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Business Training Markets for Small Enterprises in Developing Countries: What do we know so far about the potential?

by

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Foreword

There has been growing interest among the international community in exploring the possibility to develop the commercial markets for business development services (BDS) offered to micro and small enterprises (MSEs). It is anticipated that, by this approach, international aid can achieve both better outreach and greater sustainability. It is a new approach, much research is still needed on methodologies for stimulating BDS markets to achieve those goals.

The ILO's InFocus Programme on Boosting Employment through Small Enterprise Development, IFP/SEED, is at the forefront of promoting initiatives to develop the commercial provision of services to the micro and small business sector. The FIT programme of IFP/SEED has been working towards development of BDS markets for MSEs, based on the BDS Guiding Principles of the Donor Committee for Small Enterprise Development. It is anticipated that this provision, since it is self-sustaining, offers the prospect of great outreach to the millions of small enterprises which need those services.

This Working Paper is a contribution to the research agenda, on the theme of training services for MSEs in developing countries. It looks particularly at training related to entrepreneurship and management skills for self-employment, including combinations with vocational or technical skills where those have been found. The Paper is based on available research and field studies, synthesizing what we currently know about existing "offers" by private-sector trainers who do not receive any donor or public funds. It also synthesizes existing knowledge about demand for training from MSEs, and finally, it presents key challenges for developing sustainable training markets, so that they can serve MSEs more effectively.

Acknowledgement is due to the authors of the research on which this Working Paper is based. I would also like to thank the people in the micro and small businesses who spared their time to respond to questions used in the research. The role of Jim Tanburn in initiating the publication is also gratefully acknowledged.

The Paper was written by Akiko Suzuki, who worked with FIT activities in the SEED Programme. A summary of this Paper has already been published in the Small Enterprise Development Journal (Vol. 13, number 1, March 2002).

SEED will continue to expand its experience in this area, in order to reach MSEs with relevant business services, which then help them to survive and grow. This is an important part of our work to boost both the quantity and the quality of job opportunities in the MSE sector, within the overall framework of promoting access to decent work for all.

Christine Evans-Klock
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1. Introduction

Reducing poverty calls for rapid and sustainable pro-poor growth. This requires good governance, prudent macro-economic management, competitive markets and a vibrant private sector, efficient institutions and sustainable use of natural resources. Making growth pro-poor requires equitable participation by poor men and women in generating and benefiting from growth. It also requires reforms to reduce inequalities regarding human capabilities and access to assets and productive resources such as land, training and credit (The Development Assistance Committee, 2001).

At the same time, in the donor community, there has been a movement to reassess the role that private sector actors can play in the field of development in general, that of Business Development Services (BDS), in particular. The “BDS market development framework” grew out of the conviction shared within the donor community, that achieving economic and social goals was possible only by relying on private-sector actors to provide a diverse array of services (Committee of Donor Agencies for Small Enterprise Development, 2001).

One effective means of helping MSEs grow is by improving both their management and production skills. Governments and donors have been actively involved in the area of training, usually through public training institutions and publicly funded trainers. We should examine the BDS market approach, however, in the light of the training market for MSEs. This includes examination of what already exists in the market and also what prospects would be there in terms of its further development. The purpose of this paper is, therefore, firstly to share findings on private training supply, based on research and field studies available; secondly, to look at the demand side, i.e. MSEs as trainees, and to identify key obstacles to market development; and finally, to draw a hypothetical picture of a training market for MSEs, which leads to implications for future interventions.

In this paper, the term MSE is used based on a broad definition of businesses with less than 20 employees, including the self-employed, both in the formal and informal sectors. The particular focus of the paper is training mainly in technical skills for those who want to start up their businesses.

The summary of this paper was also published in the Small Enterprise Development Journal (Volume 13 Number 1, March 2002) after passing the peer review process.

2. What do we mean by “private training”?

In this paper, “training” means services that equip people with technical and management skills. It can employ both classroom-type and learning-by-doing type delivery methods. “Private” training is defined as *training services which are provided on a commercial basis*. Private training is, by nature, sustainable without subsidies as long as the demand for and the supply of training services can successfully meet in the market. There are two major types of private training: (a)

training offered by training businesses and (b) training based on business relationships.

Training offered by training businesses *or* stand-alone training

This type of training is conducted as a for-profit business. Trainees pay the full cost of training and trainers aim to make a profit. Registered training institutions and non-registered micro-trainers are both included in this type. Trainees are anybody interested in training and willing to pay a fee. Training businesses can — and actually do — offer training courses relevant to MSEs (Box 1).

Box 1: Examples of training by training businesses

Training by registered trainers

- A private college in Harare teaches both business and technical skills. Duration of training is 2-3 days at the fee of Z\$ 6,000 (US \$110). It trains 2,000 – 2,500 trainees per year. The majority of trainees are employed in SMEs and large companies and their employers pay the fees. The ratio between men and women is 1:1. Trainers are invited from outside, all of them are in relevant businesses and academics are avoided. The college has established an association of trainers and to date it includes around 100 trainers (Zimbabwe).
- A cooking college in Bangkok teaches Thai cooking skills. The director herself, with 40 years of experience, is the main instructor. Duration of training can be adjusted to trainees' convenience. The fee is Baht 8,000 (US \$180). The college trains 300 trainees annually and 90 per cent of trainees start businesses after the courses (Thailand).

Training by non-registered trainers

- A trainer in Bangkok teaches how to make crispy fried sticks. This is a one-day course at the fee of Baht 1,500 (US \$30) and 150 trainees are trained per year. The trainer started the training after having had 10-years' experience in the business and the training is his side business. His training course is not registered because registration fees are expensive. He would be interested in offering a 30 per cent reduction in the fee if this would result in more trainees (Thailand).
- A craftsman owning his metal workshop offers training in various business management skills. Courses on offer include Rapid Market Appraisal and User-led innovation, which are training modules developed by FIT/ILO (he participated in FIT Training of Trainers [ToT] three years ago). He trains around 60 trainees per year. An RMA course takes three afternoons and costs 10,000 Ugandan shillings (US \$6). He said that he did not have to compete with private or public trainers, as his courses were tailored to metal work (Uganda).

It is worth pointing out first that the amount of this type of training is significant. For instance, in Harare, Zimbabwe registered private trainers train more than three times as many students as government vocational education and training (VET) institutions (Bennell, 1998a). In the case of Tanzania, private trainers accounted for around 60 per cent of total VET enrolments throughout the 1980s and 1990s (Bennell, 1998b). In Uganda, a study (Ntale and Mukasa, 1998) discovered 160 individual trainers and 89 private training institutions in 21 cities/towns. Likewise in Kenya, 57 private trainers/training institutions were identified in 5 rural towns (Mung'oma, 2000). Secondly, although the quality of for-profit-trainers varies, evidence indicates that it is generally better than might be expected. There are three observations to this point:

(i) *The content of training is highly likely to be relevant to what the market wants.* For instance, a training center in Harare, Zimbabwe, which is regarded as the market leader, increased the number of courses it offered from four in 1990 to twenty-four in 1996, responding to market needs (Bennell, 1998a). Swift response to market needs is therefore one of the advantages of private training over public training.

