Job Creation Through Building the Field of Impact Sourcing

WORKING PAPER **JUNE 2011**

MONITOR **INCLUSIVE MARKETS**

Table of Contents

List of Acronyms

ANDE	Aspen Network for Development Entrepreneurs
BoP	Base of Pyramid
BPC	Buyer Purchasing Criteria
BPeSA	Business Process enabling South Africa
BPO	Business Process Outsourcing
CDIA	Certified Document Imaging Architect
CSR	Corporate Social Responsibility
DDD	Digital Divide Data
DMO	Data Management Operators
GIIN	Global Impact Investment Network
GIIRS	Global Impact Investment Rating System
GNI	Gross National Income
ICT	Information and Communication Technology
ILO	International Labor Organization
IS	Impact Sourcing
ISSP(s)	Impact Sourcing Service Provider(s)
ISO	International Organization for Standardization
MNS	Multinational Corporation
NASSCOM	National Association of Software and Services Companies
NGO	Non-Governmental Organization
NREGA	National Rural Employment Guarantee Act
PRIDE	Poverty Reduction through Information and Digital Employment
PR	Public Relations
Services SETA	Services Sector Education and Training Authority
SME	Small and Medium Enterprises
XML	Extensible Markup Language

1. Foreword

The Rockefeller Foundation's mission to promote the well-being of people throughout the world has remained unchanged since its founding in 1913. Today, that mission is applied to an era of rapid globalization, in which we seek to ensure that the benefits of globalization are more widely shared and its challenges are more easily weathered.

One of our strategic goals is to ensure that poor and vulnerable populations benefit from more equitable economic growth. Achieving this goal requires actions that accelerate poverty reduction by improving the capacities of poor and vulnerable populations to contribute to, and benefit from, innovations in productivity, training and technology.

Africa is the region of the world with the highest vulnerable employment rate, which in some parts of the continent can reach up to 77 percent. The lack of employment opportunities for Africa's poor and vulnerable is a substantial obstacle to the development of the continent. The Rockefeller Foundation's Poverty Reduction through Information and Digital Employment (PRIDE) work aims to harness the global outsourcing sector's innovative employment and efficient service delivery models, and substantially improved Information and Communication Technology (ICT) infrastructure in Africa to create jobs for people at the base of the pyramid who would otherwise not have the opportunity for sustainable employment. PRIDE is aimed at creating sustainable employment opportunities for people at the base of the pyramid by fostering a critical new arm of the outsourcing industry called Impact Sourcing (IS). IS employs individuals from the base of the pyramid as principal workers in business process outsourcing centers. These centers will provide high-quality, information-based services to domestic and international public- and private-sector clients. Employing people from the base of the pyramid in these centers will provide them with sustainable income which can lead to positive social outcomes, helping to improve their livelihoods and the livelihoods of their families. The employment opportunities are also likely to create demand for education and training, thus enhancing the productive outcomes of investment in those areas as well.

In 2011, the Rockefeller Foundation plans to support the development and testing of IS business models, support research on key interventions and continue to build the network of key IS stakeholders to advance the field. This working paper produced by Monitor Group is an important analysis of the IS opportunity that should inform participants in this sector, as well as potential partners seeking to support it.

The Rockefeller Foundation is proud to support this ongoing work and partner with the extraordinary organizations that continue to drive important innovations in this field. We hope that we can build momentum for IS as a new chapter in our hundred year history of helping to build innovative solutions to increase the well-being of people throughout the world.

James Nyoro
Managing Director, Africa Regional Office
The Rockefeller Foundation

Focus and Definition

This paper focuses on using the power of business process outsourcing (BPO) to create sustainable jobs that can generate step-function income improvement for those at the base of the pyramid, defined as individuals who live on annual incomes of less than $3,000 of local purchasing power. We have termed this emerging field *Impact Sourcing.* Impact Sourcing (IS) employs people at the base of the pyramid, with limited opportunity for sustainable employment, as principal workers in business process outsourcing centers to provide high-quality, information-based services to domestic and international clients.

Methodology

To build on previous research and explorations, the Rockefeller Foundation asked the Monitor Group to estimate the global opportunity for Impact Sourcing, and to vet these findings with experts well-versed in different aspects of the field. Specifically, the Rockefeller Foundation engaged Monitor to size the market, understand how IS will evolve in different market settings, begin to identify the key interventions required for the field to scale rapidly, and articulate the areas of uncertainty where additional data and further activity may be needed. As part of this research, Monitor conducted more than 120 interviews across 13 countries[3] with IS managers, BPO providers, outsourcing experts, employees, outsourcing clients, government officials and other individuals linked to the IS space. In addition, the Foundation assembled a group of 25 industry experts, BPO providers and other industry participants at a meeting on Impact Sourcing in Nairobi in December 2010 to test emerging hypotheses and identify key challenges to address in the field. Impact Sourcing is global by nature, and although the market sizing reflects this, the detailed research is primarily focused on India, an established BPO market; South Africa, an emerging market; and Kenya, a recently established market.

