The Cochabamba Case:

Can Vouchers Stimulate Sustainable Market Change?

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MICROENTERPRISE BEST PRACTICES

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The Cochabamba Case: Can Vouchers Stimulate Sustainable Market Change?

by

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ACRONYMS

BDS	business development services
DAI	Development Alternatives, Inc.
IDB	Inter-American Development Bank
MBP	Microenterprise Best Practices
USAID	United States Agency for International Development

CHAPTER ONE
INTRODUCTION

Earlier research has identified positive market development effects from well-designed and -administered voucher training programs for microenterprises, such as increased demand for training, innovation in product development and adaptation, and a greater awareness on the part of microenterprise training clients as to the benefits of training.[1] One key question whose answer has thus far eluded researchers, however, is whether these outcomes are lasting; that is, whether the market development that may occur as a result of voucher interventions is sustainable. Part of a multiyear, multicountry study on voucher programs supported by the Microenterprise Best Practices (MBP) Project,[2] this paper is the first to analyze systematically data collected on the market for microenterprise training in a region where a voucher program has been discontinued.

In March 2000, researchers visited Cochabamba, Bolivia, and gathered a series of data about the supply of and demand for microenterprise training in the sector and region targeted by the voucher program. The program was discontinued in December 2000; researchers returned to the site six months later, in June 2001, to collect comparable information from the same training institutes. The expectation was that trends in demand and supply could be identified and compared in two contexts: a market where vouchers were available, and a postprogram, voucherless market, and that this comparison would afford insights into important issues related to the sustainability of the effects of voucher interventions. The Bolivian case is especially interesting because program administrators gradually decreased the value of the voucher over time, as part of a pre-announced exit strategy. Two important caveats must be mentioned, however: (1) the Cochabamba program was small, limited, and included some regulations that inhibited the effect the training vouchers had on the market in the first place, and (2) another voucher program is looming on the horizon, this time to be sponsored by the Bolivian national government, financed with resources from the Inter-American Development Bank (IDB).

This paper discusses the evidence collected in Cochabamba with special attention paid to the sustainability of voucher-stimulated market development and voucher-program exit strategies. Chapter One, the introduction, aims to orient the reader with regard to the paper's objectives and the broader research agenda of which this study is a part. Chapter Two briefly outlines the theoretical grounding for the use of vouchers and the expected market development effects. Chapter Three describes the Bolivian context and Chapter Four provides background about the Cochabamba voucher program. Chapters Five and Six, respectively, analyze the demand and supply sides of the microenterprise training market in Cochabamba, and Chapter Seven presents lessons learned and conclusions.

[1] See Addis Botelho and Goldmark (2000) and Addis Botelho and Fitzgerald (2000).
[2] A contract awarded by the United States Agency for International Development (USAID) to Development Alternatives, Inc. (DAI) in Bethesda, Maryland.

Like previous studies on the voucher programs in Paraguay (Addis Botelho and Goldmark, 2000) and Córdoba, Argentina (Fitzgerald, Addis, and de Orozco, 2001), this paper aims to contribute to the emerging responses to the principal questions identified in the MBP research agenda regarding vouchers:

- What are the best institutional arrangements and the specific institutional attributes for the short-term management of the voucher program and the long-term information management and oversight of a private microenterprise training market?

- When are complementary supply-side interventions justified, and can they be introduced without nullifying the market effects of vouchers?

- What are the pros and cons of different exit strategies, and how can these strategies be integrated into the design of new programs at the earliest possible stage of implementation?

- What are valid and practical indicators of best practices to monitor developments (or distortions) from voucher programs?

In particular, this paper examines the third question, regarding exit strategies, and also discusses the sustainability of the market development effects of voucher interventions.

In addition to this MBP research, MBP project implementer Development Alternatives, Inc. (DAI) is conducting similar research under contracts with other organizations. This report presents the results of the research in Cochabamba and, when relevant, refers to data collected on other voucher programs in Asunción, Paraguay; Córdoba, Argentina; Ecuador; East Java, Indonesia; El Salvador; and Perú.

CHAPTER TWO
THE THEORY BEHIND VOUCHERS

Development specialists have in recent years begun to recognize the important contribution of microenterprises to equitable growth in the economies of developing countries. One objective of interventions is to stimulate the market for business development services (BDS) that strengthen this segment. BDS refers to a broad array of services offered to small enterprises and microenterprises to improve their management, production, or marketing.[3] Although training and consulting are the most common such services, there are other types of BDS as well. Information services with vouchers (hereafter referred to simply as voucher programs) are one of the most recent and innovative attempts to stimulate these markets. Because they intervene on the demand side, by supporting consumers, rather than use the more traditional approach in which donors promote providers, they are seen as a promising means of developing BDS markets that respond to customer needs.

Business training, like many products, is largely an “experience good”; namely, its benefits cannot be ascertained until after it is used. However, 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 those courses.

Vouchers were designed to address this risk-averse behavior of consumers and suppliers in the market for training. Their aim is to lessen the risk for the consumer by lowering the cost of the training and lessen the risk for the provider by ensuring payment once courses are given. Beyond the risks to consumers and suppliers associated with training courses, another problem arises in that microenterprises seeking training to improve or update personnel skills or acquire new ones often have few options that could be categorized as both relevant and affordable. Microentrepreneurs may have access to informal advice from family members or friends but little else. They may also receive benefits from embedded services in their business dealings, or they may be able to attend state-owned or -promoted institutes that offer mostly long-term and theoretical vocational programs, typically for a one- to three-year commitment, with real and opportunity costs the average microentrepreneur can scarcely afford.

