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OPTIONS REVIEW REPORT

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1. Executive summary

The Feasibility Study, financially supported by the Sustainable Local Development Project, is dealing with development and employment issues in the South of Serbia, more specifically, in the districts of Jablanica, Pcinja and Toplica. The need for the study has been identified by the City of Vranje for they continuously strive to support the foreign and domestic investor in pursuit of qualified and skilled work force. The Feasibility Study consist of three fundamental reports, the Baseline Assessment Report (BAR), the Demand Assessment Report (DAR) and the Options Review Report (ORR), aiming to provide a set of recommendations on how to establish the optimal model for the RWCDC in Vranje. The research process seeks to provide an informed and evidence based argument on the optimal approach in mitigating the current workforce skill mismatch in Pcinja region affecting the textile, leather and footwear production sectors.

The ORR identifies and reviews possible options for solving the issue of the existing gap between investors demand for adequate workforce and available resources. In addition to that, ORR analyzes options further in order to identify and argument the optimal solution for workforce training. Option identification is based on three major inputs:

- A. The current situation in terms of existing workforce parameters, identified and explained in detail in Baseline Assessment Report
- B. The existing and projected needs of existing and potential investors, as established in Demand Assessment Report, as well as on comparative experience in countries from which majority of FDIs is coming from
- C. The legal and institutional framework for establishing additional training / development facility, which is elaborated in detail in Legal Framework Analysis, which is integral part of the ORR

The ORR analyzes two scenario and three options for the establishment of the training center. Namely, Business as usual (BAU) scenario and the establishment of the RWCDC. The report provides recommendations for the most viable, optimal option which is the establishment of the RWCDC as a Limited Liability Company solely owned by the City institutions, including a legal framework and management structure.

The arguments are further supported by the financial analysis and a detailed Business Plan (BP) providing financial projections and an employment plan.

2. Introduction

The Options Review Report (ORR,), hereafter ORR, has been prepared by Confindustria Serbia project team as the final preparatory report preceding the final Feasibility Study of the Regional Industrial Workforce Continuous Development Center Vranje.

The Feasibility Study, financially supported by the Sustainable Local Development Project, is dealing with development and employment issues in the South of Serbia, more specifically, in the districts of Jablanica, Pcinja and Toplica. The need for the study has been identified by the City of Vranje for they continuously strive to support the foreign and domestic investor in pursuit of qualified and skilled work force. As a result of a standing and productive cooperation between Confindustria and the City of Vranje, substantiated through the signing of a Memorandum of Understanding (MoU) in Vranje on 27.02. 2013.¹ Confindustria identified the need for research and analyzed options for supporting workforce development in the area adding to the overall regional competitiveness in attracting foreign direct investments primarily (from Italy in particular) but also supporting domestic employers. The Feasibility Study consist of three fundamental reports, the Baseline Assessment Report (BAR), the Demand Assessment Report (DAR) and the Options Review Report (ORR), aiming to provide a set of recommendations on how to establish the optimal model for the RWCDC in Vranje. The research process seeks to provide an informed and evidence based argument on the optimal approach in mitigating the current workforce skill mismatch in Pcinja, Jablanica and Toplica region affecting the textile, leather and footwear production sectors.

The Baseline Assessment Report provides a number of key findings critical for the development of a effective workforce training approach such as:

1. The lack of continual research, in- depth analyses of current trends in particular industries, available comprehensive data, has been a highlight of the whole analyses;
2. The lack of continual and functional cooperation among main inter locators especially at the local level;
3. The lack of continual services aimed at combating unemployment, skill mismatch, job turnover, and generally present fluctuation in manufacturing industry;

¹<http://www.confindustriaserbia.rs/News.aspx?lang=sr&ID=101>

According to 2013 projections, employment increase has been forecasted. By large , 80% were supposed to be persons with III level of the educational degree, in following occupation: *Tailor and garment maker, Maker of the upper parts of shoes, Maker of the lower parts of shoes*. Those occupations are perceived as most wanted generally in the region, not only in manufacturing industry.²

In more detail, there are 57 various professional occupations related to the textile, leather and footwear industry. The highest number is from group of III level of the educational degree. Among occupations with the highest number of unemployed persons, three profiles, which have been identified as the most wanted³, are present as well: *Maker of the upper parts of shoes-318, Tailor and Garment maker - 135, Maker of the lower parts of shoes - 85*.

However, among those who have educational skills for specific professions in textile, leather and footwear industries, which are the focus of the research, there are a significant number of persons who do not have formal education for any of 57 occupations. However, those persons also compete for the jobs related to these occupations.

According to the data from NEA Vranje Regional Office, there are around 39.19% of persons interested in jobs of those occupational profiles, although they haven't finished formal education. The City of Vranje has the largest number of those who have finished formal education, while in other towns (Trgoviste, Preševo, Surdulica, Vladičin Han, Bosilegrad, Bujanovac) numbers for those occupations are significantly smaller⁴. The larger number of others, without formal degree, who look for assistance in finding job in textile, leather and footwear industry are from Preševo - 97.98%, Surdulica - 74.51% and Bosilegrad – 51.88%. Total number of persons seeking employment in Textile, Leather and Footwear industries in the region reaches 1218⁵, This suggests that the lack of formal education of job seekers in these sectors indicates interest of job seeker in finding employment in these sectors and, potentially an opportunity for the development of an adequate workforce training initiative.

Therefore, BAR strongly recommends to further explore potential services rendered mostly for following target groups:

- a. Employers (domestic and international),
- b. Unemployed persons, in process of acquiring job (in cooperation with NES)
- c. Employees- interested in changing carrier path or agar for further professional development
- d. Others- variety of inter locators who can occasionally seek support in concrete matters (i. e. local self- governments, business associations, business incubators, schools, etc.)

² BAR 6.3. Economic activities trends in year 2011- 2012 in Pčinja County

³ According to the projections for 2013, Regional Survey on Employers, (2012)

⁴ BAR 6.5. Analyses of the profile of working labor force according to the professional occupation, Table 21.

⁵ BAR 6.5. Analyses of the profile of working labor force according to the professional occupation

The Demand Assessment Report (DAR) provides a set of findings on the industry needs, experiences, practices and expectations. Analysis of interest in usage, type of training center, frequency of usage and interest in ownership options show the following:

1. Interest in using a training facility:

- 47.6% of all surveyed companies would be interested in using a training facility, whilst significant percentage (33%) would consider using the facility depending on conditions and demonstrated quality

2. Interest in using a training facility according to sector affiliation:

- Out of those respondents who replied YES to the question and hence expressed an interest in using the facility 35% represent the textile industry, 35% footwear production.
- Those respondents that have chosen *Depending on terms and conditions and quality* 64.3% are from the textile sector and 28.6% are from the footwear production sector.