(ii) *Trainers are often quality-conscious* as evidenced by this comment by a trainer:

The technique is to perfectly knead the dough. There are certain skills to do it better, which no one teaches but I do. I make sure if trainees have learned skills well enough to be able to use them after training. It is important because my reputation as a trainer goes with the result of my trainees. (A trainer who trains how to make crispy fried chicken, Thailand)

For micro-trainers, word-of-mouth is the major means of marketing; if they want to attract as many trainees as possible, they need to ensure the quality of their training. Quality control by word-of-mouth is also discussed in the report on private micro-trainers in Kenya (FIT Resources Ltd., 2001).

(ii) *Trainers are better paid in the private sector than in the public sector*, which implies that better-qualified people work in the private sector. For example, in Thailand, a trainer can earn 800 – 2,500 Baht (approximately US \$18 – 56) per course by offering courses in a private institution. If the trainer delivers the same course at a public institution, he or she can earn 100 – 150 Baht (approximately US \$2 – 3) per course. Salaries paid by for-profit private training institutions are higher than those paid by publicly-funded trainers such as NGOs and churches. Bennell (1998b) concluded that this largely reflects the greater demand and marketability of the courses offered by the former. Although there is little research available which has made a comprehensive comparison between the educational backgrounds of trainers in the public and private sectors, the facts above do not support the claim that private trainers — and therefore private training — are always low quality compared to public training.

In summary, training offered by for-profit businesses does comprise a significant amount of the training supplied in the countries examined, and the quality seems better than might be generally expected. It is therefore worth considering how

donors could make the most of this type of training which already exists in the market.

Training based on business relationships *or* embedded training

This type of training is a means to promote a business concerned, for example training offered by a manufacturer to its subcontractors, or by a franchiser to its franchisees (Box 2). Training is offered based on business interest, such as quality control, expansion of the business, etc. Trainees are not expected to pay the full costs of training, as part of the return on the training investment will be in the form of business improvement in future. Trainees are usually already involved in the business as subcontractors, buyers, etc.

Box 2: Examples for training based on business relationships

- **A supplier trains buyers:** International textile buyers provide design and product improvement training to micro business weavers and small tailoring businesses (Viet Nam).
- **A franchiser trains franchisees:** A company offers free training to individuals and small businesses interested in starting a fried-chicken business as a franchisee. In addition to the training, the right to use its logo, basic equipment and marketing support are all granted (Thailand).
- **A manufacturer trains users:** A company offers free training on how to bake Thai style crispy waffle to customers who purchase portable waffle machines manufactured by the company (Thailand).
- **A large company trains subcontractors:** An institute provides training in construction skills of water tanks. Trainees pay 100,000 Ugandan Shillings (US \$60). The institute, on the other hand, runs the business of selling and constructing tanks. Trainees are subcontracted later by the business and earn 150,000 Uganda shillings per month (US \$40) (Uganda).

Embedded training has the following distinct strengths in the context of MSE development:

- Embedded training is more affordable than stand-alone training.* As this type of training is a means for a trainer to make more profit, training costs are partly — or even sometimes entirely — borne by a trainer. For example, a manufacturer in Thailand offers free training to its future subcontractors. After the completion of the training, subcontractors (the ex-trainees) are to buy raw materials for production from the manufacturer (the ex-trainer) and sell their products via the manufacturer. It means that the manufacturer can get commission from the sales as well as make a profit by selling the raw materials to the subcontractors, which is how the manufacturer gets return on the free training.
- It gives direct links to a market.* Because skills are used for a trainer's business, there is an almost 100 per cent guarantee that skills are saleable after trainees obtain them. This point is important because those who are in businesses need not only to obtain the relevant skills: they also need to have markets in which to sell the skills.

- (iii) *Embedded training is provided by an established business, so trainees can see what they are going to be part of.* Training itself is, by nature, a difficult product to promote: skills are intangible and it takes some time for trainees to realize the benefits in the form of improvements in their businesses. It is perhaps easier to show the benefits of embedded training over stand-alone training, particularly to MSEs who are often not familiar even with the concept of training.

In summary, embedded training offers: (i) affordability due to costs borne by non-trainees, who also benefit from the training, (ii) training in relevant and saleable skills designed by people in the business concerned within a business relationship, and (iii) tangible benefits to show to potential trainees.

3. A hypothetical picture of the supply of private training

Four types of training set-ups

The different types of training require different types of set-up, which are summarized in Table 1. (For more examples, see Annex 1).

Set-up 1 refers to on-the-job-training (OJT) within a company, available only for its employees.

Set-up 2 presents embedded training as discussed above, available for those people/businesses involved in a business relationship.

Set-up 3 deals with training offered as a side-business in relation to a main business, but available to the public.

Set-up 4 is training as a main business, also available to the public.

It would be helpful to keep in mind these different set-ups, firstly because we need to picture training supply as precisely as possible, and secondly because different set-ups imply different motivations for delivering training, and may therefore indicate different implications for possible interventions.

Findings so far indicate that the amount of private training available would easily be underestimated if only the training offered by training as main business was taken into consideration. A significant amount of training supply takes the form of OJT, embedded training and training as sideline, the majority of which is assumed to be informal training. For example, in Tanzania, the national training capacity was estimated in 1995 at some 47,000 places. Of these 12 per cent were in the public sector, 31 per cent in church-owned training, 22 per cent in company training centers (OJT) and 35 per cent in private training (training as main business). This shows first that OJT and training as main business amount to a significant part of the supply compared to the public training supply, and secondly that embedded training and training as sideline are completely missing in the statistics. As Haan (2001) pointed out, private trainers for the informal sector tend to adopt informal sector characteristics themselves, thus they are difficult to define, to find and to interview. Extra care should be taken, therefore, in order not to neglect those supply sources, especially the “hidden” ones, when it comes to designing interventions on behalf of MSEs.

Table 1. Set-ups of private training and their implications

Set-up of training	Description / examples	Implications for MSEs and trainers
<p>1) OJT</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> Training as OJT within main business </div>	<ul style="list-style-type: none"> • Training is offered to employees as in-company training • For example, training on newly introduced technology and management practices, company-based training center 	<ul style="list-style-type: none"> • Training is offered at a very low price/for free, but it is not open to MSEs
<p>2) Embedded training</p> <div style="display: flex; align-items: center; justify-content: center; gap: 20px;"> <div style="border: 1px solid black; padding: 5px; text-align: center;">Main business</div> ↔ <div style="border: 1px solid black; padding: 5px; text-align: center;">Embedded training</div> </div>	<ul style="list-style-type: none"> • Training is offered to individuals/businesses as a means to promote the main business • For examples, see Box 2 	<ul style="list-style-type: none"> • It is open to those involved in a business relationship at a lower cost • Supply of training grows/shrinks as the market of main business grows/shrinks
<p>3) Training as sideline</p> <div style="display: flex; align-items: center; justify-content: center; gap: 20px;"> <div style="border: 1px solid black; padding: 5px; text-align: center;">Main business</div> ↔ <div style="border: 1px solid black; padding: 5px; text-align: center;">Training business</div> </div>	<ul style="list-style-type: none"> • Training is less/not tied to main business. • For example, a metal artisan with his workshop offers business management skills training. For more, see Box 1 	<ul style="list-style-type: none"> • Training is offered at a commercial rate • Trainers can still take advantage of expertise/equipment in their main businesses, leading to lower costs • Training business needs to be as profitable as main business to keep trainers motivated
<p>4) Training as main business</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> Training as main business </div>	<ul style="list-style-type: none"> • Training is independent main business • For example, cookery school, shipping and cargo school, language school. See Box 1. 	<ul style="list-style-type: none"> • Training is offered at a commercial rate • Trainers tend to be established institutions with registration, often affiliated to official certificates

