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**Paraguay Vouchers Revisited:  
Strategies for the Development of Training Markets**

**By  
Caren Addis Botelho and Lara Goldmark**

**USAID's Microenterprise Best Practices,  
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# PARAGUAY VOUCHERS REVISITED: Strategies for the Development of Training Markets

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## ABSTRACT

As the first and longest-running program of its kind, the Paraguayan voucher program has served as an important reference point for researchers attempting to distill lessons about demand for microenterprise training and effective program design. This paper is the first product in a longer research initiative which will aim to address the difficult questions related to the effectiveness of vouchers as a BDS market development tool.

The paper summarizes the voucher program's history of stops and starts within the difficult context of Paraguayan politics and economic development, drawing lessons on implementation and information management from each of the four operational phases. The paper then explores the voucher program's effect on market development, by analyzing longitudinal data on the characteristics of demand and supply in the Paraguayan microenterprise training market.

Main findings from the paper include: a) a typology of service providers, which could be adapted as a framework for use during BDS market diagnostics or program evaluations; b) tips on a useful new indicator for measuring market development and nuances to look for when analyzing price trends in a voucher intervention, and c) lessons on what information should be tracked to provide complementary services for microenterprise clients and generate useful monitoring data for program administrators. Research questions and findings are all presented in relation to the overarching goal of market sustainability.

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## LIST OF ACRONYMS AND ABBREVIATIONS

BDS	Business Development Services
CEPAE	Centro de Apoyo a la Pequeña Empresa / Center for the Support of Small Enterprises
IDB	Inter-American Development Bank
MBP	Microenterprise Best Practices
ME	microentrepreneur
MEC	Ministerio de Educación y Cultura / Ministry of Education and Culture
MJT	Ministerio de Justicia y Trabajo Ministry of Justice and Labor
SBC	Sistema de Bonos de Capacitación / Voucher Program
UEP	Unidad Ejecutora del Program / Program Executing Unit
USAID	United States Agency for International Development

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## I. Introduction

The voucher training program in Paraguay, first financed by the Inter-American Development Bank (IDB) in 1995, has attracted sustained international attention. The program was developed at a time when new thinking began to influence the philosophical and theoretical approaches to reaching micro and small enterprises with business development services (BDS). BDS refers to a broad array of services which are offered to small and microenterprises to improve their management, production, or marketing.<sup>1</sup> In broad terms, the current focus emphasizes sustainability, i.e., providing assistance through services that will ultimately pay for themselves. Linked to sustainability is the concept that BDS programs should be demand-led. The ultimate vision of the future is one where appropriately priced and packaged business development services are delivered on a for-profit basis to educated consumers who own or operate microenterprises. These commercial transactions together would form the business development services market, and the existence of a well-functioning business development services market would enhance small and microenterprises' chances for survival and growth.

The Paraguayan program grew out of a pragmatic solution to a problem the IDB had grappled with for years: how to design training components for Bank-supported microenterprise programs in such a way that microentrepreneurs actually attended the courses? Historically, empty classrooms and abysmal evaluations had characterized scores of obligatory training courses linked to credit programs throughout Latin America. In Paraguay, an innovative consulting team and flexible IDB program officers decided to experiment with the use of the vouchers to stimulate demand. While the program was successful in achieving its primary objective, demand stimulation, many unanswered questions remain, the most important of which relates to the sustainability of the intervention. Based on lessons learned during the early stages of implementation, designers developed an information service to accompany voucher distribution, and maintain that if vouchers are to contribute to sustainable market development, information is *the* critical ingredient (see Schor and Goldmark: 1998).

### The Case for Vouchers

The voucher program in Paraguay was designed to stimulate the market for short-term practical-training by diminishing risk for consumers and providers and by shifting more decision-making information into the hands of microentrepreneurs.<sup>2</sup> By their very nature, training markets are plagued with shortcomings. One shortcoming involves risk assessment by both consumers and suppliers. On the demand side, consumers have great difficulty in gauging the benefits of training before doing a course, and therefore, opt to consume sub-optimal amounts. This is particularly the case with microenterprise populations that are characterized by low levels of both formal education and training. As a result, individual benefits such as income and other positive externalities such as employment generation associated with additional training are foregone. On the supply side, the picture is similar. Providers are often unwilling to invest in and supply training before receiving payment because they fear that customers will renege on their payments once the good is consumed.

There is a second important shortcoming in most training markets, which stems from the history of professional training throughout most of Latin America. State-owned or –promoted institutes have created long-term training programs that are often geared to the needs of large enterprises or individuals who have few time constraints. In Paraguay, the National Service for Professional Promotion (SNPP) plays this role. While certification from this and similar institutes throughout Latin America is well-regarded, these training programs are not appropriate for small and microentrepreneurs. Courses are long-term, typically with a duration of 1 to 3 years. Courses are heavy on theory and light on practical, skills-based sessions.

The voucher program in Paraguay diminishes risks for both consumers and suppliers. Vouchers provide microenterprises with a subsidy and therefore, reduce the risks associated with paying for training before it is consumed and before the benefits can be ascertained. When microentrepreneurs attend the course, they make an up-front payment, the difference between the price of the course and the voucher, but also hand over the voucher, which usually varies between 40 and 80 percent of the

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<sup>1</sup> Business development services do *not* include financial services.

<sup>2</sup> This discussion of the justification for vouchers is based on Schor and Goldmark (1999) and GAMA (1996).

price of the course. Although the microentrepreneur is responsible for the difference between the subsidy and the price of the course, his/her risk is reduced considerably.

Risk is also reduced on the supply side. Registered training institutes with pre-approved courses receive both the up-front the payment as well as the vouchers. The up-front payment is an indicator that the microentrepreneur is serious about attending the course. Although not immediately redeemable, vouchers provide institutes with a guarantee that they will be paid if the students fulfill attendance requirements. The microentrepreneurs must attend at least 75 percent of the class sessions (verified by spot checks made by program administrators during the course), which is a proxy for course quality. In other words, if training institutes do not offer a good product, their consumers will not attend, and the voucher will not be redeemed.

Another important objective of the voucher program is to shift the decision-making from state-owned or state-orchestrated institutes to consumers (Goldmark, Berte, Campos:1997:19; Workshop proceedings:3). Oftentimes, the supply of training is often determined by the state-owned institutes or by contracts that governments or large enterprises make with institutes to provide specific kinds of training. The voucher program in Paraguay is geared towards allowing consumers, microentrepreneurs, to exercise more influence in the market. As microentrepreneurs increasingly make their preferences known, the training providers should react and increase their supply of training geared to smaller clients. In most cases, this means offering affordable practical training in the form of short courses held in the evenings or on weekends.

Program designers discovered that MEs became more informed and astute consumers and were able to voice their preferences more judiciously when they received information about training institutes. Soon after the program began, rankings of training institutes were periodically circulated to the distribution centers. Microenterprises, therefore, could get information about which training institutes were attracting the most voucher students. Although voucher-holders, ideally, should have additional information about course quality, the ranking serves as a useful proxy.

A voucher program should include five key components:

- an incentive structure that sets the conditions on the value of vouchers, their distribution and a quality based redemption system;
- a voucher fund which offers a partial, direct consumer subsidy designed to have significant market scope;
- an information and referral system that distributes information to seekers and providers of business development services;
- a supervision and control system which audits compliance with the system, and finally,
- an exit strategy (such as a predetermined time-frame to lower subsidies, and/or lower subsidies to frequent users).

Voucher programs are characterized by three phases: entry, implementation and exit. This study will focus primarily on lessons drawn from the implementation phase.

## **The Research Agenda**

This study of the Paraguayan voucher program was designed as part of the Microenterprise Best Practices Program (MBP), funded by the United States Agency for International Development (USAID) and managed by Development Alternatives, Inc (DAI). The MBP research agenda on business development services seeks to discover and disseminate new lessons about best practices in the field. As the first and longest-running program of its kind, the Paraguayan voucher program has served as an important reference point for researchers attempting to distill lessons about demand for microenterprise training and effective program design (see Goldmark et al: 1997 and Schor and Goldmark: 1998). The voucher approach is now being replicated in several other countries throughout Latin America. It has become urgent that, in addition to identifying the key elements of a well-designed voucher training program, donors and practitioners recognize the limitations of a voucher-led approach and understand the market development dynamics which underlie a program's success or failure. This paper is the first product in a longer research initiative which will aim to address the difficult questions related to the effectiveness of vouchers as a BDS market development tool. The MBP program will support field research on newer programs currently operating in Argentina and

Ecuador, seminars to discuss intermediate findings, and a synthesis paper meant to address the five questions listed below:

- 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?
- What are effective institutional arrangements/attributes of a short term voucher management scheme and longer term information management/oversight of a private service market?
- When are complementary supply side interventions justified and can they be introduced without nullifying the market effects of the voucher?
- What are the pros and cons of different exit strategies and how can this strategy 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 the developments (or distortions) of voucher financing schemes?

