

**Summary Paper:
Key Issues in the Design, Implementation and Monitoring
of Voucher Training Programs**

**Prepared for Swisscontact
by Development Alternatives, Inc. (DAI)**

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Annexes, two presentations held in January 2001 in Zurich by Caren Addis:

- Swisscontact's Voucher Training Programs
- Microenterprise Voucher Training Programs

Acronyms and Abbreviations

ADB	Asian Development Bank
CFN	Corporación Financiera Nacional
DAI	Development Alternatives, Inc.
EU	European Union
GAMA	Grupo de Asesoría Multidisciplinaria
GTZ	German Technical Assistance Agency
IDB	Inter-American Development Bank
SDC	Swiss Development Corporation
USAID	United States Agency for International Development

Key Issues in the Design, Implementation and Monitoring of Voucher Training Programs

Lara Goldmark, 2001

I. About this paper

In February 2000, Swisscontact, with support from the Swiss Development Corporation (SDC) hired Development Alternatives, Inc. (DAI) to evaluate the performance of ongoing voucher training programs, offer recommendations on the design of new programs, and provide a framework which could be used to help Swisscontact systematize learning about this new demand-led approach to developing the market for business services.

Between March and November 2000, DAI visited voucher programs implemented by Swisscontact in four countries: Bolivia, Indonesia, Peru and El Salvador. During this period, DAI was also engaged in a research assignment under the Microenterprise Best Practices (MBP) program funded by the United States Agency for International Development (USAID). The MBP contract allowed the same Brazil-based team to visit voucher programs financed by the Inter-American Development Bank (IDB) in three countries: Paraguay, Argentina and Ecuador. Lastly, DAI-Brasil¹ was hired by the Rio de Janeiro Secretary of Labor to conduct market research and propose the design for a city-wide voucher training program to be funded by the IDB.

This summary paper, prepared at the request of Swisscontact, is meant to outline the major issues concerning the design, implementation, and monitoring of voucher programs. The paper is meant to be informative rather than analytical: outlining the key players, procedures, challenges, and solutions by drawing on the wealth of information the team has gathered about voucher training programs. The document is meant to serve as a reference for readers who may want to go directly to certain sections. Under the MBP contract, DAI is preparing a more analytical synthesis paper, which will draw conclusions based on the data gathered from the seven case studies. The MBP paper, once published, will be made available to a wide readership.

II. What are voucher training programs?

Information-with-voucher programs (hereafter referred to as voucher programs) are an innovative means of offering training to microenterprises (or other types of clients) and simultaneously stimulating the development of markets for business development services.

- Voucher training programs allow qualified microenterprises to choose from a wide variety of courses the ones that best fit their needs and pay for them with the help of vouchers:
 - a) consumers receive orientation about how to use the vouchers that includes timely facts and advice about available courses and the providers;
 - b) the microenterprise wins because his/her costs are lower and options are greater;
 - c) providers win because through the program they learn about microenterprise training needs and therefore develop better products, and
 - d) both players enjoy reduced risks because of the voucher subsidy.
- The voucher programs depart from traditional supply-side models whereby governments or international donors contract a limited number of providers for pre-determined courses and then look for students to attend the courses.

¹ DAI is a US-based consulting firm with a project office in Rio de Janeiro, Brazil. The company is in the process of creating a new, Brazil-based subsidiary.

- The principal objective of these programs is the development of a sustainable and dynamic training market, but they have been used to develop the market for other business development services such as consulting or job placement.

II.A. The Theory Behind Vouchers

Training, like many products, is an “experience good,” namely its benefits cannot be ascertained until after it is used. Microenterprises are reluctant to risk paying money unless they have reasonable assurance of a rapid recuperation of the investment. They are also likely to measure the opportunity costs of dedicating potentially productive work hours against time spent in a classroom. At the same time, suppliers are reluctant to invest resources in development of new courses until they have some assurance of the demand.

Vouchers for training are designed to address the risk-averse behavior of consumers and suppliers in the training market. The aim is to lessen the risk for the microentrepreneurs by lowering the cost of the training and lessen the risk for the provider by assuring payment once courses are given. When the financial element of the voucher is combined with an information component, risk to consumers and suppliers is reduced further; consumers have a more complete understanding of product availability and suppliers are better able to serve the needs of their market.

Voucher programs (hereafter referred to as voucher programs) are designed to ensure the sustainability and competitiveness of the training market through consumer knowledge of the availability, popularity and benefits of courses offered by a variety of training providers.

II.B. Overcoming Market Failure

The biggest challenge in training markets in developing countries is aligning supply and demand, not simply increasing supply to meet excess demand. Most course offerings in the state-sponsored training providers remain tailored to large enterprises with specialized functions. Instead of offering practical training for microentrepreneurs these programs consist mostly of traditional, technical courses suitable for persons planning to take up positions in large-scale industry.

Typically the organizational framework of the courses does not take into account the preferences of adults already working in full-time occupations; also courses are too long and are scheduled at an inconvenient time of day. As a result, only a negligibly small number of microenterprises are able to capitalize on this type of technical training in any truly meaningful way. The majority of entrepreneurs have no profitable use for it, and they are therefore not willing to take part in such courses, even when they are offered for “free”.

