

Step by Step: How to Set-Up, Run, and Evaluate a Voucher Program



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MICROENTERPRISE BEST PRACTICES

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Step By Step: How to Set-up, Run, and Evaluate a Voucher Program

by

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CHAPTER ONE INTRODUCTION

Business training, like many products, is largely an “experience good”; that is, its benefits cannot be ascertained until after it is used. Beneficiaries are reluctant to risk paying money unless they have reasonable assurance of a rapid recuperation of their investment. At the same time, suppliers are reluctant to invest resources in development of new courses until they have some assurance of the demand for such courses.

Vouchers were designed to address the risk-averse behavior of consumers and suppliers in the market for training. The aim is to lessen the risk for the consumer by lowering the cost of the training and lessen the risk for the provider by assuring payment once courses are given.

This paper is intended to help practitioners wishing to design and implement voucher training programs. It presents background information on the theoretical aspects of each design element in terms of objectives, variables to consider, and expected outcomes. The writers hope to make clear that every market is different: donor objectives differ, the populations served have different educational and social profiles, available training differs, and economic conditions present unique challenges. However, the basic tenets of voucher training programs remain the same. As a consequence, in all cases of program design and implementation, planners will need to consider certain basic issues. These issues are discussed below. They are presented, to the extent possible, in the order in which they should be considered, though clearly many of them are intertwined and develop concurrently.

Once the basic theoretical issues surrounding voucher programs have been introduced in this paper, the problems and successes of the programs currently in progress (and recently concluded) are discussed. These real-life examples of the stages of program development and the role of the various participants serve to illustrate how at times the theory may need to be modified to accommodate the reality of individual programs. These programs have addressed the issues in different ways, at times arriving at differing conclusions of how best to achieve program objectives. Throughout the paper, critical conditions for success are highlighted.

Only the program in Cochabamba, Bolivia, has concluded thus far, so the voucher programs’ long-term benefits for market development still need to be researched. However, enough information is available to examine and compare many aspects of the individual programs and their results. In the interest of keeping the paper manageable in length, the comparative analyses have been kept brief. For more detailed information on the individual programs, readers should consult the reports referenced at the end of this paper.

The programs studied are introduced in the table below. Though not all-inclusive, this selection is a good representation of voucher programs.

Table 1: Voucher Programs Studied

Location	Timeframe
Paraguay	1999–2002
Córdoba, Argentina	1998–2002
Ecuador	1999–2003
Cochabamba, Bolivia	1998–2000
East Java, Indonesia	1999–2000
Perú	1999–2001
El Salvador	1999–2003

CHAPTER TWO OVERVIEW

This chapter introduces the fundamental “who, what, where, and when” issues of voucher programs. (The “how” issues follow in subsequent chapters.) This section is meant as a guide to help the practitioner identify and examine the conditions that will inform decisions in the design stage of a program.

VOUCHER TRAINING PROGRAMS

Voucher training programs are innovative means of

- # Increasing access to training for a specific target group, and
- # Stimulating the development of markets for business development services.

To achieve these goals, the voucher training program has at least two main components: a subsidy in the form of a voucher, and an information service. In practice, several programs have included other components, such as development of associations and internships, but this discussion will focus on vouchers and information, as they form the backbone of every voucher training program.

In most cases, voucher training programs are aimed at microenterprises in developing economies. One of the least understood aspects of designing a voucher program is demand for training in this market. The assumption underlying development of voucher programs is that there is a willingness to pay for training if the training results in measurable improvement of earning potential. Because this cannot be determined until the training is consumed, the microenterprise considers investment in training to be inherently risky. Likewise, without demonstrable demand, providers are reluctant to develop courses specifically for this clientele. The voucher subsidy lessens the risk for consumers by lowering the cost of training and lessens the risk for providers by ensuring at least partial payment once courses are given.

When the price of the product for the consumer is reduced and revenue uncertainty for the provider is decreased, the result is increased demand on the part of the consumer, leading to increased and improved products on the part of the provider. Voucher training programs allow qualified consumers to choose from among a wide variety of courses the ones that best fit their needs, financed with the help of vouchers. These programs also permit providers to learn about target population training needs and develop better products to serve them.

By itself, the voucher subsidy is a temporary market intervention. The critical component in a voucher program is the development of an information function. In this way, consumers can develop a more complete understanding of product availability, and suppliers are better able to serve the needs of their markets. Consumers make informed choices of where to take their

vouchers, thereby better aligning demand with supply. It is this continued flow of information that leads to the development of a sustainable and dynamic training market that continues to function once the voucher program has ended.

DECIDING TO IMPLEMENT A VOUCHER TRAINING PROGRAM

The Theory

Voucher training programs are beneficial when the existing training market fails to address the needs of microenterprises, potential microentrepreneurs, and the unemployed and limits their ability to increase their earning potential. Most courses offered by state-sponsored training institutes, which in most developing countries are the primary sources of training, remain tailored to teaching trades to individuals planning to take up positions in large-scale industry. Typically, the organizational framework of these institutes does not take into account the preferences of adults already working in full-time occupations; the courses are too long and are scheduled at inconvenient times of day.

In Practice

Voucher program objectives are varied but usually include some or all of the following:

- # Improved income-generating capacity;
- # Improved employment-generating capacity;
- # Increased competitiveness of micro-, small, and medium-sized enterprises; and
- # A more responsive training market.

There are advantages to implementing voucher training programs during periods of economic expansion when firms are optimistic and therefore more willing to invest in training. Given the reality in many developing countries, however, planners often choose to implement programs in times of need or economic emergency, when stated demand for training may be high but willingness to pay, even at subsidized levels, is low. Recession tends to dampen optimism and curtail investments in training across the economic spectrum. The result for the program can be voucher usage under projections, leading to a failure to stimulate the market adequately.

