Centre for Civil Society

SKILL VOUCHERS

GLOBAL EXPERIENCES AND LESSONS FOR INDIA

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ViewPoint 9

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BACKGROUND

The demands of globalization necessitate that India draw on its demographic dividend and transition to a knowledge economy, with a large pool of skilled workers. The creation of such an economy will require the use of knowledge to innovate and increase productivity in agriculture, industry and services. For this vision to be realised, it is critical that a significant proportion of the workforce, currently in the informal sector upgrade their skill set and shift to more productive and secure occupations.

The relative supply of workers with vocational skills in India has been on the decline since the early 1990s. This decline has been attributed more to the fact that workers with vocational qualifications do not have skills appropriate to labour market demands (often because of the poor quality of training provided), rather than the decline in the demand for skilled workers. A reason for this could be that students see little labour market benefit from undertaking vocational courses and opt for other seemingly more attractive mainstream educational options. While India has improved its performance in vocational education in the last decade, other developing countries have made much larger gains in this area over the same period (Skill Development in India 2006, 1).

Given these circumstances, there is an urgent need to improve the quality of vocational education in India, to enable people availing of the same to learn new skills and competencies as demanded by the market. The existing state-run institutions providing vocational education suffer from bureaucratic inertia and have little incentive to improve performance. Managers of such institutions do not have sufficient operational freedom to fill places to capacity, upgrade training courses and ensure that students receive quality training tailored to the demands of the market. Industry involvement in the vocational training system is still nascent, leading to a gap between demands of the labour market and quality of vocational skills imparted. Until recently there was limited participation of employers in defining training policies and developing courses in such institutions (Skill Development in India 2006, 1). There is therefore a pressing need to look at alternative means of skill development and improving the efficiency in this sector, by harnessing its strengths and tackling its vulnerabilities and weaknesses.

The Government of India has recognized the need for encouraging skill development initiatives. The National Skill Development Policy, 2009 emphasises the need to fund candidates rather than institutions to create choice in the provision of skill development services. The said Policy does not discriminate between private or public delivery of such services. It places importance on outcomes, users' choice and competition among training providers and their accountability. As part of this move towards increasing choice and creating opportunities for the private sector to provide vocational training, one of the reforms suggested is the use of skill vouchers, an idea that has also found favour with the Planning Commission (Coordinated Action on Skill Development, 15).

The National Sample Survey Organisation (NSSO) carried out a sample survey in 1999-2000 and its results showed that out of a total workforce of 397 million, only 28 million workers are employed in the formal sector and remaining in the informal sector.

CONCEPT

A skill voucher is an instrument given to an enterprise or individual which enables it/him to obtain training from any training institute accredited with the provider of the voucher. The most prevalent model for skill vouchers involves individuals and employees of enterprises obtaining vouchers from the state, attending training courses of their choice, and paying for the courses with the vouchers and a small contribution from their own pocket. The only restriction on the entrepreneur's choice of training course is that it must be provided by an institution which has been accredited. Once the training has been completed, the training institutions participating in the program redeem the vouchers for cash.

GLOBAL EXPERIENCES

I. Kenya

One of the most well-documented skill voucher programs is the Jua Kali Voucher Program in Kenya. The main objectives of this program were:

(i) upgrading skills of 10% of the micro and small enterprise ('MSE') manufacturing sector (amounting to around 32,000 enterprises),

(ii) increasing access of MSEs to technology, marketing information and infrastructure, and

(iii) improving the policy and institutional environment.

The program was patterned on a similar one run by the Inter-American Development Bank in Paraguay and was directed at two categories of enterprises namely:

(i) micro enterprises that employ between 1-10 workers, and are run by women or demonstrate potential for growth,

(ii) small enterprises that employ 11-50 workers.