The Purpose of this Paper

The objective of this paper is to build a shared understanding of current IS activity, parameters, size and potential impact and to assess activities that could be undertaken to help this field grow. Highlighting the key delivery and social models, the main obstacles to growth, and the interventions required to drive this endeavor forward will showcase the potential of IS and map the critical actions required to nurture it. Other key aims are to understand data gaps that need to be tested or filled, and to identify the stakeholders who need to be involved.

Intended Audience

For individuals who work in IS, this paper aims to broaden understanding of other players, models, challenges and interventions. This will enable IS entrepreneurs to react and contribute to a view of the growing field and to identify common obstacles that need to be addressed. For government officials, this analysis aims to enhance understanding of the nascent IS field, its impact and the key actions that governments can take to catalyze it. For existing business process outsourcing (BPO) providers, the objective is to raise awareness of IS and its various models, and to identify potential links and partnership opportunities between IS and BPO organizations. For clients, buyers and corporate social responsibility (CSR) managers, this paper seeks to introduce the concept and the advantages of IS. For nongovernmental organizations (NGOs), donors, and philanthropic foundations, the goal is to provide information about IS and to highlight areas where these players can support it, whether as clients, enablers or funders of activity in the field. And for all interested actors, this paper is designed to spur a conversation about the emerging IS field and what it will take to scale both its social impact and commercial prospects across a range of markets and conditions.

3. Industry Context

Over the past two decades, global corporations have leveraged improved technology and global connectivity to outsource not only the manufacturing of physical products, referred to as contract manufacturing outsourcing, but also business processing activities to low-cost markets. Since then, BPO—focused on informational and transactional services—has become a renowned example of our increasingly interconnected world economy and has contributed to the growth of a number of emerging markets. The BPO industry is estimated to have created more than 270,000 jobs in the Philippines between 2005 and 2008.[4] By one estimate, this global industry is expected to reach $178 billion by 2015.[5]

To illustrate the size of this sector, Exhibit 1 summarizes the market sizes, employee numbers and expected growth rates for the five largest global BPO destinations. The negative growth rate in the United States underlines the undeniable fact that, in certain circumstances, BPO is linked to shifts in job location.[6] The debate on the merits and demerits of outsourcing have been the subject of countless discussions and is not a focus of this paper. Regardless of its pros and cons, outsourcing is an undeniable reality and a practice that is likely to continue. As it grows, there is an opportunity to create BPO jobs that benefit disadvantaged individuals in low-employment areas in all segments of the market.

The above-mentioned job shifts are not limited to the United States or the Western world. As the BPO industry matures, it is also seeing costs rise in the urban centers of these emerging economies—especially in India—and, as a result, corporations are already seeking comparable services from lower-cost providers in other markets. The BPO sector is growing in other emerging economies with low labor costs and comparative advantages in education and language. Countries emerging as BPO locations include China, Vietnam, Kenya, South Africa, Egypt, Morocco and Ghana.[8] Moreover, many countries have observed the value of a vibrant BPO sector to the local economy, and have undertaken extensive campaigns and incentives to develop their own BPO sectors.

For example, in 2009, South Africa's Department of Trade and Industry published a strategy for developing the BPO sector in South Africa, determining that BPO had the potential to create 100,000 new jobs over four years.[9] Also in 2009, the Kenya ICT Board, which works to promote Kenya as an ICT and BPO destination, developed a similar strategy for Kenya's emerging BPO sector that aims to create 80,000 jobs by 2014.[10] As they work to develop their BPO sectors, most countries focus on generating higher-value service jobs, such as those in contact centers, which need higher-skilled (and better-educated) employees.

Exhibit 1: Top five BPO destinations with respective market size, employees and expected growth rates				
Ranking	Country	BPO Market Size 2010 ($ Billion)	BPO Employees (2010)	Expected Growth Rates
1	USA	47.60	1,190,000	-2%
2	India	18.40	768,000	15%
3	Canada	15.00	375,000	3.5%
4	Philippines	9.40	500,000	20%
5	China	6.30	158,000	20%

Source: Monitor analysis, IT World Canada, BPO Association of the Philippines, NASSCOM, industry experts7

Indeed, the Kenya ICT plan focuses primarily on segments that require college-educated workers, and contemplates how universities can train a growing number of students in these skills.

While BPO has been recognized and analyzed as an opportunity for job creation, generally, the sector's ability to provide employment and higher incomes for those at the base of the pyramid has not yet been thoroughly evaluated. Both historically and in the public imagination, the BPO sector has been associated with high-end, high-contact functions like call centers, which have required significant levels of education and language literacy. The income benefit of this booming sector has been undeniable for those who have participated in it, but anecdotal evidence suggests that the majority of employees in this sector have not come from disadvantaged geographies or populations. Most BPO employees in India, for instance, have college educations, even in rural areas. In contrast, most of the growth in South Africa's BPO sector in recent years has come—as a result of significant government investment in training—from high school graduates in low-employment areas.