This first paper in the MBP voucher series aims to gauge the Paraguayan voucher program's effectiveness as a market development tool and to learn about how design and implementation affect sustainability. The four phases of the voucher program are reviewed, from the initial pilot in 1995, through several major stoppage periods, up to the newest initiative launched by the Paraguayan government. The information analyzed here was obtained through a variety of sources: field research carried out in December 1999, earlier studies of the program, and data collected over the years by project consultants and IDB program officers.

At the time of planning this study, the voucher program in Paraguay had been deactivated. A new twist, however, altered the research design: the Paraguayan government has inaugurated a new and extremely ambitious voucher program, which in addition to the microenterprise group, targets four additional ones. The continued presence of subsidies will preclude an analysis of exit and sustainability strategies. There are, however, important findings:

- "good and bad" lessons from implementation and institutional practices regarding identifying and qualifying participants, information for consumers, data collection, voucher distribution and redemption and fraud control;
- updated trends in the behavior of supply and demand for microenterprise training in the Paraguayan market, throughout periods of voucher use and voucher stoppage, identifying key factors leading to and retarding greater market development, and
- an analysis of the impact of vouchers on training institutes and an evaluation of the advantages and disadvantages of different business strategies adopted by training providers, with implications for sustainability at both the provider and market level.

Before moving to the findings, background information is presented in Sections II and III. Section II discusses in greater detail the economic and political context in Paraguay, linking these factors to the frequent interruptions in program operations and the eventual transformation of its objectives. Section III summarizes the program's history and compares current thinking on best practices with actual program results.

## **II. Paraguay: The Context of the Voucher Program**

While the initial decision to experiment with vouchers was somewhat experimental, the current one to expand the program is justified by program designers as a response to the adverse economic

conditions plaguing the nation. One of two land-locked countries on the continent, Paraguay is one of the poorest countries in South America. Over 90 percent of the approximately 5 million inhabitants reside in the capital city, Asunción, and the surrounding area. The country is linguistically divided: almost 40 percent of inhabitants speak only Guaraní, the indigenous language. Six percent speak only Spanish, and the remaining 54 percent speak both languages.

Although Paraguay, like most Latin American countries, liberalized many facets of its economy over the last decade, the economy has not responded appreciably. Growth in GDP, already low at an average of 2.9% per year between 1990 and 1994, slowed to 2.0% per year between 1995 and 1998. Difficulties in the banking sector due to the liberalization process<sup>3</sup>, combined with lower demand from trading partners to reduce real GDP growth to only .5% in 1998. Low growth was accompanied by declining GDP per capita and persistent inflation<sup>4</sup>. Then, the devaluation of the Brazilian Real in early 1999 further aggravated Paraguay's recession. Government officials and training institutes point to the need for vouchers to help microentrepreneurs weather the adverse conditions.

In the formal economy, agriculture represents 25 percent of the GDP; industry about 15 percent; and the service sector the rest (including 24% in commerce; 10 in transportation; 2 in electric energy). Statistics on the Paraguayan economy underestimate the informal sector, where microenterprises and the underemployed play a critical role. An estimated 40 percent of the economically active population is underemployed. Estimates of the total population of microenterprises (both formal and informal) in Asunción are between 310,000 and 340,000 and each microenterprise employs, on average, 2.6 people (ITEP-BCP/BID).

Paraguay's prolonged 35-year dictatorship under Alfredo Stroessner ended in 1989. The country has since held multiple democratic elections and undertaken important political, economic, and institutional reforms. The process, however, has been rocky, with political conflicts hindering major progress. The political clashes peaked in early 1999 with the unexplained death of the vice-president and the flight of the president. Political turbulence continues to affect many government programs. This turbulence has affected the voucher program because it engenders personnel changes and contributes to generating delays in voucher redemption. In addition, the voucher training program has become a political football because it addresses a sensitive issue: 85% of Paraguay's fiscal budget goes to pay the salaries of civil servants, while 10% goes to debt servicing and only 5% to services and investment<sup>5</sup>. The second phase of the voucher program (described below) linked it to an effort to dismantle the state-owned training behemoth, the National Service for Professional Programs. A proposal is circulating in the Paraguayan Congress to slash the budget of SNPP and divert the monies to fund vouchers. If the proposed law is passed the SNPP would have to compete for vouchers with many smaller institutes currently offering training services in the market.

### III. History of the voucher program

The Paraguayan voucher program was largely the brainchild of the consulting firm GAMA (Grupo de Asesoría Multidisciplinaria), contracted by the IDB to participate in the implementation of a larger microenterprise development loan. The program initially commenced in July of 1995 and ran until July 1997, a period of 25 months. During the **first period**, the demand for vouchers was strong; voucher distribution and redemption was smooth and quick; the number of participating suppliers grew as did their course offerings; communication among the different executing agencies was effective and therefore, lessons learned in the field were quickly put into practice. For example, it was during this period that program designers discovered the importance of the information components which consisted of informing consumers of the rankings of the training institutes in terms of the number of vouchers redeemed. The ranking was considered to be an inexpensive and easy way to inform consumers of the relative quality of suppliers. The short voucher redemption period (from one to two

<sup>3</sup> Starting in 1995, the banking system was also restructured. However, due to insufficient supervision plus slow implementation and poor enforcement of regulations, thirteen domestic banks (one third of the banking system) failed after the liberalization in 1995. This eroded confidence in the financial sector.

<sup>4</sup> GDP per capita declined steadily from US\$1,513 in 1995 to US\$1,445 in 1998. Inflation has hovered around 14% since the devaluation of the national currency in 1998. (Inter-American Development Bank and International Monetary Fund, Public Information Notice No. 99/6, January 29, 1999).

<sup>5</sup> "Paraguay: A Soldier's Return?" *The Economist*, October 9, 1999.

weeks) ensured a positive cash flow for institutes and depending upon the owner's business strategy, provided opportunities for growth and diversification. GAMA participated actively in program administration during the first phase.

The executing ministries and agencies were changed for the **second phase** which occasioned delays in start up.<sup>3</sup> It was argued that since the program addressed training concerns it should be moved from the Central Bank to the Ministry of Justice and Labor, where it was hoped that, through a demonstration effect, the microenterprise voucher training initiative could serve as a catalyst to jump-start a slow moving IDB program to privatize the national training agency (SNPP). After a 7-month hiatus in which the rocky transition was worked out, voucher distribution recommenced in February of 1998. It was terminated again in December of that year. This second phase was characterized by delays in redeeming vouchers. In operational terms, the program was based on the same principles as the first phase, and GAMA continued to play an important role. The ultimate goal, however, had become one of altering the dynamics of the country's entire training market.

The **third phase**, a short-term emergency voucher plan, was instituted in July 1999 and terminated in September 1999. It was devised as an emergency plan to alleviate the devastation in Ciudad del Este, a city which borders Brazil and was hard-hit as a result of the devaluation of that country's currency in January, 1999. The emergency program was soon extended to Asunción to assist microentrepreneurs in that city and to take advantage of the availability of IDB funds (Interviews with UEP personnel, December 3, 1999). GAMA's team had left the country by the time this plan was implemented.