3. Analysis of interest in usage of TC in relation to the respondents' usual training practice:

- even those who do not have regular/continuous trainings are inclined to
- unconditional usage, while all of those who are determined not to use TC, already have their own regular training set up; still, those represent minor (19,5%) portion of the sample. This shows that those who would favor the use of a training center mostly engage in training either continuously or occasionally, which potentially provides opportunities for cooperation. Moreover, as the in-depth interviews have pointed out, this cooperation could be pretty efficient and effective given that those who favor the use of the training center are also those with a clearer idea on what the TC should offer and how it should be structured.

4. Main expectations of potential users:

- Among those who are potential users of the training center, flexibility and training approach catering to needs as well as the possibility to train according to own methodology score the highest. This is strong signal for the need to get the potential users as involved as possible in structure, organization and management of the Center.

5. Type of usage of TC and possible ownership stake:

- 61.9% of respondents see themselves as the occasional user, whilst 28.6% would rather be a regular/long term user. Only 9.5% see themselves as being an owner in such a facility.

None of the companies who do not have clearly defined training procedures are more likely to identify themselves as a potential owner. Precisely, all companies who would consider an ownership stake are from the group of companies who do not have clearly defined training procedures and who, as the in-depth interviews have permitted to highlight, have estimated that the lack of further training would leave them without educated labor force or would make them lose their comparative advantage on the market.

The report also aims at proposing the theoretical and methodological basis of the Regional Workforce Continuous Development Center, considering the results of the qualitative research conducted to produce the Baseline Assessment Report and the Demand Assessment. The proposed approach contemplates the use of methodologies and instruments (collaborative and cooperative) which promote the development of competencies conducive to expression of attitudes oriented towards:

- ✓ Maintain the motivation of the students;
- ✓ Facilitate the profound learning processes with the prospective of introducing a *lifelong learning approach*, which equally involves workers and companies;
- ✓ Promote the use of knowledge and understanding of real life working context in manufacturing (e.g. textile, leather, footwear industries);
- ✓ Organize and implement participatory and inclusive training programs;
- ✓ Favor the creation of an integral learning community which includes educators, managers, administrative personnel who jointly with the students, the *decision makers*, entrepreneurs and other educational institutions work together aiming at progressively improve, develop the training of the workforce, and ultimately contribute to growth factors on economic and social level.

ORR seeks to identify and review possible options for solving the issue of the existing gap between investors demand for adequate workforce and available resources. In addition to that, ORR analyzes options further in order to identify and argument the optimal solution.

Option identification is funded on three major inputs:

1. The current situation in terms of existing workforce parameters, identified and explained in detail in Baseline Assessment Report



2. The existing and projected needs of existing and potential investors, as established in Demand Assessment Report, as well as on comparative experience in countries from which majority of FDIs is coming from

3. The legal and institutional framework for establishing additional training / development facility, which is elaborated in detail in Legal Framework Analysis, which is integral part of the ORR

3. Objective of the report

The objective of the Options Review Report is to provide an analysis and measure qualitative and quantitative aspects of the optimal option to overcome the existing gap between the available workforce and employers' current and projected demand. It first identifies and then analyzes possible RWDC models as a response to the needs, challenges and gaps identified in the Baseline Report and Demand Assessment Report, with the aim to provide a comprehensive analysis of the optimal model

The key parameters for identifying and selecting the optimal option are:

1. Sustainability (including ownership, management and financial structure),
2. Profitability
3. Strategic market orientation of managing models,
4. Preferred management and ownership structure as seen by key stakeholders.
5. Options of the teaching and administrative staff that will need to work at the Centre in order to deliver adequate educational services for meeting labor market demand
6. Readiness of local authorities and investors to actively participate in management structures of RWDC. This part will strongly rely on textile and footwear production sectors, since investments in these sectors are already secured.

The Options Review Report consists of:

- Analysis of investments in developing new educational/training models catering to the industry's current and developing demand,
- Qualitative and full financial analysis of possible training center models based on the existing and projected demand

Overall intention of option analysis part is to show practical possibilities, gaps and potentials of discussed models, thus enabling decision makers' wide scope of educated assumptions, estimations and calculations for an investment decision to be based on.

Option analysis also includes explanation of scope of legal solutions regarding ownership and management.

Specific goal of option analysis is to argument chosen solution-model and provide a business plan for it. A part of business plan includes some cost benefit perspectives, especially having in mind wider (non-monetized) benefits a local community can gain through such a model.

4. Context

The context of the ORR is defined by:

1. the current situation in workforce market in the research area, and
2. demand of actual and potential investors in the current moment and in foreseeable future.

The current situation in three main manufacturing industries in the districts of Pcinja, Toplica and Jablanica (Textile and Clothing manufacturing, Leather and leather goods manufacturing, footwear manufacturing), which are predominant industries in this area and of greatest interest to the Italian current and potential investors, is described in the Baseline Assessment Report (BAR).

As the availability, quality and cost of workforce are critical factors in the decision whether to invest, BAR explores in-depth current challenges faced by the local institutions and investors alike.

One of the key BAR findings regarding current trends in development of the economic activities in the textile and clothing, leather and leather products and footwear industry, as well as the profile of the available working labor force, reveals that there is significant interest in employment in these industries among individuals lacking formal training and education.

The existing and projected needs of existing and potential investors, as well as on comparative experience in countries from which majority of FDIs is coming from, are established in Demand Assessment Report (DAR).

According to DAR, a large number of respondents identify technical skills for working on the production lines as the main obstacle for furthering the professional performance of the employees in manufacturing (59,6%), followed by *Soft skills and motivation of production line employees* such as communication, conflict resolution, initiative etc. (23,8%) *Soft skills and motivation of line managers* are also indicative as 16.7%. The lack of technical skills and technical knowledge has been confirmed by most of our interlocutors participating in the in-depth interviews.

The reasoning behind is explained as:

- i) the educational system which does not cater to the needs of the industries, i.e. does not provide adequate set of educational profiles in line with market needs and



- ii) the current educational approach does not provide adequate practical experience (e.g. internship) to prepare students for the job market.

Although most interlocutors identify technical skill as the determinant factor in workforce quality, it is often mentioned in combination with soft skills and motivation.