In all the programs studied thus far, planners found among microenterprises unmet demand for training and a desire to improve earning capabilities. In Argentina, trade associations and the municipal government were hearing requests for training to make enterprises serving industry involved in Mercosur markets more competitive. In El Salvador, a culture of retraining former guerillas and soldiers in the aftermath of civil war led to strong demand for developing training markets. Meanwhile, women in Bolivia were targeted for the voucher program as a way to help them add to their family earnings. Government functionaries forced into early retirement by the deep recession in Ecuador wanted to put their pensions to productive use by opening small businesses, for which they sought training.

The following table introduces the programs studied thus far and the predominant challenges they have faced. Some of these issues were existing conditions in the market; others arose after the program involved had begun.

Table 2: Program Challenges

Program	Main Issues
Paraguay	What happens if vouchers become a permanent fixture in the market? What is the ideal program length?
Argentina	Can a voucher program be used to promote the competitiveness of local industry? Can a voucher program be effective with small and medium-sized enterprises as part of the target population?
Ecuador	How can private providers be encouraged in a training market dominated by subsidized training institutes?
Bolivia	Does a good exit strategy promote sustainability?
Indonesia	How can program design balance convenience with the need to gather and distribute information?
Perú	How can private providers be encouraged in a training market dominated by NGOs and state-run and -funded training institutes?
El Salvador	How can the concept of sector or trade associations be applied to the microenterprise training market?

In addition to the program-specific challenges in the table above, several of these programs have encountered generalized economic challenges. Soon after the program in Argentina was designed and approved, for example, 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 national currency had one positive effect in that it increased the funding for vouchers in local currency, allowing the program to be expanded nationally.

Other possible challenges include government changes after a voucher program has been designed, which result in loss of funding or the necessity to change the design of the program to comply with the new government's agenda. The program in Córdoba is struggling to reach its target market without a publicity budget, because a change in municipal government has made access to counterpart funds difficult.

Unfortunately, financial and political instability are not uncommon in the developing world and cannot always be anticipated. Planners therefore should design a voucher program with built-in safeguards, such as the greatest independence possible from the governing party and flexible regulations that allow for changing circumstances. (See the "Rules and Regulations" section in the next chapter for a list of regulations.) An agile and active administrator can be the best antidote to market instability.

Critical conditions for success:

- 1) *A critical mass of private training suppliers in the market, and*
- 2) *Trust in the administering entity.*

BENEFICIARIES OF VOUCHER PROGRAMS—THE TARGET MARKET

The Theory

Understanding demand is one of the most difficult aspects of designing a voucher program. A critical and often neglected step is to conduct a comprehensive diagnostic study of the target market, not just a demographic survey. Of primary concern is whether there is a demand for training. Factors determining the extent of demand include culture, age range of the target population, economic conditions in that population, and previous experience with training. A general profile of the ideal market for a voucher program cannot be specified because markets vary between countries in terms of cultural characteristics, economic realities, and education.

Voucher training programs can be adapted to a variety of consumers, but the model presented in this report is most appropriate for microenterprises. These programs are designed to improve the economic prospects for microentrepreneurs who already have skills but could benefit from short courses on developing new products, producing more efficiently, or cutting costs.

Whether potential microenterprises should be included in the target population is a function of the program administrators'/funders' objectives. Issues at stake are as follows:

- # **Employment creation.** As yet, there are no definitive studies confirming that microenterprises generate net employment growth, although there is little question that they account for a large percentage of employment in developing countries.
- # **Gender discrepancies.** Potential microentrepreneurs are often women—for example, a woman with a sewing machine who wants to learn how to make garments she can sell to supplement her family income.
- # **The value of experience.** Restricting eligibility to existing microenterprises means that those that have a proven record of creating business will be the program's beneficiaries. It is often argued that these enterprises are more likely than potential microentrepreneurs to hire new workers and invest.

As a rule, if the primary goal of the program is to provide low-cost training, the fewer restrictions the better. If the primary goal is increased competitiveness or increased income generation of micro- and small enterprises, planners may want to restrict eligibility to established enterprises.

For a measurable effect, planners may want to specify a very narrow group or sector of microenterprises; for example, in an area with a predominance of prepared-food producers, one could target microenterprises involved in food preparation for national sale. This is likely to improve this sector's income-generating capacity but may do little for the overall training market. A broad, generalized program can reach more people but may also prove too dispersed to show measurable results. A broader program will also need more time to affect the market.

In Practice

Initially, market studies were not seen as a very important step in preparing for a voucher program. Program designers believed that if a wide variety of courses was available, then consumers would purchase them using the vouchers. In the process of delivering the courses, providers would learn about their clients' needs and use the information to develop new products. In other words, an understanding of demand would result from program activity. Of the seven programs studied in this report, only El Salvador's adopted a market diagnostic technique that helps providers understand demand, but still no program to date has developed a reliable means of understanding consumer attitudes prior to the introduction of a voucher program.

The social and economic benefits of training are undisputed, but vouchers are not always the best intervention for delivering training. Indigent populations, while needy, are not likely to demand training if they have to pay for it. This has been the case in Ecuador, where courses were designed for low-income segments of the population, who expressed satisfaction with the courses but said they would not pay for them. At the opposite end of the spectrum, employees in small businesses in Argentina were reluctant to spend time in training courses paid for by their employers because they saw no benefit to themselves. In both cases, the voucher tool has not met the desired goal of stimulating demand.

Often, surprises arise regarding what types of users express the strongest demand for vouchers. Established business owners or their employees benefit from short-term technical/practical, managerial, or administrative courses, but potential microentrepreneurs and the unemployed often prove to be the most avid users.

Another surprise is that consumers with a high level of education are the most likely to gain the fullest possible benefit from a training course and have proved to be the most likely to value training.