The consulting firm Grupo de Asesoría Multiplidiscinaria (GAMA), which was hired to design a training program in Paraguay, recognized these dilemmas and designed a voucher program to address the challenges that microenterprises and training providers face. The Paraguayan experience led to the conclusion that in order to meet the objective of making relevant, affordable training available to micro- and small enterprises, a successful voucher program should include the following:

[3] BDS do not include financial services. Two of the more comprehensive treatments of the subject are found in Hileman and Tanburn (2000) and Goldmark (1996).

- Incentives in the form of vouchers and regulations for redeeming them that encourage consumers to purchase training and providers to supply it;
- Financing for vouchers, program administration, and pre- and post-program studies;
- An information and referral system that distributes information to seekers and providers of training;
- A supervision-and-control system that audits compliance with the system; and
- An exit strategy, such as a gradual decrease in the value of the subsidies.

Incentives in the form of vouchers not only diminish consumer risk but also, simultaneously, offer consumers choices. A voucher typically covers 40 to 80 percent of the cost of a course. Microentrepreneurs are responsible for paying the difference before the class begins, which acts as an indicator of their commitment to attend the entire course. The vouchers are applicable at any training institute and for any course approved by the administering entity. Once the consumer is paying at least a portion of the price, his or her stake in a positive outcome is greater, and hence he or she is more likely to demand satisfaction by voicing complaints or requesting certain course offerings.[4] Program regulations encourage short, practical courses that teach specific skills and are offered after the workday and on weekends to facilitate access by microenterprises.

With vouchers, risk is reduced for the supplier, as well. The training institute receives payment up front; full payment is guaranteed through redemption of the voucher as long as the student meets a minimum attendance requirement and is satisfied with the quality of the course, which is indicated by the student's having signed the voucher. Attendance is also used by administrators as a proxy for course quality.

Training will not necessarily be provided at optimal levels by natural market forces. The source of financing for a voucher program might be the local government, the federal government, NGOs, or international agencies. Funds need to be allocated to cover the costs of administering the program, promoting the program, and covering the subsidy. Ideally, once a dynamic market for training has developed, the forces of supply and demand will result in the sustained availability of the training.

An important element of a well-designed voucher program is information about participating training institutes and course offerings, made available through voucher distribution centers. Such information can include the ranking of institutes according to the number of courses given, the results of consumer satisfaction surveys, the mix of voucher and nonvoucher students, and the amount consumers are willing to pay above the value of the voucher.

[4] Goldmark, Lara, Sira Berte, and Sergio Campos, "Resultados Preliminares de la Encuesta Sobre: Servicios de Desarrollo a la Microempresa y Análisis de Casos," 1997, Washington, D.C.: Microenterprise Unit, Sustainable Development Department, Inter-American Development Bank, No. MIC 97-101.

Supervision and audits ensure that goals are being met, the target market is being reached, and fraud is being minimized. This oversight function can be an integral part of the administration of the program or a function performed by an independent group. Audits are conducted through unannounced visits to training institutes, examination of student records to detect irregularities, and interviews.

Voucher programs are intended to stimulate training markets, resulting in demand-driven innovations and investments. Therefore, they are by definition programs of limited duration and have exit strategies built into their design. Ideally, as noted above, the vouchers are phased out through a gradual decrease in their value. Supplier-strengthening initiatives, such as teaching suppliers to analyze their markets and their costs, and to position themselves vis-à-vis competitors, are an important aspect of fortifying the market for training and should be a central component of all exit strategies.

Experience has shown that successful voucher programs will cause some or most of the following changes in the marketplace: an increase in the awareness of, demand for, and willingness to pay for training on the part of the target group; increased investment in training products aimed at this target group; and heightened efforts at marketing and product adaptation on the part of training suppliers. These effects represent a learning cycle in which clients and service providers talk to each other about what products are most relevant, affordable, and effective. As noted earlier, one important question is whether these changes are lasting or are just a temporary result attributable to the availability of vouchers.

CHAPTER THREE
BOLIVIA IN CONTEXT

Bolivia, one of the poorest and least developed Latin American countries, has made considerable progress toward the development of a market-oriented economy. Successes in the early 1990s included the signing of a free-trade agreement with Mexico and the Southern Cone Common Market (Mercosur, the common economic market consisting of Brazil, Argentina, Uruguay, and Paraguay, created in 1991) as well as the privatization of the state airline, telephone company, railroad, electric-power company, and oil company. The current president, Hugo Banzer, has tried to further improve the country's investment climate with an anticorruption campaign. Growth slowed in 1999, in part because of tight government budget policies and the fallout from the Asian financial crisis. Tightening of the government belt also resulted in the limiting of needed appropriations for antipoverty programs. Growth should have rebounded to perhaps 4 percent in 2000, given reasonably favorable world commodity prices.

As a result of the country's economic situation, the Government of Bolivia remains heavily dependent on foreign assistance to finance development projects. At the end of 1998, the government owed $4.3 billion to its foreign creditors, with $1.6 billion of this amount owed to other governments and most of the balance owed to multilateral development banks. Most payments to other governments have been rescheduled on several occasions since 1987. External creditors have been willing to do this because the Bolivian government has generally achieved the monetary and fiscal targets set by International Monetary Fund (IMF) programs since 1987. The Bolivian government continues to pay its debts to the multilateral development banks on time and to receive soft loans as well. Bolivia has also qualified for the Highly Indebted Poor Countries (HIPC) debt-relief program.