One of key conclusions of DAR is that quality and adequacy of labor force tops the criteria affecting the investment decision. It is not the only element that is considered, however it is an important criteria which seriously influences decision making by investors. As the in depth interviews have highlighted investors, especially those producing high quality products or conducting loan businesses for foreign luxury companies, quality of the labor force is fundamental.

Also, DAR shows that 47.6% of all surveyed companies would be interested in using a training facility. A significant percentage (33%) would consider using the facility depending on conditions and demonstrated quality. In-depth interviews helped to provide a better understanding on what are the conditions which the RCWDC should satisfy to attract more users: in particular three out of eight respondents pointed out the main condition was the introduction of computer literacy courses and courses for pattern makers, while two other respondents highlighted the need of general mechanical and hydraulic courses which could provide the workers with basic knowledge useful in a wide range of industries. Four respondents also highlighted the need for courses focused on the use of software, knowledge which is recognized as a precondition for the survival and development of the targeted industries.

5. Methodology and approach

Methodology used in ORR is based on:

1. Cost Benefit Analysis Guide⁶ (CBA) recommended by experts society in EC and the only national act on Feasibility studies called "Novi pravilnik o sadržini, obimu i načinu izrade prethodne studije opravdanosti i studije opravdanosti („Službeni glasnik RS“, broj 1/12)"
2. Comparison of options against the main findings / guidelines for the desired training center facility qualities, derived from DAR and BAR, and methodological proposal provided in DAR⁷

CBA is an essential tool for estimating the economic benefits of projects. In principle, all impacts should be assessed: financial, economic, social, environmental, etc. The objective is to identify and monetize (i.e. attach a monetary value to) all possible impacts in order to determine the project costs and benefits; then the results are aggregated (net benefits) and conclusions are drawn on whether the project is desirable and worth implementing. Costs and benefits should be evaluated on an incremental basis, by considering the difference between the project scenario and an alternative scenario without the project. In this methodological approach feasibility study takes a specific place:

“A typical feasibility analysis should ascertain that the local context is favorable to the project (e.g. there are no physical, social or institutional binding constraints), the demand for services in the future will be adequate (long run forecasts), appropriate technology is available, the utilization rate of the infrastructure or the plant will not reveal excessive spare capacity, personnel skills and management will be available, justification of the project design (scale, location, etc.) against alternative scenarios (‘business as usual’, ‘do-minimum’, ‘do-something’ and ‘do-something else’)”⁸

As for the main data used throughout option analysis, they originate from the methodological approach in DAR and BAR by using three main collection instruments:

1. Desk research, review of more than 20 relevant documents, national and local strategies, national and international studies and other relevant information, data and statistics.

⁶

⁷DAR Part II, chapters 6, 7, 8

⁸



2. Five relevant focus group discussions, with total of 25 respondents (the employed, unemployed, entrepreneurs and decision makers on local and national level; listed in BAR Appendix II.)
3. In-depth interviews with key interlocutors, i.e. potential and existing investors and local businesses (8 interviews with respondents listed in DAR Appendix I and 12 interviews with respondents listed in BAR Appendix I)
4. Web based on-line survey - a questionnaire has been prepared and mailed to 285 recipients representatives of the three main sectors (textile, leather and footwear) and supporting industries such as machine production, chemicals etc. (100 in Serbia, 40 in Romania and 145 in Italy) with total of 50 responses

The methodological approach in developing the ORR is based on the below checklist:

- Define objectives and project scope;
- Identify the options;
- Identify quantitative costs;
- Identify quantitative benefits questions;
- Calculate the decision criteria over time;
- Sensitivity analysis; and
- Identify Preferred Option.

For the completion of the Option Review Report, the evaluation method for comparing alternatives has been used.

Throughout the process of defining possible feasible options current institutional and legal framework was analyzed and reviewed. This placed certain limitations related to the choice of model, further discussed later in the report. Each of the discussed models is feasible, but significantly different in its outcomes and potentials.

As for the term “option” hereafter it stands in the first place for ownership/managerial model altogether with the business plan for option of choice on one side and on the other side sustained present situation.

Basically, two general approaches are going to be analyzed: Business as usual (BAU) or so called “Do nothing scenario” and “RWCDC establishment scenario”. Due to the specific direction on needs and demand elaborated in BAR and DAR, other “in between” approaches have not been considered (such as “do minimum”, “do something” and “do something else”).



These "in between approaches" have been omitted due to the fact that they would include usage of existing resources and models to some extent. However, based on BAR findings⁹, it has been established that the possibilities are not defined clearly enough at the moment, or that the available capacity is not sufficient for the needs of investors established in DAR.

In terms of existing non- formal education capacities, there is a certain number of available opportunities for training/orientation/qualification for occupations in textile, leather and footwear provided outside of the formal educational system by various players - NES and other local/regional/national institutions). The most important role in the delivery of the non-formal education opportunity is taken by the National Employment Service (NES), which delivers two types of training:

(1) Training for a particular employer

Financial support for this measure has been depleted by June 2013.. This type of training has not been planned in 2014 and will not be available neither for local nor for foreign companies, due to the lack of financial resources.

(2) Trainings for labor market:

For 2014 it is planned to provide financial support for 600 persons, which will be distributed thorough NES network, which consists of 30 branches (meaning 20 persons/beneficiaries per branch). The topics are still to be defined. The process of needs assessments is currently carried on.

Therefore, these resources are either too complex to unify in achieving the main goals, or not available for usage in established timeframe or volume required by the established demand.

⁹ BAR, section 6.5., pages 32 - 34

6. Reviewing of favourable Options

Rationale

The main rationale for undertaking action (RWCDC scenario) is derived from in DAR. One of the critical elements is defined (page 24, table 14) in a question “Would you be interested in using training facility”; nearly 50 per cent of investigated investors answered positively and a third of them would consider such a decision against the conditions and quality. This percent varies from industry to industry, being highest in textile and footwear (DAR, page 24, *Table 15: Interest in using workforce training center relative to the industry type*), as a second strongest criteria for setting the production in a country expertise and skills of workforce are defined (DAR, page 16, table 10).

On the other hand, from the perspective of workforce, BAR showed the following:

“Generally said, the respondents have a positive attitude to all forms of additional education, upgrading, training. Although in their consciousness there is still no direct connection *my knowledge and skills* ⇔ *employment opportunities*, as a developed and adopted individual strategy, "initial capital" is definitely there - **positive general attitude towards continuing education and willingness to "try"**.¹⁰

Furthermore BAR defines directions of development recognized by workers:

Training within the profile for which they were basically trained, upgrading, gaining practical experience, getting to know the process and mastering machinery oversight.