In October 1999, the **fourth and current phase** began, with a trajectory that reflects clearly the Paraguayan government's objective of privatizing the national training agency through the use of vouchers. This decision is expected to be ratified by the Paraguayan Congress soon. The new program was expanded to include, in addition to microentrepreneurs, youth seeking entry into the labor market, unemployed, workers seeking additional training, and small agricultural producers.<sup>6</sup> Each of these target groups will have approximately 10,000 vouchers at their disposal until the Inter-American Development Bank financing runs out, at which point ostensibly the Paraguayan government will begin to fund the voucher program through taxes paid by formal-sector employers that were previously earmarked for the SNPP. On average, microentrepreneurs who participated in the earlier phases, used 2.4 vouchers each. If this usage persists, approximately 4160 additional microenterprises will benefit from training during the tenure of the new IADB loan. Approximately 13,700 microenterprises have participated in the voucher program to date.<sup>7</sup>

The fourth phase of the program is suffering from start-up problems: requirements for eligibility are not clear, the opening of the voucher distribution centers has been delayed, and even for functioning centers voucher availability is sporadic and unreliable. Furthermore, the waiting period for voucher redemption by institutes has reached three months. This delay forces the institutes to carry the costs of giving the courses (rent, instructors, materials, etc.). Lastly, the practice of collecting a co-payment from microentrepreneurs in addition to the voucher has been abandoned by some institutes, with no reaction by program administrators. This practice is most prevalent in institutes that cater that have a social mission or try to maximize the number of students with little regard to quality and investment (see "Do-gooders and "Rogues" in section on Supply of Training). In our sample, at least 20 percent

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<sup>6</sup> The number of vouchers and eligibility requirements for the different groups vary. Unlike the vouchers for microentrepreneurs which are only supposed to cover part of the cost of training courses, the vouchers for youth seeking entry into the labor market cover the full cost of courses. To be eligible, youth must be between 15 and 30 years of age and have completed primary school, in addition to other bureaucratic requirements. Youth may receive up to 26 vouchers. Courses are 40 hours long and part of the vouchers are destined to pay for a internship. Unemployed workers are eligible for 8 vouchers to use in accredited 20-hour courses, also without co-payment. To be eligible, an unemployed person must be between 19 and 60 years old and must fulfill additional requirements (i.e. certificate of good conduct). Employed workers seeking to upgrade their skills are eligible for up to 6 vouchers to be used for 20-hours courses. The worker is responsible for a co-payment equal to 50 percent of the course price. Rural producers are eligible for up to 12 vouchers to pay for 20-hour courses which can include individualized technical assistance. To be eligible, rural producers must own less than 20 hectares of land. For additional information see the "Reglamientos."

<sup>7</sup> This number is slightly underestimated because there are no data for the third, emergency, phase.

of training institutes were not charging the up-front payment and therefore not inculcating practices of purchasing training.

## **IV. Demand**

This section analyzes changes in user profiles over the different program phases as well as the implications of these changes for market sustainability. The data on voucher users comes from the distribution center database (CEPAE). This section also analyzes consumer satisfaction and reported impact of the voucher program on participants. The information is based on program statistics as well as the analysis of a survey of 76 microenterprises carried out over nine days in December 1999 in Asunción.

Given the short time period in which to execute the survey, the majority of respondents were interviewed at the distribution center while they were picking up a voucher (64%) or by telephone (12%). The sample, therefore, is skewed toward firms that probably have had positive experiences (which is why they are picking up additional vouchers) or toward the more established firms who have telephones. Rather than being representative, the sample is a "critical case." In other words, if those taking repeat courses and the more established MEs are not benefiting from the program, then it is unlikely that MEs in more precarious conditions would benefit.

Throughout this section, the information from the distribution center data base as well as the December 1999 survey will be compared to past survey of voucher users done in 1997 (see Goldmark, et. al:1997), and to a survey of 600 microenterprises currently accessing credit through formal financial institutions participating in an IDB-financed microenterprise program. The latter survey was carried out in early 1999 (Duarte-Gimenez:1999). These comparisons serve three purposes. The first is to ascertain trends and changes in the characteristics of demand over time. The second is to be able to compare tendencies in the use of BDS by different groups of microenterprises. The third is a reality-check: to make sure the recent survey of the smaller group can be taken as representative of the population of voucher users in general.

The profile of voucher users has changed slightly over the course of the program. Current users are somewhat smaller than previous users in terms of assets and they are more heavily weighted towards services, as opposed to commerce and manufacturing. These changes may be partially accounted for by changes in verification procedures to determine user eligibility, which are less rigorous than in the past. It is probable that many who aspire to become, but have not yet achieved microenterprise status, are receiving vouchers. There are no systematic procedures by the UEP or CEPAE to visit firms or otherwise verify whether or not an enterprise really exists. While the more lax verification procedures may be spreading the benefits of training, they are also sustaining "Rogue" training institutes whose strategy is to minimize investment and maximize students. These institutes tend to target aspiring rather than actual microentrepreneurs (See Rogues in section on Supply.)

## Profile of ME Program Participants

### Educational levels

About 70 percent of all voucher users have had some years of or completed high school, which is slightly lower than the national average for microentrepreneurs.<sup>8</sup> A 1996 survey found that the average Paraguayan spends ten years in formal schooling (U.N. Statistics Division). The educational levels of users surveyed in December 1999 was consistent with educational levels of voucher users in general.<sup>9</sup>

### Firm Size and Age

Voucher users generally own or work in the smallest microenterprises. Almost 97 percent reported five or less people working in the firm. This is consistent with the December 1999 survey<sup>10</sup>. In addition, survey respondents' firms are generally recently established: 15 percent are less than one year old; 39 percent, between 1 and 3 years; and 14 percent more than 10 years old. There is no comparable data on age of firms for the population of voucher users in general.

### Gender

Women comprise 75 percent of the total population of voucher users. The figure for the December '99 survey is similar (72%). The relative importance of women leads to at least two effects, which are particularly evident during voucher stoppages. The first is on the training institutes themselves. The availability of vouchers leads to large increases in enrollments in institutes that teach traditional feminine domains, such as hairdressing and related activities (cosmetology, color, etc), but does not have as a great an impact on enrollments in institutions that teach disciplines related to mechanics and electricity, where most students are men. Therefore, when there is a stoppage in voucher distribution, the number of students in institutes devoted to training associated with women falls drastically. Since 75% of users are women, a fall-off in vouchers means that there will be proportionately less female students in the market. This is because the total number of students seeking training drops when vouchers are stopped. Another explanation of the gender impact of voucher stoppages given by women users during interviews is that women who are heads of households often consider that their income should be automatically earmarked for the family budget and therefore they may not be as willing to divert income toward training.

### Learning their trade

Almost 35 percent of those surveyed in December 1999 learned their profession on the job, while 49 percent learned it by taking a course in a private training institute. Only 7 percent studied in the SNPP or 10 percent in a vocational high school. These statistics demonstrate the relative unimportance of SNPP for the microenterprise sector. This is significant because SNPP is the country's principal training institute, while microenterprises are the most prevalent source of employment and income generation.

### Sector

Voucher users tend to be concentrated in the service sector, 43 percent, but this is closely followed by manufacturing, 40 percent, and commerce, 16 percent. National statistics since the mid-1990's have

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<sup>8</sup> A recent study found that 80% of microentrepreneurs in Paraguay finished primary schooling, and 47% finished high school. (Gimenez-Duarte) This same survey found that 71% live in their own house. The level of education of the voucher users is higher than the average person in Paraguay (ten years), but lower than those of formally employed workers – 43 percent of workers have completed primary school and 39 percent secondary school (IDB Country Report:23).

<sup>9</sup> Table X below compares the educational levels of all voucher users with those of the December 1999 survey respondents, showing that the educational levels of survey respondents is consistent with educational levels among voucher users in general. Approximately 70 percent of all voucher users as well as survey respondents have some years of secondary school.

<sup>10</sup> The data on number of employees for the December 1999 survey is more precise. Over 50 percent are one-person operations and 23 percent have two people working in the firm. Firms with 3 to 6 workers represent less than 10 percent of the total, with the percentage of firms falling as the number of workers rises.

shown that the majority (about two-thirds) of microenterprises operate in the commerce sector, followed by service and then small manufacturing<sup>11</sup>.

The activities of respondents to the December 1999 survey of 76 users shows that voucher users are heavily skewed toward services (71%), followed by manufacturing --including artisanal products (12%), and commerce (12%). This higher concentration on the service sector in the 1999 survey versus the more balanced distribution between services and commerce that characterizes voucher users in general --(43%/40%) -- may be partially attributable to the effects of the extreme recession and the decline in the profitability of commerce due to the Brazilian devaluation. Earlier data on the microenterprise sector in Paraguay shows a higher concentration of microenterprises in commerce (IDB Country paper and Goldmark et al., 1997).