III. Why implement a voucher training program?

Voucher programs put choice in the hands of consumers rather than bureaucrats or international donors and generate benefits for a large number of microenterprises and training providers.

- To improve the income-generating potential of poor microentrepreneurs.
- To reach a large number of people -- microentrepreneurs make up a high percentage of economically active population of developing countries, although they are not always engines of employment creation.
- To develop a more competitive and vibrant market:
 - a) to stimulate the demand for training;
 - b) to develop more exigent consumers by giving them the power to choose and the information to make good choices;
 - c) to entice training providers, who enjoy reduced risks and increased revenues, to invest in the development of new courses;
 - d) to provide a greater variety of more affordable courses to microentrepreneurs, and

- e) to bring about a restructuring of the training market in a fundamental and sustainable way and diminish the power of the privileged state-sponsored training providers.

IV. Who should benefit from a voucher training program?

Voucher training programs can be adapted to a variety of firms and individuals; however, the model presented in this report is most appropriate for micro and potential microenterprises.

- These programs are geared to microentrepreneurs who already have significant skills, but could benefit from short courses to learn to develop new products, to produce more efficiently, or even cut costs.
- Microenterprises in sectors which are characterized by changing products, i.e. food preparation, beauty, handicrafts, have been consistent beneficiaries of voucher training programs. They report that they usually recover the costs of training after serving just a few new clients.
- Any business owner or employee who could benefit from a short-term technical, managerial or administrative course.
- Potential microentrepreneurs have also proven to be avid users.

More research is needed to ascertain the characteristics of microenterprises that are more likely to generate additional investment or employment as a result of training, i.e. age, psychological predisposition, sector, education levels, etc.

V. What business development services can be paid for with vouchers?

Voucher training programs have used vouchers to cover costs for the following services and also stimulate market development and employment:

- **Training.** Vouchers are most frequently offered for training. Courses are geared to teaching entrepreneurs and their employees new product development or how to produce more efficiently. Program regulations impose a minimum length, and other guidelines encourage providers to develop practically-oriented courses that are modularized and therefore allow consumers to focus on the issues that are of most interest. Courses are open to any person who meets the prerequisites, whether or not he/she has a voucher.
- **Consulting services for small enterprises.** These business development services are typically geared to helping entrepreneurs produce more efficiently. Only a few programs include a consulting component. Both the cost of these services as well as the subsidy are higher than in the case of the training. These services are also more difficult to audit.
- **Internships for youth.** A few programs that have employment creation as an objective offer vouchers to train youth looking for jobs, and also permit them to do internships. In one case (Paraguay) any qualified youth could participate; in another (Peru), the voucher was restricted to technical schools that chose students and arranged internships.
- **Supplier strengthening.** The program in Paraguay has created a voucher for providers, but at the time of the visit, there was only one general course on pedagogy available. The vouchers were financed from the supplier-strengthening fund. The Ecuador program has a matching grants fund for group-based supplier strengthening activities, however administrators have not been successful in getting groups of training institutes to apply for funds.

VI. When should a microenterprise voucher program be implemented?

Microenterprise voucher training programs are often implemented as a response to difficult economic conditions, in an effort to provide incentives for increased investment in training. Recession does not affect all firms or sectors equally and in many cases, the number of informal microenterprises will grow. Recession, however, tends to dampen optimism and curtail investments on the part of larger firms. Although evidence is scant, it would seem that programs implemented in

dynamic, growing markets would have a greater chance of achieving higher voucher usage (see performance indicators) and, when combined with the right policies, sustainability.

Experience has shown that a voucher program is most likely to be successful when certain market preconditions exist. One is the existence of a critical mass of private, for-profit training providers. All other things being equal, these institutions are the most likely to use the voucher income to invest in new product development and service upgrading. Non-profit providers and state-funded institutions often have other sources of funds, and therefore may not respond as readily to the voucher incentive or to the market competition encouraged by the program.

VII. Where should a microenterprise voucher program be implemented?

Urban areas with dense populations are the most promising territory for voucher training programs. This is because such markets often have a large number of potential training clients (small or microenterprises) and suppliers (training institutes). In some cases, however, urban training markets may be saturated - with both government-financed products and private offerings – and therefore not in need of the stimulus that a voucher training program provides.

Rural areas with sparse populations present several challenges for voucher programs:

- convenient voucher distribution and orientation services can be at best expensive, and at worst logistically impossible;
- the training market may be dominated by one or two large, state-funded suppliers, and
- for-profit suppliers may not have much hope for establishing sustainable operations in these regions, given the low population density and high costs.

Surprisingly, rural areas can sometimes offer strong demand, i.e., consumers in these isolated markets are hungry for training, and the variety and competition that a voucher program stimulates is often welcome.

Secondary cities, when they combine the positive elements of urban and rural markets, can be ideal locations for implementing voucher programs – high demand and sustainable markets.

VIII. How to Implement a Voucher Program

This section outlines the main components of a voucher program, and presents the normal sequence of events in the procurement of vouchers, consumption of training and reimbursement. The components are described briefly, and the steps are presented more or less chronologically, though some steps overlap or occur simultaneously. The objective is to introduce, for the practitioner not familiar with voucher programs, exactly what occurs logistically. These main players and essential functions appear in every voucher program.

