The Stubborn Trainers vs the Neoliberal Economists: Will Training Survive the Battle?

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Introduction

Not long ago most Latin American countries had systems of training which were considered very interesting, original and well performing. Starting with the Brazilian SENAI more than fifty years ago, they introduced creative solutions to training and served the region well. But the region's economies have changed faster than most of them could cope with and intellectual fashion has lead to policies that threaten their existence. This paper reviews the evolution in training policies and its impact on the training systems of the region.

When Latin American training institutions were created, the problems of training were mostly on the supply side. The market would hire as many graduates as the schools could produce and trainers were concerned with training materials, training of trainers, and funds to pay for increasingly large and heavy systems.

Alas, this is no longer true. The economic troubles which started with the oil crisis in the seventies and culminated with the "lost decade" of the eighties changed forever the landscape of training. While training remains as important as ever, obtaining a good fit between supply and demand has become the number one challenge for trainers. Indeed, this is the area in which training institutions are most vulnerable to criticism.

Gone is the heroic era of supply worries and attempts to train more and more students while improving quality. Now, training institutions have to struggle with elusive markets. Worse, the incentives to earnestly pursue this mystifying fit are often absent. We enter the era of demand-driven training, since adjusting to demand should be the main concern. But the world of demand-driven training is not so simple.

This paper deals with real world problems in the era of demand-driven training. The first section chronicles the birth and development of the Latin American training systems, followed by the beginning of their troubles and the collapse of the supply-driven training model. But demand-driven training is not easy to achieve, and the Latin American training institutions demur, dodge and procrastinate the difficult adjustment required to redeploy their efforts to new markets and to the informal sector. The second section of this report shows that Latin American governments are responding to the inertia of training institutions by radically changing their approach. Instead of trying to control institutions by administrative means, there is a tendency to implement a system of contract training, so as to have a more forceful impact on what is offered. The last section of the paper speculates on what may happen when stubborn and heavy institutions face the threat of losing their budgets.

The "S and I" Model: The Path from Success to Failure

Latin American training was essentially made up of clones of the Brazilian SENAI. The Colombian SENA was an early and dynamic spin-off, and became a source of inspiration for similar institutions in practically all countries except Mexico, Argentina and Uruguay. For lack of a better term, we may call them the "S and I" systems (v.g. they are called SENAI, SENA, SENAC, SENAR, SENAT, SENA, SENATI, and INA, INCE, INFOTEC, INACAP).

The "S and I" model was quite successful. A payroll levy gave them financial stability, comfortable budgets and a long-run perspective. The so-called "methodical series" supplied a practical, fail-proof and effective means of delivery. The independence from academic schools and from the Ministry of Education (in almost all cases) liberated vocational training from the academic schools' middle-class ethos and prejudice against manual occupations. Furthermore, these institutions were often quite close to the enterprises.

This was a good formula. For several decades these systems enjoyed a good reputation and adequately trained several generations of highly skilled workers. They were, overall, significantly better than the regular schools in their countries. Some were outstanding institutions. They trained workers who allowed the modern sectors to develop and fostered the process of import substitution. Whatever criticism we may have against them, most were respected islands of serious learning, in contrast with the academic schools' overall mediocrity.

It was not their fault that the modern sector did not take over the traditional economy, thereby progressively encompassing a larger share of the enterprises. The oil crisis, the economic disturbances that followed and the labor-saving nature of industrialization led to stagnation in the employment growth of the modern sector and to the rise of the informal sector and self-employment. As a result, modern sector labor markets in Latin America lost dynamism and have hired very modestly in the last several years.

Consequently, most of these training institutions, which were conceived to cater to modern industry, started graduating students who did not find a clear and active labor market in the industrial sectors. The only markets that expanded were the informal and service sectors. Most of the "S and I" institutions tried to experiment with training for the informal sector. There has been much experimentation with this training in Latin America, some authors believe, more than anywhere else.[1] Perhaps the better known and more successful experiment has been the *Talleres Populares* of INA, which offer open courses in several popular trades and encourage the trainees to start producing for the market soon after they start their training. However, most of these experiments remained as such, small initiatives that were never replicated on a larger scale

The reasons for this *de facto* situation are many. First of all, working in the informal sector is difficult and nobody has a good formula on how to proceed. The results of most informal sector training were not particularly positive. Secondly, moving from the modern industrial sector to the informal one means moving down the occupational and status scale. It means training less-educated workers in simpler occupations which

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[1] María Angélica Ducci et al, *La formación profesional en el umbral del siglo XXI*, CINTERFOR.

carry a lower status. These rich and prestigious institutions did not feel particularly motivated to move down the scale. Third, these institutions are too complex and expensive to efficiently train workers in simple occupations. Being expensive means that only a few can be trained, limiting the impact of training. Fourth, the constituencies of the informal sector are poor and disorganized. For all practical purposes, there is no political pressure to serve this defranchised population. Lastly, in cases where the modern markets remained relatively active, some institutions felt that their obligation was to train for those enterprises which were effectively contributing their 1 percent levy—this is clearly the case of the Brazilian SENAI. Why should they train for the informal sector, which did not pay taxes and oftentimes competed directly with modern businesses?