In Bolivia, widely referred to as the most developed microfinance market in Latin America, most microenterprises have some access to financial services. In urban areas such as Cochabamba, microenterprises have several options—large and well-known microfinance institutions such as BancoSol, Caja Los Andes, and the Centro de Fomento a Iniciativas Económicas (FIE) are all operating in this region. There are also many institutions dedicated to offering specialized BDS to microenterprises (some of these, such as FIE and the Instituto para el Desarrollo de la Pequeña Unidad Productiva [IDEPRO], were formerly connected to microfinance programs and have been spun off to form independent institutions specializing in BDS).

Most donor-supported BDS providers try to recover some portion of their costs by charging small fees; however, this market clearly lacks the dynamism of the microcredit market. The Bolivian market also has many small private-sector training providers, which tend to operate in isolation from donor- and state-funded training programs. These institutions cover their costs through training fees and also earn income through other activities. The Swisscontact voucher program in Cochabamba was the first in the region to work with these private providers, bringing them into contact for the first time with donor subsidies.

CHAPTER FOUR
THE COCHABAMBA VOUCHER PROGRAM

GOVERNANCE

The voucher program in Cochabamba, which ran from 1998 to 2000, was funded by the Swiss Agency for Development and Cooperation and administered by Swisscontact, a Swiss nongovernmental organization (NGO). Founded in 1959, Swisscontact is a foundation financed by the Swiss private sector. Now a major development agency, Swisscontact's field activities are the promotion of small enterprise, vocational education, and urban ecology. It has wide experience in both the design and administration of voucher programs. Voucher programs run by Swisscontact are generally small and have budgets of a few hundred thousand dollars, as opposed to IDB programs, which usually have budgets of between US$1 million and US$2 million. The Cochabamba program had a budget of US$300,000 and concluded in December 2000.

After conducting background market research, Swisscontact selected to participate in the program six (eventually this number would be increased to nine) training providers in the textiles market. The pilot phase of the program lasted six months, in which studies were undertaken to determine budget requirements and rules and procedures for voucher redemption; evaluate previous experience; contact experts in the field; and print vouchers.

The main program was originally planned to last three years, with 4,000 vouchers distributed per year. By December 2000, however, the program had met its two-year objective of distributing 8,000 vouchers and was terminated, about six months before schedule.[5] An exit program had been devised that scaled down the value of the voucher over a period of time toward the end of the program.

Vouchers were distributed by the Universidad Mayor de San Simon. Initially, users were required to register and pick up vouchers at the university dean's office, an experience that was intimidating and confusing for some users who were unfamiliar with an administrative or institutional environment. Later, university personnel involved in the voucher program began a mobile distribution arrangement whereby they registered users on site on the first day of a course based on documentation provided by the training institute. Later still, distribution of the vouchers was handed over to the providers themselves. Entrusting voucher distribution to training providers is not recommended, however; when providers are charged with distribution of vouchers, clients frequently are unaware that the vouchers can be used in any program-authorized course. In the Cochabamba program, this less-than-ideal situation was exacerbated by the "shortage" of vouchers in the market (see below).

The program in Cochabamba had regulations that limited competition in terms of both the number of participating training institutes and the pricing of courses. Institutes that had

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[5] This early termination was related to the initiation of a sister program in Sucre, to which some funds earmarked for Cochabamba were rechanneled.

contracts with state agencies to provide training, or funding from external donors, were excluded from participating. Program administrators did not want to facilitate "double subsidies" that they thought could result in unfair competition. At the same time, a minimum price for courses authorized for inclusion in the program was set by the administrators in conjunction with the training providers. This inhibited price competition between providers, as did the providers' close relationships with one another. The result was collusion among providers as to marketing efforts and course prices. Each provider essentially served its neighborhood, and all offered similar courses for the same price.

During the program, an internal supervisor regularly visited participating training institutes on an informal level; no formal, external auditing was undertaken at any point.

OBJECTIVES

The voucher program was part of the larger Swisscontact program Fomento Empresarial, or FOMEM. FOMEM's objective is to support small and medium-sized enterprises in innovative ways so that they can contribute to regional economic development. The voucher program represents a shift toward including microenterprises in their target population. Swisscontact tried to target existing microenterprises, but also accommodated potential microentrepreneurs who applied for vouchers.

The voucher program in Cochabamba was distinct from other voucher programs in that it had a sector focus: participation was limited to microenterprises engaged in the fabrication of clothing and the training institutes that offer technical training to them. Cochabamba has an active textile and clothing industry that includes small factories, workshops, and individuals working from their homes.

Voucher usage is a reflection of program regulations and other factors, such as the target population, program administration, and the macro-environment. Voucher usage in Cochabamba met objectives virtually from the start of the program and remained so high that voucher distribution was rationed monthly to allow administrators to process the requests.

Table 1: Voucher Usage per Program

Program	Voucher Usage	Program Objective for Usage*	Percentage of Objective Met
Paraguay	10,000	N/A	N/A
Córdoba, Argentina	7,540	17,000	44%
Ecuador	33,000	30,000	>100%
Cochabamba, Bolivia	4,000/year	4,000/year	100%
Indonesia	1,150	8,800	13%
Perú	3,470	19,072	18%**
El Salvador	3,976	3,900	>100

* Prorated for length of time operating.
** Statistics include training and technical-assistance vouchers, but not internship vouchers.