#### Annual Sales Levels

Among the population of voucher users, approximately 20 percent report that they have annual sales of up to US\$ 1,000; 37% between US\$ 1000 and 5,000; and 37% between US\$ 5,000 and 10,000. The total of firms with sales of 10,000 or less is 93 percent. This figure is very similar to that of the 1999 survey respondents. Over 90 percent reported that their annual sales were under US\$ 9,000.

#### Asset Levels

Almost 62 percent of all voucher users have assets of less than US\$1,500, while 83 percent of the survey respondents fall in this category. The survey sample is smaller than the population of microenterprise users in general. As mentioned above, screening of voucher users is less rigorous and therefore, microenterprise aspirants rather than actual microenterprise owners (and employees) are picking up more vouchers.

#### Use of Credit

There is little overlap among microentrepreneurs who access training and credit. Most survey respondents from the December 1999 sample (75 %) report that they are not currently accessing credit. This is consistent with information given by the 600 microfinance clients surveyed; only 12 percent of those in Asunción and 0 percent in the contiguous cities had availed themselves of training in the past year (Duarte-Giménez:17). Other research on microenterprises confirms similar findings and reveals that those who take out loans are not necessarily the same as those seeking training (Goldmark, et al., 1997). The demand for financial versus training services appears to correspond to the needs of firms in different phases of development.

### **Finding out about the Voucher Program**

Survey respondents learned about the availability of vouchers primarily from two sources: acquaintances or family members (39%) and from a training institute (24%). These sources have changed over time. During the first phase of the program, 45 percent of users learned about the program from friends or family, and only 5 percent of users learned about the program from training institutes. The change in information sources reflects two factors. The first is that spending for publicity about the program in the media (newspapers, television, and radio) has been cut due to shortages of funds, which is reflected in the decrease of this medium as a source of information about the program (45 percent during the first phase to 20 percent currently).

The increase in the proportion of students learning about the program from training providers is also significant in terms of market development. It suggests that training institutes have become better at attracting students, either by improving their advertising or by helping potential students get to the distribution center (some institutes, for example, provide transportation). Again, while this is an indicator of supply side development, it should be interpreted with caution. For example, in Paraguay, some institutes became adept at gathering students but not interested in investing and improving their courses (see section on "Rogues" below). Ideally, improvement in marketing and promotion should develop in tandem with efforts to improve the quality of services.

**Table 1: How did you learn about the voucher program?**

	1999	%	First phase	%
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<sup>11</sup> The relative importance of services is consistent with the survey result of the microfinance population (Duarte-Giménez). Eighty-five percent of this group is dedicated to services and commerce; 10% to manufacturing; and 1 % to agriculture.

	survey respondents		survey respondents	
<b>Press, radio, television</b>	15	20	44	45
<b>Family or acquaintances</b>	30	39	31	33
<b>Training Institute</b>	18	24	5	5
<b>CEPAE or UEP (MJT)</b>	1	1	4	4
<b>Trade associations or other firms</b>	7	9	3	3
<b>Other</b>	5	7	10	10
<b>Total</b>	76	100	97	100

Source: Survey administered to 76 voucher users in December, 1999; Goldmark, et. al. pg. 22.

## Consumer Satisfaction

As mentioned in the discussion of the December 1999 survey, the sample is skewed towards current voucher users and microenterprises with telephones. If these consumers are not satisfied, it is unlikely that microenterprises in more precarious conditions and which are not currently using vouchers will be satisfied with the program.

Survey respondents generally report that the training acquired via the voucher programs is beneficial<sup>12</sup>. Regarding the price of courses, almost 60 percent of those surveyed reported that the price of the course was acceptable and 40 percent that it was cheap. Only 3 percent said that it was excessive. These responses are to be expected given the contribution of the voucher to defraying course costs. More useful in providing insight into the willingness to pay of microentrepreneurs for training is the data that was collected from institutes, especially with regard to attrition rates (see section on Supply).

The information about repeat voucher users during the first two phases of the program (the only phases for which data is available) also points toward consumer satisfaction. While 48 percent of program participants stopped after using one voucher, 22 % used two; 9 % used three; 6 percent four. In total, 52 percent used more than one voucher.

## Reported Changes in Income

Microentrepreneurs report that training obtained through the voucher program has a pronounced impact on their revenues. Approximately 60 percent of those surveyed responded that their revenues increased at least 5 percent as a result of the training, and close to 30 percent reported that revenues increased at least 10 percent.

While responses such as these are not always very accurate, it is interesting to calculate that with the voucher subsidy, the payback period for an average microentrepreneur would be less than one month<sup>13</sup>. Without vouchers, the payback period would be significantly longer. Microentrepreneurs often have specific, short-term time frames which are related to their cash flow cycle. If the course has not paid itself back within a month, it could seem to some entrepreneurs that it does not matter whether or not it pays itself back eventually; he/she simply is not going to lay out the cash.

There is anecdotal evidence to support the reported income gains from training. In a business administration course for people with stalls in a regional municipal market, course participants recounted that they learned how to better address client needs, improve their marketing, and better administer resources. For example, participants learned to better communicate with clients. If the

<sup>12</sup> Almost 100 percent of those surveyed reported that the training was either very useful or quite useful for their businesses, and close to 80 percent of respondents stated that the length of the course was acceptable. Almost 100 percent of those surveyed stated that the instructor was acceptable or interesting and fun.

<sup>13</sup> The average price of a course is US\$34.00. The subsidy for the course is approximately 40 percent which means that on average, the voucher user pays US\$15.00 out-of-pocket. Monthly gross sales of microenterprise owners using vouchers are on average US\$417.00. If the course has led to a 5% increase in monthly sales, then the increase is about US\$21.00 per month. In other words, in one month, out of pocket expenses for the voucher user have been recovered back and about US\$ 6.00 in additional revenues are generated.

merchandise that the client wanted was not available, stall owners learned to tell the client when it would be available or to offer alternatives. Another owner recounted that she learned how to save money and how to better display her wares. Many explained that they learned how to use promotional sales to improve business. Likewise, students in a beauty salon course report that they were able to increase the price of haircuts and offer their clients new services. Microenterprises interviewed during earlier phases of the voucher program offered similar examples. One voucher user learned how to better manage and package his stock, which led to significant increases in sales.

## Demand Creation

The impact of the voucher program on demand creation is strong in the short term – i.e., while vouchers are available. The question is whether or not this additional demand would continue to be felt if the vouchers were discontinued (see discussion on enrollment and attrition rates in the section on Supply). Within the research sample, approximately 39 percent of microentrepreneurs who had not had any training during the last two years (prior to participating in the voucher program) reported that they surely would pay for future training in the event that vouchers were not available. In other words, those who have had no recent experience with training, report that as a result of the training that they acquired via the voucher program, they would pay for it in the future. Likewise, of those that had benefited from training during the past two years, 72% affirmed that they would be willing to bear the costs of future training.<sup>14</sup>

**Table 2. Willingness to pay**

Have you taken a training course in the 2 years preceding your participation in the voucher program?	Would you be willing to pay for future training in the event that vouchers were no longer available?					Total
	Yes, absolutely/ (%)	Possibly/ (%)	Did not know/ (%)	Unlikely/ (%)	No/ (%)	
Yes	18	0	5	1	1	25
No	20	9	3	6	13	51
Total	38	9	8	7	14	76
(%)	50	12	11	9	19	100

## V. Supply

This section analyzes the impact of the voucher program on the supply side of the microenterprise training market. The discussion covers: volume of transactions, product development, geographical spread, attrition rates, prices and subsidy levels. In addition, this section analyzes in detail the dynamic interaction between the voucher intervention, the training market, and the business strategies adopted by providers.

The voucher program has significantly changed the nature of training, mostly as a result of the program regulations which require that courses be short-term (currently a maximum of 20 hours) and given at convenient hours for microenterprises. Course content is generally practical and applied, which is also consistent with program regulations. In some cases, institutes that have parallel programs, that is traditional, longer-term and more theoretically-oriented programs that are approved by the Ministry of Education and Culture, have slightly modified this latter program and made it more modularized, but still continue to offer them.<sup>15</sup> In other cases institutes continue to maintain parallel

<sup>14</sup> Surprisingly the affirmative responses, that is those that responded that they would bear the costs of training in the event that vouchers were not available was higher in the groups interviewed by telephone (66%) and in the field (45%). Therefore, the concern that the respondents from CEPAE would be overly enthusiastic because they were in the process of picking up a voucher may be unfounded. Although the percentage of those in this group responding that they would bear the costs of training was high (40%), it was not as high as in the other groups.