Different types of interventions will be required to promote the different kinds of training:

- (i) Although OJT in a company (Set-up 1) is basically exclusive to its employees, it may be possible for it to be extended to MSEs. For example, technical colleges sometimes make arrangements for the attachment of trainees to companies for training purposes. Likewise, interventions on behalf of MSEs could similarly collaborate with companies in this type of training.
- (ii) Embedded training (Set-up 2) has, as discussed, several advantages in the context of MSE development. An interesting example is a business association in Zimbabwe: it has a scheme to promote subcontracts between SMEs and larger companies, by which over 400 linkages have been established. Through the linkages, it is observed that MSEs have better access to technical expertise as well as markets.
- (iii) The major part of training as sideline (set-up 3) seems to be provided by informal trainers with other economic activities as their prime source of income. In Uganda, UNIDO, in collaboration with other organizations, has been implementing a project to promote local businesses. Among several components, it includes training of master craftspeople in selected sectors. Around 100 master craftspeople have been trained to be advisors to MSEs in

their towns. The trained master craftspeople have been marketing and delivering training both on management skills and technical skills to MSEs for a fee. FIT Resources Ltd. in Kenya also implemented training of 23 businesspeople, so as to have them able to deliver training to other MSEs on a commercial basis. As those trained have businesses with similar characteristics to those of MSEs in general, it is expected that their training contents are more relevant to MSEs. However, it should be noted that training businesses in Set-up 3 need to be as profitable as trainers' main businesses. Otherwise, in the end, trainers may be discouraged from delivering training, preferring to use more of their time in their main businesses with better profitability.

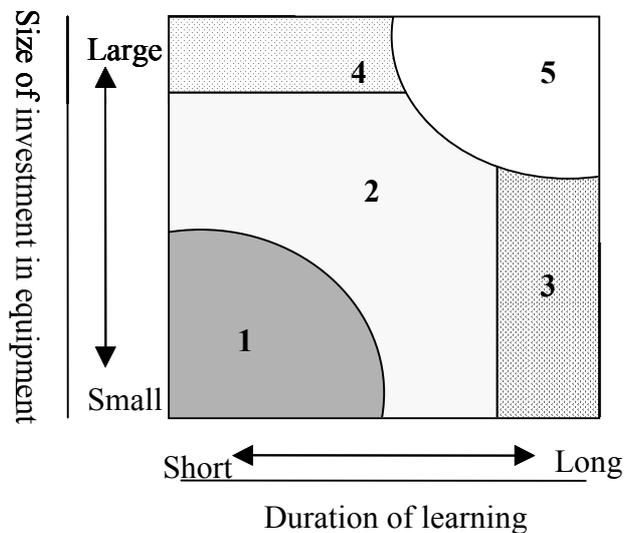
- (iv) Training as main business (set-up 4) tends to be offered by registered training institutions, often affiliated to official certificates. It is often the case that those training institutions cater mainly for students, but there are still quite a number of them who also cater for those in business. In this case, training is often delivered at night. As training fees tend to be higher compared to the other set-ups, it is a challenge for this type of training to achieve better outreach to MSEs. Still, given the potential that training institutions have, ways to overcome the challenge are worth seeking.

Segmentation of skills for training

In considering what kind of interventions may be helpful for MSEs, two major factors of training must be taken into consideration. One factor is *duration of training from the MSEs' point of view*. The longer training is, the more difficult it is for MSEs to attend. The other factor is the *cost of training from the suppliers' point of view* (the costs comprise the investment needed in equipment and the duration of learning). The more costly training becomes, the more difficult it is for private trainers to offer it as stand-alone training, as fewer people can afford it.

Figure 1 shows the training of skills divided into segments. The more costly training (skills in segment 5 and some skills in segments 3 and 4 in Figure 1) is likely to be offered only within business relationships.

Figure 1. Segmentation of skills



Examples of skills in each of the segments:

- 1: Skills for handicraft production, for business management
- 2: Skills for hairdressing, for languages, for TV and radio repairing, for sewing
- 3: Skills for welding, carpentry, woodwork, furniture production
- 4: Skills for usage of basic computer programmes
- 5: Skills for firm-specific production operation

From this segmentation, the implications of the new BDS approach would be:

- Training in less costly skills (those in segments 1 and 2) can more easily be promoted for MSEs, both in the form of stand-alone training and embedded training. There seems to be less justification to directly subsidize training on these skills.
- Skills in segment 3 may not be suitable for MSEs in general, as the training is too long. It may well suit young people in the form of apprenticeships. This is, indeed, a very common way of delivering training to young people in Africa: for example, in Zimbabwe, more than 60 per cent of small businesses engaged in woodwork, welding and metal work, and dressmaking are home-based and often take apprentices (Chingaya and Chiturike, 1998). Similarly, in Kenya 40 per cent of MSE owners obtained their skills through apprenticeship training (Haan, 2001).
- Skills in segment 4 may be feasible from MSEs' point of view, if training is embedded so that training fees are affordable.
- Skills falling in segment 5 may not be relevant to the MSE training market, as they may be too expensive to offer/afford and the training take too long to attend.

However, more research is needed on set-ups of training and segmentation of skills to understand further the implications for interventions.

4. Frequently asked questions about private training

How successful is outreach to disadvantaged groups?

- (i) Women. Private trainers are actually reaching women very well. For example, 65.1 per cent of enrolment in private institutions was female in the case of Tanzania (Bennell, 1998b). When interviews were conducted in Harare by the author with five trainers who were selected at random, four of the five reported that they had a 1:1 woman to man ratio. Nonetheless, it should be noted that the female/male ratio varies significantly amongst different kinds of training courses. Courses for textile design and bakery, for example, usually have almost 100 per cent female trainees with just a few male trainees. On the other hand, training in metal work has almost no female trainees.
- (ii) Young people. Outreach to young people is also generally successful, both by private training institutions and by traditional apprenticeships. As mentioned earlier, a study carried out by the World Bank in 1992 estimated that 40 per cent of MSE owners acquire their skills through apprenticeship (Haan, 2000).
- (iii) Rural areas. Outreach to MSEs in rural areas, however, is less successful. Although trainers do exist in rural areas, it is doubtful if the supply fully meets the demand, for private trainers tend to concentrate on cities as it is difficult to deliver training in rural areas profitably. In addition, trainers simply do not want to deliver training in other areas because of travel time, language differences, etc. Given also that there are fewer business relationships offering embedded training in rural areas, it is evident that the supply of private training in rural areas is very inadequate.

Is training affordable?

First of all, how do private trainers choose what to teach and how do they price it? Bennell (1998a) outlines a brief picture on this regarding the market in Zimbabwe. The private training sector tends to stay away from training courses that the public sector actively provides at lower prices because it is hard to compete with cheaper public courses. Private trainers then have two segments of the training market: the higher-end and the lower-end. The higher-end consists of those already in relatively well-paid jobs and from middle-class families. They seem to demand training in commercial, secretarial and PC skills amongst others. The lower-end market consists of those from low-income groups residing mainly in high-density areas who want to acquire vocational skills in order to become self-employed. They want technical skills courses such as tailoring. Private trainers then offer different courses at different prices, depending on what market segment they target.