Because of the unexpected responses mentioned above, many programs have found that they have had to adjust their target markets. In some cases, planners believed voucher programs would benefit the same populations as other, existing programs, such as microcredit consumers, but this is not always the case. A program previous to the one studied in Perú distributed vouchers only to credit clients of a European Union-funded program. As a consequence, only a fraction of the microenterprise market was eligible, and this group's

members felt as though training was required if they were to receive loans, negating the voluntary aspect of a demand-driven program.

The program in Argentina was developed as a complementary component of an overall program that included a diagnostic of the training needs of small and medium-sized enterprises. Reality showed, however, that the most active consumers of vouchers were microenterprises, and the two programs did not enjoy any synergies.

Voucher usage in most programs has been below objectives, as can be seen in the table below. There are at least three explanations for this:

- # The target market was incorrectly identified;
- # The objectives are overly ambitious, fueled by donor needs to disburse funds, rather than a realistic understanding of consumer demand; and
- # The initial belief regarding voucher programs was that they need to be very large so that they can involve many consumers and providers and effectively develop dynamic markets.

The table below shows the target populations of each program and voucher use recorded thus far as a percentage of voucher use projected for the time period:

Table 3: Target Populations and Voucher Usage

Program	Target Population	Voucher Usage
Paraguay	Microenterprises, the self-employed, the unemployed, young people seeking their first jobs, those seeking to change trades, rural producers	60%
Argentina	Small and medium-sized enterprises, microenterprises as a secondary target	44%
Ecuador	Microenterprises	100%
Bolivia	Microenterprises and potential microenterprises in the tailoring field	100%
Indonesia	Microenterprises	15%
Perú	Microenterprises, small enterprises, and young people seeking their first jobs	20%, 10%, 35%
El Salvador	Small and medium-sized enterprises in the prepared-foods, metal mechanics, and chemical sectors	100%

Note: The program in Perú includes three levels of participation. The first, which corresponds to a voucher usage of 20 percent, is for the training courses most like those of the other programs. The program in El Salvador is based on budget objectives, not absolute numbers of vouchers.

The lowest levels of usage are in Argentina and Indonesia. In Argentina, microenterprises were targeted only once it became apparent that demand was weak in the original target population, small and medium-sized enterprises. Program administrators have offered a lower-priced voucher to informal microenterprises in acknowledgement of demand, as well as increased the number of vouchers available to micro- and small enterprises. El Salvador, which also targeted small and medium-sized enterprises, has had much greater success,

probably because of its complementary business development programs and aggressive market-strengthening activities. (See Chapter Six, “Exiting,” for a discussion of supplier strengthening.)

Low usage is troubling the programs in Indonesia and Perú, as well. Though both of these programs target microenterprises, they originally screened participants to ensure that they were indeed existing, active enterprises. Perú has consequently loosened the restrictions on eligibility. Indonesia has made other adjustments regarding providers. The data show that across all the programs, usage is highest among microenterprises, potential microenterprises, and the unemployed. The latter two groups have shown a marked enthusiasm for training. Whether this translates into more vibrant training markets and higher earning potentials among voucher users cannot yet be determined.

An interesting finding is that microenterprises in sectors characterized by constantly changing products and services, such as food preparation, beauty services, and handicrafts, have been consistently active clients of voucher training programs. Demand for their products is dynamic and supply is constantly evolving; therefore, they report that they usually recover the costs of training after serving a few new clients. One example of this occurred in Bolivia, where sewing teachers passed new techniques and styles on to their students, who immediately were able to offer new products. The same experience was noted with one active provider in Argentina whose novel approach to offering new hair-care products allowed his students to offer the latest hairstyles.

Critical conditions for success:

- 1) *Clearly defined program goals, based on a realistic assessment of market needs;*
- 2) *A clearly defined target market; and*
- 3) *Clearly identified demand in the target market, based on a market analysis.*

FINANCING

The Theory

Once the need for a program has been determined, planners look for financing. Funds may be in the form of grants, loans, or a combination of the two. Organizations that fund business development services include international organizations such as the World Bank, the Inter-American Development Bank, the European Union, and the Swiss Development Bank, COSUDE. Other sources of funding include private-sector multinational corporations, such as Nestlé, that have an interest in brand recognition and/or visibility in the form of promoting good will in the market.

In most developing countries, the municipal, state, or federal government is involved in the regulation and oversight of the voucher program, no matter the source of the funding. At times, governments also are involved in the administration of the program. Any program operating in government jurisdictions with the objective of altering the market will require

government involvement. Governments also frequently provide counterpart funds, in actual cash outlay and/or in-kind. In some cases, in fact, they are the primary source of funding.

In Practice

The funding organizations for the programs discussed here, their respective budgets, and their voucher disbursement objectives are listed in Table 4.

Table 4: Program Funding

Program	Source of Funds	Budget in US\$	Projected Number of Vouchers Disbursed
Paraguay	Inter-American Development Bank/ Ministry of Justice and Labor	\$3,000,000	50,000
Argentina	Inter-American Development Bank/Municipality of Córdoba	2,800,000	30,000
Ecuador	Inter-American Development Bank/Corporación Financiera Nacional	2,200,000	50,000
Bolivia	Swiss Development Corporation (COSUDE)	300,000	8,000
Indonesia	World Bank/Nestlé	165,000	8,800
Perú	Fundoempleo/Ministry of Industry and Trade	1,500,000	31,800
El Salvador	COSUDE	480,000	variable

The disparities between budget amounts reflect the stated goals of the programs, the relative costs of training and of administering the programs, and the length of the programs. For example, the programs in Bolivia and El Salvador target certain specific sectors, while training and operating costs in Indonesia are significantly less than in Argentina.

The donor will have objectives for the program that may differ in specifics from the program developers' concepts. This may come in the form of disbursement pressures; for example, the donor expects the vouchers to be fully distributed within the programmed time period. Alternatively, the donor may expect all the vouchers to be distributed regardless of whether the designated amount is based on a realistic assessment of demand. In some cases, concurrent donor-funded interventions are being executed in the market and require coordination to avoid distortions.