<sup>15</sup> Examples of institutes that have modified their longer-term, more theoretically-oriented courses include Primera Escuela de Panaderia (baking school), Fundación Koplíng (wide variety of courses, but also mechanics courses); ICE, the Central Institute for Electronics, teaches various courses related to repair of computers,

course curricula relatively intact. This diversification of products available on the market and versatility of some course offerings (i.e., modularized but sequenced) means a greater variety of student needs can be met at the same time.

**Table 3. Volume of Transactions, Cost, and Subsidy Data for Voucher Program**

	Total number of courses offered	Number of vouchers	Average price of micro-enterprise training course (US\$)	Average cost per student /hour	% Subsidy (voucher revenues/ total revenues from voucher courses)	% Market Subsidy (voucher revenues/ total revenues from all training products)
<b>First phase</b> (5/95-5/97)	1,282	14,894	33.7	2.11	46	ND
<b>Second Phase</b> (2/98-12/98)	740	6825	24.4	1.38	58	ND
<b>Third Phase</b> (6/99-9/99)	ND	ND	ND	ND	ND	ND
<b>Fourth Phase</b> (10/99 to present)	390*	7,820*	24.5	1.44	40.9	ND
<b>Research Sample</b>	78	1,564**	24	1.34	47.2	40

ND = no data available

\*Data on volume was estimated based on sample. Program information from recent phases is sketchy.

\*\*The number of vouchers is slightly overestimated because a few institutions neglect to ever collect vouchers from students, but do not collect payment either.

\*\*\*Prices are slightly overestimated due to the fact that a few institutes offer discounts for non-voucher students.

As can be seen in Table 3, the number of course offerings was dramatically high during the first phase of the voucher program, although it fell during the second, probably due to the delay in the transition between operating units. It is worth noting that although the total number of courses offered in the first phase was higher, this volume took some time to build up. The average number of courses offered per month (in each year) during the first phase grew from 19 to 78 to 256. This data also suggests that the voucher program, after an initial gestation period, stimulated a burst of product development activity on the part of training providers, resulting in a huge number of course offerings. The market then proceeded to weed out, over time, some of the less desirable products.

The subsidy level, measured as the percentage of voucher revenues over total revenue from voucher courses, is a useful program statistic which provides information about the proportion of non-voucher students in courses and the institutes' pricing policy. This indicator can provide a useful measure of the relative strength of the voucher as a development (or distortion) tool within the context of the program. The "market," in this case, is the market of microenterprise training courses which are eligible for vouchers. An even more useful indicator, but one which is much harder to track because of the extra data-gathering required, is the subsidy level measured as the voucher revenues over total revenues from all training products (either offered by participating institutions, or in the market as a whole)<sup>16</sup>. Data from the sample shows that the subsidy level in the marketplace (as defined by registered institutions) is 40%, which is lower than that within the universe of voucher-eligible courses, 47%. In a highly developed BDS training market one would expect the difference between the two subsidy-levels to be greater. These indicators suggest that training markets in Paraguay are still relatively dependent on vouchers. Tracking these two indicators over time would allow for a better analysis of the sustainability of market development fueled by vouchers. Although both should decline, in the case of constant subsidy levels within the program one would at least look for a widening gap between the two indicators.

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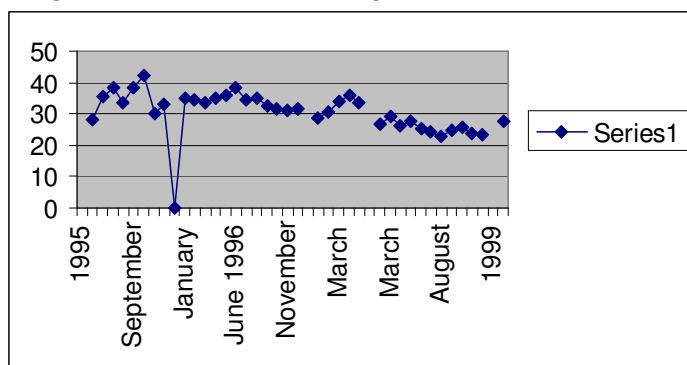
electronic components in general as well as basic courses in electricity, computers, and other areas; CEP, the Center for Professional Training, offers courses related to beauty salon services.

<sup>16</sup> It is important to note, however, that neither of these calculations account for subsidies which are channeled directly to institutions through supply-side mechanisms, i.e., SNPP's tax-based income, and donor resources received by some of the non-profit institutes participating in the voucher program.

## Prices

Course prices have generally declined over time, although they do tend to rise during the introduction of new voucher phases. The rise in prices is most likely an attempt to take advantage of the voucher rather than a reflection of real cost increases. The rise in prices is likely to be a boondoggle for the training institutes. However, if the cash bonanza is well invested, it can bode well for sustainability (See section below on Expanding Diversifiers).

**Figure 1. Cost of Course per Student Hour**



Using course prices alone as an indicator for market sustainability or program effectiveness can be deceiving. For example, if training providers are competing exclusively on the basis of price, then course quality is likely to suffer. In the ideal world, prices are falling slightly because institutes have more students (economies of scale) and have learned how to develop and deliver courses more efficiently (learning curve). Thus, trends in course prices are most useful when analyzed in conjunction with information about the

type of competition among training institutes.

In the Paraguayan market, there are multiple types of competition and therefore the price declines were generally indicative of learning, attempts to attract students during adverse periods, as well as some purely price-based competition.

## Geographical Spread is Widening

One result of the Paraguayan voucher program is increased geographical spread in the supply of training, although coverage is still quite limited in national terms. The program brings training to other parts of the country, reaching underserved markets that are hungry for training.

The expansion is occurring in three principal ways:

- more institutes in the interior (between about 30 and 60 kms. from Asunción) are being qualified;
- the third-phase emergency program in Ciudad del Este led to accreditation of institutes in that city;
- institutes based in the capital have discovered that it can be profitable to provide training in the interior (generally in the cities that lie within a 20-60 kms. radius). Typically the training institutes from Asunción negotiate agreements with cooperatives or local governments who put together groups, find a locale, and may also underwrite the some of the costs of the courses. Interestingly, this expansion is occurring despite the fact that regional and mobile voucher distribution has been severely curtailed.

The strategy of diversifying geographically is limited by the availability of vouchers in these areas. Training institutes complain that distribution is insufficient and the cost for users to go to Asunción to pick up vouchers is high. Occasionally, institutes will make an agreement to underwrite CEPAE's costs to go to a city in the interior to distribute vouchers or institutes will bus students to the distribution center in Asunción.

## Attrition Rates

Vouchers reduce attrition rates significantly in all institutes (those in traditionally women's areas such as handicrafts and beauty-salon as well as those in mechanics, electricity and other traditionally male domains). All institutes reported that, prior to the program and during stoppages, drop-out rates were often high because students were unable to meet the monthly payments for long periods. The vouchers attenuated this financial burden, and institutes report that drop-out rates fell, often to 15%

from about 50 to 60%<sup>17</sup>. The more stabilized attendance means that students receive a better education and institutes have more security and plan ahead and contract teachers on more favorable terms.

### **Impact of Program on Training Providers**

One of the principal objectives of voucher programs is to develop a dynamic and sustainable supply of training. Our research in Paraguay suggests that, ideally, training institutes should be diversified so that they have the ability to weather rough periods such as economic recessions and/or bureaucratic difficulties in program administration, yet continue to offer training and to innovate. In many cases, past phases of the voucher program provided training institutes the wherewithal to embark on or fortify their diversification strategies.

The sample group consists of 18 training institutes. The sample is not random, but rather selected to include institutes that participated in each of the three major phases of the program, which allows us to analyze the impact of the program on training institutes over time. The sample represents slightly over 20 percent of registered training institutes in the city of Asunción. Within the research sample, 14 training providers, or approximately 80 percent, were currently active. This proportion is slightly higher than that of active institutes in the general population of registered training providers.