Retraining, due to the current trends on the local market, the most frequently mentioned is transfer from the textile into the footwear industry; individuals are interested in retraining in completely different professions, which are not related to theirs, but assume or hear(say) that there is an increased demand on the labor market (welder, waiter, salesman, beautician ...)¹¹

5.1 BUSINESS AS USUAL (BAU)

The first identified approach analyzes the option to proceed with the way workforce training was managed so far. Within experts community practices widely applied in the EU this is frequently (if not always) the first option to be analyzed : by this the risk of suggesting negative change (if so far model was successful) is minimized.

¹⁰Baseline Assessment Report (BAR) page Xx

¹¹Baseline Assessment Report (BAR) page Xx



At the moment, there are no clearly identified mechanisms of engaging people for posts in newly established production capacities, either foreign or domestic, are relatively inefficient. There is commitment of the local branch of National Employment Service to cooperate as well as among local authorities and institutions., Vranje, as a the main economic center in the region, is seen as an investment friendly environment, both by some national bodies (NALED certificate¹²) and international reports (latest edition to this is Financial Times placing Vranje in top 10 small European cities for investment¹³). Also city of Vranje itself used to have “First chance program”, providing 6 months opportunity for top 30 students per year. Some of the young people got their job this way. Despite some good practice and examples of good cooperation, a systemic approach to the problem of inadequate workforce is still lacking. As mentioned earlier in the report the Demand Assessment Report (DAR), the lack of technical skills emerges as the key obstacles for workers using production equipment and machines, followed by soft skills and motivation. Given that these are traditional industries in the region., the support provided by local institutions and National Employment Service to investor, is limited to identifying a number of potential workers, contacting them and organizing initial contact with the employer.

Current situation is in more detail elaborated in BAR. What is particularly relevant for this analysis, is that there are two major ways of training/educating new workforce profiles:

1. Changes in local secondary education schools

Decision on closure or introduction of the new profiles is slow, rather sporadically then systematically regulated. In the process, it is necessary to develop a Study of validity and compliance with requirements developed by Ministry of Education, Science and Technology. The study should prove economical validity of local needs and demands for particular labor workforce as well as to prove existence of the capacities of local schools for delivery of the education/ curricula in practice- to prove to have capable staff in order to avoid new employment. The pilot profiles are kept as such between three to five years before they are formally introduced as a permanent educational profiles. Such a process is obviously very slow and fails to adequately cater to the needs of the production sectors.

2. Non – formal education

In terms of existing non - formal education capacities, there is a certain number of available opportunities for training/orientation/qualification for occupations in textile, leather and footwear provided outside of the formal educational system by various players - NES and other

¹²

¹³

local/regional/national institutions (i.e. Regional Development Agency), various programs donor supported, on–job trainings provided by employers, etc. The models of education NES applies are mentioned earlier, in section 4. – Methodology and approach (Training for particular employer and Training for labor market). It is relevant to point out that the needs assessment for new profiles is proceeding sporadically. It is mostly realized in consultations with various stakeholders, at the local and national level, such as local municipalities, employers, etc. Apart from the lack of systematically defined needs assessment procedure and designed methodology in collecting data on specific needs of employers and workforce, there is a lack of monitoring mechanisms of the quality of delivered trainings and outputs (gained knowledge and skills). After completing education and getting employed status, NES does not have feedback what is going on with its beneficiaries.

With the absence of a systemic approach to the lack of qualified workforce, following two facts shape investors quest for adequate labor:

a) Local HR managers are establishing their own models of engaging people (usually the word of mouth)

b) Thus engaged worker has yet to be “formed” but it’s still the best one can get

By local HR manager here we refer to persons from the region engaged by investors as a local support. It is widely recognized mechanism as there are no other functional solutions.

This ad hoc solution is unsustainable, unpredictable and increases total cost of investment. At the same time such an approach is not proactive one and makes no contribution in long term perspective. This just instantly bridges the gap; it is unclear instrument, non-transparent and selective.

Also, certain misuse of the position is present. People are hired based on some personal interests; there are also hints on corruption for a job etc.

PRACTICAL EXAMPLES

Cluster of shoe producers in Vranje has already felt threatened by Geox operations. Geox, as the biggest individual investor in the sector, announced its need for around 1,250 workers in next 3 years. So far they engaged 189 and considerable part of it are workers previously engaged in some of the companies from the Cluster. This is due to the fact that people prefer working in big multinational companies, feeling more secure.

Even so, with cutting edge technology in Geox production facilities these are only workers with some basic knowledge and skills. This technological gap is typical for transitional countries.

Because of this, Geox is organizing *in situ* training by their technical officers from Italy, twice a month. Also, a core of workers is being sent off to Italy for a month long trainings. Even Kaizen

institute was engaged for placing proper organizational model. Geox management is unclear about future in this matter, saying this is number one issue for them, because of related costs.

Second indicative example is Top sofa, domestic furniture production company from Vranje. They confronted serious problems not only in finding proper profile but also in finding workers at all. They decided to move on and establish some kind of training course for potential workers.

Groups of interested workers are being placed within production facilities, in different phases of the process, in order to learn by participating. Also, some brochures are provided as a kind of theoretical background for worker.

This kind of approach gave some results, much better than situation before.

Problem is that it is a partial solution for ongoing needs of just one small production. This is not an overall solution. But even so, without it production process would collapse.

The obvious consideration is that Business as usual is already posing some serious problems. There is no possibility for new companies to come if even the present ones cannot solve workforce issue

5.2 RWCDC SCENARIO

The second identified option is RWCDC. Two basic functions distinguish the RWCDC model:

- a) professional development and
- b) knowledge management.