Small enterprises, while not deprived of a share of the graduates, never received their central attention—as was the case with the informal sector. Most course offerings remained tailored to larger enterprises with a greater specialization of functions, complex division of labor and technologically more advanced processes. This, of course, is the right way to go as long as there is demand for such trades.

But whatever the reasons, the fact remains that as the market for modern industrial occupations lost its impetus, these institutions did not shift their lines of activities, so as to cater to markets with a more active demand. Instead, they persisted in their original training priorities as if nothing had happened. As a result, their prestige and reputation has eroded and they have become far more vulnerable to pressures from the outside. Public academic schools envy their generous budgets and want to grab a part of it. Governments want to redirect their budgets to activities which may be socially more productive or politically more expedient. In many countries, their budgets have been raided. Even SENA and INA (Colombia and Costa Rica)–the most prestigious institutions in Spanish-speaking Latin America–have not escaped having their budgets poached. SENA budgets were subjected to central controls and similar constraints were imposed on INA. The Peruvian SENATI lost half of its budget, which fell from 1.5 to 0.75 percent of payroll.

The “S and I” schools are an interesting case of solid training institutions failing to adjust, allowing the lack of fit between the supply of training and its demand to become endemic. Most countries in the region are facing the stagnation of their modern markets and the continued development of the informal sector. Yet, training systems have not re-adjusted to the new market situation.

After a relatively long period in which Latin American systems were finely tuned to demand, storms are brewing all over the continent. The failure to respond to the informal sector is perhaps the most blatant distortion. But in many other ways, these systems have become increasingly rigid and unresponsive to shifts in demand. These institutions were created with their own independent funding mechanism (the payroll levy) and they were given autonomous status, in order to avoid the mediocrity, low salaries, and spoils politics of the regular civil service. Financial stability and independence were positive results of this decision. The institutions had their own clear mandate which they could execute without impertinent outside pressures. Yet, this independence which was desirable to keep them on a good route, became undesirable when, with the passing of time, they drifted away from their mission to respond to demand. Or better said, demand drifted away from them and they did not chase it as they should have. Now, being independent means that they can get away with impunity when they fail to respond to demand.

They have also become heavier, and accumulated administrative fat. The number of staff kept growing while output did not. As their management became older, they lost dynamism. For instance, at one point in time, INA was not able to spend all its budget, creating the image it had too much money. In a few institutions, political appointments became the norm, often putting into power people who completely lacked the profile or the motivation to become good leaders. Spoils politics became a common fixture, with the ensuing degradation in performance that is the unavoidable result.

It seems safe to say that their image and reputation keeps falling. Educators, particularly those from the left, criticize them for offering narrow, shallow and over-specialized training in old-fashioned occupations. This is true in some cases, but in many others educators fail to realize that a heavy load of cognitive skills are imbedded in the "methodical series." Firms accuse them of not offering the practical preparation they need and ignoring market trends. Civil servants envy their fat budgets and generous salaries.

Nevertheless, these are broad generalizations which do not apply to all institutions. Not all of them follow exactly the same paths. Not all of them lost their abilities to chase markets or to experiment. Two cases merit particular attention: SENA and SENAI.

When the import substitution process in Colombia stagnated, the vibrant SENA lost its sense of direction and started experimenting with different strategies. In line with its dynamism, it tried to find markets elsewhere. It first tried to adapt to the terciary and to informal sector occupations. But it went further and got into the preparation of cadres for participative development and for municipalities. It went into the rural regions and it even had to strike deals with the guerillas in order to conduct its courses. At the same time, its expensive and refined industrial arts programs were partly abandoned. These new lines of activities failed to produce a viable alternative to SENA and created a serious and deep-reaching split inside the institution. While others may pay a price for refusing to change, SENA may have to pay the price for having changed too much and drifted into areas in which its comparative advantages are slim.