Performance

The Cochabamba voucher program administration, while initially sound, suffered from organizational difficulties. Demand for vouchers was so high throughout the life of the program that midway through, voucher distribution was limited to 400 per month. Initially, users had to make two visits to the point of distribution, the first to register and the second, sometimes months later, to pick up a voucher. This created confusion among users and resentment among training providers, who felt that the clients of other institutes might be getting better access to vouchers. The solution was to delegate distribution to the training institutes themselves. Under this arrangement, the trainers collected photocopies of their students' identification papers, submitted them to the Universidad Mayor de San Simon for registration, and obtained the vouchers once they became available. As a result, clients/students were denied access to information about all participating training providers so as to be able to choose for themselves the “best” one.

Providers were required to distribute at least 60 percent of the vouchers they requested to microenterprises, and no more than 40 percent to potential microenterprises. In reality, because demand among housewives and potential microenterprises was so strong, most institutes allocated their vouchers to whoever was most likely to pay the difference between the value of the voucher and the price of the course. In other words, program objectives were distorted because training institutes, because of the limited number of vouchers, decided who would receive vouchers. The balance of power shifted from the consumer to the provider, in direct conflict with the desired results of a demand-led intervention.

By the end of the program, only five of the nine training providers authorized to participate in the program were active, the reasons for which are discussed in Chapter Six.

Exit Strategy and Sustainability

Data indicate that the Cochabamba voucher program did have an effect on the market for microenterprise training, though that effect may not be as pronounced as administrators had hoped. What is clear is that providers have learned to modify their existing products to better address the needs of microentrepreneurs who cannot commit to long courses. Some providers also learned to be creative in seeking new clients, and all benefited from the technical courses facilitated by Swisscontact on advanced sewing techniques and machine maintenance.

As mentioned above, voucher value was decreased over the life of the program, from 80 bolivianos (approximately US$12.30) to 70 bolivianos (US$10.70), and then to 60 bolivianos (US$9.20), with apparently no effect on demand. This important finding proves what voucher program designers have suspected; namely, that once introduced to the benefits of training, microenterprises value it enough to seek it even at higher costs. However, it is also important to note that because the providers were willing to be very flexible with their clients, and no auditing of users took place, the incidence of users not paying the full difference between the voucher value and the course price was high. The possibility also exists that some providers lowered the price of the course to reflect the new voucher value.

Currently, Swisscontact is administering a similar voucher program in Sucre with many design modifications generated by the Cochabamba experience. Both the Cochabamba and Sucre interventions were conceptualized as pilots for a national program, but plans for expansion are suspended until details of the implementation of the IDB-funded Bolivian government national program are clear.

CHAPTER FIVE
DEMAND

Swisscontact specified that at least 60 percent of all Cochabamba voucher users be microenterprises. In practice, however, many other clients were accepted into the program. These client groups included first-time entrants into the economy and female heads of household looking to increase their household income. One entrepreneurial training provider even developed a market niche in the local prisons, offering training to prisoners who ran semi-independent sewing workshops inside prison walls. The prisoners were predominantly men jailed for growing coca for the drug trade, or working as preliminary coca-leaf processors (known as “stompers”). They have expressed a desire to continue producing garments, either in an established workshop or on their own, once they are released.

The demand profile of voucher users participating in the Cochabamba program showed quite low levels of income and education compared with other voucher programs studied. In March 2000, program statistics showed that 84 percent of voucher users had no previous training, and that many continued to seek training after they had used their vouchers, indicating that once users were introduced to the benefits of training, demand for such training grew. About 50 percent of the participating entrepreneurs came from shops of five or fewer workers, and 75 percent of the businesses using the vouchers were informal. The majority (70 percent) earned less than 1,000 bolivianos ($150) per month,[6] as against the national average wage per capita of approximately 6,700 bolivianos per year.

It is unfortunate, for the purposes of this study, that the environment for training in Cochabamba was distorted by the anticipation of subsequent subsidies; most of the providers interviewed in June 2001 reported that customers were waiting for new vouchers (promised by the Bolivian government) before signing up for courses, and that the institutes were experiencing a dip in demand. The new vouchers will be worth twice the final value of the Swisscontact vouchers, making them very attractive to both users and providers. The minimum price for courses set by Swisscontact was 100 bolivianos, less than the value of the new vouchers.

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[6] MKT Marketing S.R.L. study commissioned by Swisscontact, “Encuesta PyMEs Usuarios de Bonos de Capacitacion,” May 2001. Not published.

CHAPTER SIX
SUPPLY

The research methodology for this study consisted of collecting the following data through a structured questionnaire:

- The size of the participating training institutes,
- Training-product characteristics,
- Course prices,
- Trainers' dependence on vouchers as a percentage of training income and of total income,
- Recent investments, and
- Trainers' opinions of their experience in the voucher program, and in what way, if any, they changed their training products as a result of their participation in the program.

The same questionnaire was used on both the March 2000 and the June 2001 research visits, and nearly all the same institutes were interviewed during the second visit as the first. In some cases, voucher users taking courses at the time of a visit were interviewed.

The training institutes that participated in the Cochabamba program are somewhat diverse. Tables 2 and 3 present the institutes by their numbers of students during the program, vouchers used, and revenues.