Critical conditions for success:

- 1) *The funding agent should have a realistic understanding of the market, and*
- 2) *The funding agent and the administering entity should maintain clear lines of communication should the need arise for modifications in the program during the course of operations.*

EXISTING AVAILABILITY OF TRAINING

The Theory

Once demand has been established and the target market identified, it is important to understand what training options are currently available in the market and why they are not meeting the needs of the target population.

Frequently in developing countries, technical and trade training is conducted by large government institutions. This approach to training is supply-led; funding is provided to the institutes, which in turn are frequently told what types of courses to offer. The courses are often free and may even include stipends to the consumer for transportation and snacks. Many countries have government programs for grants and scholarships for training. Often, political considerations also affect the delivery of training.

Because voucher-eligible courses will require a co-payment from the consumer, they need to represent an improvement over currently available training or be courses that were previously unavailable. Program designers need to be aware of how the existing training market works.

Factors that will influence the market response to vouchers include the following:

- # **The role of state-owned or -sponsored training providers.** Training institutes with guaranteed government funding have little incentive to respond to demand.
- # **A long history of supply-side interventions.** A long-term dependence on subsidies might make the market less responsive.
- # **Available free courses.** The burden will be on providers offering voucher-eligible courses to differentiate their product enough to generate demand.
- # **Existence of private training providers.** The voucher subsidy encourages training providers to pursue microenterprises as a target market, which can lead to new entries into the training market. However, for the program to succeed, there must already be a core of providers. Private training providers are the most flexible and market-oriented.

In Practice

Voucher programs intend for the consumer to pay some portion of the cost of program courses. This can make voucher-eligible courses less attractive than free government-funded courses. Two solutions to this problem are:

- # Choose an initially high value for the voucher that will entice consumers to choose the voucher course because its cost to the consumer, though not zero, is quite low; and
- # Help providers differentiate their products and learn to demonstrate the difference to the target market.

In some cases, the state-run institutes that offer long-term, government-subsidized programs restyle some of their courses to make them voucher-eligible. Universities also adapt some of their courses for the target market, although this is rare, because of the fixed costs experienced by such institutions, thereby prohibiting them from offering low-cost courses. In Ecuador, the state-owned training institute, SECAP, operates under statutes prohibiting it from charging more than a minimum price for training. The minimum price for voucher courses (voucher plus co-payment) set by program regulations there was still too high for SECAP.

The biggest question for program designers is whether providers exist in the market. As long as some providers are operational, the next question becomes whether the voucher subsidies can stimulate them to offer courses directed at the target market. Finally, the question becomes, Will the training providers' modifications to their products be sustained after the vouchers disappear?

Depending on their goals and resources, providers will respond to the existence of vouchers in different ways. Research results have led to the categorization of providers into four broad types: mass marketers, convenience providers, social mission providers, and high-end innovators. Briefly, these types can be defined as follows:

- # **Mass marketers** attempt to reach the greatest number of clients with the minimum possible investment. They tend to target the lowest-income consumers.
- # **Convenience providers** offer services based on their location or price.
- # **Social mission providers** will offer training as part of their agenda regardless of the profit motive and often have external funding.
- # **High-end innovators** are at the forefront of their sectors, and aggressively seek new consumers through investment in courses and materials. They typically serve a wealthier clientele.

A healthy training market will have some of all four types of providers. In Ecuador and Perú, the market is dominated by NGOs that, because they receive outside funding and are not profit-oriented, are not motivated by the voucher subsidy to change their offerings. In Paraguay, providers have adapted their products to include short modules, applicable skills, and convenient timing. However, with little guidance available on upgrading training quality, the market has been dominated by mass marketers. In Bolivia, subsidized institutions were not allowed to participate.

Some state-run institutes that traditionally offer complete vocational courses of study have learned through voucher programs to restructure technical courses into modules and offer them on weekends and in the evening.

Critical conditions for success:

- 1) *An existing supply of private trainers, and*
- 2) *Supplier-strengthening activities throughout the program.*

GEOGRAPHIC REACH OF A VOUCHER PROGRAM

The Theory

In order to attain the goal of providing training for an economic sector while stimulating the market for business development services for that sector, a voucher training program must be established in an area with a population that can support it. In most cases, this means urban areas with dense populations. In areas of low population density, it is tempting to expand the physical reach of the program. In either case, it is important to coordinate administrative efforts and devise adequate ways to distribute vouchers and collect and disseminate information.

In Practice

Three of the seven programs studied cover a wide geographic area: those in Perú, Ecuador, and East Java, Indonesia.

Table 5: Areas of Operation

Program	Area of Operation
Paraguay	Metropolitan Asunción
Argentina	Córdoba
Ecuador	Nine cities
Bolivia	Cochabamba
Indonesia	State of East Java
Perú	Eight departments, four districts of Lima
El Salvador	Metropolitan San Salvador and other regions

The problems encountered in programs of wide geographic reach are as follows:

- # Administrators in outlying regional areas do not always understand program objectives and procedures.
- # Information is difficult to convey.
- # The number of suppliers is inadequate.

- # Balancing the need to disseminate information with the need to make it easy for consumers to pick up their vouchers is difficult. The program in Indonesia has partially addressed this problem by subcontracting to private telephone service cabins, which are conveniently located but are unable to give users the information they need about the program and courses.
- # In Ecuador, despite program administration by a well-known organization, the quality of local administration has been uneven.

Critical conditions for success:

- 1) *Having in place an administrator with a national presence;*
- 2) *Maintaining systems for consistent distribution and information-collection functions; and*
- 3) *Having a critical mass of providers in all the areas served by the program.*

CHAPTER THREE SETTING UP

Once the groundwork has been laid for a voucher training program, the specifics of how it will be administered need to be determined. In this chapter, types of governing bodies are discussed, along with the parameters that need to be stipulated as to who can participate in the program and how their eligibility can be determined. In addition, setting the value of the voucher is discussed. These are all elements of the voucher program design that need to be addressed before the program disburses its first voucher.