As identified by the RWCDC methodological approach described in DAR report (part 2)¹⁴, RWCDC will serve several purposes:

- Supporting business in its growth
- Improvement of the workforce quality through development of professional skills and cross cutting competencies
- Becoming an innovation hub through the creation of Techno lab where didactical lab will be established supporting educational routes

Mismatch between workforce supply and demand, and lack of skilled labor to match the requirements of employers, i.e. competencies deficit and job skills, are characteristics of workforce, not only in Serbia, but also in most EU countries. It is difficult to expect that the current education system is able to realign in the short term according to the changed structure of labor demand, qualifications and skills. The problem is the lack of a national qualifications framework, which includes established qualifications, describes levels of qualifications, relationships, and the totality of entities and processes that affect their establishment, methods of acquiring, comparing, recognition, quality assurance and standards, which is compliant with the European Qualifications Framework.¹⁵

In this sense, the key challenges in education policy are reflected primarily in the lack of compliance strategies in employment, education, scientific and technological development, and the lack of legislation in the field of adult education, linking formal and non-formal education, To cope with these challenges intensive cooperation of relevant ministries, in whose jurisdiction are education and employment, as well as other relevant institutions and social partners, such as, employers' associations, trade unions, chambers of commerce and local and regional authorities are of great importance

The National Employment Strategy further explains “Labor market policies should increase participation of programs of additional education and training as measure of active employment policy, which include a variety of training programs and also retraining and functional adult education... primarily through capacity building at the local level to promote the development of

¹⁴ Demand Assessment Report, Part II, sections 6-9

¹⁵ http://ec.europa.eu/eqf/home_en.htm



education and training. Training programs should be adapted to the needs of employers and the needs of individuals in order to increase the competence”¹⁶. Moreover, “The system of vocational education in Serbia is very extensive and not according to its socio-economic needs. This is confirmed by the fact that the number of unemployed and the number of secondary schools in Serbia is pretty consistent, which means that most high schools are present in the regions where is the largest number of unemployed. Unemployment curve and the curve of schools are almost symmetrical, which suggests that the school does not meet the needs of the economy and the labor market...”¹⁷

RWCDC will offer services based on market needs and will be demand driven working in partnership with local institutions and companies. In practice, RWCDC will aim at decreasing overall investment costs by providing *in situ* training capacities, in cooperation with investors and according to market demand, flexible and adaptable, thus increasing area competitiveness crucial for further economic and social development of the region. In partnership with existing educational institutions, local and regional labor and investors, the RWCDC will help reshaping and restructuring the mismatch of educational profiles and workforce demand in the region. By serving this purpose RWCDC should become a sustainable and reliable institution contributing to generating skilled and educated labor force.

From the perspective of cost benefit RWCDC should support social cohesion too. Individual possibility of employment, which should increase with available trainings and skills improvement, prevents internal and external migrations. Furthermore this affects purchase power on local level thus producing overall positive impact on economy. On the other hand qualified and skillful labor additionally attracts investors (lower investment costs and higher productivity) and raises demand for employees.

In summary, RWCDC is defined as the optimal model since:

1. The "Business as usual" option will not contribute to improvement of investment potential and attractiveness of the city, thus reducing economic development and social cohesion in perspective; the adverse effects of lack of trained and skilled workforce are already obvious as established in DAR and BAR;

¹⁶ Nacionalna strategija zaposljavanja 2011-2020, Beograd ..., str 19

¹⁷ Centri za kontinuirano obrazovanje odraslih u srednjim strucnim skolama: koncepcija I strategija razvoja, Beograd 2004



2. "Do something" scenario cannot efficiently and adequately utilize existing resources (in order to create "in between" models), due to their actual limitations, as established in BAR.

The scope of the RWCDC Vranje activities and structure, based on the findings of the Baseline Assessment Report, is in more detail described in Appendix I - Baseline Assessment Report - Final observations and Appendix II – DAR Conclusions.

7. Legal framework analysis for RWCDC optimal model

This chapter analyzes the legal aspects of the model of RWCDC as a public entity established by local municipality.

An option that has been initially evaluated, a training center owned and run by the investors themselves as the mutual investment and resource, without ownership stake from the city, is not considered viable as has not been analyzed in detail, due to the following reasons:

1. The findings established in BAR and DAR and consequent conclusions. Despite the established issues in acquiring adequate workforce (in number and quality) and existing interest in usage of the center among the investors, there is just one single investor (Top Sofa, local producer operating as a Ditre (Italy) partner) who invested in local continuous training model for their own purposes and in their ownership, operational model and responsibility. The scope of the training is, however, limited to training newly employed workers, it is being done with utilizing existing more experienced workers as instructors for established operations, rather than increasing the level of expertise for the newly introduced equipment and processes, and it has been partly externally funded, since the costs of the training model introduction exceed the capacity of the investor at current level of operations development
2. The mutual interest, support and responsibility factor. The center without the strong support from local authorities, defined through the ownership stake at the center, is at risk of running at operational, infrastructural or other problems. Although that involvement of local authorities itself is not the guarantee of strong commitment, the lack of it increases the risk further. That increases the possibility of insufficient sustainability throughout time. It is additionally stressed by the fact that formal or informal support, without direct ownership interest, can be subjected to possible changes in local authorities' personal or political aspect.
3. Possible/expected future models of institutional/legal recognition of on-the-job training. At the moment, Ministry of education is introducing revisions in formal recognition of such model of professional development. It is reasonable to expect that with the support of local authorities, the process of obtaining the formally recognized qualifications will be easier to achieve with the partial or complete involvement of local authorities in ownership/operational aspects of the center.



RWCDC owned by the local municipality

Local municipality can establish wholly owned Limited liability company, according to the Law on Local self-government (Zakon o lokalnoj samoupravi)¹⁸ and Company Law (Zakon o privrednim drustvima)¹⁹.

For example, industrial zone foreseen as a location for positioning of RWCDC is limited liability company called Free zone, founded by city of Vranje.

The decision on establishing of such a company adopted by local assembly is taken as constitutive act and further procedure is regulated by Company Law and is the same as in case of any other founder.

RWCDC entirely owned by the City may be established and operational in a way that interested investors participate in a Board of Directors. This possibility is explicitly envisaged and allowed by Company Law. Owner of the limited liability company may decide to include other physical and/or legal entities to participate in decision making/management of the company. In this setting, owner – City of Vranje and managers, representatives of the companies in the Board of Directors jointly make decisions on operations, functioning, strategic orientation and day-to-day business of the RWCDC. .

¹⁸ Zakon o lok.samoupravi, Sl.glasnik RS 129/2007

¹⁹ Zakon o privrednim drustvima, Sl.glasnik RS 36/2011

7. RWCDC business plan

Basic assumptions

Key inputs to this business plan are derived from Demand Assessment Report or more precisely from the findings from focus group discussions:

- that the City of Vranje is willing to invest land and infrastructure on location of Industrial zone for positioning of RWCDC
- that investors are willing to use such an instrument for development of workforce and also willing to invest in training equipment
- that there is a generally positive attitude of workers to continually develop and improve their skills and knowledge

Methodology

Methodological approach is based on standard financial model which leads to calculation of net present value of project (NPV) and internal rate of return (IRR)

Net present value method calculates all cash inflows from the project and compares it against initial investment. In order to compute what is the actual (present) value of cash inflows discount rate called cost of capital is used.