VIII.A. Key Components

Administrator

The administrator has several tasks:

- set up and staff the information center;
- manage the information center;
- register training providers for participation in the program;
- distribute the vouchers through the information centers, and
- redeem the vouchers submitted by the training providers.

There are two important criteria that an institution must meet to serve as an effective administrator in such a program:

- administrative and financial capacity, and

- capacity to negotiate and serve as an impartial party while playing a leadership role in the training market.

In the long run, an ideal institution would be one which could not only administer the vouchers successfully, but one which would respond to incentives to reduce the voucher funding over time, and which could potentially continue to play the role of information provider in a sustainable manner.

Information / Orientation Center

The information function is quite possibly the most important component of a voucher program. Some programs try to skip or eliminate this function for cost or convenience reasons, however, this may compromise not only program performance but sustainability.

It will be the task of the information center to:

- confirm the eligibility of microentrepreneurs seeking vouchers;
- disseminate information on course content, time and location, and
- collect and make available data on the number of vouchers used at each institute, repeat users and comments on courses.

Auditor

The auditor is an important function and should be independent from program administration. While donors may require independent evaluations or financial audits of programs, the audit function must be ongoing and aimed specifically at ensuring compliance with program regulations – especially preventing and detecting fraud.

Auditors check that:

- students using vouchers are part of the target group;
- attendance records are accurate;
- students are satisfied;
- installations are satisfactory, as reported by the training provider in the course description;
- consumers paid what the provider reported. The consumer co-payment is an important indicator of serious interest in training, and
- price of the course is the same for voucher users and non-voucher consumers. Any difference will indicate price inflation due to the voucher.

Training Providers / Suppliers

Training Institutes are invited to register as participants of the voucher program and informed as to the requirements for redeeming vouchers. Common criteria for training providers include:

- at least one year of experience in delivering training;
- access to acceptable facilities;
- qualified teaching staff, and
- course content which would be relevant to the target group.

Consumers

Consumers obtain vouchers and use them as partial payment for a training course at one of participating training institutes. Consumers are defined based on the program's objectives.

VIII.B. Sequence of Events

- 1) The **program administrator** sets up the orientation center → recruits and registers providers → markets the program to the appropriate communities →
- 2) **Providers** get approval for courses and announce location and times →
- 3) The **consumer** comes to the information center →

- 4) The **staff at the orientation center** verifies that the consumer falls into the target market→registers the consumer→gives the consumer course and provider information→disburses the voucher→
- 5) The **consumer** takes the voucher to the chosen provider, makes the co-payment and attends the course→
- 6) An **auditor** visits the course unannounced to verify attendance and course information and conducts a brief survey of attendants to gauge overall satisfaction→
- 7) At the end of the course **consumers** fill out a questionnaire on their impressions of course content, presentation, applicability and overall consumer satisfaction→
- 8) The **provider** submits the completed questionnaire to the administrator as part of the requirement for voucher redemption→at the end of the course the **provider** submits the voucher and accompanying documentation for voucher redemption. Attendance records must show that each consumer attended at least 75% of the course for voucher redemption→
- 9) The **bank** or other financial entity verifies validity of the voucher →reimburses the provider for the voucher face value.

IX. Issues in design and practice

IX.A. The programs and the players

The following table presents a synopsis of the different programs visited under the SDC/Swisscontact and USAID/Microenterprise Best Practices contracts, including:

- the source of financing;
- whether or not the program is limited to certain sectors;
- who voucher users are – whether they include microenterprises, and potential microenterprises and/or formal sector small and medium firms, and
- the key challenges program administrators face or lessons to be learned from the program.

Table 1: Introducing the programs

Country	Financing	Sector focus?	Users*	Challenges / Lessons
Geared to microenterprises				
Paraguay	IDB	N	M, P	Too many vouchers for too long?
Ecuador	IDB	N	M	Abandoning demand-led principles?
Peru	Other	N	M	How to attract private providers?
Indonesia	Other	N	M,P	Information v. convenience
Cochabamba	SDC	Y	M,P	Too small?
Geared to formal sector firms				
Argentina**	IDB	N	F, M	How to promote competitiveness?
El Salvador	SDC	Y	F	Vouchers as one of several tools

*Microenterprises (M), Potential microenterprises (P), Formal enterprises (F).

**The program in Argentina serves microenterprises as a secondary population.

The programs have been divided into two groups:

- those that have microenterprises as their target population, and
- those that are geared to small and medium enterprises which are registered and therefore formal sector firms.

All of the programs use information and vouchers to develop training markets, even though each one has different regulations and procedures. The differences have provided a rich opportunity for learning. One of the reasons for the division of the programs according to their target populations is to emphasize the efforts that the programs targeting formal enterprises make to understand demand.

Paraguay was the pioneer

The program in Paraguay was the first microenterprise voucher training program and has been running, with some hiatuses, since 1995.² The program is in its fourth phase and has been financed by the Inter-American Development Bank (IDB). When this financing ends, program administrators hope to divert funds formerly allocated to a national training agency and use them to create a permanent voucher program. In other words, program administrators have opted for a market restructuring via a permanent subsidy, eschewing the notion of using the voucher for a predetermined period in order to teach providers how to develop profitable courses and survive without a subsidy. Providers and consumers are aware of this intention and have become “addicted” to vouchers.