Apart from the conceptual picture, there are only a few sample analyses available on the affordability of private training, which makes it difficult to draw firm conclusions. Still, there is some information: for example, in Tanzania private training is concluded to be relatively very costly, and affordable only by the better-off households (Bennell, 1998b). However, embedded training is quite often affordable (Annex 1). This may well be more the case in Asia, where subcontracting is more common than in Africa. Some data from field interviews conducted by the author may

be also worth noting. In Uganda, a college offers business management skills training at the fee of Ugandan shillings 4,000 (US \$2.5) per day, which is said to be very affordable. A trainer in Kenya delivers management skills training at the fee of KSh 6,000 (US \$3.8) per group per two-day training. One group usually consists of around 10 trainees, resulting in a price of KSh 600 per trainee. Another trainer offers the same kind of courses at the price of KSh 8,000 (US \$5). These examples seem to support the view drawn in the market study in Zimbabwe above that some private trainers target individuals at lower income levels and offer prices affordable to them while others target the higher-end customers.

Affordability in this paper is based on two factors: cost-benefit analysis of a given product and an absolute amount of money in the possession of a person concerned. If a person sees enough benefits to justify the cost involved, he or she will want to buy. Given that only a certain amount of money is available, affordability improves if benefits get higher, and/or costs get lower. This logic does not hold true when the amount of money a person has is too little, or a product is too expensive. In this case, no matter what benefits may be anticipated, a person will not buy.

In the context of training market development, however, the interest is rather in the “gray” zone of the market, consisting of “not-too-expensive” training products and people “with a certain amount of income”. The challenge is to find out how well a commercially-based delivery mechanism can penetrate this gray zone. In this regard, there are a number of improvements which could be made: for instance, trainers can offer lower prices if they have more trainees. A major part of training costs are fixed costs in many cases, and variable costs consist of a relatively small proportion of the total costs. Therefore, if the number of trainees increases, a trainer can offer lower fees but still reach the break-even point. In interviews trainers often express their interest in offering price reductions of 10-30 per cent if this will lead to more trainees. In addition, there are also ways to reduce the amount of up-front payments that trainees have to make. For instance, interested MSEs can form a group and invite a trainer collectively. By doing so, trainees are likely to be charged lower fees while a trainer maintains the total income to make the training profitable. This also enables trainers to save costs on individual marketing, and is therefore attractive to trainers. This is a method typically used by business associations both in rural and urban areas. Regarding the benefit side, there is much room for improvement in people’s understanding of the concept of training and training benefits. Without good understanding MSEs regard training as consumption goods, not investment goods. Among consumption goods, training is given a very low priority. The comment by a trainer in Zimbabwe highlights this point:

MSEs have money although they say that they do not have money for training. If they have money for business, they may buy office equipment, raw materials, etc., but not training. Training is on a shopping list together with sugar and clothes. After they buy sugar etc., they do not have money left for training. (A trainer offering business management skills, Zimbabwe)

What is the quality of training provided?

As stated earlier, the quality of private training seems better than the general expectation, but the picture is not entirely rosy. A look at physical infrastructures, such as buildings and equipment for training, gives cause for concern over the quality

available (for instance, Ntale and Mukasa, 1998; Bennell, 1998a, 1998b). If a computer skills course is not equipped with enough personal computers for its trainees, the quality of the course is questionable. Bennell (1998a) also raises a question about the quality of staffing at private training institutions.

Defining training quality in the context of MSE development is not a simple task. For instance, one study points out that training given by a government was of too “good” a quality for its customers, (women entrepreneurs in this case). Some trainees said that tools and equipment used in the training were too sophisticated to be used in their activities (Adioetomo *et al.*, 2000). This illustrates that training at an international or even national standard does not necessarily mean quality training for MSEs. Fulfilling market demands then becomes an important element in the provision of quality training.

5. Key challenges faced by private trainers

When asked what is needed to improve their services, trainers often cite the need for capital, opportunities to upgrade their skills, promotion (or marketing), and government policies (Pejerrey and Tueros, 2000). This paper considers mainly promotion, or marketing, and government policies.

Unfriendly business environments

1) *Regulatory environments: Registration processes and standards*

Regulatory environments are not always favourable to private trainers. On the contrary, they sometimes make things difficult for them. Lack of transparency, credibility and the amount of time taken by the regulation process are often pointed to as obstacles for trainers. For example, nearly one-third of trainer-respondents in Dar Es Salaam rated government agencies as being “very unsupportive” (Bennell, 1998b). In the case of Zimbabwe, it is said to take 6–12 months for the registration process to be completed in an environment which is too politicized without proper transparency (Bennell, 1998a). Governments sometimes do not want to have training open to the market, and their attitudes towards private training are therefore unfavourable (Bennell, 1998a, 1998b).

Registration standards are an issue as well. In some cases, trainers who run training activities in their workshops are required by a local authority to have a licence equivalent to that of a training institution. Although registration standards are important to ensure training quality, it is questionable whether the same standard should be applied to (for instance) micro-trainers whose scale of training activities are, by definition, smaller than those of training institutions.

The issue of registration then affects the issue of marketing. Onerous regulations have rendered most non-registered trainers helpless, especially when it comes to marketing their activities (Mung’oma, 2001). Non-registered trainers feel hesitant about publicly promoting training, and they therefore do not advertise their activities, even to the extent that they will omit putting up sign-posts to their training.

They often merely depend upon goodwill for marketing themselves. Therefore private training stays as a “hidden sector”.

2) *Market distortion*

In addition to these regulatory constraints, another key issue in business environments is market distortion. It is hard for for-profit trainers to compete with free or nearly-free training subsidized by governments and donors. It is also difficult, and takes time, to change people’s perception of training as illustrated by the comment below. The speaker is operational in an area where an international NGO funds free training in the same sub-sector as he is in.

After I went through TOT, I marketed my training. People were not convinced of the training benefits. I then concentrated to improve quality of my products and people understood that my training would deliver certain benefits. People then started coming to me. But they still want me to provide free advice. It is difficult to convince people that they should pay while free training is available in my area. (A carpenter trained as a master trainer by the UNIDO project in Uganda)

An Indonesian market study shows, for instance, 50–60 per cent of MSE users of training services got them for free (FIT, 2001a). However, it is not clear how much of the 50-60 per cent is due to public subsidies. More research is required to find out how much competition has occurred between private training and public training, as public training must have limit in its outreach.

Lack of effective communication

First of all, we will look at the research conducted in Kenya with the 23 private trainers on how they deal with their training marketing (FIT Resources Ltd., 2001). The marketing means regarded as the most effective was use of business premises. This is because their business premises offer instant physical evidence to potential trainees on what the trainers are able to offer, thus boosting MSEs’ confidence in trainers. The second best means for marketing was word of mouth. The research also finds that the trainers are actively utilizing existing organizations, such as MSE associations, NGOs, private training institutions, government agencies and churches. However, they find those marketing means insufficient to attract fully the potential market.

1) *Channels of communication*

It seems, from the research above, that private trainers are creative in finding effective channels to get across to MSEs. Not only do trainers reach MSEs, they also get credibility by marketing through business associations and microfinance institutions. However, it is true that this type of micro-marketing is not very efficient, either in the amount of information conveyed or its outreach. Trainers often express their desire to use the media, but at the same time they think the media, such as radio and newspapers, are too expensive. This causes a vicious cycle, as marketing is not very efficient, there are fewer trainees than there might have been, then trainers may have to charge higher fees for training. As referred to later, there are examples of training courses that were broadcast by a radio programme, which led to a significant increase in the number of trainees. In addition to individual efforts made by private

trainers, a boost in marketing at a larger scale is likely to make a significant impact in this regard.