**Table 5. Number of registered and active institutes**

	<b>Training Institutes – registered</b>	<b>Training Institutes – active</b>	<b>% active</b>
<b>Phase 1</b>	46	22	48
<b>Phase 2</b>	54	41	76
<b>Phase 3</b>	100+	ND	ND
<b>Phase 4</b>	104	64	62
<b>Sample</b>	18	14	78

One finding from the analysis of the survey is that while none of the 18 training institutes interviewed was created specifically in response to the vouchers, the program has significantly affected the development of these institutes. The training providers from the research sample tended to fall into one of four groups listed below, according to their business strategy vis-à-vis the vouchers. Below is a typology of institutes.

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<sup>17</sup> This phenomenon, again based on cash-flow, explains program statistics from the second phase which showed some students taking five short courses in a row, using a voucher for only two or three of the five courses. In certain months, the student was able to make the payment and decided that the trip to the voucher distribution center to wait in line was not worthwhile. In other, leaner months, the student needed the voucher to be able to make the tuition payment.

**Table 6. Typology of Training Providers**

<b>Entrepreneurial/Expanding Diversifiers</b>	<ul style="list-style-type: none"> <li>• These institutes are continually innovating and expanding. They can sustain or devise new courses while simultaneously shifting energy to alternative activities to ride out periods of adversity.</li> <li>• Develop and invest in new products that are not voucher-dependent (often with profits generated from previous voucher periods).</li> <li>• Often have parallel Ministry of Education-registered courses (long-term and more theoretically-oriented) that permit the institute to maintain teaching activities independent from the voucher program.</li> <li>• Although these institutes will suffer from delays in redeeming vouchers, and from economic recessions, they generate cash flow from alternative activities and will continue to offer training to microentrepreneurs, even under adverse conditions.</li> </ul>
<b>Risk Averse Diversifiers</b>	<p>Similar to the expanding diversifiers, these training providers “hedge” themselves through investments in alternative income-generating activities. During adverse periods, however:</p> <ul style="list-style-type: none"> <li>• Parallel activities grow proportionately while course offerings fall.</li> <li>• Investments in teaching and other activities curtailed.</li> <li>• The strategy is simply to ride out the adverse period.</li> </ul>
<b>Do-gooders</b>	<ul style="list-style-type: none"> <li>• Course prices do not cover costs and therefore training generates losses.</li> <li>• The owners and directors of these institutes typically articulate a “social mission”.</li> <li>• Institution often operates other types of social programs.</li> </ul>
<b>Rogues</b>	<ul style="list-style-type: none"> <li>• The owners/directors of these institutes typically skirt the rules.</li> <li>• Their institutes are “factory-like” and attempt to maximize voucher income from students while minimizing investment.</li> </ul>
<b>Inactive</b> (There are many motives behind the decision to become certified but not participate. Each of these listed describes <i>one</i> of the inactive participants in the sample)	<ul style="list-style-type: none"> <li>• Participated in the program in the past, but decided that the bureaucratic requirements were not worth the effort.</li> <li>• Courses are approved, but not many potential voucher holders are interested or willing to go to the trouble of picking up vouchers.</li> <li>• Are currently inactive, but gearing up to take advantage of vouchers as a promising area for growth and diversification.</li> </ul>

### **Entrepreneurial/Expanding Diversifiers**

The expanding diversifiers in the sample are the “success” stories of the supply-side of voucher programs. They use voucher income not only to cover the costs of courses, but also to make new investments in their institutes. They are diversified, and therefore suffer less from the effects of economic downturns or program vicissitudes such as delays in payment. Many of the expanding diversifiers used the voucher income from previous phases to solidify their diversification strategies. They tend to be leaders in their sector, and therefore they are more innovative and introduce new technologies, often from other countries, to microentrepreneurs.

The expanding diversifiers are a very heterogeneous group. Within the research sample, these institutes service anywhere from 25 to 402 students monthly, volumes which are close to the minimum and maximum ranges of the Paraguayan program. Their assets range from US\$2,500 to about US\$105,000. The percentage of their income generated by vouchers represents between 20% and 60% of total revenues. As a general rule, expanding diversifiers do not own their own facilities, but rent them. This may increase the pressure on these institutes to keep generating income and

therefore innovations, both within and outside of their training domains. The diverseness of this group suggests that there are few prerequisites or barriers to entry to becoming an expanding diversifier and potentially any institute could opt for this strategy. Institutes do not need to make large investments in fixed assets to fall into this category, although an expanding-diversifier in computer-related training will need to make a larger investment than one in business administration. The expanding diversifiers, by nature, would be expected to place more emphasis on quality human resources. Curiously, however, investments in human resources do not vary by type of institute.

**Table 7. Profile of Expanding Diversifiers**

	<b>No. of students/month (12/99)</b>	<b>Assets (US\$)</b>	<b>Percentage of total revenues derived from vouchers*</b>
<b>Beauty Salon Services #1</b>	251 (higher than average due to repressed demand)	30,000	73
<b>Beauty Salon Services #2</b>	50	105,000 (owns facilities)	60
<b>Computer-related Courses &amp; Services #1</b>	400	40,000	ND
<b>Electronics and Computer-related Courses &amp; Services #1</b>	84	20,000	50
<b>Diversified Training #1</b>	25	2,500	20

\* This revenue figure includes additional non-training products offered by the institutes, i.e. consulting, repairs, etc.

### **Risk-Averse Diversifiers**

The risk-averse diversifiers, like the expanding-diversifiers, are well-positioned to survive economic and program-related vagaries. These training providers fall back on their principal activities, i.e. car repair or handicrafts. Risk-averse diversifiers continue to offer courses, but training represents a declining share of income (which is also the case for the expanding diversifiers). Unlike the expanding diversifiers, however, the risk-averse diversifiers do little course innovation or investment, and this is curtailed even more during downturns. As a general rule these institutes are small – servicing from 35 to 60 students monthly -- and own, rather than rent their installations.

**Table 8. Profile of Risk-Averse Diversifiers**

	<b>No. of students/month (12/99)</b>	<b>Total Assets (US Dollars)</b>	<b>Percentage of total revenues derived from vouchers</b>
<b>Mechanical Skills #1</b>	15	36,000 (owns)	60
<b>Handicrafts #1</b>	63	3,000 (borrowed facilities)	50
<b>Mechanical Skills #2</b>	50	100,000 (owns)	25

## Do-Gooders

The third group, the do-gooders, either intentionally or unknowingly generate losses from their training activities. The directors/owners of these institutes typically have worked in development-related projects or non-governmental-organizations/cooperatives in the past. These institutes argue that their students are unable to make the up-front course payment and therefore will not take the course if the payment is required. Often, the do-gooders do not enforce the rule that students need to pick up their vouchers because they feel sorry for the microentrepreneur: the voucher distribution center is far away or the illiterate microentrepreneurs will be embarrassed because they do not know how to sign for the vouchers. Another explanation for poor financial performance is that their accounting system may not be sufficiently developed to detect the losses. Some of these do-gooders are subsidized by foreign donors, and therefore, do not face the same constraints as the expanding diversifiers who have rent and other costs that need to be paid from their revenue streams.

**Table 9. Profile of Do-Gooders**

	No. of Students (12/99)	Assets US Dollars	Vouchers as a percentage of total revenues	Source of subsidies
Printing Skills #1	50*	5,000	0***	Other activities
Diversified Training #2	115	350,000	20	Donor funds
Mechanical Skills #3	200	200,000	ND	Donor funds
Business Administration #2	200**	5,000-7,000	10	Other activities + donor funds
Business Administration #3	170	10,000	0***	Other activities

\* estimate based on October and November 1999.

\*\* estimated average 1999

\*\*\* Courses generate losses in these institutes. In one case the costs of the loss-generating course -- instructors and travel -- reached 25 percent of the institute's total revenues.

These do-gooders generally offer high-quality courses and do not skimp on equipment and materials for students. They are also in the forefront in pedagogical and methodological innovations designed to improve teaching effectiveness. The institutes vary widely in terms of size. There are 4 in the sample; the smallest has approximately 50 students while the largest has 200. Half of these institutes have subsidies from foreign aid agencies and own their facilities. While these training institutes generally render services to lower-income students whom they consider unable to pay for training services, the nature of their losses could put in check these providers' future ability to maintain these services.

From the point of view of voucher program administrators, some do-gooders are beneficial because they generate competition based on quality and also price and target the poorest. They do however, violate the spirit of demand development in that they do not charge the up-front payment and therefore do not prepare consumers for the day when they will bear the full costs of the program. In the ideal case, from a market development perspective, there should be turnover in this group. Hopefully some of the do-gooders should graduate and become expanding diversifiers, while new do-gooders emerge.