Economic context

A few of the programs studied have had macroeconomic events affect their performance. Soon after the program in Argentina was designed and approved the Brazilian currency devalued, causing havoc in Argentina where the currency was still pegged to the dollar. Almost overnight the enterprises that were demanding training opportunities for their employees faced a recession. They became reluctant to expend any money on training in a period of financial insecurity. In Ecuador the dramatic devaluation of the currency had one positive effect in that it increased the funding for vouchers in local currency, allowing the program to be expanded to other regions.

Geographic areas

There are other differences among programs, including the areas in which they operate. The programs in Cochabamba and in El Salvador, both administered by Swisscontact and financed by the Swiss Development Corporation (SDC), opted to focus exclusively on a limited number of sectors. The program in Cochabamba focuses on the garment sector while the program in El Salvador is restricted to specialized areas in the food, chemical production and metal working sectors. These programs have budgets of US\$ 300,000 to 400,000 for a two to three year program. The other programs have budgets of anywhere between US\$ 1.5 to US\$ 3 million for three to four years.

There are other challenges for programs that function over a wide geographic area, for example the program in Indonesia.³ Swisscontact is a small, lean and centralized administrator and does not have offices in all the cities where that program operates. The program administrators opted to subcontract distribution to businesses that operate telephone service cabins. While the decentralized system is easier for consumers, there are trade-offs. For example, consumers do not get the information that they need and often do not understand the benefits of the voucher. The administrators will maintain the decentralized distribution system in future systems, but will be experimenting with a toll-free number so that users can acquire the information that they need.

Size

The programs in Ecuador and Peru are large. Each has a budget of a few million dollars. Each is run by a government entity (a development bank and the Ministry of Industry and Tourism, respectively) and operates over a wide geographic area, including at least 8 cities. Because some of the areas in which they operate do not have highly developed training markets, these programs are dependent on state-owned or non-profit providers. Since these providers survive on subsidies, they are less likely than a private provider to learn to develop products that will gener-

² For an in-depth discussion of the program in Paraguay, see Goldmark and Schor (1999) and Addis and Goldmark (2000).

³ See Addis paper on Indonesia.

ate profits after that program ends. One challenge for these administrators is to determine how many private providers exist in the regional outposts, how to attract them and potentially, how to stimulate the creation of new ones.

Target populations

While the official target population for the programs in Paraguay and Cochabamba was microenterprises, both programs had significant participation from potential microenterprises - individuals who wanted to become entrepreneurs, but needed training in order to be able to do so. The participation of these clients increased voucher usage. In Indonesia, “start-ups” or potential microenterprises had a special voucher dedicated to them.

The programs in Córdoba, Argentina and in El Salvador focus principally on formal sector firms. While the program in Córdoba includes microenterprises, its principal objective is to increase the international competitiveness of small firms (up to 20 employees). The El Salvador program is geared to increasing the international competitiveness of firms with between 5 and 100 employees. The programs have two diverging approaches. In Córdoba, the administrators are using the traditional information-with-voucher model (usually aimed at micros), to target small enterprises. The municipality of Córdoba and trade associations representing many of the voucher users jointly run the voucher program. Largely based on information from the associations, the program was adapted over time – for example, the number of vouchers per firm increased. In El Salvador, the voucher is used as one of several interventions aimed at promoting market development. The program heavily emphasizes network-building activities with small and medium firms as well as supplier-strengthening efforts. One important issue to be examined is the potential to adapt some of these activities to microenterprise programs.

Sustainability

The program focusing on the garment sector in Cochabamba could prove to be a, interesting case study in terms of understanding the market development effects of voucher programs. The program terminated in December 2000. From the outset, the exit strategy was clearly defined. In addition, it was limited to one sector which facilitated its very successful supplier strengthening activities. However, there was scarce information available to voucher users and providers were allowed to distribute vouchers. Also, the small scale and specific focus of the program may limit the program’s broader market impact. The study would be designed to identify if and how the program contributed to market development.

Financing

All except one of the programs is financed by international donors, although the IDB-financed programs include counterpart funds. The bulk of financing from the program in Peru comes from local sources.

There are more voucher programs in the pipeline – these may have financing from international donors but still require local counterpart funding, or they may be facing other difficulties. A list of these programs can be found in Table 2 below; following is a list of donors and their roles in supporting voucher training programs.

Table 2: Voucher training programs in the donor pipeline

Country	Financing	Current status
El Salvador	IDB	Awaiting final agreement with local counterpart funder.
El Salvador	GTZ-ANEP	Program is in advanced design stage and seeks funding.
Nicaragua	IDB	Program is fully funded but has not yet begun to execute.
Nicaragua	SDC	Awaiting action on IDB program.
Guyana	IDB/USAID	Program funded and about to begin
Rio de Janeiro	IDB	Election of opposition mayor has stalled the program.