Table 2: Training Providers' Volume of Activity

	During Voucher Program		Postprogram
Institute	No. of Students per Month, March 2000	No. of Vouchers per Month, March 2000	No. of Students per Month, June 2001
INFOCAL	675	N/A	391
Carmen	338	218	135
Ely	315	167	205
Halley's	281	N/A	N/A
Newton-Japones	227	N/A	N/A
Emma	195	N/A	259
Oruro	150	55	273
Almanza Gutierrez	128	45	118
Liffany	124	66	N/A
Vanguardia	113	15	N/A
FIE	50	N/A	N/A
IDEPRO	N/A	N/A	42
Total	2,596	566	1,423
Average	236	94	203

Table 3: Income Flows, in US$

Institute	During Voucher Program		Postprogram	
	Gross Monthly Income, March 2000	Net Monthly Income, March 2000	Gross Monthly Income, June 2001	Net Monthly Income, June 2001
INFOCAL	N/A	N/A	$4,714	N/A
Carmen	4,051	2,713	1,603	$437
Ely	3,539	2,057	2,296	1,088
Halley's	10,904	N/A	N/A	N/A
Newton-Japones	5,037	N/A	N/A	N/A
Emma	2,696	N/A	4,291	2,907
Oruro	4,031	2,571	5,909	3,230
Almanza Gutierrez	1,034	408	1,746	399
Liffany	2,118	-1,202	N/A	N/A
Vanguardia	2,600	420	N/A	N/A
FIE	1,761	N/A	N/A	N/A
IDEPRO	N/A	N/A	219	N/A
Total	$37,771	$6,967	$20,778	$8,061
Average	$3,777	$1,161	$2,968	$1,612

The training institutes were also asked their opinion of their experience in the voucher program. Many of the questions were open-ended, and most data were self-reported.

Because the program was small and the number of participating training institutes correspondingly low, the research team was able to visit all the participating institutes and most of the training providers that were not authorized to participate though they offered appropriate courses. (The annex accompanying this report lists each institute visited along with a brief description.) By the end of the program, only five providers were active, as the others had been sanctioned for fraudulent activities.[7] At the time of the second visit, the program was no longer in operation and research questions emphasized the providers' experience in the absence of the vouchers.

Training providers can be categorized into four main profiles based on their business strategies: 1) high-end innovators; 2) competition by convenience; 3) socially driven providers; and 4) mass marketers. A healthy training market will have some of each type of provider, though the shaded areas in Table 4 show the most frequent distribution. This table includes all the training providers identified by Swisscontact as offering appropriate training, though not all participated in the program. The providers that did participate, however, had one of two profiles: either they were mass marketers adept at filling their courses, or they were neighborhood operators (competition by convenience), known in their areas, that developed their clientele through word of mouth and community venues. The large state-run or -funded institutes were not allowed to participate, and the sole innovator, Vanguardia, after using very few vouchers, elected to withdraw.

[7] This sanctioning resulted from overbilling for supplier-strengthening workshops, namely through inflated transportation costs.

Table 4: Typology of Training Providers

Income Level of Clients	Market Strategy			
	High-end innovators	**Competition by Convenience**	**Socially Driven**	**Mass Marketers**
High	Vanguardia		FUNDES IDEPRO	
Medium		Halley's Oruro Liffany Almanza Gutierrez	INFOCAL	
Low		FIE Newton-Japones		Emma Ely Carmen

A high-end **innovator**[8] is a provider that is continually investing in developing new products or new ways to deliver them and is a leader within the niche or sector in which it operates. The typical innovator in the voucher programs visited so far has relatively high fixed costs, usually in computers or high-technology products or other types of high-end equipment or installations. Perhaps as a result of their high fixed costs, high-end innovators have not been especially eager to focus their efforts on low-income microentrepreneurs, who do not have much disposable income for training.

Table 5: High-end innovators

Provider (March 2000)	No. of Students per Month	Institutional Subsidy	Training Subsidy
Vanguardia	113	6%	6%

As noted above and shown in Table 5, only one innovator, Vanguardia, participated in the Cochabamba program. Vanguardia responded to the vouchers by scaling down its classes to suit microenterprises. However, the provider's other clients included middle-class housewives and industrial producers, and tailoring courses to fit the program became cumbersome. By the middle of the program, Vanguardia had stopped participating.

In general, high-end innovators do not offer many voucher courses and their dependence on them is correspondingly low—6 percent for Vanguardia at the time it was accepting voucher students.

8 In Addis Botelho and Goldmark (2000), innovators are referred to as "expanding diversifiers." The nomenclature has changed because innovators in other voucher programs have tended to be less diversified than those in Paraguay.

Competition based on convenience is a low-cost strategy. Rather than compete by aggressively developing new products or seeking new clients, these providers compete on price and convenience, attracting clients from the neighborhood or clients in areas without much competition. Training is generally not the only income-generating activity for convenience providers. It is a benefit to consumers to have conveniently located training facilities, but the providers do not invest much in related equipment, materials, or marketing. Most are highly diversified in terms of their income-generating activities; therefore, if the demand for training drops, these providers can usually rely on other income.

Table 6: Providers That Compete on Convenience

Provider	No. of Students per Month (March 2000)	No. of Students per Month (June 2001)	Institutional Subsidy (March 2000)	Training Subsidy (March 2000)
Halley's	281	N/A	N/A	N/A
Oruro	150	273	14%	14%
Liffany	124	N/A	25%	31%
Almanza Gutierrez	128	118	21%	44%
FIE	50	N/A	N/A	N/A
Newton-Japones	227	N/A	N/A	N/A
Average	160	196	20%	30%

This category of the typology shows potential for market development. Typically, convenience providers learn to develop courses for voucher users but are not so dependent on voucher income that when the program ends they close their doors. Oruro, Liffany, and Almanza Gutierrez supplemented their training revenues by using their machinery to produce orders, sometimes employing their students, paid either by lot or by a reduction in tuition. FIE is an interesting example. It had targeted microenterprises before the implementation of the voucher program. In Cochabamba, however, the institute used few vouchers before closing its branch as a result of financial difficulties.