First, and most important because it probably cannot be changed, is choosing the optimal governing body for the program. The governing body's ability to implement rapidly the program through experience, visibility in the market, and efficiency will have a considerable impact on the eventual success of the program.

GOVERNANCE STRUCTURE

The Theory

A governance structure must be determined for the eventual administration of a voucher program. The characteristics of an optimal administering entity are administrative and financial capacity, and the capacity to negotiate and serve as an impartial party while playing a leadership role in the training market. The best administrators operate with political autonomy, though they work within the government framework. There are several choices of entity:

- # Existing government agency or department;
- # NGO;
- # Private firm;
- # Hybrid of any of the above, such as public-private or public-NGO; and
- # An entirely new organization formed for the express purpose of administering the program.

There are advantages and disadvantages to all these choices. The logical and simple choice is to use the experience, physical presence, and recognition value of an existing government agency or department to administer the program. This precludes the need to set up a new office, hire a large staff, or invest in equipment. It also has the advantage of built-in familiarity and authority among members of the target market. This last aspect can prove to be a disadvantage, however, if the reputation of the government entity has in any way been

compromised. Also, in many instances, individuals are reluctant to supply financial or personal data to government organizations because they believe the information will be shared with tax or other authorities. Because information collection is an important part of a voucher training program, as will be discussed below, it is critical that it be carried out without obstacles.

NGOs and private firms can also be candidates for voucher program administration. The difficulty with an NGO is that it may be too small or unknown to exercise the authority needed to enable the program to have a wide-ranging effect on the market. However, NGOs can be effective for small pilot programs or as administrators in conjunction with local government. In these capacities, their skills working with the target market or in educational initiatives can prove helpful. Though they frequently are not well-known outside their circles of expertise, NGOs may have extensive experience in the administration of similar programs. In addition, their nonprofit nature lends them credibility and trust.

Because of the respective advantages of the possible administrative candidates, a combination of any two or more is also possible. This arrangement can be tricky, however, if the entities involved have differing agendas or have no history of this type of partnership.

The most expensive, time-consuming, and risky arrangement is for the funding agency to create an entirely new entity for the express purpose of administering the voucher training program. It may seem attractive to design an organization that will have no conflicts with other programs or goals, but the start-up costs in both time and money are prohibitive in most cases.

In Practice

Table 6: Program Administration

Program	Administrator
Paraguay	Ministry of Justice/Ministry of Labor
Argentina	Agencia para el Desarrollo Económico de la Ciudad de Córdoba (ADEC), a public-private agency consisting of the municipality and various trade associations
Ecuador	Corporación Financiera Nacional (CFN)
Bolivia	Swisscontact
Indonesia	Swisscontact
Perú	Ministry of Industry and Trade/Swisscontact
El Salvador	Swisscontact

The Swiss NGO Swisscontact is administering four of the programs studied. With the exception of Perú, which the organization is administering in conjunction with a government ministry, all the programs are small, in terms of budget and target market. Swisscontact, despite its small size and low profile, has gained considerable expertise in the area of voucher program administration, and the focused nature of its programs has allowed the NGO considerable control and oversight success.

The Corporación Financiera Nacional (CFN) in Ecuador has been a model administrator in terms of governance for a large-scale program with a wide geographic reach. The program in Ecuador has benefited from CFN's reputation, infrastructure, and skilled personnel. Its objective upon founding in 1964 was promotion of social and economic development through support to business, so its experience is a good match with the voucher program.

The administering agency in Argentina, Agencia para el Desarrollo Económico de la Ciudad de Córdoba (ADEC), is the only hybrid public–private governing structure among the seven programs. Though it benefits from the membership of several trade associations, which provide important information about demand, it suffers from having little experience, its links to a previous municipal government, and public discomfort with an unknown entity.

Critical conditions for success:

- 1) *Political autonomy,*
- 2) *Experience with the target market,*
- 3) *Administrative and financial capacity,*
- 4) *Facilities for data collection and database generation, and*
- 5) *A commitment to the market development aspects of the program.*

RULES AND REGULATIONS

Program administrators need to establish procedures that will govern the functioning of the program. These procedures encompass registering training providers and verifying the information they provide, approving course content based on predetermined criteria, establishing consumer qualification standards for voucher eligibility, and fixing voucher values. Some voucher programs are more heavily regulated than others. However, all programs require some degree of oversight. The greater the oversight, the greater the administrative costs.

Training Providers

The Theory

Training providers are screened based on the following prerequisites:

- # Legal recognition as a training institute,
- # One year or more experience training microenterprises,
- # Existence of adequate facilities, materials, and staff, and
- # Agreement to submit to unscheduled audits and evaluations.

Throughout the duration of the program, new training providers are encouraged to register, with the understanding that new market entrants tend to place pressure on current training providers to keep innovating.

In Practice

Voucher programs differ from traditional supply-side interventions in part because they encourage competition and market development of the supply of providers. For that reason, the programs try not to exclude providers. However, certain restrictions usually make sense based on program objectives. For instance, when the program is designed for a specific sector, such as in Bolivia and El Salvador, only providers offering courses applicable to that sector are included.

In Argentina, no restrictions are placed on providers in terms of experience or facilities. Administrators decided to allow the participation of virtually any provider that, after registration, submits a detailed course description. Audits and questionnaires determine whether the courses satisfy consumers. In several cases, providers are mobile and take their courses to business or trade association offices.

In Indonesia, administrators restrict eligibility to those providers that were initially chosen to participate in the program, allowing little opportunity for market development. In Bolivia, participation was limited to a few private firms, the rationale being that state-run and NGO providers did not need additional subsidies beyond what they regularly receive to serve the target market.

