade Department of International Industrial Cooperation	Dr. Barnabás Fáy (Deputy General Director)
	József Kovács (Secretary of the National Committee for UNIDO)
	Róbert Sczigel (Head of Department)
	Judit Kishonti
Nívó Borfeldolgozóipari	István Soponyai (Managing Director)

Pannonia Cooperative	Laszlo Szladovits (Managing Director)
Pécsi Borgyár	J. Bakan (factory manager)
Record Cooperative	Imre Farkas (former President)
Robert Ltd.	Boros Zoltán (Managing Director)
Sabaria Ltd.	Gábor Odonics (Managing Director)
Simantarnyia Ltd.	Dr. Tamas Karnitser (Managing Director)
Salgo Ltd..	Toth Rudolf (Director)
Turul Cipo Ltd.	Hunya István (Managing Director)
Victoria Ltd.	Géra Teski (Managing Director)

Annex 3Study Tours and Trade Fairs Attended by Project Beneficiaries

1. Subject: Style Selection  
Date: 10-18 October 1993  
Participating firms and institutions: Alba (1 person), Ber-Fer (1), Record (1), BIMEO (1) plus a translator.
2. Subject: The training of technical staff (upper manufacturing and quality control).  
Date: 5-10 December 1993  
Participating firms and institutions: Ber-Fer (4 persons), Record (4), Robert (1, for style selection).
3. Subject: ISO 9000 and a visit to the Pirmassens School.  
Date: 23-30 January 1994  
Participating firms and institutions: KMF (1 person).
4. Subject: Training of pattern makers.  
Date: 24 January to 5 February 1994  
Participating firms and institutions: Alba (1 person), Ber-Fer (1), Record (1), Robert (1) plus a translator.
5. Subject: The training of technical staff (upper manufacturing and quality control).  
Date: 24 January to 5 February 1994  
Participating firms and institutions: Alba (3 persons), Robert (3) plus a translator.
6. Subject: Shoe factory and quality standards laboratory visits.  
Date: 26 - 29 April 1994  
Participating firms and institutions: BIMEO (3 persons).
7. Subject: Pirmassens Fair.  
Date: 30 April to 4 May 1994  
Participating firms and institutions: BIMEO (3 persons).

Annex 3 continued

8. Subject: Marketing.  
Date: 27 November to 3 December 1994  
Participating firms and institutions: Ber Fer (1 person), Leather Processing High School (1), KMF (1), Pannonia (1), Modino (1), Moltan (1), Salgó (1), Turul (1), BIMEO (1).
9. Subject: Manufacturing Organization and Management  
Date: 1 - 6 May 1995  
Participating firms and institutions: Leather Processing High School (2 persons), KMF (1), Lebok (1), Pannonia (1), Turul (1), Ministry of Industry and Trade (1) plus a translator.
10. Subject: Bologna Fair  
Date: 9 - 14 May 1995  
Participating firms and institutions: Leather Processing High School (1 person), KMF (1), Lebok (1), Pannonia (1), Turul (1), Ber-Fer (1), Robert (1).