Providers driven by **a social mission** are those with a mandate to serve a clearly defined group with little regard for profit. They are usually heavily subsidized through donors or government financing, although some are private. Socially driven providers were not allowed to participate in the Cochabamba program because administrators were disinclined to give heavily subsidized entities a further competitive advantage over their private counterparts. Because socially driven providers are adept at capturing subsidies and are typically unconcerned with generating profits from training activities, they may crowd out private-sector providers and compromise the prospects for market sustainability. However, their existence in the market is important, because they provide competition and a high standard by which to measure other products.

Table 7: Providers Driven by a Social Mission

Provider	No. of Students per Month (March 2000)	No. of Students per Month (June 2001)	Institutional Subsidy (March 2000)	Training Subsidy (March 2000)
FUNDES	N/A	N/A	N/A	N/A
INFOCAL	675	391	N/A	N/A
IDEPRO	N/A	42	N/A	N/A
Average	675	217	N/A	N/A

Mass marketers are providers that have adopted an aggressive strategy of recruiting new students, generally by offering courses to groups such as neighborhood associations or cooperatives. At its worst, this strategy can deteriorate into cut-rate, low-quality, factorylike courses. At its best, it can bring low-cost, good-quality training to groups that have had no previous access. A good example of this is Carmen, who offers training to incarcerated peasants trying to develop new skills while in prison.

Table 8: Mass Marketers

Provider	No. of Students per Month (March 2000)	No. of Students per Month (June 2001)	Institutional Subsidy (March 2000)	Training Subsidy (March 2000)
Emma	195	259	N/A	N/A
Ely	315	205	47%	47%
Carmen	338	135	53%	54%
Average	283	200	50%	51%

Average dependence on vouchers among Cochabamba providers as a whole was a healthy 33 percent (for the training subsidy) in March 2000 (see Table 9), indicating that both providers and users had learned about the program and that usage was high, but that the institutes' dependence on voucher revenue was not so great that their continued existence in the absence of vouchers was in doubt.

Table 9: Comparative Levels of Voucher Dependence across Different Programs

Program Location and Date	Training Subsidy	Institutional Subsidy
Paraguay, December 1999	47%	40%
Córdoba, May 2001	31%	17%
Ecuador, February 2001	43%	24%
Cochabamba, March 2000	33%	27%
East Java, April 2000	10%	1%
El Salvador, November 2000	16%	7%
Perú, September 2000	35%	14%

CHAPTER SEVEN
LESSONS LEARNED AND CONCLUSIONS

The program in Cochabamba offers practitioners the first opportunity to study the market for microenterprise training after a voucher intervention has concluded. The results are mixed, and cannot be completely transferred to all program experiences because of the Cochabamba program's unique sector focus and restrictive design elements. Nonetheless, certain conclusions can be drawn:

- Vouchers do alter the landscape for the supply of training,
- Vouchers alone are not enough to stimulate the provision of new products, and
- Data collection should occur before, during, and after program execution.

VOUCHERS DO ALTER THE LANDSCAPE FOR THE SUPPLY OF TRAINING

It must be noted that the Cochabamba providers were carefully screened and chosen by Swisscontact and that no new participants entered the program during its life. This can be partly explained by the small pool of possible participants, which resulted from the narrow sector focus. However, Swisscontact instituted regulations that narrowed the field further, including the following:

- Authorized courses were limited to those with technical content;
- State- and donor-subsidized training providers were ineligible to participate; and
- Minimum-experience and plant and equipment requirements were set for providers, effectively denying entry to training providers not previously engaged in garment-production training.

The result was a small number of homogeneous training providers offering similar products throughout the life of the program. These providers could not compete on price and, through mutual agreement, did not cultivate each other's neighborhoods for new clients. Other training providers, such as repair shops that have classrooms attached to their facilities and teach repair skills, or garment producers that also teach garment production, could have diversified the offerings and contributed to creating new products and a dynamic training market.

The effect of the vouchers in Cochabamba, then, was not to stimulate new entries to the market but to encourage existing providers to modify their course offerings to better meet the needs of microenterprises. These modifications took the form of modularizing the traditional year- or two-year-long course of study into topical segments, such as pants, shirts, bedclothes, and so on. They also included converting a supplier-strengthening activity—a machine-maintenance workshop, for instance—into a business opportunity whereby the newly acquired skill was then taught in a training course.

Because of a lack of consistent monitoring and auditing in the Cochabamba program, it is unclear how many of the providers' traditional customers were allowed to take advantage of the program subsidy simply by using the modules as installments in their longer courses. It is also apparent that many providers were willing to accept payment for training in the form of labor on outside piecework contracts, which meant they requested reimbursement for the vouchers without having required a cash co-payment from clients. Despite these irregularities, all the providers that were still participating in the program at its termination reported that they experienced a rise in the number of clients during the program, and that the level of activity had fallen since the end of the program, but not to the level of preprogram activity. Their customer profile in many cases had changed from young girls, female heads of household, and the unemployed to a mix often including 50 percent microenterprises. At the time of the second research-team visit, only one institute had temporarily halted all training since the termination of the program, for reasons unrelated to participation in the program.