2) *Communication skills*

Special care also needs to be taken in terms of communication skills. Training marketing needs not only to disseminate information on training, but also to give MSEs confidence to try training. One business person trained by FIT Resources Ltd. as a trainer for MSEs explained that he had had to change the way he presented his training to MSEs compared with training for the higher-end market, which was eye-opening for him. For example, terms such as “marketing”, “stock control”, and “customer care” are not the language used by MSEs. In addition, advertisements consisting of names of courses and trainers and their contacts may not be enough to get the MSEs’ confidence. It has been found in Kenya, for instance, that roadshows, where comedians and others make stories about training, are an effective communication tool for MSEs.

The first step to take towards market development is for the supply side to send effective signals to the demand side. Lack of information is a significant problem and, in the case of the training market, imperfect information has resulted in a situation where prices do not reflect training quality. One example is that in Harare, Zimbabwe no positive relationship is observed between monthly fees and examination pass rates of students, the latter being regarded as an indication of training quality (Bennell, 1998a). It was concluded from this that, because of lack of accurate information, people may choose longer established trainers, not because they provide better quality training but simply because of their overall reputation and status coupled with their ability to advertise heavily. Hence, donors can make significant contributions in improving information flows, both in quantity and quality, in training markets.

6. *Issues on the demand side*

When the new BDS approach is applied, it is crucial to get good information on the market concerned, not only on the supply side, but also on the demand side. FIT/ILO conducted market research on BDS in Indonesia with 400 MSE respondents (FIT, 2001a). On being asked about technical skills training, 65 per cent of the respondents answered that they had not used this kind of training because they had not felt the need for it. Another 13 per cent answered that they had not used training because prices were too high. And another 8 per cent pointed out that the duration of the training was too long.

MSEs’ difficulty in associating training with their businesses

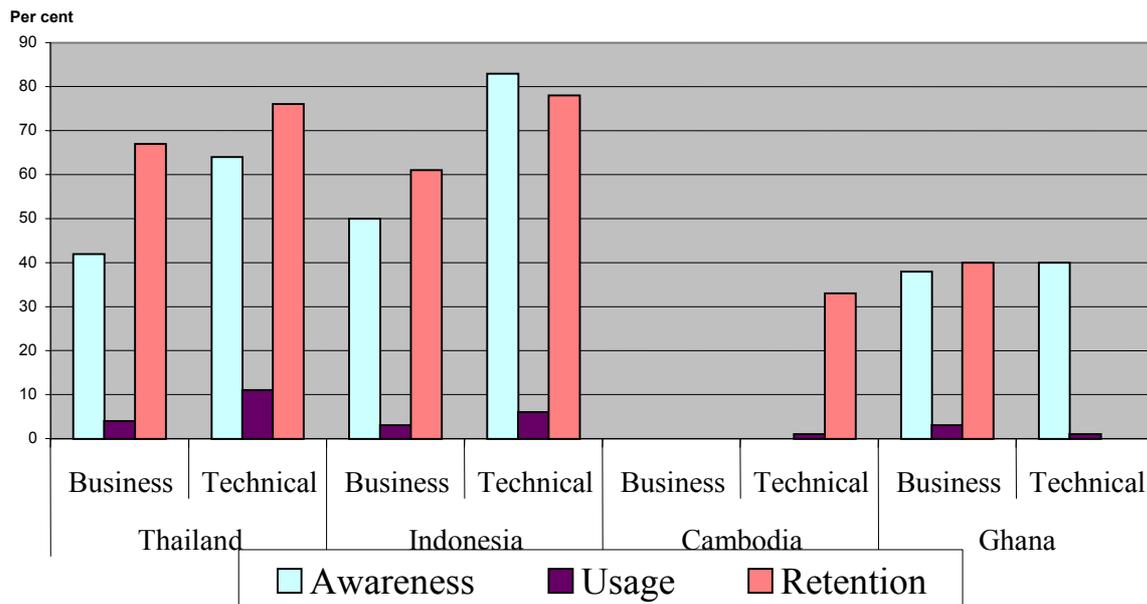
This implies that perhaps 65 per cent of the market is lost due to the difficulty MSEs have in associating training with their businesses. Although we cannot attribute all the 65 per cent loss to this difficulty, there are good grounds to see this proportion of MSEs as a huge market potential, not as an obstacle. Trainers often mention that MSEs usually do not realize that they have problems in their businesses. At the same time, those who run MSEs sometimes think that they know enough about their businesses, resulting in little interest in potential benefits from training. In this regard,

another research on training markets conducted by the ILO regional office in Harare is worth noting (SIYB/ILO Regional Office in Harare, 2001). It shows that, based on semi-structured questionnaires with 29 entrepreneurs, the market is not so well aware of the value of training in strategic management, exporting, human resource management, production/operations/technical skills and customer care. It also mentions that the less educated entrepreneurs would have less awareness.

Besides this challenge, another challenge is the notion of training itself. Many MSEs have an informal network from which they get advice and information, which they do not regard as “training”. In an extreme case, some people resist the idea of participating in training as they think training is only for youth, not for adults. This is presumably the reason why, when market research was conducted in Cambodia with 300 MSE respondents, only 17 respondents understood what was being asked about when it came to training-related questions. This is a typical picture of the demand side of the training market, which we aim to stimulate. However, there is a very positive sign from the market research as well: once MSEs try training, many of them tend to be repeaters. In the case of Indonesia, among those who used training in the past two years, either through purchase or free offer, 78 per cent of them had used it more than twice. Apart from the Indonesian case, other market research shows a similar trend, i.e. a relatively low awareness rate, a very low usage rate and a high retention rate (Figure 2). The comment below by a trainee is a good example of this trend:

[On being asked what was particularly useful in the training] *There were a lot of things very useful. If I had taken training earlier instead of spending time learning from mistakes, I would probably have become rich by now. But before taking training, I thought I did not need training. I thought why I should need it. (Trainee in Bangkok)*

Figure 2. Awareness, usage and retention rates for training



Note 1: Thailand N=500, Indonesia N=401, Cambodia N=300, Ghana N=400.

Note 2: Awareness rate includes those who are aware of training products, those who have at least some knowledge about the service and those who know where to obtain the service.

Note 3: Usage rate: Those who have used training services in the past two years, either through purchase or free offer.

Note 4: Retention rate: Of those who used training, % who used the service more than once.

Source: FIT Programme (2001a, 2001b, 2000a, 2000b).