## Rogues

The business strategy of the rogue is to maximize voucher income while minimizing investments. For this reason, these institutes appear to be "factory-like," churning out as many courses and students as possible with little regard to quality. While these institutes do develop new courses needed to generate repeat business (they understand that keeping old clients is cheaper than cultivating new ones) the courses are generally ones that require little investment. Rogue institutes tend to target students with a low educational level, who are less familiar with training and therefore may be less discerning regarding course quality. These institutes are extremely dependent on vouchers while they are available. On the other hand, during voucher stoppages, these institutes devise other schemes to generate revenues. Despite the different markets that they serve, the rogues resemble expanding diversifiers in the sense that they are quite adept at innovating in order to survive.

**Table 10. Profile of Rogues**

	<b>No. of Students (12/99)</b>	<b>Assets US Dollars</b>	<b>Vouchers as a percentage of total revenues</b>
Business Administration #1	279	6,000	94
Beauty Salon Services #3	200 (est.)	10,000 (includes a pick-up truck)	100

## Competition

Each type of institute is characterized by a dominant competitive strategy. Expanding Diversifiers tend to be leaders in their sectors and tend to shoot for state of the art innovations, at least within the Paraguayan context. To cite one exceptional example, the Central Institute for Electronics (ICE) has been participating in the voucher program since its inception. Its latest project is to create a computer tutorial course on electronics that students could take at their own pace and at times that were most convenient for them. Expanding diversifiers are more likely to attract students concerned with quality. On the other hand, this is not to say that these institutes are not conscious of their pricing strategies vis-à-vis their competitors. They see the other sector leaders as their competition, and keep a close watch on these competitors' prices. However, an expanding diversifier would be the least likely of the institutes to adopt a competitive strategy based solely on price.

The Risk-Averse Diversifiers generally compete on convenience. They tend to look for "captive" students, that is students who are nearby. During periods of economic adversity, these institutes also compete on price, lowering their prices to maintain their teaching activities.

The Do-gooders generally compete on quality. Because many have subsidies or do not see training as an important source of revenues, they generate unfair competition. In some cases, however, the upward pressure they place on quality is likely to be healthy for other institutes.

The Rogues compete on attracting high numbers of students rather than on quality or investments in infrastructure and pedagogy. One rogue distributes pamphlets around neighborhoods advertising its "free" courses. In other words, this institute does not require the student co-payment and accepts the voucher as the only form of payment. The Rogues are among the most likely to compete on the basis of price and to adopt marketing strategies such as busing potential students to the voucher distribution center.

## Training the trainers

Since the beginning of the Paraguay voucher program, designers have lamented the lack of a supply-side intervention to stimulate quality upgrading. Now, during the fourth phase, program administrators have finally instituted a training-of-trainers component. The rules by which this component operates, however, are inconsistent with many of the principles governing the voucher program, such as market-based quality control, freedom to choose on the part of the consumer, and product diversification to fit varying needs. The training-of-trainers course is obligatory for all participating institutes, offers a one-size-fits-all curriculum, and is provided by one, pre-selected, training provider.

Training institutes' assessments of the usefulness of this new component vary widely. The most favorable evaluations state that the supplier upgrading component is a useful course which can contribute to improvements in teaching methodologies, although it is too general to significantly contribute to content upgrading. Unsatisfied participants see the course as little more than a new, cumbersome, requirement for participating in the program.

In the context of the Paraguayan program, an obligatory orientation session might actually be useful to clarify the program's "rules of the game." To stimulate real supplier upgrading, however, a market-based approach would be more appropriate. Ideally, such incentives could fuel product development and investment on the part of institutes who fit into the expanding diversifier category, without inhibiting

their growth into sustainable institutions. Other types of institutes aspiring to reach expanding diversifier status could perhaps be led in that direction. Ideas which have been discussed and are being implemented in some other voucher programs include a matching grant fund for product development and testing. Another possibility, discussed below in the conclusions in relation to the need for a strong information component, would entail support for customer research.

## VI. Conclusions

The burning question regarding the Paraguayan Voucher Program is what would have happened to the market for training if the voucher program had not gone into the current, and fourth, phase, i.e., if the program had obeyed a clear exit strategy. A second counterfactual exercise is what would have happened if the information/referral component had been stronger during the previous phases of the program. Would that have obviated the need for the current phase in the voucher program? These questions clearly cannot be answered with certainty. Furthermore, the difficult economic situation in Paraguay -- low growth and growing inflation -- are a strong intervening factor that curb consumers' ability to pay for courses and consequently demand for training. There are important indicators, however, that the voucher programs did develop the market for training:

- **Geographical spread:** the voucher program has made it possible for Asunción-based institutes to adopt a geographic diversification strategy, with the result that training is making inroads into previously underserved markets.
- **Subsidy levels:** have decreased since the second phase of the program when they temporarily rose. One hypothesis is that this phase was characterized by the entry of a number of "rogues" into the voucher program which led to a period of heightened price-based competition. Given the constant voucher value, the price-based competition caused a temporary increase in the percentage of subsidy in voucher courses. The subsequent decrease in subsidy level during the latest phase of the program is a positive signal, although it is still early to tell whether this trend will continue. On the other hand, the market subsidy indicator, that is, the proportion of the voucher subsidy with regard to the larger market for training, is quite close to the indicator used to track subsidy level for voucher-eligible courses. This suggests that the Paraguayan market is still relatively dependent on vouchers.
- **Consumer satisfaction.** Over 50 percent of program participants were repeat users. Half of microenterprises surveyed reported that they would pay for training in the event that vouchers were not available. Institutes reported a sharp decline in attrition rates due to vouchers.
- **Investment and innovation on the part of training providers.** The presence of a significant number of entrepreneurial/expanding diversifiers in the sample is encouraging. If the majority of participating institutes were rogues, for example, one would be concerned that the voucher program was simply catering to institutes who were adept at capturing the subsidy. Instead, the expanding diversifiers demonstrate leadership in their sectors, making new technologies and innovative approaches to education accessible to microenterprises.
- **Wider policy implications of the voucher program.** Within the next year, it may be possible to state that the Paraguayan voucher program has permanently marked the country's training market. From its initial status as an experimental pilot, the program has progressed to serving as a "foot in the door" towards the privatization of the national state-owned training agency. If the resolution pending in Congress is passed and the program continues to serve its now broadened target group, training vouchers will become a permanent fixture in Paraguay. On the one hand, there is ground for concern that the vouchers will only replace the SNPP as the source of distortions in the training market. At the very least, however, assuming the program is run with a minimum of competence, funds earmarked for training will be put directly in the hands of students, a more cost-effective proposition than the SNPP's current structure, and training appropriate to microenterprise needs will be available in the market place<sup>18</sup>.

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<sup>18</sup> An interesting fact is that some SNPP employees, predicting impending privatization through vouchers, have already left the institution and set up their own training institutes.

### **What if the vouchers were discontinued?**

The justification for using vouchers describes market failures that are assumed to be temporary, such as lack of information on the part of consumers. In addition, the principles of sustainability associated with recent thinking on business development services suggest that microenterprises and training providers should be able to enter into independent commercial transactions without the presence of permanent subsidies, whether these are supply or demand-side.

**Stoppages and delays in processing vouchers have unintentionally caused a weeding out process.** Throughout the second, third, and fourth phases of the Paraguay voucher program, there have been bureaucratic difficulties. The lag time in redeeming vouchers and stoppages in program execution has essentially weeded out many of the institutions that cannot generate cash-flow to survive the delays in payment.

In the Paraguayan case, data obtained during program stoppages (see Schor and Goldmark:1998) and interviews with institutes indicate that transactions do not completely fall off when vouchers are not available. Many voucher-eligible courses continue to be offered to a mix of students. Some microenterprise clients who learn about institutes through the voucher program later become long-term clients, purchasing training during voucher stoppages or consuming additional products which are not voucher-eligible.

As discussed earlier, **the impact of voucher stoppages does not hit all institutes equally.** Those related to handicrafts and hairdressing are affected more dramatically, although courses would still be available but on a smaller scale. Those related to computers, automotive mechanics, and other types of repair work would survive, although probably suffering from high drop-out rates. Many of the Rogue training institutes would be unlikely to survive without vouchers because they target students who are not willing or able to make the minimum up-front payment, and therefore, probably will not pay the full costs of training. The expanding diversifiers and do-gooders would continue to offer microenterprise training, while the risk-averse diversifiers would reduce or discontinue these products.