Critical condition for success:

1) *Flexibility to allow new entrants.*

Courses

The Theory

Although programs in theory aim to restrict providers as little as possible, they do demand detailed descriptions of course offerings. Regardless of the variety of courses offered by a provider, not all courses will be eligible for voucher redemption. Criteria for course eligibility may include the following:

- # Practical, trade-oriented, or technical courses;
- # Administrative, accounting, or management courses;
- # A content balance between theory and practice, with the emphasis on practice;
- # A course length of 20 to 30 hours;
- # Modularized courses; and
- # A maximum of 20 students per class.

In Practice

Many programs choose to place some restrictions on what types of courses will be voucher-eligible. These restrictions usually reflect the program objectives. For instance, courses in computers are frequently excluded, partly because they do not appear to have income-improving potential for microentrepreneurs, but mostly because the commercial market for computer training is already viable and does not need the stimulation of a voucher subsidy. For these same reasons, language courses are frequently excluded. Additionally, it is thought that a consumer is unlikely to learn a language to any practicable degree in a short course.

Exact specifications for courses will vary between programs. The emphasis on small classes, short or modularized courses, and practical content reflect the objective of encouraging courses for microentrepreneurs who need readily applicable skills and cannot invest large amounts of time in training.

Low voucher use in Indonesia can partly be attributed to program regulations that prohibit new voucher courses and limit course offerings to mostly managerial, rather than technical, topics.

Critical conditions for success:

- 1) *Flexibility to encourage new courses, and*
- 2) *Streamlined procedures for course approval.*

Consumers

The Theory

Once the target market has been established, procedures are needed to qualify potential program participants. Depending on whether the target market is microenterprises, small and medium-sized enterprises, potential microentrepreneurs, or young adults seeking their first jobs, eligibility requirements may include the following:

- # From employees of microenterprises: proof of employment, such as the signature of the employer or a pay stub;
- # From formal-microenterprise owners: legal registration as an enterprise and tax forms;
- # From informal-microenterprise owners: proof of ongoing business activity, such as receipts or contracts;
- # From the unemployed: proof of age and identification papers; and
- # From small and medium-sized enterprises: data on the number of the enterprise's employees.

In addition, the consumer must supply the administrator with personal information, including his or her name, address, telephone number where the consumer can usually be reached, age, gender, trade, previous experience with training, and employer, where applicable.

The consumer must also agree to a postcourse written or verbal interview with an auditor to determine the consumer's level of satisfaction with the course.

In Practice

When the target market has not been well-identified, fraud occurs among users of vouchers. This takes the form of falsified identification, registration by a microenterprise employee but attendance by a friend or relative, submission of false receipts, and other transgressions. When these types of fraud are detected, the program design needs to be reconsidered.

Critical conditions for success:

- 1) *Understand the forms fraud will take and prepare for them, and*
- 2) *Detect fraudulent behavior early on.*

Vouchers

The Theory

A critical design element of the program is setting the value of the voucher. Voucher value will be based on the market for training. A voucher value set too high will distort the training market, while a value set too low will not offer enough of an incentive to modify the behavior of the market. In an environment characterized by competition from free courses, the value of the voucher may need to be high.

The value of the voucher is calculated against a rough average of available course prices. An out-of-pocket contribution by the microentrepreneur is required in all cases, with course prices ranging from double or triple the voucher amount to just 25 percent over the voucher value.

The quantity of vouchers permitted per consumer also must be specified, and is generally approximately four per individual. Repeat use is desirable; it indicates that consumers value training in general and it demonstrates satisfaction with the training being offered. However, placing some limit on individual use allows more people to take advantage of the program.

In Practice

In reality, voucher value ends up being about 75 percent of the average price of available training. This result is appropriate because the value of the voucher is still lower than the price of available training, and so does not distort the market, but is high enough to cover much of the provider's costs in the event co-payment is not made.

The table below illustrates the range of voucher values across programs. This reflects the price of providing training in different markets.

Table 7: Voucher Values across Programs

Program	Voucher Value (US\$)
Paraguay	\$20
Argentina	\$50, \$35
Ecuador	\$10
Bolivia	\$13
Indonesia	50% of the value of the course or \$6.50, whichever is less
Perú	\$15, \$100, \$105
El Salvador	No set value

Note: The program in Perú includes three levels of participation.

Administrators in Paraguay have found that setting the voucher value at an absolute amount rather than a percentage favors the lower-income microentrepreneurs who may not have more than a few dollars to invest in training. For instance, in that market, where the lowest-priced courses cost US\$25, the consumer pays only \$5. Had a percentage system (usually 50 percent) been adopted instead, the consumer would pay possibly \$12.50 for the same course. By the same token, a higher-priced course would have a greater absolute subsidy, but most likely only a wealthier consumer could afford it. For instance, a \$60 course would be subsidized at \$30, but the consumer would still need to pay \$30.

Vouchers can be of multiple values when program objectives include the stimulation of certain market segments. In El Salvador, women receive vouchers of higher value than do men. In Argentina, vouchers of \$35 have recently been offered to microentrepreneurs, in addition to the \$50 vouchers originally offered to small and medium-sized enterprises.

As alluded to earlier, most programs limit voucher use to four per person. In Argentina, the original rule was six vouchers per enterprise, but voucher use has been so low that administrators have since changed the rule. It is now one voucher for every employee up to 20 (though all 20 could conceivably be used by one person) and double that amount per enterprise if two or more enterprises jointly arrange for training.

Critical conditions for success:

- 1) *Establish not only the average price of pre-existing training, but also the range; and*
- 2) *Choose a target beneficiary and value the voucher accordingly so that it does not have an inflationary effect.*

CHAPTER FOUR RUNNING THE PROGRAM

PLAYERS AND PROCEDURES

In this chapter, the sequence of events in the procurement of vouchers, consumption of training, and reimbursement is outlined. The steps are presented more or less chronologically, though some steps overlap or occur simultaneously. The objective of this section is to introduce, for the practitioner unfamiliar with voucher programs, exactly what occurs logistically. The orientation center referred to here is synonymous with the information center.