In the case of this business plan discount rate is 0.12 or 12%. Discount rate of National Bank of Serbia is 9.5%, but, due to inflation, exchange rate, increase of consumers prices etc. it is increased up to 12% (Table 10.11.)

Amortization level of fixed assets (Table 10.3.) is officially published in *Pravilnik o nacinu razvrstavanja stalnih sredstava po grupama I nacinu utvrdjivanja amortizacije za poreske svrhe*²⁰.

As for the IRR, it is calculated discount rate at which net present value of a project becomes zero. In other words IRR is the discount rate which equates present value of future cash flows with the initial investment. IRR is one of the standard methods used in capital budgeting

RWCDC ownership

²⁰ http://www.poreskauprava.gov.rs/sw4i/download/files/box/_id_3218/PravilnikAmortizacija.pdf



In order to play central role in interconnection process between key stakeholders defined in the Study city of Vranje will establish Limited Liability enterprise of RWCDC, solely owned by the city in the moment of founding.

Aside of playing central role in the process, local authorities would thus also secure close watch over non-monetize effects previously defined as one of the goals of RWCDC.

Since such an institution as RWCDC has almost a status of public value/resource and its economic sustainability does not come as a top priority (at least not at the beginning) local authorities will enter in 100% ownership. Initial investment will be fully covered by a loan taken for 10 years period.

The rationale behind the choice of ownership/managerial model as individual-focused model centered on training and education can be put also in following:

Individuals/workers will not be able to make substantive contributions to their society/community without access to training and education. Local authorities recognize that in most instances meeting the basic needs of an individual through social safety nets is a necessary component to sustainable economic security. From this perspective workforce development is defined as a combination of social services, community supports, job training and education that positions an individual for success in the workforce.

However it is planned to offer shares to private investors in the future, as RWCDC develops. Capital investments in that case would serve for further improvement of technical, human and technological capacities of RWCDC.

This BP assumes changes in RWCDC ownership structure structure after 2 years and after 4 years. In the foreseen period of 4 years it is reasonable to expect that the PPP model in Serbia will either produce some positive examples or develop alternative suitable solutions which establishes as a preferred option.

The BP projections are independent of ownership models, they operate with investments and costs. Therefore, the abovementioned model of ownership development remains as the preferred model for the RWCDC, while projections and calculations are valid in all the cases of ownership changes.

Objectives



1. to set a facility fully equipped for continuous development of workforce in accordance to market demand
2. to train 100 participants per month
3. to reach sustainability within 10 years period

Key success factors

- Readiness of local authorities to support project throughout realization period
- Readiness of private investors to participate and train their employees
- Readiness of employed and unemployed to improve their knowledge and skills

SWOT analysis

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none">• Key stakeholders positive attitude• In accordance with National Employment Strategy 2011-2020	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none">• Public management, not profit-driven• Massive outsourcing of trainers/teachers
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none">• Growing need for adequate skillful labor in the region• Unique kind of facility in this part of the country	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none">• Enthusiasm of investors can decrease over time• Incompatible educational system

Financial analysis

Financial analysis includes an assessment of investment (investment in fixed and current assets) of the total amount of € 153,860. The analysis was performed assuming that the land/location is given by the City of Vranje (transfer of ownership rights) and that the entire infrastructure is provided by City too. According to the considered variants, the investment will be fully funded from the loan (at an interest rate of 6.5 % with a repayment period of 10 years).

The plan envisages that the project will engage 3 people in the very beginning, which will be from the LED office (Local economic development office) and additional 2 to be specially engaged in the project (outsourced) and whose fees will be financed from the project funds. As company will be entirely financed by the City, it is possible to engage LED office employees to assist in day-to-day management of the RWCDC.

As the operations develop, for financing RWCDC ownership stakes for investors are introduced. The initial investors (2 assumed) will acquire discounts and precedence in center usage in the first two years of operation. Their initial investment will be in capital investment in form of machines/equipment for the Center. This transforms to 20% stake in the company after two years.

Also, there are outsourced educational services included in first two years, assessed at 40.000 EUR annually. This cost is covered from grants or other project based donations secured by the City of Vranje.

After two year period, two additional professionals are employed in the Center, while the outsourcing cost decreases.

The same happens after additional two year period. The decrease rate of the outsourced services cost is assessed at 5.000 EUR annually. This decrease is due to the strengthening the internal HR of the center and professionalization; however, some level of outsourcing is imminent constantly, having in mind that the center shall cater to a variety of different productions.

Final number of employees by 2020. is 9.

Since LED office already exists and management is paid from the city budget, there are no additional costs for the wages of initial employees.

As for the income sources of the project, they are as follows:

1. in first 4 years sole income source is training fees; estimated cost of training is € 100 for the first two years, increased to 150€ for the second two; with projected 100 participants per month;

2. after 4th year, additional services are introduced: technical skills/education certification, technological incubators, special trainings/train the trainer programs, etc., assessed at 2,500€ a month.

The income projection includes growth rate of 10% a year.

Calculated rate of return shows that the project is commercially viable. Period of time taken into account for consideration of the project is 10 years, because it is required period for the repayment of obligations under financing (loans). The project will restore invested capital in 5 years. Value criteria of net present value are greater than 0 indicating that the project is viable. Also, according to the discounted amount of total inflows and outflows of the project, it can be seen that the internal rate of return of the project is greater than the discount rate, which means that according to this two criteria project is viable, purely from a financial point of view.

Full Business Plan calculations are provided in ***Annex I to Options Review Report – Business Plan calculations.***

Non monetized benefits

„.... Benefits from adequate investment in good-quality education and skills

Skills development enhances both people’s capacities to work and their opportunities at work, offering more scope for creativity and satisfaction at work. The future prosperity of any country depends ultimately on the number of persons in employment and how productive they are at work. A rich literature exists on the links between education, skills, productivity and economic growth. Estimates for European countries show that a 1 per cent increase in training days leads to a 3 per cent increase in productivity, and that the share of overall productivity growth attributable to training is around 16 per cent. Available evidence firmly establishes that a combination of good education with training that is of good quality and is relevant to the labor market

- *empowers people to develop their full capacities and to seize employment and social opportunities;*
- *raises productivity, both of workers and of enterprises;*
- *contributes to boosting future innovation and development;*
- *encourages both domestic and foreign investment, and thus job growth, lowering unemployment and underemployment;*
- *leads to higher wages;*



- *when broadly accessible, expands labor market opportunities and reduces social inequalities...*²¹

In the case of region discussed local authorities in connecting people, through skills improvement with job possibilities see the potential of securing social cohesion, keeping primarily young people from internal or external migrations

Region has similar positive experience from the period of industrial development in 70s and 80s when workforce was engaged from throughout the country. This led to a series of further developments: housing, new workers dwellings, development of service sector, increase in the number of educational institutions, increase in purchasing power etc.