The program was aimed at expanding the market for a broad range of training and other business development services, by catalysing the demand for such services rather than through supply-side interventions. MSEs could purchase vouchers which entitled them to get training for their owners or workers at 10-30% of the value of the voucher. The vouchers could be redeemed in order to obtain training from any of the registered training providers. The training providers were diverse and included master crafts(wo)men, private training institutions, technology and financial institutions, consulting firms and individual trainers or consultants, apart from public-sector institutions.

An important role was played by allocation agencies who were Jua Kali associations, NGOs and others who coordinated with the players in the MSE sector and facilitated implementation of the scheme. The role of these allocation agencies was:

(i) to publicise the scheme amongst potential beneficiaries,

(ii) to assist MSEs in filling in the voucher applications,

(iii) to provide counsel to MSEs in selecting the most suitable and relevant type of training.

In compensation for these services, the allocation agencies received 3% of the voucher value. The pilot phase of the voucher scheme took place in the cities of Nairobi and Machakos, and covered the following sectors: textiles, woodworking, metalworking, motor vehicle mechanics and food processing (Thyra A. Riley and William F. Steel, 2-6).

A tracer study of the pilot phase was carried out in August-September 1997, whose main findings were:

(i) The prime beneficiaries of the program were private training providers, some of whom earned up to KSh. 2 million through the vouchers.

(ii) Public training providers generally did not gain as much from the scheme as they were not able to market themselves as well as the private training providers and did not have the resources to conduct many training courses before redemption of the vouchers.

Some of the positive impacts noted in the training providers included increased incomes, better networking, development of new training programs, and an increase in training resources and staff. Many of the allocation agencies were Jua Kali associations, which gained from increased income, new office space and equipment, extra publicity, networking and sponsoring of some of their members to participate in trainings or exhibitions. Interestingly, the study found that while the MSEs in the control group saw the mean of their sales decrease by 2%, which could be attributed to the deteriorating economic situation, the MSEs which participated in the training voucher program saw the mean of their sales increase by more than double: from KSh. 8,342 to KSh. 18,235 per month. The study showed that the beneficiaries performed better than the control group on almost all variables studied as can be seen from Table 1.

Table 1: Measured effects of the voucher training provided by MSETTP

	Beneficiaries Group		Control Group	
	Increase	**Decrease**	**Increase**	**Decrease**
Assets	65%	4%	40%	7%
Volume of sales	45%	6%	16%	6%
Diversification of products	13%	0%	2%	0%
Business liabilities	16%	17%	16%	13%
Business expenditures	30%	10%	28%	9%
Business creation (i.e. women start-ups)	28%			
Employment creation	42%	2%	22%	7%

II. Paraguay

In 1995, the Inter-American Development Bank financed a pilot voucher training program for microenterprises in Paraguay. The program focused primarily on drawing formal financial institutions to microenterprise lending.

Unlike the case of Kenya where there were allocation agents, in Paraguay the Ministry of Industry and Commerce (MIC) played the pivotal role in field-level implementation of the program. MIC identified the main parameters which the training products had to adhere to (number of hours per course, number of participants, etc.) and selected the training institutions (Instituciones de Capacitacion- ICAPs), which participated in the program. It distributed the vouchers among the targeted enterprises. It was also entrusted with the task of ensuring that quality protocols were met, which it ensured through surprise inspections while classes were in progress and through surveys of the beneficiaries. MIC not only distributed vouchers, it also provided basic information on the courses available and a list of the participating ICAPs, which included some quality indicators such as the number of course participants per ICAP and the number of 'repeat customers' at each ICAP.

Selection of ICAPs for participation in the program was based on various criteria, including their experience in the provision of training to small and microenterprises, planned course content, methodologies and schedules tailored to the requirements of microenterprises, as well as the credentials of the staff who were to execute the program. Selected ICAPs entered into a participation agreement with the MIC which prescribed certain parameters for the training courses. The courses had to teach business management skills or cover production-related aspects, consist of at least 15 hours of instruction and the class size could not exceed 25 (G. Schor and J.P. Alberti 1999, 7-10).