Table 3: Donors who have financed voucher training programs

Donor	Description of activities
Inter-American Development Bank (IDB)	<ul style="list-style-type: none">▪ Has funded or approved funding for at least 11 voucher programs⁴ throughout Latin America.▪ The budget for these programs is generally between US\$1 and 2 million.▪ The programs usually target microenterprises.
Swiss Development Corporation (SDC)	<ul style="list-style-type: none">▪ Funds voucher programs in Latin America and Asia▪ The budget for these programs is generally a few hundred thousand dollars,▪ Programs often target small and microenterprises in specific sectors.

⁴ Paraguay, Argentina, Ecuador, Guyana, Nicaragua, Haiti, Venezuela, Guatemala, Bolivia, Brazil.

Donor	Description of activities
United States Agency for International Development (USAID)	<ul style="list-style-type: none"> ▪ Conceptualized and funds the Microenterprise Best Practices Program which includes a research component on voucher programs. ▪ Funded a voucher pilot in Ukraine, and has approved funding for a second phase.
Asian Development Bank (ADB)	<ul style="list-style-type: none"> ▪ Recently approved funding for two voucher programs in Indonesia.
European Union (EU)	<ul style="list-style-type: none"> ▪ Funded the first microenterprise voucher program in Peru – this program distributed training vouchers to microcredit clients.
The World Bank (WB)	<ul style="list-style-type: none"> ▪ Financed a large voucher training program in Kenya that is currently suspended. ▪ Financed the voucher program in Indonesia that is administered by Swisscontact.

Consultants and NGOs have played an important role in the development of voucher training programs. Swisscontact has designed, implemented and contributed to the financing of such programs. It has developed innovative and bold approaches and by now is the organization with the most experience in these areas. GAMA devised and provided technical assistance for the program in Paraguay. It has played a similar role for the program in Ecuador and GAMA's sister firm IPC has carried out evaluations.

Table 4: Consultants, NGOs and other players in voucher training programs

Consultants / NGOs / Other Players	Description of their activities
Swisscontact	<ul style="list-style-type: none"> • Administers voucher programs funded by SDC, The World Bank, the Asian Development Bank and Ministry of Labor and Tourism in Peru. • The typical program is designed with a built-in exit strategy.
GAMA	<ul style="list-style-type: none"> • Developed one of the earliest voucher programs in Paraguay. • Assisted Ecuador's Corporación Financiera Nacional (CFN) in the design and implementation of that country's voucher program.
DAI	<ul style="list-style-type: none"> • Consulting firm with contracts from USAID and Swisscontact to research and evaluate voucher programs; contracted by the municipality of Rio de Janeiro to design a voucher program.
Gabriel Schneider	<ul style="list-style-type: none"> • Former employee of GAMA; supervised the program in Paraguay. • Now an independent consultant; designing and implementing an IDB-funded program in Bolivia.

IX.B. Challenges and lessons from actual case studies

This section analyzes the challenges and issues that program designers and administrators face. Tables 5 and 6 below focus on:

- issues that arise during the design phase, and
- executing the program.

For more detail, readers should consult the case studies of the individual voucher programs, listed in the bibliography.

Table 5: Issues that arise during the design phase

Issue	How programs have addressed these challenges
<p>Understanding demand</p>	<p>Initially, market studies were not seen as a very important step in preparing for a voucher program. It was believed that if a wide variety of courses was available then consumers would purchase them using the voucher. In the process of delivering the course, providers would learn about their clients' needs and use the information to develop new products. However, voucher usage in most programs has been below objectives. There are at least two explanations for this:</p> <ul style="list-style-type: none"> ▪ The programs are over-dimensioned, fueled by donor needs to disburse rather than a realistic understanding of consumer demand. ▪ The initial conception of voucher programs was that they needed to be very large so that they could involve many consumers and providers and effectively develop dynamic markets. <p>Increasingly it is becoming apparent that the information and voucher functions by themselves do not necessarily stimulate massive training consumption. Consumers may need information presented in different ways or may have preconceived notions about training or providers that need to be better understood. Program administrators need to contribute to suppliers' increased understanding of demand, through additional processes such as course evaluations, focus groups, and systematizing feedback from the distribution point.</p> <p>Solutions:</p> <ul style="list-style-type: none"> ▪ The program in El Salvador began with a sectoral market diagnostic that helped identify training needs. ▪ To date, no programs have developed a reliable, ongoing process for understanding consumer attitudes.
<p>Program objectives: income generation v. competitiveness</p>	<p>Program objectives in voucher programs are varied, but usually include some or all of the following:</p> <ul style="list-style-type: none"> ▪ Improved income-generating capacity of participating firms; ▪ Improved employment-generating capacity of participating firms; ▪ Increased competitiveness of national micro/small/medium enterprises (Peru), and ▪ Increased national competitiveness of small and medium firms (Argentina, El Salvador).
<p>Defining the target group: micro v. potential enterprises</p>	<p>Whether or not potential microenterprises should be included in the target population depends on program objectives. Programs that permit potential microenterprises to participate generally have higher levels of voucher usage (see section on measuring performance).</p> <ul style="list-style-type: none"> ▪ Employment creation: There is scant empirical evidence to suggest that microenterprises generate net employment growth, although there is little question that they respond for the bulk of employment in developing countries ▪ Potential microentrepreneurs are often women, for example, someone who has a sewing machine and wants to learn how to make garments so that she can supplement family income. ▪ Restricting beneficiaries to microenterprises means only those that have a proven record of creating a business can benefit. It is often argued that these are more likely than potential microenterprises to hire new workers and invest. <p>Programs that restrict users exclusively to microenterprises:</p> <ul style="list-style-type: none"> ▪ Ecuador ▪ Peru <p>(although both programs were somewhat flexible in applying the guidelines).</p> <p>Programs that permit both microenterprises and potential microentrepreneurs to participate:</p> <ul style="list-style-type: none"> ▪ Cochabamba ▪ Paraguay ▪ Indonesia and Argentina created special vouchers for these consumers.