The case of the Brazilian SENAI is quite the opposite. It changed little and, compared to most others, it is doing very well indeed.[2] This is due to two reasons. The first is that Brazilian industry kept upgrading worker training, even during the worst periods of crisis. Therefore, SENAI did not have to readjust to new markets, except in the sense that firms became more automated and adopted more complex technologies. Training institutions are always more willing to adjust upwards and SENAI is no exception. It is offering state-of- the-art courses in modern technologies. The second reason is the fact that, differently from all its siblings, SENAI belongs to the Federation of Industries. In other words, those who consume SENAI's products have complete mastery and control over the institution. Therefore, no SENAI executive dares go against the will of the industrialists who literally own it. SENAI has no other choice than to offer what industry wants.

To sum up, the majority of the "I and S" institutions are having serious problems of mismatches between supply and demand, organizational decrepitude, institutional fat and erosion in public image. This, however, is not necessarily the case with all the institutions. That is not to say that they have become dysfunctional or ineffective institutions. This would not be a fair overall judgement of their performance. The issue is that most of them are not getting an impact that is commensurate with the significant resources they receive, not that they are useless. The few studies of effectiveness available do not suggest this. However, given the scarcity of resources, we should expect far more from them than we are now getting.

[2] The São Paulo SENAI, which enrolls about half of all SENAI students, conducts systematic tracer studies which clearly demonstrate that at least two thirds of the graduates find meaningful jobs after graduation

The Checkbook Recipe: Forget the Big Training Systems and Just Buy Training

Discontent has been brewing throughout the region. These institutions are accused of being unresponsive and expensive. Many means have been tried to control them, thus far without much success. The fact is, these are strong, well-organized institutions with a powerful *esprit de corps*, and they mobilize their political defenses quite effectively. Their autonomy, which at one time protected them from spoils politics and the academic "diploma disease," now permits them to resist change. And they resist necessary as well as harmful changes.

On different occasions there have been attempts to nationalize SENAI but protection from industrialists has been effective and forceful. It is as if SENAI had traded its independence for this strong protection. At the same time, other institutions which are far less effective than SENAI have also been able to resist change and remain alienated from the real social priorities.

Yet, the prospects for the future are not clear. Training institutions are changing, sometimes in creative and interesting ways. But will they change fast enough to accommodate society's growing impatience? Some of them are probably too dysfunctional and slow to change, and will suffer the consequences. There is an increasing perception that some training systems will not reform themselves and are successful in resisting pressures from the outside. This is leading to a new strategy which might have major long-run repercussions. Instead of trying to reform training institutions, there is now a tendency to re-engineer the systems, applying a different philosophy. This change is part of the movement to "reinvent government" and to use economic incentives in areas which have traditionally been the domain of conventional hierarchical structures.

Instead of being an operator of training or trying to govern the training systems by means of hierarchical or administrative controls, the government becomes a buyer of training services. Instead of managing institutions, the government becomes a financial agent who establishes clear rules for purchasing training, selects the best bids and controls the quality of the service offered. This is part of a tendency that is becoming widespread in Latin America; that is, to create surrogate markets for services which are normally produced by the public sector. In this process, a multiplicity of suppliers—both public and private—are to compete for the contracts. Vouchers may be used to give the users full freedom to chose the services they want. Funding is split from execution. The people who pay are not necessarily those who deliver the services and greater choice is given to users. "Voting with the feet" becomes a way of controling activities which were previously delivered under the public service tradition.

These developments are similar to what is happening in the health field. The new managed care revolution has to do with buying and selling health services instead of managing a health system. The center of gravity moves from health to the mechanics of funding. In a conventional health system, top administrators discuss diseases, treatments, hospitals and so on. In the new managed health care, economists create market incentives for a multiplicity of agents to take care of people's health as they see fit, as long as the results conform to established standards. It is not by chance that in countries such as Chile and Colombia, which have undergone major health reforms, economists have become Ministers of Health.

There is a tendency for training systems to move in the same direction. The most radical case is Chile where INACAP, a SENAI sibling, was stripped of its budget in a period of a few years and told to sell its courses to enterprises which had received government subsidies to buy training from anybody they chose to. INACAP was quite successful in making the transition and has been operating without any public subsidy during the last few years. It sells training to enterprises and to individual students.[3] Chile has continued along the path of disengaging from the operation of training institutions and, instead, creating competitive mechanisms to purchase training.