The vouchers provided subsidised training to the beneficiaries. When beneficiaries attended the course, they made an up-front payment equal to the difference between the price of the course and the voucher amount (Caren Addis Botelho and Lara Goldmark 2000, Sec. I).

This voucher program drew an enthusiastic response, both from training suppliers and from microenterprise owners and employees interested in availing of the training. A preliminary evaluation showed that the program helped to develop a private sector training market offering products appropriate for microenterprise clients. Clients expressed an interest in learning specific, immediately applicable skills, and wanted courses broken up into short, easily absorbable modules. Once suppliers understood the nature of the demand and adapted their products, demand from microentrepreneurs became robust, despite a required out-of-pocket contribution from the microentrepreneurs. Another outcome of the program was that it altered the balance of power in the training market, by increasing microentrepreneurs' buying power. Entrepreneurs armed with both information and vouchers had a choice, in terms of what they wanted to learn, when, and from whom. This new dynamic introduced competition between training institutions to attract clients, and to innovate constantly in order to keep up with the demand that was highly cyclical and rapidly evolving (Lara Goldmark).

During the first phase of the Paraguayan program, the number of training institutions that participated was small but increased to 60 plus over time. Of these 60, about 20 were active participants and redeemed significant numbers of vouchers every month. During the second phase, the number of registered institutions was even larger, although the core of active participants remained between 15 and 25 each month, rising as the program progressed. The leading training institutions, defined as those which redeemed the greatest number of vouchers, were typically small and private for-profit institutions. Directors and instructors at these institutions were often owners of small businesses themselves, willing to share trade secrets with trainees, whom they knew were not in a position to challenge their market share. For some institutions, training had not been their only source of income and was treated as a side activity, carried out for extra income. With the program providing a financial incentive in the form of vouchers, many training providers expanded and invested in their training activities. Most were forced to customise their training products in response to the demands of the clients. This was done by shortening course length, scheduling training sessions on weeknights and weekends, simplifying teaching methodologies, and incorporating more hands-on practice sessions. Another key development was that a diverse range of course content became available. A large number of extremely specific courses were offered, and even the number of sectors in which training courses increased substantially as the program progressed. The course content in 1998 fell into the following broad categories: management (accounting, costs, quality control, taxes, etc.)-17%, decoration (cotillion arrangements, painting, serigraphy, household repair)-14%, textile assembly (fabrics, pillows, clothing, etc.) -14%, electricity-13%, culinary arts-11%, electronics-7%, hairdressing-7%, and 2% each for refrigeration, handicrafts, cosmetology, shoemaking, plumbing, auto mechanics, and carpentry.

The following table provides some indicators of the performance of three training institutes which participated in the program.

Key indicators	Before joining voucher program (8/95)	During phase 1 of voucher program (7/96)	During program stoppage (11/97)	During phase 2 of voucher program (9/98)
Number of students/month	ICE - 50 IMG - 12 CEP - 15	ICE - 154 IMG - 12 CEP - 156	ICE - 54 IMG - 15 CEP - 208	ICE - 55 IMG - n/a CEP - 140
Number of courses/month	ICE - 4 IMG - 1 CEP - 1	ICE - 14 IMG - 5 CEP - 7	ICE - 11 IMG - 4 CEP - 7	ICE - 7 IMG - n/a CEP - 6
Course duration	ICE - One year IMG - One year CEP - Two Years	ICE - 16 hours IMG - 16 hours CEP - 15 hours	ICE - One month IMG - 16 hours CEP - 15 hours	ICE - 18 hours IMG - n/a CEP - 18 hours
Price of course	ICE - n/a IMG - n/a CEP - n/a	ICE - US$ 26 IMG - US$ 37 CEP - US$ 37	ICE - US$ 26 IMG - US$ 40 CEP - US$ 35	ICE - US$ 35 IMG - n/a CEP - US$ 28

ICE- the Instituto Central de Electrónica

IMG- the Instituto de Arte Culinario Maria Gloria

CEP- the Centro de Ensenanza Profesional

The chart illustrates a clear shift on the part of the three institutions from long-term, full-time training courses to shorter, more easily absorbable modules, with a greater variety in course topics. Prices, on the other hand, fluctuated depending on market conditions. The data show a peak in the number of trainees during the first phase of the voucher program, which was not sustained over the next few years (Lara Goldmark and Gabriel Schor, 8-9).