Training products not meeting MSEs' requirements

The second implication from the Indonesian research is that the remaining 21 per cent of the market is lost due to badly designed training. We therefore need to understand the requirements that MSEs have for training. There are six requirements (Chingaya and Chiturike, 1998):

a) *Duration and timing of training should be manageable*

b) *Training should take place near MSEs*

There are costs of lost opportunity caused by attending training including travel time. Training should be short, or should take place out of normal business hours, such as at night and on weekends.

c) *Local language should be used*

The issue of language for training delivery is another key. Even in countries where English, for example, is widely used, one should not expect that MSEs, especially those in rural areas, are able to use English fluently.

d) *Training should be in practical skills, not general skills or theory*

The need for practical skills is very important to MSEs, especially for those who want to become self-employed, but some trainers have difficulty in this. Some mentioned that there are more trainers offering general skills training, such as business management skills, and fewer trainers who can address specific needs of MSEs.

e) Certificates should be issued upon the completion of training

The importance of certificates may come partly from a cultural attitude, meaning that the importance may differ from place to place. Some people do not respect certificates at all, some care *only* for the issue of certificates, and others place importance on who issues the certificate. It has been observed that, even within one area, different segments of MSEs showed different attitudes to certificates.

f) Post-training services, such as marketing linkage, should be offered

Post-training services are regarded as crucial by MSE-trainees in general, and those who are self-employed in particular. This mainly applies to training on technical skills. The example showing this importance is a training course popular among MSEs in Thailand: many repeat the training, and trainees very often mentioned that marketing their products to other trainees was one of the most important benefits of participating in the training (Box 3).

Box 3. Trainees value highly post-training supports

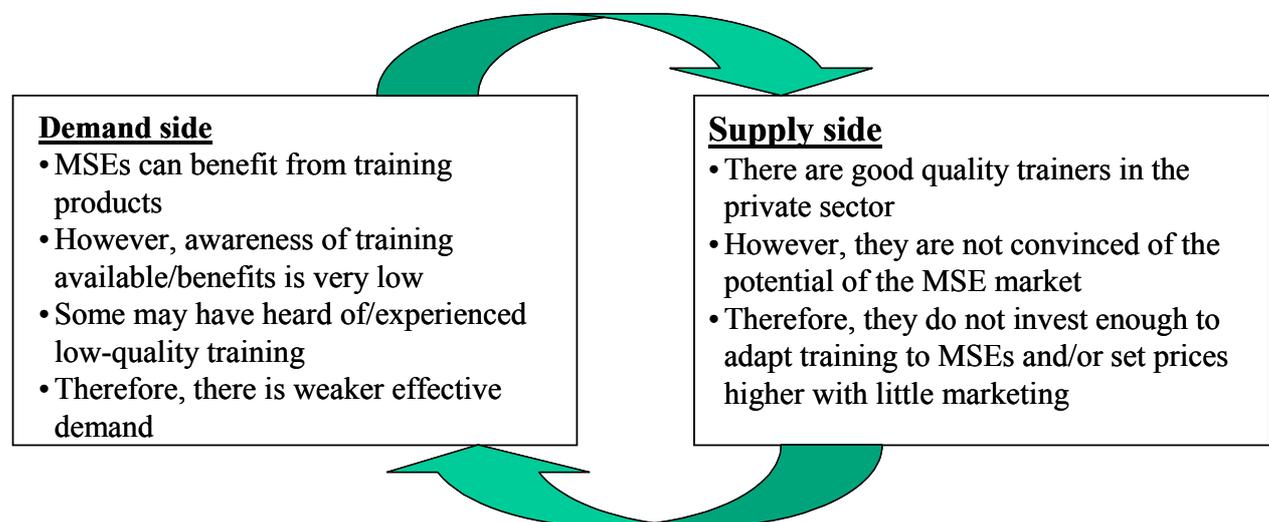
In Bangkok, Thailand training in some skills is offered by both public and private trainers. So why are some people willing to pay much more expensive fees for private training? There is one outstanding difference between the public and private training: post-training services are usually offered by private trainers, but not by public trainers. Therefore, even where public and private trainers deliver the same training courses, given that all other conditions are much the same, including the quality of trainers, MSEs opt for private training charging higher fees and offering strong post-training support. For example, the Thai cuisine training school provides referral services to ex-trainees who have already started and are successful in their businesses, including those overseas. Therefore, trainees can get not only cooking skills but also employment opportunities by attending the training. Another non-registered trainer, teaching how to make crispy fried sticks, provides consultation whenever ex-trainees encounter problems. These are not exceptional cases at all: rather, almost all private trainers provide strong post-training services without a duration limit. An interesting remark by a large private trainer is that there are many who repeat the training, and they sometimes attend subsequent courses in order to demonstrate their skills and expand their business network. These are obviously benefits beyond skills that training delivers, and these benefits are highly valued by trainees. Evidence of the importance of post-training services is highlighted by the fact that public training centres also started to offer marketing support a year ago, but this element, however, is yet very weak.

Obviously, more research is required to better understand the demand of MSEs for training. Some researchers are rather pessimistic in this regard. For example, Bennell (1999) describes the situation of the poor at the bottom of rural society as follows: With very simple technology and an abundant supply of cheap labour, not only can workers be trained at minimal cost on the job, but there are no incentives to invest in more skill-intensive technologies. Although this description may be more relevant to those in wage employment, it may also have some implication on self-employees in the informal sector.

7. A hypothetical picture of the training market

Figure 3 illustrates a hypothetical picture of the current training market to MSEs. In brief, on the demand side, latent demand for training stays latent, mainly because MSEs have difficulty in associating training with their daily business activities and in seeing the benefits. It is also the case that there are training products on offer that do not fully meet the requirements of MSEs for training, and this has presumably discouraged MSEs from purchasing training services. This then affects the supply side in a negative way, i.e. trainers are not willing to make investments to be MSE-oriented or market to MSEs. This will, in turn, affect the demand side in a similarly negative way. This vicious cycle needs to be cut if market development is to be pursued.

Figure 3. A hypothetical picture of training market



8. Implications for interventions

The author would like to introduce a successful example of the development of a training business (Box 4).

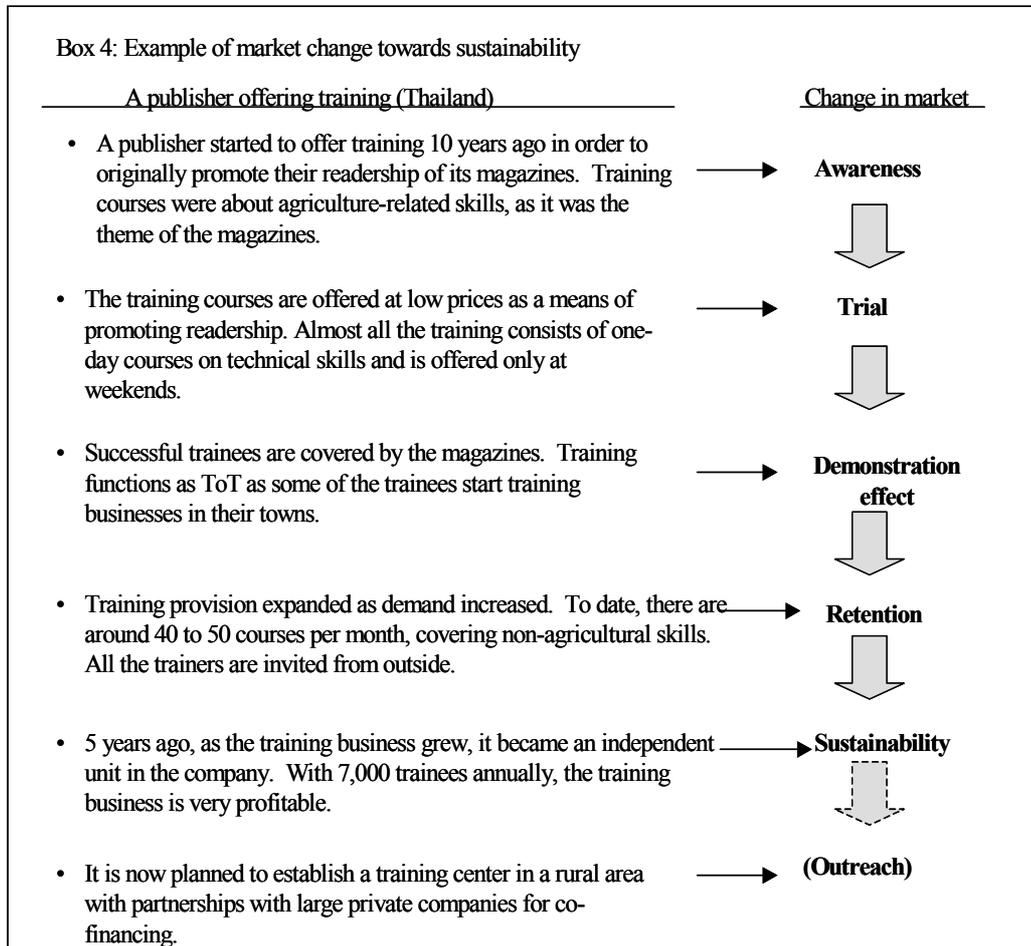
This example shows the dynamism of market development and also the framework with awareness, trial and retention. Listed below are some ideas for interventions along this framework.