The situation in Argentina is quite interesting. An IDB loan created *Proyecto Joven*, a quintessential checkbook program. Funds were provided to the Ministry of Labor to enter into a contract for training services with any credible institution, public or private. In order to bid, the provider had to submit a project for the course and an iron-clad promise from an entrepreneur that after graduating students would be offered internships for a period lasting as long as the course. In many ways, this has been a successful program. The proportion of graduates who find work is much greater than that of control groups.

SENA is struggling against threats from the planning authorities. The government wants to allocate part of the revenues from the payroll levy to enterprises which would enter into training contracts with whomever they see fit, not necessarily with SENA. SENA's reaction to this has been fierce. For the time being, it has blocked the initiative of the planning authorities at a considerable political cost. It has seen its legitimacy erode and its allies withdraw. At the same time, however, SENA itself has begun extending training contracts to other agencies.

INA of Costa Rica has also had confrontations with the government and fighting the policies of allocating part of its budget to contract training in the open market. Contracting is also becoming a more widespread practice in El Salvador and other Central American countries. The new generation of Mexican technical schools also provides an interesting example of the complete decentralization of training.

The ill-fated SENAR (the sibling of SENAI and SENAC catering to the rural sector) did not share with the other two the invaluable links with enterprise associations. Instead, it was a civil service agency, sharing all the difficulties and hardships of regular public administration. For that reason, its performance was a very mediocre. More recently, it was eliminated and re-created under the wings of the association of agricultural producers, following lines similarly to SENAI and SENAC. Interestingly, since it was created recently, SENAR's administrative style is different and new. Instead of providing training services directly, it buys training from other providers, including SENAI and SENAC. The only in-house activity is research and the development of new courses. Again, new times bring new solutions which are closer to the idea of stimulating markets for training providers.

Along the same lines, the Ministry of Labor of Brazil has launched a large training operation catering to the informal sector and to the unemployed which is financed through a fund created by a payroll tax designed to finance worker compensation and other related activities (including training). The funds are given to state secretaries of labor who allocate them to providers, following some simple rules.

In contrast to Argentina's *Proyecto Joven*, most providers share the traditional names of SENAI and SENAC, as well as other well-established institutions. They tend to provide good quality training, since they have been

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[3] See Oscar Corvalán Vázquez, *The Evolution of Chile´s National Vocational Training Institute*, ILO/Training Policies Branch.

doing it for a long time. Yet, due to the casual rules for contracting, targeting courses to existing jobs seems to be unreliable. By contrast, *Proyecto Joven*, which ranks high on targeting courses, leaves much to be desired as far as their quality is concerned.

Without any doubts, the bulk of Latin American vocational training is still offered through conventional mechanisms, with large and heavy training institutions providing most of the training and occupying a large institutional space. However, the tendency seems to be clearly moving away from the large dinosaurs of training. From the government perspective, training becomes a matter of controlling institutions by means of funds and incentives, rather than repairing and managing them through hierarchical or administrative regulations.

Development institutions and the IDB, in particular, have embarked in the creation of these funds which put training out for competitive bids where public and private providers may apply to become providers. *Chile Joven* and *Proyecto Joven,* mentioned above, are the best know examples, but other countries (for instance, Jamaica and Uruguay) have initiated similar programs.

This may be a healthy and welcome innovation but not one without dangers. This paper is not a blunt endorsement of this transformation but an attempt to put them into proper perspective.

What If the Neoliberal Economists Have Their Ways?

Deciding not to micromanage training and, instead, to create financial incentives for good behavior is a major departure from traditional modes of operation. But this is just the beginning of a process that is also complex. There are dangers and pitfalls.

CONTRACTING WORKS BETTER FOR SHORT COURSES

Not all training benefits from contracting mechanisms. It works well for courses on word processing, spreadsheets or the latest fashion in management techniques. These are courses which need a classroom and someone with the requisite skills— which are not very difficult to find. But a course in robotics or in tool-and-die making requires particularly expensive equipment, large groups of teachers with long years of training and retraining. These are long-run investments. Following the same reasoning that the development literature of the sixties did to point out that private enterprises are reluctant to invest in hydroelectrical generation, investing in these careers with long gestation periods cannot be done without a funding horizon that is equally long. Contracting is hardly the way to ensure this long-run continuity. It is instructive to note that Chile, the country that has taken the most aggressive policies towards modernizing the funding of training, has given technical schools a solution that is very close to that of the Brazilian SENAI, i.e, fund them with conventional budgets and put their management in the hands of employers' associations.