III. Other Experiences: Australia, Peru, El Salvador and Austria

Australia had a Work Skill Voucher Program aimed at improving the basic skills of Australians who did not have formal qualifications. This was to enable people who were already in employment to progress in their career and assist those who were unemployed to find jobs. The program provided vouchers up to AUS $3,000 and was targeted at persons aged 25 and over, who were in the workforce at the time or were looking for work and did not have Year 12 or equivalent or certificate level II or higher qualifications. The voucher assisted beneficiaries with the costs of studying Year 12 or equivalent courses, accredited literacy/numeracy courses and approved vocational certificate level II qualifications (Australian Government Work Skills Vouchers, Work Skill Vouchers).

Peru had a voucher program which was intended for a small target group. Only credit clients of a European Union funded program were eligible to receive the vouchers. Voucher amounts were defined as a percentage, from 50% to 80% of training prices and the vouchers financed training and technical assistance. Publicity for the program was mainly handled by credit officers of the European Union program and training providers. This voucher program could only target a fraction of the market for training and technical assistance, since vouchers were only made available to a select target group. Collusion and fraud were not adequately controlled in this program. Standardisation and quality control were difficult to implement in technical assistance services. The main publicity agents were the training providers themselves, which led to situations where dishonest trainers collected vouchers from a number of microentrepreneurs and redeemed them, without any training ever actually taking place. A significant parallel secondary market developed where there was a transfer and sale of vouchers between individuals (Laura Goldmark and Gabriel Schor, 12-13, David A. Phillips 2000, 14).

In El Salvador too an attempt was made to offer training vouchers to the Fomento de la Microempresa microfinance program's credit clients. This however did not produce the desired results and the program was discontinued. Adequate supervision and control mechanisms were missing and the "rules of the game" were not explained to many actors in the training market. As a result the program had a limited impact on the training market. The results speak for themselves, of 1000 vouchers distributed, only 100 were used. Entrepreneurs were given no orientation on the available supply of courses. Providers of training did not adapt their schedules, content, or teaching methodologies to the needs of the microenterprise clientele. Many microentrepreneurs passed the vouchers on to family members who used them to attend computer courses (Laura Goldmark and Gabriel Schor, 14-15).

In certain provinces of Austria a voucher-like mechanism known as the Upper Austrian Bildungskonto was introduced to improve skills and qualifications of certain target groups such as employees wanting to upgrade their skills, unemployed persons, women on maternity leave, etc. At the outset the individual desirous of availing training services had to pay for the training himself. Subject to such individual meeting and certain pre-defined attendance or certification criteria, the government reimbursed all or part of the training costs. An evaluation of the scheme has shown that the vouchers were successful in terms of stimulating demand for training, albeit with substitution of public for private fund in a large proportion of cases (Anne West et al. 2000, 42, Thematic Review on Adult Learning 2003, 14).

LESSONS FOR INDIA

The urgent need for a policy shift to revamp the vocational training sector in India by increasing private involvement cannot be denied. The current framework of supply-side public sector interventions has not succeeded in addressing the demands of the country's large, poorly trained informal sector. The time is right to venture into more competitive and choice-oriented demand-side interventions like skill vouchers. A skill voucher program should be designed keeping in mind the following:

- **Design of the Vouchers**

It is important to define the target group with precision for the program to have maximum impact. While doing so, it is important to minimize the possibility of deadweight loss, where beneficiaries who are in a position to pay for the training benefit from the vouchers.