(i) To increase awareness: Information flows from trainers to MSEs

The first step towards market development is to inform MSEs of the training available. The amount and quality of information can be reinforced by interventions, as those means currently employed by private trainers are very limited. As mentioned earlier, effective channels may differ from place to place and also from one MSE segment to another. An interesting example is that training voucher programmes are very effective in disseminating information on training to MSEs. The main focus is

put on the improvement of information flows, which is expected to lead to increased participation.

(ii) To get MSEs to try training: discounted fee, etc.



Get the confidence of MSEs

As seen above, the failure to try training is the most significant obstacle. Devices can be used to encourage MSEs to try training. Private trainers find that the most effective way to get the confidence of potential trainees is the possession of technical skills (FIT Resources Ltd., 2002). Word-of-mouth seems to be effective in conveying reliable information in this respect. Would it be possible for intervention to disseminate quality information that people find as reliable as word-of-mouth? Not only information flows, but other training marketing tools also could be developed, such as training exhibitions and success stories of ex-trainees.

Reduce upfront payments

Different payment arrangements also encourage MSEs to try training that private trainers offer. For instance, a trainer in Kenya successfully increased the number of trainees by offering an arrangement whereby trainees paid one tenth of the total fee prior to training sessions and the remainder upon completion of the training. Discounting fees is another option. Indeed, training vouchers are used for this purpose. Intervention could also aim to stimulate the supply of more affordable training by establishing business relationships that are expected to deliver embedded training.

These trial-related devices may not be necessary if information on training itself has enough pull and/or people already see training benefits. For example, in Uganda, a radio station broadcast information about training opportunities for bee-keeping and special water-tank construction respectively. It resulted in a significant increase in the number of trainees and many of the trainees were later hired by the businesses that offered the training. In these examples, discounts were not offered, but the take-up of training was successfully stimulated.

(iii) To increase the retention rate

A retention rate relies mainly on how satisfied trainees are with the training in which they have participated. If a retention rate of training is not high, it could be evidence that something is wrong with the quality of the training.

Get information flows to improve quality

The fact that word-of-mouth is the main means of promoting training courses seems to be the only thing that currently makes trainers quality conscious. Interventions could play a major role in improving information flows, both in terms of quantity and quality, from MSEs to trainers. Through this, training quality is likely to be improved. It is actually what is intended in training voucher programmes. By getting feedback from trainees, it has been observed that trainers do adapt existing training and/or invent new training (Haan, 2000; Rogowska, 2001). This function of information flows is imperative for market development, as it ensures training quality, therefore high retention rates, which is one of the important elements leading to development of the training market.

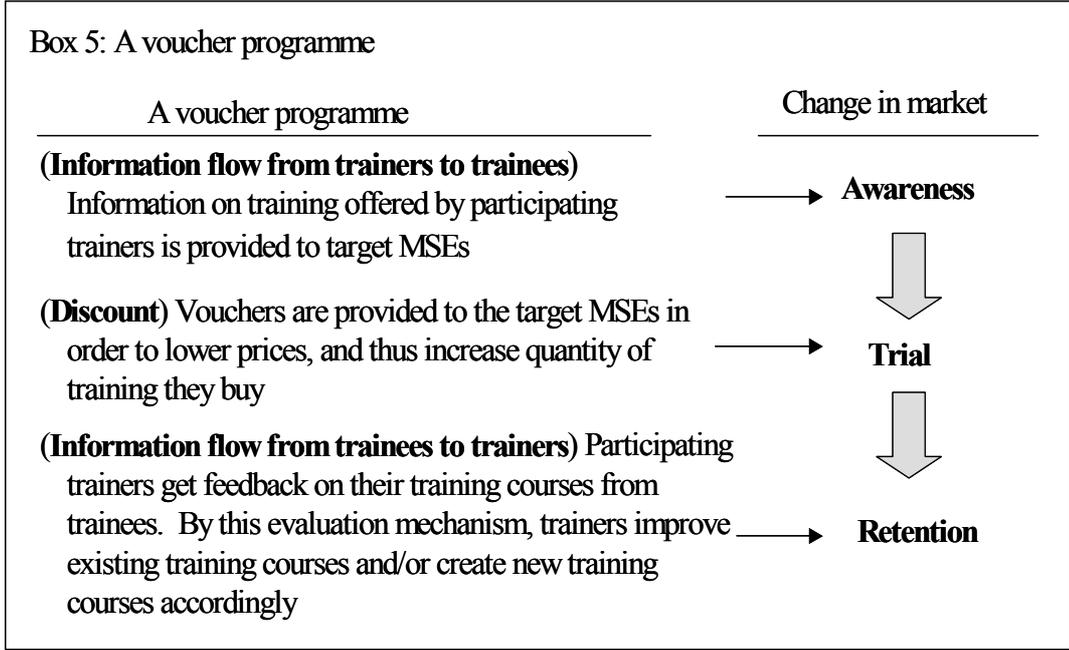
Directly improve quality of training supply

Another way to ensure training quality is to implement training of trainers (ToT). In the context of MSE development, it sometimes means training existing trainers to instill MSE-oriented business attitudes and skills. The comment below is by a trainer who participated in ToT for this purpose:

Before I attended the ToT, I had already delivered training to businesses, but not to MSEs. It was because I was not sure if MSEs could be viable clients for my training. During the ToT, I realized that there was huge potential in the MSE segment and that communication to MSEs required specific skills. It's been four months after the ToT and I am confident that training to MSEs can be very profitable. (Trainer in Kenya)

There are two key factors of success learned from the FIT experience in ToT. Firstly, the selection of trainers to be trained is crucial. They themselves should be entrepreneurs with a strong interest in training as business. This criterion for selection was rightly emphasized when FIT Recourses in Kenya, a private firm with a close relationship with the FIT programme of the ILO, implemented ToT. It was reported, during the six months after the ToT, that the twenty-three private trainers who had been trained had reached over six hundred MSEs by delivering training on a commercial basis. Secondly, trained trainers need continuous marketing support during the initial period after ToT, especially when they have to market their training to people who are not familiar with training, or who are used to for-free training. It should also be noted that one of the gains appreciated by trainers participating in ToT is the opportunity to network with other trainers. By such networking trainers can upgrade their knowledge on market needs, exchange tips for successful training, which is expected to lead to better quality training (for example, Mathuva *et al.*, 1999).