Table 5 cont'd: Issues that arise during the design phase

Issue	How programs have addressed these challenges
<p>What types of courses should be eligible for voucher financing?</p>	<p>The objective of voucher programs are to develop markets. Therefore, if an ample gamut of computer or language courses are available at affordable prices and convenient times, then these courses should be excluded (i.e., keep out of areas where market is already functioning). In general, voucher programs permit more advanced computer courses such as graphic design or those with accounting applications, which would be specifically relevant for small or microenterprises.</p> <ul style="list-style-type: none"> ▪ Paraguay: excluded basic computer and English courses ▪ Argentina: permitted language and computer courses.
<p>Unfair competition</p>	<ul style="list-style-type: none"> ▪ Managerial or technical courses paid for by government or international donors are frequently offered for free to residents of low-income communities. ▪ These residents may be paid to attend courses: they may receive scholarships, transportation or food. ▪ Microenterprises may opt for the free courses; or may resist paying for part of the voucher courses. <p>Solutions: In Rio de Janeiro, the program was designed to have a high initial subsidy which in most cases would cover the whole price of the courses, with the voucher value set to decrease steadily so that as the program and courses gained credibility in the marketplace, a co-payment would become necessary.</p>
<p>Large geographic area</p>	<p>If the program is spread over a large geographic area, difficulties arise with respect to coordination and information:</p> <ul style="list-style-type: none"> ▪ If program administration is centralized, administrators in regional areas often do not understand program objectives or procedures. ▪ In both Peru and Ecuador, program administration was uneven throughout the program. While this can be partly attributed to the lower density of microenterprises and providers in some of the smaller cities, it can also be attributed to insufficient presence of central administration in some of the regional areas. <p>A large geographic area can make two key program elements hard to reconcile - providing voucher users with important information versus making it easy for users to pick up their vouchers:</p> <ul style="list-style-type: none"> ▪ In Indonesia, where the program spanned a large geographic area, voucher distribution was subcontracted to private telephone service cabin operators who were conveniently located, but unable to give users information on how to use the voucher.
<p>Exit strategy</p>	<p>There are two main elements to the exit strategy:</p> <ul style="list-style-type: none"> ▪ Elimination of the voucher, and ▪ Supplier strengthening during the life of the program. <p>Additional elements of an exit strategy could be:</p> <ul style="list-style-type: none"> ▪ Diversifying suppliers and cultivating more private suppliers; ▪ Sustainability strategy for the information function, and ▪ Creating associations of suppliers to cover costs formerly covered by program. <p>The exit strategy should be an integral part of program design. Cochabamba was the only program with a comprehensive exit strategy that was built into the program and actually implemented. The program ended at the end of 2000 and post-program evaluations of the market development effects will begin shortly.</p>
<p>Characteristics of Swisscontact approach</p>	<ul style="list-style-type: none"> ▪ An exit strategy is typically built into the program design ▪ Programs are often small and restricted to one sector to maximize market development effects ▪ Vouchers are often seen as secondary instrument for developing markets while advertising and other types of promotion and supplier support seen as principal development tools ▪ Administrators sometimes struggle with issues related to “double subsidies” (including government- or donor-funded training providers, or allowing Swisscontact-funded business centers to participate).

Table 6: Executing a voucher training program

Issue	How programs have addressed these challenges
<p>Choosing an administrator</p>	<p>There is no predetermined profile or legal status for the administrator and they may take the form of public entities, NGOs, mixed public/private entities or purely private firms:</p> <ul style="list-style-type: none"> ▪ Public agencies with offices throughout the country such as ministries, central banks or development banks can administer programs with national extensions. Second-tier banks have proven to be surprisingly efficient administrators (Central Bank of Paraguay – 1st phase; CFN - Ecuador). Where public entities have had trouble is when politics have gotten in the way; inviting unsustainable practices and in the worst cases, corruption. ▪ One international NGO, Swisscontact, manages a wide variety of programs. One program is jointly managed with the Ministry of Industry and Tourism in Peru. NGOs must have administrative capacity, market credibility and the ability to catalyze other institutions ▪ A new, mixed public/private entity administers the program in Argentina. Because it is brand-new, this entity has had trouble establishing itself in the market. ▪ A private sector firm with experience running literacy programs was slated to run a voucher program in Rio de Janeiro. Here, efficiency was the expected result.
<p>Registering providers:</p> <ul style="list-style-type: none"> ▪ Private, for-profit ▪ NGOs ▪ State-sponsored 	<p>Since the objective of microenterprise voucher training programs is to develop markets, it is important that providers learn how to develop profitable courses. It is also important to have a variety of providers participating in the voucher program – clients should select winners, not program administrators.</p> <p>Private sector providers. It is often argued that these have the most potential to survive in the post-program, voucher-less environment and are most likely to use the voucher program to learn about demand from a new client group. However, some private providers with a short-term perspective may engage in rent-seeking.</p> <p>NGOs. These providers have experience in working with international donor or government funding, although typically, in the form of projects and contracts rather than through voucher financing. They may not be managed in a sustainable, business-like way; but sometimes have surprisingly good offerings.</p> <p>State-owned providers. These providers can offer high-quality courses including access to state-of-the-art machinery. In principle, there is no reason why they could not develop courses and charge prices that cover costs and profit, however, typically politics and negative incentives interfere, and they do not.</p>
<p>Attracting private sector providers</p>	<ul style="list-style-type: none"> ▪ While there are rarely prohibitions on the participation of providers who do receive other subsidies (the program in Cochabamba was the only case), private providers are often more agile and therefore respond more effectively to voucher-induced demand. ▪ It has also been shown that private sector providers are more likely to learn the lessons regarding product development and therefore will continue to serve the target clientele without subsidies after the program terminates. <p>Attracting private sector providers can be difficult, particularly when:</p> <ul style="list-style-type: none"> ▪ There are not many known providers in small cities. ▪ Bureaucratic program application processes and regulations discourage the participation of suppliers who don't have experience working with donor or state-funded programs.