One interesting apparent result of the voucher intervention is that the donor- and state-funded institutes and the private providers, formerly operating in two, almost parallel, isolated markets, have developed a greater awareness of each other. This is partly because of the shift in the private-sector institutions' client profiles—by targeting a greater percentage of microenterprises, these institutions started to intrude more on what, in Cochabamba, had traditionally been the turf of state- and donor-funded programs. The reaction on the part of the subsidized institutions was to reduce offerings to this client group, as they considered the group to be well-served by the voucher-supported market. By the end of the voucher program, the large state-run or donor-funded vocational institutes had stopped offering short, modularized courses to the textile market. As an example, long, vocational courses traditionally constituted 70 percent of the curriculum of the Instituto Nacional de Formación y Capacitación Laboral (INFOCAL), while short, modularized training represented 30 percent. Now, the institution offers no short courses in garment production, because it considers the market for this product to be well-served by small training providers. INFOCAL's primary emphasis now is on professional preparation for the industrial market. Another subsidized training provider encountered during the research-team interviews, supported with IDB funds, had also temporarily stopped offering training in garment production but was gearing up to resume a comprehensive preparatory course of study that does not target microenterprises.

It will be important to observe whether this trend continues. This outcome also highlights the importance of attracting private, for-profit providers to participate in any voucher intervention, as these are the institutions that are most likely to behave in a sustainable manner. In the case of Cochabamba, private providers were the only institutes allowed to participate; in most voucher programs, however, private providers would represent just one of several types of institutions invited to participate.

Two providers in Cochabamba invested in portable tables and machines in order to offer courses in neighborhoods far from their facilities. By the time of the second team visit, six months after the termination of the program, neither provider was using this equipment. One did say, however, that she anticipated continuing her outreach training once the new national voucher program got under way.

An interesting finding of a market survey of Cochabamba course participants and providers conducted in May 2001 is that only 14 percent of voucher users and 7 percent of nonvoucher users felt the training had improved their income-generating capabilities. Training was perceived as desirable and beneficial but not necessarily of direct financial benefit. This perception merits further study, as the theory behind the value of training is that it enhances income-generating potential.

VOUCHERS ALONE ARE NOT ENOUGH TO STIMULATE THE PROVISION OF NEW PRODUCTS

Here it must be repeated that the information function was almost completely lacking in the Cochabamba program, that most users learned of the vouchers through the training provider they had already chosen, and that many were unaware that the vouchers were valid at any participating training institute. Without the information function, vouchers cannot do their job of stimulating healthy competition between providers. With the information function, providers benefit from knowledge of their customer base, and competition is fostered, as users have information about available products. In the past, the information function has been seen mostly in terms of demand-side support, with the challenge being to assist users in making intelligent choices. This challenge persists and is central to sustainability. Additionally, however, steps should be taken to expand the usefulness of the information collected, to allow providers to take advantage of this information. This would provide an incentive for more providers to partake in the voucher program. This information can be collected and disseminated during the distribution and reimbursement of vouchers.

In all programs studied to date, supplier-strengthening activities have proven popular and served to help providers identify their target markets, develop market niches and marketing strategies, and create new products. This was evident in Cochabamba by the nearly 100-percent participation of the providers and their willingness to co-finance workshops outside the country where they learned advanced sewing techniques and machine maintenance. Not only did they learn, but, as alluded to above, they passed on their newly acquired knowledge to their customers in the form of new courses.

Swisscontact could have gone further and offered management and marketing courses to the participating providers, though it was evident that through constant informal communication providers were encouraged to become more active in seeking and satisfying customers. One institute developed a novel, inexpensive approach for advertising its courses: young women currently enrolled were enlisted to model their creations at community and church events.

The result of the Cochabamba voucher program was to increase the incidence of microenterprises in the garment industry seeking and receiving relevant technical training. The focus was too narrow to affect the overall training market, and program restrictions prevented market forces from operating as freely as possible within the context of an intervention that partially distorts the market; however, the program does allow one to draw certain conclusions about best practices for designing and implementing a voucher program. These thoughts are outlined in Table 10.

Table 10: Cochabamba Program Design and Implementation Elements

Positive Elements	Negative Elements
Bureaucratic requirements were minimal; reimbursement was quick and efficient.	Lack of monitoring and audit function. This is *always* necessary. The audit function allows for data collection and detection of fraud.
Small program resulted in open dialogue and exchange between administrators and providers, as well as rapid modifications of the program.	Need better information dissemination to users about the program: majority did not know how much the voucher was worth, where to get more information about the program, which institutes were participating, or what the objectives of the program were (most thought it was a social program to help the poor).
Effective exit strategy through the gradual reduction of voucher value and simultaneous supplier support.	Was not a fluid market; no new entries were permitted; price fixing inhibited market forces; restrictions on course content—users would have benefited from an opportunity to take management and marketing courses in addition to technical courses.
The importance of supplier-strengthening activities was recognized. Providers were required to co-finance.	Lack of an information function limited the market development potential of the program.

DATA COLLECTION SHOULD OCCUR BEFORE, DURING, AND AFTER PROGRAM EXECUTION

The Cochabamba case was important because it allowed an opportunity to compare market dynamics during and after the program. However, many of the key conclusions about program-activity volume and training-institute clientele rely partially on recalled data about what market conditions were like before the program began.

Donors wishing to support voucher interventions will most likely be performing market studies prior to program implementation. Data collection at this early point should be standardized so that key information about prices, products, clientele, and volume of operations can be compared later with information gathered during and after program execution.

Insights gained from the Cochabamba experience about program design and implementation also contributed answers to research questions on other topics, including the following questions, outlined in the MBP research agenda and noted in Chapter One of this report.