Interventions could choose which elements from the three to take on, depending on the development stage of a market concerned. As has already been mentioned, one possible way of intervention with the three key elements is a voucher programme. It can promote two-way communication between trainers and MSEs, with vouchers offering temporary discounts (Box 5). There are several reports describing voucher programmes, many of which are still ongoing (for instance, see Goldmark *et al.*, 2001). However, it has not yet been shown conclusively whether voucher programmes can successfully create a sustainable training market.



Some indications of how to achieve sustainable outreach in the market have already been provided by both trainers and trainees. To reduce training costs further, training can be delivered via a business functioning as a training coordinator. A business entity with a venue and marketing channels can coordinate trainers outside with different skills in order to respond to market needs. In this way trainers can share the costs of venues (which are often the most expensive cost item) and the costs of marketing. On the trainees' side, MSEs can form a group and collectively invite trainers. As described earlier, this approach provides advantages both to trainers and trainees. One point to note relating to this approach is that high awareness of available training and its benefits is a pre-condition to this collective invitation of trainers.

9. Conclusion

By looking at the different kinds of training on offer and the different set-ups, this paper has shown that training supply in the private sector does comprise an important part of the total training supply in developing countries. However, the training market for MSEs has not yet developed as much as it could, because there are “uneducated” potential customers on the one hand and skeptical suppliers on the other. This paper has also shown that there are major obstacles faced both by MSEs and private trainers. By taking the role of a facilitator, donors' interventions could help the market to overcome the obstacles. This would help private trainers penetrate the gray zone of the market, and identify areas where subsidies may be justified. To this end, enabling environments must be provided by governments and donors could support it as advocates of the new BDS approach.

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Annex 1

A list of trainers interviewed in Thailand (1)

24Name of trainer	Type of training setups	Experience as a trainer	Skills to be taught	Duration of courses	Fees	Marketing	Target segment	Quality and other
Ms Pongsak	Embedded training	4 years	Pottery	30-40 hours	- B 2,500 - Free for some courses	-Word of mouth - Was interviewed by TV, then got reputation	-General public -A focused group(the poor) - Prefer the poor as they have better motivation	- The main business is manufacturing, distribution incl. Export - Most of traineesbecome subcontractors
Jasmine Fragrance Clay Club	Embedded training	9 years	Jasmine fragrance clay arts	About a week	Free	-Put a sticker on products sold at department stores -Was interviewed by TV	-Anybody	-The trainers sells trainees' products (10% commissions) -Raw materials should be bought from this trainers -Have a plan to franchise the training
Ms. Tantrakul	Embedded training	8 months	Artificial flowers	N/A	B 500	- Her husband's customers liked her work -Was interviewed by TV	-Anybody	-Trainees help her to fill various orders
Ms. Santhon	Embedded training	10 years	Handicrafts	Until they are able to make handicrafts	Free (materials to be paid)	- Was interviewed by a magazine	-Poor children, prostitutes -The poor, who have better concentration	-Won 1 st prize -Most trainees are males -The trainer sells trainees' product (50% commission)

Note 1: The interviews were conducted by FIT Thailand in Spring 2001. Note 2: Approximately Baht 45 is equivalent to USD 1 (May 2001).

A list of trainers interviewed in Thailand (2)

Name of trainer	Type of trainer	Experience as a trainer	Skills to be taught	Duration of courses	Fees	Marketing	Target segment	Quality and other
Miko Beauty Salon	Training as sideline	1 year	Thai massage	N/A	B 1,500 per course	-Ex-colleagues	-Anyone who wants to open own shops	-The course is offered on a one-to-one basis -Let trainees work until they are confident to get independent -Help them by sharing her customer base!
Robinson department stores	Training as sideline	5 years	Different skill for arts and crafts	N/A	- B1,100 (for costume design)	-N/A	-N/A	-Robinson supplies rooms and recruits trainers from outside -30% of trainees become self-employees
Mr. Imrattanak	Training as sideline	10 years	-Training on Fried chicken on his site -A distance learning course	1 day (6 hours)	-B 1,500 - B600	-Hand-written posters -Was interviewed by TV -Ad on Daily News, Marichon Daily -No marketing needed anymore	-Low-income earners -Employees wanting to be self-employed -Unemployed	-Reputation is important so that quality of training is well maintained -If trainees are charged, they will concentrate more on the training

Note 1: The interviews were conducted by FIT Thailand in Spring 2001

Note 2: Approximately Baht 45 is equivalent to USD 1 (May 2001).

A list of trainers interviewed in Thailand (3)

Name of trainer	Type of trainer	Experience as a trainer	Skills to be taught	Duration of courses	Fees	Marketing	Target segment	Quality and other
Khaokho Talay Pu (Hotel)	Training as sideline	3 years	Food relating courses 3-5 courses per month	N/A	-B 200 to 2,200	N/A	-First started with hotel guests -Now those who want to be self-employed, or running MSEs	- Set up by Uni. Kasetsart (Skills & Training Development Center) -This hotel provides venue -Trainees' product can be sold to the hotel (10% commission)
Ms. Panyamothrlad	Training as sideline	N/A	Jewelry design	-Weekends	-B 500 per day	Word of mouth	-N/A	-N/A
Glamour Training System	Training as main business	3 years	Beauty, hairdressing	N/A	B 3,000 to 25,000 per course	- Send trainees to competitions	Anybody above 18 years old	-Trainees need to be certified to go on to higher level courses -Those <18 can work as part time workers to see if they have talent
Bangkok Siam Beauty School	Training as main business	15 years	Haircutting	3 days 5 days 7 days 10 days	B 1,000/ B1,800 B 2,000/2,500 B5,000 B 5,000	-Word of mouth -Reputation from competitions	-Those in business -Unemployed	-Many of trainees got awards from different competitions

Note 1: The interviews were conducted by FIT Thailand in Spring 2001

Note 2: Approximately Baht 45 is equivalent to USD 1 (May 2001).

A list of trainers interviewed in Thailand (4)

Name of trainer	Type of trainer	Experience as a trainer	Skills to be taught	Duration of courses	Fees	Marketing	Target segment	Quality and other
Ms. Thiensuan	Training as main business	4 years	Fruit carving	7 days	B 3,000	- Reputation among class mates at training - Successful workatn a big formal event	- Anybody	-with 5 staff members
Sangprarach Candles Carving Center	Training as main business	> 1year	Candle carving	Half day(level 1) 1 day (level 2) 2 days (level 3) 3 days (level 4)	B 500 B 1,000 B 1,500 B 2,000	-Sell products at JJ market, a well-known market in Bangkok	-Anyone	- One class with less than 5 trainees -5 full-time staff
Ms. Puttaraksa	Training as main business	3 years	Artificial flowers 10-15 courses per month	N/A	-B800-2,500 per course (Robinson) -100-150 at public training	A well-known person liked her work. It led to interviews by TV and others	-N/A	-75% of trainers have bachelor degree

Note 1: The interviews were conducted by FIT Thailand in Spring 2001

Note 2: Approximately Baht 45 is equivalent to USD 1 (May 2001).

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