CONTRACTING IS JUST THE FIRST STEP IN A COMPLEX PROCESS

Contracting requires good mechanisms to identify demand, so that the old problem of missing the target is avoided. If the old training institution did not assess demand correctly, why should we believe that the contractor will get it right? Granted, contracting institutions do not have vested interests in repeating the offerings of last year to keep the same instructors busy. But this is not enough. Tracking market niches is an activity not well performed by civil servants. The case of the Brazilian Ministry of Labor is a clear example of deficient targeting. Contracting also requires good certification practices. When training is being offered by a single large institution of respectable quality, certification is not important. In fact, endogenous quality control can be, in some cases, quite competent and demanding. This is clearly the case of the large and respected Latin American "S and I" institutions, explaining why certification is lagging in these countries. But when the government awards a multiplicity of contracts, somebody has to make sure the quality of the product is acceptable. Otherwise the system will be creating implicit incentives for sloppy programs which cost little and deliver little. Moreover, bureaucracies which are incompetent at delivering good training are not very likely to be competent in contracting out. They will have the same difficulties in identifying demand and controling the quality of the final product.

THE DINOSAURS OF TRAINING ARE DE FACTO THE CURATORS OF AN ENORMOUS EXPERIENCE IN THE AREA

For the most part, they remain quite competent at what they do. If they flounder as a result of social impatience with them, there might be a great loss of experience and expertise. This is not serious in training for the tertiary sector, but it is not possible to improvise training for the heavy and sophisticated manufacturing areas. As mentioned, societies need institutions operating with a long time horizon to do the expensive and complicated training which requires several years of lead time and heavy outlays to prepare instructors and teaching materials. The *Proyecto Joven* in Argentina is an extreme case. It was created during a period in which the old technical schools were allowed to wilt and in some cases to become derelict. In so many words, their equipment deteriorated, the instructors did not keep up with up-to-date knowledge or quit, and teaching materials and experience suffered enormously. The new model now being implemented moves away from the traditional training of skilled workers, focusing instead on new technologies and other pursuits. To a very large extent, *Proyecto Joven* took the place of the technical schools in providing training for crafts and trades. However, while the *Proyecto Joven* model is suited for a light, *ad hoc* set of training courses, it cannot replace a full-fledged training system. Under such a model, everything is improvised, permanently improvised, since the courses are offered on a contract-by- contract basis, with no promise of continuity. Operators are very small, in two thirds of the cases they are one-man enterprises. They neither have the time horizon nor the capital to invest in training trainers, producing high quality training materials or developing innovative methods. In the case of Brazil, they do not need to, since the big training systems are still there, doing what they have being for as much as half a century. Thus, the small operators can tap into this large pool of trainers, materials and methods. With the demise of the technical schools, Argentina has been left with no source of collective learning, no curator for what has been learned. The results are very unambiguous, the quality of the training offered is substandard, there are no manuals or books, the instructors improvise (and often teach the wrong practices), the equipment is inadequate, and teaching methods are simple minded. Quite clearly, *Proyecto Joven* cannot replace a serious training system where someone thinks ahead, trains trainers, innovates and, above all, conserves the learning achieved.

IN CONTRACTING SCHEMES EQUITY MAY SUFFER

The case of INA is quite instructive. While INA was able to prosper without public funding, the courses they managed to sell to enterprises and directly to students were different. The skilled worker programs shrank dramatically and post-secondary courses catering to the middle classes increased. Some observers of present day Chile have denounced a serious scarcity of skilled workers.[4] More recently Chile had to enact complementary policies for these simple schemes. *Mutatis mutandi*, the case of SENAC is also instructive. The decision to tackle cost recovery seriously created an option for more sophisticated courses catering to better off students. Language and secretarial courses are being replaced by graphic computing and up-market quality control courses. Many of the simpler offerings, such as typing are being dropped. By responding to the more demanding markets of the modern sectors, SENAC becomes more financially viable but equity suffers. SENATI is another good example. Entrepreneurs became its predominant force, leading to considerable increases in efficiency and targeting for real jobs. As the social status of students increased, SENATI abandoned its traditionally poor clients.

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[4] See the IDB monograph *Modernizar con todos: Hacia la integración de lo social y lo económico*, Grupo de la Agenda Social. January 1997. p. vi.

IF THE MODEL IS SO GOOD, HOW COME NO INDUSTRIAL COUNTRY HAS ADOPTED IT?

The fact is, all industrial countries —with absolutely no exceptions—operate large public training systems financed from regular budgets. Indeed, there seems to be a tendency away from enterprise-based training. Modern firms in advanced industrial countries increasingly rely on public institutions for training.[5] This is the case of Boeing, Caterpillar and automobile manufacturers which are devolving part of their training to community colleges and Tech Prep schemes.[6] There is no simple-minded return to old formulas but a more advanced stage of forging closer links with public institutions. For instance, Boeing does less in-house training and, instead, provides financial and technical support to local community colleges.