Table 6 cont'd: Executing a voucher training program

Issue	How programs have addressed these challenges
<p>Swisscontact and the struggle to decide whether to approving certain training providers:</p> <ul style="list-style-type: none"> ▪ Business Centers ▪ Subsidized providers 	<ul style="list-style-type: none"> ▪ The dilemma for Swisscontact voucher training program administrators is whether to allow business centers which already enjoy a supply-side subsidy from Swisscontact to participate in the voucher training programs where they will benefit from the demand-side subsidies. Often, these business centers are located in areas that do not have highly developed training markets. ▪ Recently, in large part because of the difficulties attracting private sector suppliers in these areas, most voucher program administrators have been allowing business centers to participate. ▪ In Swisscontact programs in Bolivia, training providers that have subsidies from the government or from international programs are not permitted to participate in the voucher program so that they do not receive double subsidies and gain unfair advantage over competitors. ▪ The objective of voucher training programs should not be to level the playing field and choose providers based on their history of subsidies. Rather, program administrators need to approve training providers that will offer courses that show microenterprises the benefits of training and will develop sustainable products that will survive once the subsidy ends.
<p>Auditing</p>	<p>Auditing should be seen not only as a means of preventing fraud, but also as an opportunity to gather information about consumer needs and characteristics.</p> <p>Auditing should be conducted for a significant percentage of courses, while they are in session, and also needs to be done in consumers' residences or businesses after the course has ended.</p> <p>Auditors should request the following information:</p> <ul style="list-style-type: none"> ▪ How much the enterprise paid for the course ▪ Whether the information about the firm matches the information that the program has in its database ▪ The consumers' opinion of the course ▪ Whether the owner or employee is using knowledge gained in the course ▪ Whether the knowledge gained in the course has led in to increased income, investment, new jobs <p>How auditing is conducted in the programs studied:</p> <ul style="list-style-type: none"> ▪ Most programs randomly audit a few users after the course via telephone, but rarely visit them (Ecuador). ▪ The program administrators in Indonesia took auditing seriously. They hired a university student who visited consumers at their place of residence or business. ▪ Few programs have an independent auditor; most merge the audit function with program administration. This can create difficulties and is a risk for fraud (Paraguay, Cochabamba, El Salvador).
<p>Supplier Strengthening</p>	<p>Suppliers may need assistance reaching their target market and modifying their traditional product to meet the needs of this market segment. Supplier strengthening should be conducted on a cost-sharing basis with the training provider and managed by the administrator. The strengthening activities, in the form of workshops and seminars, may provide assistance on the subjects of:</p> <ul style="list-style-type: none"> ▪ entrepreneurship, management and marketing ▪ cost management ▪ identifying which courses to offer ▪ basic accounting and record-keeping practices ▪ pedagogical techniques for training clients with low educational levels. <p>The administrator may also facilitate intra-institute initiatives, such as trade-specific training and informal exchanges of ideas and strategies.</p> <p>Few of the programs studied have successfully undertaken supplier strengthening activities. The most useful example is Cochabamba, where supplier strengthening courses resulted immediately in the development and offering of new products by participating training providers.</p>

X. Measuring performance

How do you know that the program is actually working and whether it will achieve the goal of market development?

In order to assess a program's progress and effectiveness, data must be continuously gathered and analyzed. The best way to measure the effects of a voucher training program is to compare data on the market, consumers and supply before, at various points during, and after the program has drawn to a conclusion. Some of the data will be collected as a matter of program administration. Other information will be derived from periodic interviews, including post-course interviews with users. These data, when analyzed, can indicate whether:

- the demand for training within the target population has risen;
- the supply of training geared to the target population has risen in quantity and quality, and/or
- the earning potential of the target population has risen.