What are the best institutional arrangements and the specific institutional attributes for the short-term management of the voucher program and the long-term information management and oversight of a private microenterprise training market?

For the narrow, sector-focused program in Cochabamba, an NGO like Swisscontact, with its considerable experience in development, was an excellent choice. It is independent, has a long-standing partnership with the donor, and is known by the federal government. It also has a presence in the country and was able to recruit competent nationals to manage the program.

The Swisscontact experience in Cochabamba differs somewhat from other programs in that the NGO designed the program it implemented, and has already recognized program weaknesses and rectified them before implementing a similar program in Sucre. The difficulties facing the Cochabamba program relate more to the program's design than to its administration. Swisscontact is committed to the goals of stimulating markets and pursuing a market approach to BDS, important attributes in selecting a voucher program administrator.

When are complementary supply-side interventions justified, and can they be introduced without nullifying the market effects of the voucher?

In the program in Cochabamba, Bolivian providers, on a cost-sharing basis with Swisscontact, took courses in sewing-machine repair and new types of garment production. Within a short time, these bore fruit as providers devised new products based on what they had learned. As program administrators cultivate new providers, they could offer group-based supplier-strengthening activities (on a cost-sharing basis) as a benefit of participation. By offering the training to groups, administrators increase the potential for developing cooperation between providers and also spread the subsidy among more providers, thus increasing the market development impact.

What are the pros and cons of different exit strategies, and how can these strategies be integrated into the design of new programs at the earliest possible stage of implementation?

It is important to let participants—both consumers and providers—know from the beginning that the voucher subsidy is a temporary one. One convincing market signal is a preprogrammed decrease in the value of the voucher over time. This strategy was central to Swisscontact's program in Bolivia and surprisingly successful. Although the value of the voucher fell, providers reported that demand remained stable. Although this assertion needs to be confirmed with documentation such as receipts and attendance records, there were no complaints from providers about the decline in the subsidy. Such a strategy is valuable in preparing participants for termination of the program and for sending a clear signal about administrators' commitment to sustainability.

To increase the potential for sustainability, administrators also must focus on diversifying providers and cultivating more private-sector providers that work to develop courses that are both in demand and profitable. The Cochabamba program instituted restraints on new entries to the program, narrowing the potential for gauging the effect of increased demand on supply. One important element of a voucher program is to stimulate the flow of new suppliers, not just help existing suppliers reach the microenterprise market.

Finally, activities organized by administrators could encourage cooperation between providers when the voucher intervention terminates. Training providers in Cochabamba recognized the increased visibility the voucher program brought them, and indicated that they would be interested in joint-advertising mechanisms. Stimulating competition through cooperation is a new idea in many countries and is often met with resistance; however, interventions such as voucher programs offer an important opportunity to work with BDS providers in groups.

What are valid and practical indicators of best practices to monitor the developments (or distortions) of voucher programs?

Certain indicators relevant to an understanding of other programs, such as the percentage of active providers, do not pertain to the regimented program in Cochabamba. As is true of all programs, the indicators used should be calculated several times throughout the life of the program and should not be evaluated out of context. The principal lesson derived from Cochabamba is the importance of collecting data about voucher use in order to develop the indicators necessary to evaluate the effect of the program. With no audit function, no attendance records, and no postcourse questionnaire, the opportunity for developing indicators, such as customer satisfaction and user paid contribution, is lost. In addition, an accurate picture of users cannot be developed when vouchers are distributed by providers and the data they submit are not verified through an audit.

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ANNEX

BRIEF DESCRIPTION OF TRAINING PROVIDERS

BRIEF DESCRIPTION OF TRAINING PROVIDERS

Institute	Description
Almanza Gutierrez	Works mostly with the unemployed, microenterprises, students without formal careers, and garment workers. Does publicity through a television course, magazines, newspapers, and radio. Sells students' products.
Carmen	Has a sewing school but also takes her courses to neighborhoods and prisons.
Ely	Offering training since 1972 and has two branches in Cochabamba. Seeks out neighborhood and church functions to promote courses.
Emma	Has a large installation in a hillside slum offering training in auto mechanics, hairdressing, and computers, in addition to garment production. Has no competition in her area and serves mostly local residents.
Liffany	Bought portable equipment and rented an additional facility to serve new clientele, but since the end of the program has redirected efforts to offer consulting and technical assistance. Accepts payment in the form of labor on production contracts.
Oruro	Already had worked with microenterprises before participating in the voucher program. Saw number of clients increase 80 percent with program. Has a unique product using a German technology.
Vanguardia	Used few vouchers and left the program before it ended. Clientele comprises middle-class women and commercial producers.
Centro de Fomento a Iniciativas Económicas (FIE)	Spin-off from a microfinance institution that had a training arm.
Instituto para el Desarrollo de la Pequeña Unidad Productiva (IDEPRO)	As of second research-team visit, was no longer operating in Cochabamba. Receives financing from the IDB, publishes a magazine on training and business opportunities, and offers up-to-date vocational courses of study in many areas, including hotel management, auto mechanics, and art. Currently redesigning its course for garment production.
Instituto de Formación y Capacitación Laboral (INFOCAL)	Funded through a business tax that is no longer obligatory, resulting in the training institute being forced, for political reasons, to offer certain professional training courses over others.
Halley's	Didn't consider microenterprises a desirable market niche and dropped out of the program.
Newton-Japones	Allowed students, youths, and neighborhood groups to participate in excess of the percentages dictated by the program. No longer using vouchers by the end of the program.