At the risk of oversimplifying a complex problem, it seems that the new tendencies described in this section are a breath of fresh air into a stale atmosphere and are thereby quite welcome. However, modern training systems are complex and cannot be dealt by means of simple and single solutions. It is not just a matter of contracting out or privatizing. Instead, modern industry requires a multiplicity of financing and organizational principles among which, contracting out is a good idea but not one that can replace all other such schemes.

The idea of giving up attempts to reform institutions and instead strip them of their budgets worked in Chile, as a partial solution. But this may not work in other cases. The “S and I” may be too powerful and sabotage the efforts to change, as happened recently with SENA. Or worse, they may sink in the process of fighting with the government. It is not uncommon that governments are not strong enough to repair institutions but have ample power to ruin them. The goal is not to punish institutions for being lazy and unresponsive but to create the best possible training system.

To sum up, discontent with the old and heavy training institutions in Latin America is leading some countries to experiment with models in which the system is steered by means of training contracts and, taken to its ultimate level, would replace the “S and I” monsters with a fragmented set of small institutions. This solution avoids the organizational inertia which has become endemic in the region. It seems like a good idea. But it is not a panacea. In most cases, it has to be part of a more complex solution.

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[5] See for instance, C. M. Castro, *Training in Oklahoma: They Seem to be Doing it Right*, The World Bank, 1995.

[6] See João Oliveira and C. M. Castro, “O Treinamento na Indústria do Petroleo.” 1991. (unpublished)

Alternative Reform Paths: The Political Economy of Changing the “S and I”

By and large, the “S and I” systems have reacted strongly against the “checkbook approach,” not for the reasons mentioned above but because they seem to see it as a threat to their budgets, security and old beliefs. Force and threats to introduce it do not seem to have worked, as exemplified by the largely unsuccessful attempts to set aside part of the budgets of SENA and INA for contracting out training. Worse, these institutions and their budgets have escaped unscathed but their functionality has suffered in the battles.

Many actors outside the system, particularly in finance ministries, envisage an even more radical solution: their elimination. This final solution may find sympathetic ears in a limited number of economists in multilateral banks. Whether this solution would be a good idea is a moot point here. The fact of the matter is that there does not seem to be enough clout or political force for such a radical policy, even if it were the best option, which is not the case, as indicated by the previous section. Under those conditions, the most reasonable path seems to be the more middle-of-the-road reform. There are many alternative paths and all of them demand skillful negotiations and a climate of trust.

There are as many different solutions as there are countries. Furthermore, even within one single country the solutions are neither single nor simple. Modern training systems display many different solutions at each level, from the funding to the delivery of courses. Internal complexity and diversity seem to be the only possible direction for change.

Ultimately, it is not a matter or liking or disliking the “S and I” players but asking whether they are delivering the services that are expected of them in all the directions that are required. Above all, these institutions should be able to respond to demand coming from enterprises and readjust their offerings every time the demand changes. Much as an in-depth discussion of what it means to respond to demand is important, it would take us far from our main argument. Suffice it to say that the adjustments have to be both in quality and quantity, a task complicated by the pervasive perception that employers do not have a clear blueprint of what they want. Be that as it may, in order to respond to demand, training systems need solid navigational tools and whatever is required to make them “want” to adjust and readjust. In most present systems, inertia prevails and repeating the same routines is the chosen path.

A naive answer to this quest would be the creation of information management systems, tracer studies, market “observatoires” and other devices. However, having good information is the result of wanting to respond, not an answer in itself. If there are good reasons not to change, information is neither wanted, collected or used. For this reason, collecting data is a requirement but not the strategic structural change that will improve targeting.

There are many ways of making training systems “want” to respond to demand. The previous section proposed one powerful path: the checkbook approach. This is the solution favored by many economists because it makes markets do the job. The invisible hand is put in charge of forcing competing providers to get their act together and become efficient. It is simple, elegant and it can even work. But it is not the only way. Considering the formidable opposition from training institutions to these schemes, there are no good reasons to have one single plate on the menu. Therefore, we should consider several alternatives as partial solutions.