The Theory

- # The **program administrator** sets up the orientation center → recruits and registers providers → and markets the program to the appropriate communities. →
- # **Providers** get approval for courses and announce location and times. →
- # The **consumer** comes to the information center. →
- # 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 → and disburses the voucher. →
- # The **consumer** takes the voucher to the chosen provider, makes the co-payment, and attends the course. →
- # An **auditor** visits the course unannounced to verify attendance and course information and conducts a brief survey of attendees to gauge overall satisfaction. →
- # At the end of the course, **consumers** fill out a questionnaire on their impressions of course content, presentation, applicability, and overall consumer satisfaction. →
- # The **provider** submits the completed questionnaire to the administrator as part of the requirement for voucher redemption and, at the end of the course, submits to a bank the voucher and accompanying documentation for voucher redemption. Attendance records must show that each consumer attended at least 75 percent of the course for voucher redemption. →
- # The **bank** or other financial entity verifies the validity of the voucher and reimburses the provider for the voucher's face value.

The main players and essential functions appear in every voucher program. The emphasis in this chapter will be on the orientation/information center and on audits, as many of the remaining components are covered above.

In Practice

The Administrator

The administrator will have discretion to organize its functions in the manner that best suits the objectives of the program and the budget. The administrator will also have resources allocated for program promotion. Most microenterprises hear about the program through word of mouth, but advertisements also run on radio and in local newspapers. Both the programs in Ecuador and Indonesia judiciously maximize their promotional funds; they monitor the impact of publicity on demand for vouchers and have learned how to launch promotional campaigns when demand is falling.

The administrator is the ultimate repository of program information; it will record and tabulate the information collected through the information/orientation center and the course audits.

The Orientation Center

Voucher training programs, as distinct from traditional training programs, use competition between providers in the training market as a control mechanism. The microenterprises are free to decide for themselves at which of the recognized training institutes to enroll, and for which courses to use their vouchers. The only way for this to happen is through the information function; consumers must be aware of what courses are judged most desirable by those who have taken them.

The orientation center may be a countertop in the offices of the administrator, a cubicle within an existing organization, or a prominent space, but it must be a place where:

- # Prospective providers can find information about the voucher training program and about consumers who have been involved, and
- # Consumers can find information about providers and the courses they offer.

Most voucher programs fall short in this function. Data are collected but are not made available to providers or consumers in a timely fashion. In some programs such as Ukraine, vouchers are one tool within a wider market development program. Information is disseminated through multiple vehicles, including market reports on consumer preferences, project newsletters, and one-on-one meetings with business providers.

The providers need to know, once again through the tabulation of answers on the postcourse questionnaires, how consumers rank their particular courses and what other courses

consumers would like to see offered. In Perú, program administrators compile lists on a monthly basis that contain the names, contact information, and types of business of the voucher holders. These lists are then distributed to the providers.

Generally, vouchers are disbursed from the orientation center once eligibility has been verified. In some cases, vouchers are disbursed by other means because of geographic necessity, or, for budgetary or convenience-related reasons, the administrators allow the providers themselves to distribute vouchers. In Indonesia, vouchers are distributed at telephone call cabins because of the geographic spread of the program. In Guayaquil, one of several participating cities in Ecuador, vouchers are distributed by providers because of the information center's distance from participants, and in Argentina, trade associations are able to distribute vouchers, though the majority are distributed at the information center.

Auditors

The chronology above stipulates that training providers must agree to submit to unscheduled audits of their courses. These audits serve as an important measure to minimize fraud while providing the information that will be used by future consumers through the information function of the program. The auditor should be independent of the administering entity.

Audits can also contribute to the pool of information available through the information center. Interviews with consumers during the course and afterward provide additional insight into the value of the courses.

Auditing of students takes place in the classroom and over the phone, at the orientation center or at the consumer's home. Courses are also visited. It is prohibitively expensive to audit all courses, so a statistically significant sample is considered adequate. 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.
- # The price of the course is the same for voucher users as for nonvoucher consumers. Any difference will indicate price inflation attributable to the voucher.

Critical conditions for success:

- 1) Constant, consistent data collection;*
- 2) Compilation and dissemination of the evaluation results; and*
- 3) Independent audits of at least 75 percent of courses.*

CHAPTER FIVE MEASURING SUCCESS (OR FAILURE)

PERFORMANCE INDICATORS

The Theory

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 concluded. 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
- # The earning potential of the target population has risen.

Because of the 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. The strength of the training market and demand for training can serve as proxies for the program's tangible benefits to consumers, because one can assume that demand for training would be weak if such training were not of practical use to consumers.

Some measures of program effectiveness are obtained from simple tabulations. Others are derived from calculations based on specific measurements. 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. For a more complete discussion of performance indicators, the reader should refer to the forthcoming *Development Alternatives, Inc.*, publication devoted to that topic.

For program designers, it is useful to know what data will be used to produce the performance indicators. Data will be collected during the audit, through the information function, and via administrator interviews with providers. Experience shows that providers are willing to divulge financial information about their operations when doing so helps them better understand how to maximize their business potential.

Number of Vouchers Disbursed

This simple indicator is a strong one. Usage below projections alerts the administrator that some aspects of the program are not functioning well. Low usage might be attributable to low demand, a misidentified target market, economic or political instability, a shortage of appropriate courses, or a lack of information about the program. High demand may be an indication of divergence from the goals of the program.

Number of Repeat Users

An excellent indicator of satisfaction, repeat usage shows to what extent consumers value the training they are getting by investing more than once in time and money. In Ecuador, for example, 70 percent of voucher users have taken more than one course and 20 percent have 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 percentage of active providers as a share of total registered providers is an indicator used to measure the potential for sustainability. The following table shows the number of total registered providers in the programs studied and the percentage that are active.