Cost benefit effects of such a development by far exceed direct positive impacts of RWCDC establishment and have much longer and deeper influence on society.

²¹ A skilled workforce for Strong, Sustainable and Balanced Growth, Int.labour office, pdf at <http://oecd/g20/topics/employment-and-social-policy/G20-Skills-Strategy.pdf>

8. Final observations on Option Analysis

The Options Review Report (ORR) has been prepared by Confindustria Serbia project team as the final preparatory report preceding the Feasibility Study of the Regional Industrial Workforce Continuous Development Center Vranje.

Within Option Review Report possibilities of systemic long-term overcoming of inadequate labor in Pcinja, Jablanica and Toplica region were analyzed and discussed.

These possibilities are explained from the perspective of legal, institutional, managerial and financial frames.

ORR is based on findings derived from both Baseline research and Demand assessment as a starting point. However outcome of ORR, meaning recommended solution, is a result of methodological approach rooted in wider EU countries experience, especially in relation to non-monetize benefits, not to forget that even these EU countries are facing same challenges.

Conclusions

Report presents two basic options, Option 1: Business As Usual and Option 2: establishment of RWCDC.

Business As Usual is being analyzed in order to minimize risk of introducing negative change, if so far model is providing adequate solutions.

BAU analysis investigates present mechanism of hiring local labor and accompanied challenges. These are observed from the perspective of investors, local authorities and potential workers. Analysis shows BAU is unsustainable and unreliable ad hoc solution which increases cost of investment. Hired workforce lacks sufficient skills in operating machinery, but also motivation and soft skills. Due to this fact massive resources are being further invested in both training abroad (in the country of business origin of investor) and providing in situ trainings by outsourced experts.



It also poses problem to SMEs in the region because of over spilling of workforce towards bigger foreign companies.

As for the local authorities BAU is not a long term solution securing social cohesion and overall growth of human capacities on local.

Finally, BAU does not enlarge basis of adequate skillful labor. It simply closes the gaps temporarily thus being very limited and limiting.

Second option is establishment of RWCDC.

Basic assumption is that it will be difficult to expect present education system to solve mismatch between supply and demand: situation on labor market and requirements of investors.

Key challenges were identified in lack of national qualification framework, lack of legislation in the field of adult education and poor link between formal and non-formal education.

RWCDC is seen as a solution which overcomes these challenges. RWDCDC will offer training based on the current situation and realistic assessment of the marketplace in order to develop profiles which will respond to the real life needs of the industries.

Thus it should serve as predictable, reliable and sustainable source of skilled and educated labor.

Legal analysis discussed two ownership/managerial models for RWDCDC.

First is joint public-to-private partnership with sub variants.

Because of very complicated legal background, long and complex procedures and also due to lack of successful examples from the practice, PPP variant of co-ownership is introduced as an option for later stages of the RWDCDC.

Second ownership/managerial model discussed is Limited liability Company initially solely owned and managed by the city (local authorities). Standard challenges in this model are related to lack of profit-driven managerial structure and initiative for further development. This is mitigated by either PPP introduction after 2 (+2) years. Advantages of the city involved in ownership and managerial structure are related to close watch of the city over non-monetize long term effects.

Recommendation

As an outcome/result of option review a business plan for optimal model was presented. Business plan starts from basic assumptions:

- that the City of Vranje is willing to invest land and infrastructure on location of Industrial zone for positioning of RWCDC
- that investors are willing to use such an instrument for development of workforce and also willing to invest in training equipment
- that there is a generally positive attitude of workers to continually develop and improve their skills and knowledge

All the assumptions are derived from BAR and DAR findings.

Chosen ownership model is Limited liability company of RWCDC:

- wholly owned by the city of Vranje in the initial period (2 years)
- developed into PPP or strengthened by the additional investors after 2 and / or 4 years

Capital investments of investors in exchange for stakes in the future are the basis for covering partial costs of the Center in the beginning.

The rationale behind the choice of ownership/managerial model as individual-focused model centered on training and education can be put also in following:

Individuals/workers will not be able to make substantive contributions to their society/community without access to training and education. Local authorities recognize that in most instances meeting the basic needs of an individual through social safety nets is a necessary component to sustainable economic security. From this perspective workforce development is defined as a combination of social services, community supports, job training and education that positions an individual for success in the workforce.

Business plan provides answers on questions related to initial and running costs, sustainability, profitability, managerial model, key success factors and rate of return on investment.

9. Appendix I - Baseline Assessment Report - Final observations

This section aims to a portray general overview of the current state of the Textile, Leather and Footwear industries in Pčinja County, to present major economic, demographic and employment trends, identify main inter locators and mutual relations, revealing key challenges and issues. For the end, we will try to wrap up open discussions with several observations which can serve for further exploration- preparation of the Demand study.

1. The lack of continual research, in- depth analyses of current trends in particular industries, available comprehensive data, has been a highlight of the whole analyses;

As it has been already stressed the existing research occurs rather sporadically, as the opportunity comes. This significantly influences its functionality by minimizing opportunity for following trends and compering data. Apart of that, research topics are mostly general, and therefore less applicable and indicative in terms of defining concrete intervention in particular areas- industries, such as the case of T,L&F industry.

It would be recommendable to further analyze what could be the role of future On- Job training Centre in meeting those needs. “Hands-on research laboratory” which will be experimental space for development of applied research methodology- in- depth, tailored to answer the issues of specific, particular issues. It could also be the response to identified need for *development of needs assessment methodology*, which can be provided to particular employers or industries in terms of defining more functional interventions, development directions, training programs, etc.

2. The lack of continual and functional cooperation among main inter locators especially at the local level;

As it was recognized during the research and stated in this report, *the exchange of information, experience and knowledge among employers, representatives of local institutions, all stakeholders in the chain could be one of the important roles of future On- Job training Centre*. It is recognized by those actors as possible *meeting place* at regional level, enhancing policy development, faster flow of information and expertise, gathering all resources in the community. We strongly recommend further exploration of potential mechanisms for cooperation that can be developed in the Centre.