PLURALISM REPLACES MONOPOLY

Not long ago, each country had its “S” or “I” and little more in training. Not so much by planning as by spontaneous development. This monopoly is now disappearing. Other ministries are coming into the picture. In many cases, ministries of labor are taking a stronger stand on training.[7] Private schools are mushrooming in industrial areas and everywhere in the area of office technology. Local initiatives are also mushrooming. Unfortunately, no statistics on this development are kept.

For whatever reasons, the spontaneous appearance of other training providers has changed the scene. Independently of government action, the local “S” or “I” is losing their monopoly status. Private providers are more active in some areas, such as quality control, short training courses and most areas of office technology. Two examples from Brazil deserve mention.

An interesting but uncommon situation happened in the State of Minas Gerais (Brazil) where industrialists from a far away town (Montes Claros) could not get from SENAI the services they wanted.[8] In response, they created a private training institution, funded from voluntary contributions. What makes this solution different is the voluntary nature of the financial contribution required. The levy on the payroll pays for a public good, which under normal conditions, everybody wants to consume but nobody wants to pay because its results cannot be appropriated by those who pay for it. Voluntary contributions require a very disciplined and organized collective of employers who agree to pay for a public good without being required to do so by law. (Notice that SENAI was created by industrialists who pressed the government to collect the levy from them. The idea of a compulsory contribution came from entrepreneurs themselves.)

Another interesting case is SENAT, which once was a part of SENAI concentrating on training for the transportation industry (particularly the trucking industry). It subsequently became an “S” by itself, adopting the same rules and structure as SENAI. Yet, as a latecomer, it took a more radical route. All its training is provided by television, via satellites. During a record two-year period it reached around 300,000 workers in the transportation industry. Over one thousand organized reception posts have been installed.

As these parallel paths multiply, the monopolistic grip of the single training institution is reduced and they have to being taking its political strategies have to consider the dangers of competition into account. Ultimately, as they become less indispensable players, they have to pay greater attention to demand and political constituencies. It is interesting to notice that some politically alert SENAI executives perceived clearly that the Montes Claros experiment was a flat accusation against the lethargy of the Minas Gerais SENAI and took steps to join forces with the local entrepreneurs.

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[7] In the case of the Ministry of Labor of Brazil, it has created a large “checkbook” operation, contracting training by means of state secretaries of education.

[8] See Candido Gomes, *Vocational Education Financing: An Example of Participation by Employers in Brazil. Prospects* (UNESCO), 21(3): 457-466, 1991 (79).

A BUSINESS TAKEOVER

Employers need a better trained labor force and suffer directly when they do not get it. Hence, if they are put in charge of training, their actions will serve their own interests (which happen to coincide with that of society at large). This was the logic underpinning the creation of SENAI in 1942 through an initiative of the Federation of Industrialists of the State of Sao Paulo. It has worked well in Brazil (particularly in the states in which industrial entrepreneurs had a strong organization). Unfortunately, with the exception of Brazil, other "S and I" institutions did not follow this same route.

This notion has recently been again reconsidered. CADERH in Honduras was created under the auspices of an association of employers, with the support of USAID. The Chilean technical schools (not to be confused with their old vocational institute which is INACAP) was turned over to employers' associations which received public funds to keep them operating. El Salvador has opted for a similar scheme.

This is an eminently sound idea. However, it requires motivated and serious employers' associations, something that is not always available. Even in the largely successful Brazilian system some states may have weak employer collectives. The result is a reproduction of the civil service environment, with cronyism and little effort to respond to demand. For example, Colombian industrialists have shown no interest in taking over the institution in that country despite being approached to do so.

A MUCH STRONGER ROLE FOR BUSINESS IN MANAGEMENT AND DECISION MAKING

By contrast to the previous solution in which there is a complete and legally binding change in the status of the institutions, there are intermediate solutions under which the employers acquire a much stronger role in the management of the national institution. Token boards may become strong boards and other mechanism may be created to give them a louder voice. SENATI, in Peru, may be a good example. After a succession of politically appointed executives, industrialists pressured the government to appoint a serious and dedicated president who vastly improved the institution. Other Latin American countries seem to be moving along parallel lines. If employers use their political clout to pressure governments not to use their training institutions as political spoils, they stand a chance of winning this political tug of war.

COST RECOVERY AS A NAVIGATIONAL TOOL

Economists have known for centuries that cost recovery is not only a means to generate revenue but a means to send signals through the price system. Those who are willing to pay have a stronger stake in ensuring that training is well tuned to demand. Hence, by responding to market demand (rather than a rarefied concept of need), allocative efficiency increases. This principle applies to training as well as to most other activities.