Table 8: Provider Activity

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

Although it is wise to register as many providers as possible, the more important number is how many are actively providing courses. It is unusual to have 100 percent participation; this is most likely to happen only in very small, narrow programs.

Voucher Subsidy

This statistic indicates voucher income as a percentage of all course income, whether or not class participants are voucher users. It will indicate to what extent the voucher-eligible courses depend on voucher users. A very high number suggests that in the absence of vouchers, the course 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 a lack of awareness of the program. Over time, the number will increase, and it will surge at the end of every accounting period or downward adjustment of the voucher value, as users rush to take advantage of available/higher-valued vouchers. The healthiest programs, however, will show this indicator decreasing as the end of the program draws near, especially if the voucher is being phased out through scheduled reductions in its value (see the next chapter).

Training Subsidy

This statistic indicates voucher income as a percentage of all training income, whether or not the courses involved are voucher-eligible. It will show to what extent the provider's training operation depends on vouchers. A very high number will indicate that most of the training offered is in voucher-eligible courses and that training revenues are highly dependent on vouchers. A low number will indicate that most of the provider's training courses are not designed for the target group.

Institutional Subsidy

This number indicates voucher income as a percentage of total income. If the number is very large, it indicates that the provider's 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 indicates that training is not a major source of revenue for the provider and that the voucher has very little effect on what the provider offers.

The table below shows the three subsidy indicators for the programs studied.

Table 9: Subsidy Indicators

Program	Voucher Subsidy	Training Subsidy	Institutional Subsidy
Paraguay	85%	47%	40%
Argentina	50%	31%	17%
Ecuador	40%	43%	24%
Bolivia	70%	33%	27%
Indonesia	45%	10%	1%
Perú	73%	35%	14%
El Salvador	26%	16%	7%

As mentioned above, these statistics are most useful with knowledge of when in the program they were calculated. It is expected, and healthy, to have high dependence indicators in the middle of the program; this indicates interest in, and use of, vouchers. Even at the end of the program, high numbers may simply reflect providers' rational eagerness to take advantage of the vouchers as long as they are available. Further study of the courses offered to the target market after the voucher program has ended is necessary to determine provider dependence.

In Practice

Performance indicators must be analyzed with an understanding of the market in which they are used. Voucher usage in Argentina is very low, but taken alone, that number hides the fact that administrators there are slowly but effectively cultivating training providers and offering them market support. Voucher usage in Ecuador, on the other hand, is very high, but that statistic disguises the fact that administrators there are creating programs for certain market segments and organizing training for them without, at times, their knowledge of the voucher program. Courses are being presented to specific groups, such as vendors in the covered markets, who understand the courses to be free. In reality, the training provider is collecting vouchers for payment directly from the administrator. Each performance indicator, thus, needs to be qualified.

Critical conditions for success:

- 1) *Prior understanding of the performance measurements, and*
- 2) *Regular collection of the appropriate data to calculate the performance measurements.*

CHAPTER SIX EXITING

The Theory

Ongoing analysis of voucher programs leads to the conclusion that it is as important to study the market before the program is implemented as it is to do so during and after the program. A voucher intervention is temporary. Over the course of the program, administrators measure its effect on available training supply and on the nature of demand. Adjustments in the form of promotion, modifications to program regulations, and changes in voucher value reflect the administrator's understanding of the dynamics of its particular market. The information function is developed with the goal of training sustainability.

A voucher training program should be designed with an exit strategy. All participants should be aware that the voucher subsidy is temporary. There are two main elements to the exit strategy:

- # Elimination of the voucher, preferably through a phased reduction in its value, and
- # Supplier strengthening during the life of the program.

Additional elements of an exit strategy could be the following:

- # Diversifying suppliers and cultivating more private suppliers,
- # Developing a sustainability strategy for the program's information function, and
- # Creating associations of suppliers to cover costs formerly covered by the program.

Experience with voucher programs suggests that a gradual decrease in the value of the voucher over the life of the program has the effect of slowly weaning the market of the subsidy while the market adjusts to the forces of supply and demand. A reduction in voucher value frequently is not accompanied by any reduction in voucher demand.

Supplier-strengthening activities help providers meet the needs of the microenterprise market that they may have previously overlooked. Such activities can be built into the design and budget of the program and boost the potential for training sustainability.

In Practice

In most of the cases studied, the program designers did not specify an exit strategy and only belatedly have recognized the need for one. Several of the programs (for instance, those in Ecuador and Paraguay) were extended beyond their original lengths and therefore have an opportunity to better prepare their markets for the withdrawal of the vouchers.

In terms of voucher elimination, the first element of an exit strategy, the program in Bolivia successfully instituted a three-tiered decrease in voucher value and experienced no

concomitant decrease in demand. Regarding supplier-strengthening activities, the second exit strategy component, most voucher programs engage in some such activities at some point or another. The specific activities of the programs studied are listed in the following table.

Table 10: Supplier-Strengthening Activities

Program	Supplier-Strengthening Activities
Paraguay	General pedagogical course
Argentina	Marketing workshops and the opportunity for individual marketing consulting
Ecuador	Cost workshop
Bolivia	Cost workshops and technical/production courses
Indonesia	Cost workshops and joint-provider meetings
Perú	No supplier strengthening allowed; program administrators tried to coordinate with other donors/programs
El Salvador	Furnishing of scholarships

It is too early to judge whether these activities, in conjunction with other aspects of the voucher programs, have contributed to the foundation of sustainable markets for training.

Critical conditions for success:

- 1) *An administrator committed to the market development aspect of the program; and*
- 2) *Supplier-strengthening activities that include business assessments, market studies, niche identification, technical assistance in marketing, product development, and interfirm cooperation.*

CHAPTER SEVEN

SUGGESTED READING FOR FURTHER INFORMATION

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