3. The lack of continual services aimed at combating unemployment, skill mismatch, job turnover, and generally present fluctuation in manufacturing industry;

Although NES has to a certain extent the mandate to provide support and services in combating above problems that turn to be one of the most emerging for the local/regional economies, there is lack of human and financial capacities to provided full service. On the other hand, none of various actors present in the area have developed adequate capacities that can provide continual, tailor- made oriented services, with proven quality.

Therefore, we strongly recommend further exploring potential services rendered mostly for following target groups:

- a. Employers (domestic and international),
- b. Unemployed persons, in process of acquiring job (in cooperation with NES)
- c. Employees- interested in changing carrier path or agar for further professional development
- d. Others- variety of inter locators who can occasionally seek support in concrete matters (i. e. local self- governments, business associations, business incubators, schools, etc.)

According to the findings and observation from the desk analyses following services could be potential portfolio of the On- Job Training Centre, for each of above mention potential beneficiaries.

◇ *Providing Trainings/ Re- training/Non- formal education curricula-* this service can be offered to all groups of stakeholders/beneficiaries. It should have in mind findings that indicates certain expectations of the possible beneficiaries such as:

- It should be tailor-made to the specific needs of the employers/company/ industry and therefore it is of crucial importance to incorporate needs assessment as insertion to the education itself- to respond to real- life, to train profiles in demand, specialists;
- Approach and content of the training should be adapted to the profile of trainees - according to age, level of education, previous working experience; to carry out professional selection as integral part of training (screening)
- Institutions and individuals who provide training must be competent to “guide” optimally through a process of learning, applying combine methodology based on “learning by doing” methodology- providing working experiences as well or training “on place” at employers facilities, providing apart of training mentoring/concealing as well;

◇ *Providing coaching/ counseling to the varies beneficiaries*

The analyses have paid our attention to at least two important issues that so far haven’t been fully recognized:

- (1) Ownership and managerial structure leadership skills are poor, in terms of defining proactive intervention in order to sustain different motivational models, and making from that perspective investment decisions,
- (2) Although motivation, needs and expectation play important roles in getting employment turnover stabilized, the motivational structure has been understated in research, current analyses, and interventions; there is a lack of knowledge on various motivational models that can be applied and that way significantly decline job turn over.



Both of the issues indicates that employers- owners and managerial structure turns to have poor capacities and skills and therefore it could be take in consideration development of the following services:

- Executive and corporative coaching – aimed at strengthening managerial and leadership skills as well as providing continual support in dealing with upcoming challenges
- Human resource services- instead of developing particular HR departments in each company, On- Job training Center can be outsourced in business related to HR topics (selection, in house training, strategic planning, professional development, etc.)

10. Appendix II – DAR Conclusions

There are three main elements that characterize the **Regional Workforce Continuous Development Center**, as proposed in this report:

- The theoretical and methodological approach to the **learning and teaching process**, represented by the combination of distinct competencies promoted by the center (*teaching methods, teaching technologies, teaching communication*) as described earlier in the document, which is based on socio-constructivism, *cooperative learning, media education* and learning community as the foundation for professional training which is efficient and effective and of distinct quality;
- the **concept of collaborative organization**, where the creation of the added value involves all *stakeholders*, including employees, who are no longer considered elements of a chain production capacity but persons worth investing in to promote the human resource development of individual companies and the community.;
- the concept of the **Regional Workforce Continuous Development Center** as an **cluster of competences** able to transform the center into a **poly-functional space**:
 - ✓ educational center for employees;
 - ✓ observatory (monitoring center) on workforce market tendencies, able to quickly identify emergent educational needs and renew the educational services (research and development);
 - ✓ Techno Lab intended as an incubator (mentorship for foreign companies in the process of internationalization) and experimental space in the application of the curricula which are developed and proposed by the center.

Analysis of interest in usage, type of training center, frequency of usage and interest in ownership options show the following:

6. Interest in using a training facility:
 - 47.6% of all surveyed companies would be interested in using a training facility, whilst significant percentage (33%) would consider using the facility depending on conditions and demonstrated quality
7. Interest in using a training facility according to sector affiliation:
 - Out of those respondents who replied YES to the question and hence expressed an interest in using the facility 35% represent the textile industry, 35% footwear production.

- Those respondents that have chosen *Depending on terms and conditions and quality* 64.3% are from the textile sector and 28.6% are from the footwear production sector.

These findings indicate that there is reasonable level of interest in usage, and significant portion of it comes from companies from the textile sector, followed by the footwear production sector.

8. Analysis of interest in usage of TC in relation to the respondents' usual training practice:

- even those who do not have regular/continuous trainings are inclined to unconditional usage, while all of those who are determined not to use TC, already have their own regular training set up; still, those represent minor (19,5%) portion of the sample. This shows that those who would favor the use of a training center mostly engage in training either continuously or occasionally, which potentially provides opportunities for cooperation. Moreover, as the in-depth interviews have pointed out, this cooperation could be pretty efficient and effective given that those who favor the use of the training center are also those with a clearer idea on what the TC should offer and how it should be structured.

9. Main expectations of potential users:

- Among those who are potential users of the training center, flexibility and training approach catering to needs as well as the possibility to train according to own methodology score the highest. This is strong signal for the need to get the potential users as involved as possible in structure, organization and management of the Center.

10. Type of usage of TC and possible ownership stake:

- 61.9% of respondents see themselves as the occasional user, whilst 28.6% would rather be a regular/long term user. Only 9.5% see themselves as being an owner in such a facility.
- None of the companies who do not have clearly defined training procedures are more likely to identify themselves as a potential owner. Precisely, all companies who would consider an ownership stake are from the group of companies who do not have clearly defined training procedures and who, as the in-depth interviews have permitted to highlight, have estimated that the lack of further training would leave them without educated labor force or would make them lose their comparative advantage on the market.



While not suggesting that the co-ownership model is desirable, **the interest in usage type reveals that there is reasonable interest in usage and therefore perspective / sustainability potential for the training center.**

This is **further strengthened by the fact that practically ALL of the employees** in newly established production facilities in Vranje **have undergone initial set of trainings** to be able to start working. Also, interviews have revealed that **all the future employees will be trained and that the training is a continuous need.**

The full numbers/market potential assessment is yet to be performed, but the initial numbers are indicating relevant potential (Geox alone will have the need to train at least a 1.000 employees in next two years).