One large Brazilian institution, SENAC, has followed a quite surprising path. While both SENAI and SENAC have the same legal structure, in practice, the organizational culture of their employers' organizations is quite different. Brazilian industrial entrepreneurs have always had a long-run perspective and willingness to invest to obtain skilled labor. As a matter of fact, SENAI was an invention industrialists sold to President Getulio Vargas in the early forties. And they have remained interested in SENAI ever since, keeping a close tab on its activities. By contrast, commercial entrepreneurs never really displayed the same strong interest or ownership in SENAC. It was created as a natural follow up of SENAI and the commercial associations are uninvolved in its operation. They act more along the lines of benevolent neglect than in the jealous and motherly attitude of the industrialists.

In the last several years, SENAC felt threatened by the same danger of nationalization or loss of the 1 percent levy that also scared SENAI (these threats took shape in the periods preceding the 1988 Constitution, when they became more menacing). But the reactions were different. SENAI was shielded by the federations of industries which declared war against the proposal. In contrast SENAC never felt the aggressive protection that industrialists offered SENAI. Afraid, it underwent a long and profound self-evaluation and decided that the best protection was to charge for its courses, getting thereby a much greater degree of financial autonomy. If the 1 percent levy were to be abolished, it would be prepared to survive without it. The outcome of this decision is that the Sao Paulo SENAC has already generated as much as 50 percent of its revenues through cost-recovery from students.[9] In the country as a whole, the proportion already reaches one third of the budget. A dramatic consequence of this decision to collect fees from the students is that SENAC thereby acquired an excellent system of navigation. If students have to pay to attend courses, offerings which do not have a market niche will not attract students. SENAC has rediscovered the self-regulating mechanism which private enterprises have been using for centuries.

THE MUTATIONS OF THE DUAL SYSTEM

The famous German dual system is a sophisticated version of traditional apprenticeship and has served that country for many years. The success of the system and the willingness of German cooperation agencies to export it to other countries has made the dual system a very talked about alternative. Unfortunately, as it exists in Germany, the system is too demanding and too complicated to be replicated in most countries, including other European nations. As a result, experiments either remain very small or fail to be successful.

Yet, the idea of linking training to employment is old and cannot be dismissed. Mutations and simplifications of this idea deserve attention. If we agree that the number one problem in training is the mismatch between training offer and jobs, apprenticeship schemes are like a vaccine against that. Conventional training institutions offer training regardless of the job market. In contrast, apprenticeship only starts when a contract with a real enterprise is secured. Thus, the principle of “no job, no training” can be implemented with a strong fail-safe feature: finding the job comes before the training is offered.

Many countries are experimenting with alternative versions of the dual system in Latin America. A count by the German Deutsche *Stiftung fur Entwicklung* showed twelve programs in operation. This is not the place to sum up the experience with these programs but merely to repeat what was alluded to before. The closer they are to the original German model, the greater the difficulties to replicate it beyond a pilot project.

STRONGER MECHANISMS LINKING DECISIONS TO OFFER COURSES TO RESULTS

Why would training institutions try hard to improve the fit between training and jobs when this is an arduous work which elicits so many internal reactions and hurdles? If managers need to fight and work much harder to do it, what are the rewards? The truth is, in most systems there are no rewards for overcoming inertia and

[9] Due to a recent increase in the revenues of the levy, this share has gone down to about 30 percent.

facing the high political costs of closing down courses of study. As a result, systems remain faithful to the built-in incentive structures and aloof to market demand or to social needs.

Previous sections pointed to some solutions. But there is also the obvious but underutilized possibility of changing the incentives structure. Staff and management respond to existing incentives in training as well as anywhere in the economy. The idea is to increase the cost of inertia for individuals and increase the prizes for overcoming it, in other words, turn upside down the perverse incentive structures observed in so many training systems.

While most Latin American training systems have not experimented much with these mechanisms, they are available and show much promise. Perhaps the most clear cut scheme along these lines is to allow training institutions to make all the training decisions and be reimbursed for the cost of the courses taken by those graduates who find stable jobs afterwards. This idea was initially proposed by the department of social security of the state of California. It was also implemented in Chile, with considerable success.

For some institutions, particularly under situations of high unemployment, this mechanism might appear too radical and difficult to implement. Yet, there are blander versions which are easier to be accepted. Another possibility is to require that a certain proportion of the graduates find jobs. Those courses of study failing to meet such quotas would lose their budgets. The Netherlands has created a fund that is used to reward those schools which better target their courses.

There are no reasons to think that many other variations of such schemes could not be designed to redress incentives and encouraging schools to improve their targeting.