In light of the frequently informal nature of the enterprises in the target market, this last indicator of the success of the program is hard to ascertain. However, answers to the first two questions can be calculated using performance indicators developed through the study of several voucher training programs. Dynamism of the training market and demand for training can serve as proxies for the tangible benefits to consumers since it can be assumed that demand for training would be weak if it were not providing benefits to consumers. Overall program performance is also linked to future sustainability, in the sense that market restructuring must happen during the program in order for these changes to be sustained later on. In addition, there are some specific subsidy dependence indicators presented below which shed light on the prospects for sustainability.

The performance indicators mentioned below are some, but not all, of the numerous indicators administrators and donors can use and compare to assess a program's progress.

X.A. Are consumers learning about the benefits of training?

Number of vouchers disbursed:

Usage below projections alerts the administrator that some aspects of the program are not functioning well. Low usage might be attributable to low demand, misidentified target market, economic or political instability, shortage of appropriate courses or lack of information about the program.

Table 7: Voucher usage

Countries	Vouchers used*	Program Objective	Used/objective (Prorated %)**
Geared to microenterprises			
Paraguay	10,000	50,000	60
Ecuador	5,000	30,000	50
Peru	3,470	31,800	20
Indonesia	1,150	8,800	15
Cochabamba	4,000	4,000	100
Geared to formal sector firms			
Argentina	1,600	20,000	10
El Salvador	(1999) 2276 (2000) >1000	n/a	(1999) 100 (2000) n/a

*At time of visit to program

**Prorated so that the percentage represents annualized voucher usage/objectives.

While some of the programs are having difficulties meeting their objectives, the problem may lie not in the administrators, but the way that the objectives are calculated. One problem that administrators run into is pressure from international donors to inflate objectives in order to fulfill dis-

bursement requirements. In other cases, the unrealistic objectives reflect a lack of information about consumers:

- Which microenterprises have a higher propensity to consumer training? Why?
- What attitudes/characteristics predispose microenterprises to consume training?
- How big is the target market?

As discussed earlier, research needs to be done to better understand demand, both before and during program execution.

Number of Repeat Users:

An excellent indicator of satisfaction, repeat usage shows whether consumers value the training they have received. In Ecuador, for example, 70% of voucher users took more than one course and 20% used their entire allotment of four vouchers.

Number of Active Providers:

Active providers are the subgroup of registered providers who have actually given courses. Not all registered providers actively participate in the program; in some cases they register because they want to be affiliated with the administrator, or they undergo internal changes that prevent them from offering courses. The percent of active providers over total registered providers is linked to the programs potential for sustainability; since only active providers can participate in the learning cycle necessary for market restructuring. The following table shows the number of total registered providers and percent active in the programs studied:

Program	Number of Registered Providers	Percent Providers Active
Paraguay	104	60
Argentina	154	30
Ecuador	92	50
Bolivia	8	100
Indonesia	36	50
Peru	63	65
El Salvador	23	100

It is unusual to have 100% participation; this is most likely to happen only in very small, narrow programs where providers have in a sense already been “preselected.”

Table 8: Additional indicators to measure the development of demand

Indicator	Goal	Verification	Comments
Attrition rate	No more than 20%	Course attendance records	
Average amount paid for a course above and beyond the value of the voucher	Should rise over the life of the program	Training institute records	Willingness to pay out of pocket for training indicates a recognition of the benefits and the availability of pertinent courses. As voucher value decreases, clients wishing to obtain training will need to pay more.
Number of clients returning to training institute for non-voucher eligible courses	50%	Training institute records	

X.B. Are suppliers dependent on the voucher subsidy?

This set of three indicators measures to what extent the training institutions and market in general relies on voucher financing for its revenue. To calculate these, it is necessary to access information about training institute revenues.

1) Product subsidy

This indicator is calculated as:

Voucher revenues/revenues from voucher-eligible courses.

This statistic will indicate to what extent the voucher-eligible courses are dependent on voucher users. A very high number suggests that in the absence of vouchers the courses may no longer be offered. However, this number should fluctuate over the life of the program, as do many of the performance indicators. Low initial numbers will accompany lack of awareness of the program. Over time the number may increase – however it is important to monitor this indicator in conjunction with the other indicators below.

2) Training Subsidy

This indicator is calculated as:

Income from vouchers/All training income whether voucher-eligible courses or not.

This statistic will indicate to what extent the provider's training operation is dependent on vouchers. A very high number will indicate that most of the training offered is in voucher eligible courses and therefore that training revenues are highly dependent on vouchers. A low number may indicate that most of the provider's training courses are not designed for the target group.

3) Institutional Subsidy

This indicator is calculated as:

Income from vouchers/total income (including income from non-training activities).

If this number is very large it indicates that the providers sole or primary business is training, and that the provider has become very dependent on vouchers. In the absence of vouchers the provider may go out of business. A low number may indicate that training is not a major source of revenue for the provider, and will also mean that the voucher is a minor factor in determining the institution's sustainability.

Table 9: Subsidy dependence indicators for the programs studied.

Program	Product Subsidy (%)	Training Subsidy (%)	Institutional Subsidy (%)
Paraguay	85	47	n/d
Argentina	50	14	5
Ecuador	40	23	16
Bolivia	70	33	28
Indonesia	45	<5	<5
Peru	73	35	14
El Salvador	18	16	7

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