It is important to mention, however, that **the expanding diversifiers** who would remain in the market after vouchers were discontinued **have been able to strengthen and diversify themselves precisely because of the availability of vouchers over a period of several years.** These institutes have used voucher-generated resources to invest in equipment, new technologies, and product development, and are now positioned to offer quality products. Almost none of these institutes, however, were offering training to microenterprises before the program began (first phase)<sup>19</sup>.

### **The importance of information...**

An alternative, but equally enlightening exercise in counterfactual reasoning is a discussion of a voucher program where the information function is built in from the beginning and seen as a central aspect of program management. Although program designers in Paraguay the importance of the information component in consumer education, this aspect of the program was increasingly neglected in the latter phases of the program, and had not been highly developed in the first ones. The information center should perhaps be conceptualized as a permanent interlocutor between demanders and suppliers. It will need to provide a variety of services so that it can be self-sustaining after the voucher period is over.

As it existed in Paraguay during the first and second phases, the information component consisted of generating a ranking of the most popular training institutes among voucher users. Users going to the distribution center to pick up their vouchers could consult the list as an aid in helping them make their decisions. While this was an inexpensive and easily attained proxy for quality, it was not a very detailed one. Students learned little about the institute, its quality of teaching, or statistics about the impact of the course on employment. Many questions remain unanswered from a reading of both the Paraguayan case as well as the literature in general on voucher programs:

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<sup>19</sup> Unfortunately, there was no market diagnostic performed prior to the Paraguayan program, so this affirmation remains supported only by anecdotal evidence and interviews conducted of the research sample of training providers.

- How the information/distribution center interlocutes between demanders and suppliers?
- Can an information center be created that is sustainable and can continue to play the role of interlocutor, even after the voucher component is over?

The Paraguayan case has important lessons for the development of this center. The information management system created by program designers facilitated monitoring of the numbers and types of courses offered by vouchers; the subsidy levels, the redemption levels and lag-times, course prices, costs of training/hour; general profiles of voucher users. However, because the information/distribution shut down when vouchers were no longer available, it was unable to generate information about the market that occurred during stoppages, which would have provided critical information about the impact of vouchers on market development.

An important design issue is conceptualizing the information center in sustainable terms. It needs to generate information and services that can be sold to training institutes, government entities and international organizations about training and user profiles. In this manner, the center can continue to orient consumers about training availability and also keep training institutes informed about market and demand trends.

More specifically, in addition to the statistics needed for monitoring, the information center could be set up to generate statistics on:

- Profiles of voucher users which could be useful to training institutes as well as public entities
- Information about consumer satisfaction from participating training institutes
- Information about the impact of the course on users' employment situation
- Information about consumer needs which would be of interest to training institutes
- Information about courses offered and prices charged by institutes which would be of interest to students and training institutes
- All institutes could list their program with the information center – even those that were not accredited and would not accept vouchers.

The information-with-voucher program needs to conceptualize the distribution center not only as a place that users pick up vouchers, but as a permanent institution that contribute to maintaining both consumers and suppliers informed about developments in the market for training. This center should not be ad-hoc or fold when voucher distribution ends, but rather they should be an enduring legacy.

### **And beyond...**

In addition to providing objective information about the training market, there could be a need for more subjective, tailor-made information. Given the negative economic context in Paraguay, there is a danger that by competing on price, institutes could have become more rogue-like. In other words, the quality of training could have fallen as institutes fell into a downward price spiral. It is worthwhile during a voucher program to develop institutions that make this type of competition less likely. In Paraguay, the incipient trade association (and possible the information center) could contribute to devise standards that helped maintain the quality of training and avoid exclusively price-based competition.

There are also various collective efforts that could be undertaken within the context of the new association of training institutes. Institutes could sponsor sales on courses (like car makers do for their dealers); they could also contribute to collective publicity. The distribution/information center could play a role by supporting the institutes with generic publicity about the positive effects of training. Other efforts could involve developing career planning/internship services for students who completed courses or other types of services.

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## ANNEX I

Program regulations and procedures are reasonably simple:

- To be eligible, microenterprises cannot have productive assets of more than US\$20,000 and annual sales cannot exceed US\$100,000. Each microenterprise owner can receive up to six vouchers. The owner can accompany an employee to the distribution center and request that s/he also be allotted six vouchers. Only one voucher can be picked up at a time.
- Training institutes and their courses must be pre-approved by the Project Execution Unit (UEP) in the Ministry of Justice and Labor (MJT). The approval process is quick. Courses must be a minimum of 20 hours; none of the class sessions can exceed 3 hours; and the number of students cannot exceed 20. These requirements have varied only slightly over the different phases of the program.
- The vouchers can only be used for accredited courses at accredited training institutes. They are redeemable only if the user has attended at least 75 percent of the classes, which is taken as a proxy for quality. A supervisor from UEP makes unannounced visits to check that the attendance form is filled out properly and that the facilities and training materials are adequate.
- Vouchers are distributed by authorized centers.<sup>20</sup> The Center for Support to Small Enterprises (CEPAE) has distributed vouchers since the program began in 1995. Four more centers are to be opened for the new phase.
- The face value of the vouchers during the first two phases was Gs.\$40,000, at the time equal to about US\$20.00. During the emergency phase the amount was increased from Gs.\$40,000 to Gs.\$60,000, which at current exchange rates is approximately US\$18.00. Program designers claim they increased the value of the voucher to maintain the dollar value.

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<sup>20</sup> Below the voucher are three identical forms, two of which can be torn off on dotted lines. At CEPAE, during the interview to pick up a voucher, general information about the microentrepreneur is inserted into the three forms. Microentrepreneurs sign the bottom two forms and leave them at CEPAE with a copy of their national ID card. One stays at CEPAE and the other is taken to the Program Executing Unit (UEP) where it is compared to the third form, that is submitted with the voucher by the training institute for redemption when the course has been completed. UEP cross-checks the signatures and other information with the forms that were torn off at the distribution center and taken to UEP. If the information is consistent, UEP authorizes payment and the request for a check is forwarded to the Ministry of Finance.

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## ANNEX II

### Lessons on information management

The Paraguayan voucher program provides important lessons for information management within the program organization. The program provides excellent examples of data collection and monitoring functions that can be easily carried out within the program structure. For example, GAMA designed a system that collects the information for processing payments in such a way that the level of subsidy and the percentage of students using vouchers can be calculated quickly. Likewise, the data can easily be manipulated to reveal the dependency of an institute on vouchers (only for registered courses). This type of information management system is critical for analyzing the degree of dependency of users and suppliers on vouchers and how it is changing over time.<sup>1</sup> For example, an increasing subsidy over time does not bode well for market sustainability. Likewise, if course prices are rising, institutes may be generating superprofits. These profits, however, if well invested, could contribute to the sustainability of training providers.

The information system is also well designed for tracking the profiles of voucher users in terms of educational levels, age, sales, and other indicators. This information is collected when users come to pick up their vouchers in the distribution center. In this manner, program implementers can use the data to verify that those who are using the vouchers are part of the target group and can determine if some types of entrepreneurs have a higher propensity to use vouchers than others.

The system, however, is not set up to collect follow-up statistics to verify consumer satisfaction and impact of the program on the microentrepreneur or other issues that could promote sustainability. Many microentrepreneurs are repeat voucher users and during subsequent voucher pick-up visits might be able to report some impact of training for their businesses. Ultimately, in the case of a voucher program that was being phased out, this information as well as information on profiles of consumers could be sold to training institutes and perhaps to governments and donors as well.

Verification and fraud control is exercised at various levels and could also be simultaneously be used as a means to verify consumer satisfaction. When the UEP representative makes unannounced spot checks s/he could also administer a short questionnaire asking users their opinion about the course and the impact on their businesses (more relevant for multiple voucher users). Voucher distribution could also be used as an opportunity to limit fraud and teach consumers to be more discriminating. For example, when users pick up the voucher, they could be told they need to police the institute and should sign the attendance sheet only on the appropriate date. Likewise, users could be encouraged to express their opinions about their experiences in the courses.

Finally, there is also no systematic data collected during program stoppages. Tracking the number of courses given, the price levels of participating institutes is a key indicator of the market development impact of vouchers.