Vouchers should be designed as secure monetised instruments in order to minimize the possibility of fraudulent practices. In order to give the beneficiaries a feeling of ownership in the voucher, it is necessary to give them at least a small financial stake in it. Typically vouchers have been designed such that the beneficiaries bear at least part of the cost of the voucher, somewhere between 10% to 20%.

- **Allocation Agencies**

It is necessary that the process of selection of allocation agencies be done with caution in order to ensure that the benefits of the program reach the intended beneficiaries. The allocation agencies should be credible and should not have any stake in institutions providing vocational training. The allocation agencies once selected should be entrusted with the task of publicising the program and distributing the vouchers. It is the task of the allocation agency to publicise the program through appropriate channels like radio, television and word of mouth. The agency has to then distribute the vouchers and assist people with filling them up.

> Creation of a broad-based skill voucher program that separates government financing from delivery across a whole chain which creates choice and competition
>
> ***-India Labour Report 2008***

- **Accreditation of Training Providers**

The authority implementing the scheme, like the National Council for Vocational Training (NCVT) or the State Councils for Vocational Training (SCVT), will have to identify institutions/individuals that can provide training to workers/enterprises in the informal sector. It is important to accredit not only public-sector but also private-sector enterprises and master craftsmen. Providers of training must not be limited to institutions and individuals that provide technical/industrial training but should also include those that impart indigenous knowledge and training about arts and crafts. The current list of modular employable skills approved by the National Council of Vocational Training does not include any courses on traditional arts and crafts. Institutions and individuals must be judged by whether they are legally allowed to provide training services, have previous experience in conducting the type of training they propose to offer to voucher clients, and possess adequate facilities, materials, and instructors. The process of selection should be rigorous and corruption-free. Geographical considerations must be borne in mind to ensure adequate availability of training providers in rural as well as urban areas. Formal contracts should be signed with providers of training clearly laying out the terms and conditions of the engagement.

- **Training**

The implementing agency should advise providers of training on how to design the training in terms of content and duration. The length of the vocational training provided under the scheme can vary depending on the resources available with the providers and the needs of the beneficiaries. In countries like Kenya where the skill voucher program has worked successfully, a measure of flexibility was incorporated into the courses, some of them being in short modules with sessions during weekends or after work hours.

- **Monitoring and Evaluation**

The program should be monitored and evaluated by an independent organisation. In particular tracer studies should be conducted to obtain information on how the vocational training availed of by the beneficiaries has impacted their employability after completion of the program. This information should be fed back into program design, planning and implementation in an effort to ensure high quality training delivery and sustainability of the outcome.

- **Sustainability**

The long-term objective of the skill voucher program should be to create an environment where potential beneficiaries would be eventually able to pay for the training services. The improvement in skills of individuals and the consequent increase in productivity of the enterprises they work in or run would lead to an increase in their purchasing power, giving them the capacity to pay for subsequent rounds of training. In the initial stages the cost of the skill voucher should be highly subsidised. With time, the individuals and micro and small enterprises who have already received training will begin valuing these training services and will be in a position to pay for them.

Skill voucher programs from around the world have demonstrated the potential of demand-side interventions in stimulating the market for training. An adoption of skill vouchers in India, tailored to local conditions could be potentially path-breaking and could provide a much-needed shot in the arm to the vocational training market.

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ViewPoint 9: Skill Vouchers: Global Experiences and Lessons for India

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Centre for Civil Society

Social Change Through Public Policy

Established on 15 August 1997, the Centre for Civil Society (CCS) is an independent, non-profit public policy think tank devoted to improving the quality of life for all citizens of India by reviving and reinvigorating civil society. Through its award winning programs, CCS is a resource for innovative community and market based ideas for sound public policy solutions, particularly in the areas of education, livelihood, governance and environment. By bringing these ideas to current and future leaders, CCS is advancing opportunity and prosperity for all Indians.

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