A handful of outsourcing providers with a social mission to benefit disadvantaged populations and regions have emerged to create the nascent sub-field of Impact Sourcing (IS), which formally employs individuals in locations with low alternative employment opportunities. Comparatively in its infancy, IS represents a tiny fraction of the overall amount of work currently flowing through BPO processes.

This shift from traditional BPO to IS was sparked by a variety of factors. In India, the push toward IS has been driven by an established and thriving BPO industry that experienced rising cost pressure in urban centers such as Bangalore. Indian organizations like eGramIT thus based themselves in rural areas with good power and telecommunications infrastructure and hired rural university graduates. As a result, they can offer services that range from basic data entry to domestic voice

work at significantly reduced prices while offering well-paid jobs to people who have limited opportunities for sustainable employment.

South Africa, on the other hand, is an example of a country that had little BPO industry upon which to build its emerging IS field. South Africa explicitly aimed to build a BPO sector with the intent of having social impact and employing youth. South Africa made its first move towards IS when, in 2008, the government started a program to invest in training unemployed high school graduates for the BPO sector, alongside efforts to incentivize top BPO providers to open operations in South Africa. As part of the pilot program, public bodies (such as the South African Post Office) and private consulting, BPO or staffing companies (such as Deloitte) trained more than 1,100 high school graduates from low-employment areas, with 77 percent of them finding jobs afterwards in the BPO sector.[11] Over time, the South African investment has created more than 20,000 jobs that serve both domestic and international clients.

Kenya began moving into the BPO space with its Vision 2030 Strategy which identified BPO as one of the sectors through which Kenya could achieve economic growth.[12] While the largest players in this field are KenCall and Horizon, which have employed traditional university-educated staff, Kenya has also seen the emergence of companies like Nairobi-based Daproim (which aims to employ university and high school graduates from low-employment areas who struggle to gain first-time employment) and organizations such as Ken-Tech Data (now known as Techno Brain BPO and employing both university and high school graduates). The nascent IS space in Kenya focuses on services that range from basic data entry to knowledge-based outsourcing tasks such as research for web-based search engines. These are primarily supplied to international and domestic clients across the private and public sectors.[13]

Examining IS in India, South Africa and Kenya is enlightening because these are the countries that currently show the greatest concentration of Impact

Sourcing Service Providers (ISSPs). Moreover, they are also archetypes of broader categories of countries. Each represents a nation with BPO industries at different stages of evolution: India is a mature, globally recognized outsourcing destination; South Africa embodies the second wave of global outsourcing locations; and Kenya is part of a new category of emerging BPO players with a smaller base of activity. These nations also represent different income levels and sizes.

Across all IS countries several trends and industry drivers have helped to grow this nascent field:

- The increasing reach and decreasing cost of telecommunications is expanding the list of countries and regions that can compete for BPO work.

- There is continuing pressure on corporations and, to some extent, governments to deliver services, particularly non-core services, in a cost-effective manner.

- There is increasing demand for the digitization of non-digitized records across the private and public sectors. This includes the one-time drive to "catch up" as well as a continued need to transfer non-digital data.

- There are increasing levels of government activity that lends itself to BPO tasks such as archive digitization, the growth of e-government platforms and universal identity number projects.

- Levels of educational attainment are improving, but are not being matched by improving employment opportunities.

A number of IS players have demonstrated success in specific contexts. However, given the early stage of growth of this subsector, a comprehensive and substantial effort to define, size and evaluate the potential of IS globally is required.

4. Defining, Sizing and Mapping Impact Sourcing

Naming and Defining the Field

Impact Sourcing (IS) can be defined as any BPO activities that provide formal employment or supplementary income to individuals in low-income areas of cities and rural towns with limited alternative employment opportunities. IS is context specific because it provides work in areas where it is otherwise scarce.

On a preliminary level we have defined IS in relation to *who is employed* in order to delineate its impact on people that will significantly benefit from increased income and sustainable employment.[14] In all cases, this would include people with limited opportunity for sustainable employment. In rural India, for instance, most ISSPs employ college graduates with limited alternative employment. Some alternatives for employment are state jobs, which are relatively few, or positions in informal retail, casual labor or self-employment in extremely low-wage situations. Another alternative is participation in the national rural employment guarantee scheme, which provides 100 days of paid work to all poor, rural households.[15]

Mapping the IS Field

There are a range of possible boundaries for IS. It can be defined in several ways: in terms of rural versus urban operation centers; in terms of workers' education or income levels; or by measuring the increase in the income or quality of life of BPO workers and their families. For some observers, any scheme that employs even college-educated rural men and women is high impact. But for others, a definitive impact can only come from employing the truly poor and marginalized, who, unlike their college-educated counterparts, have little chance at a formal job. Though boundaries are not straightforward, one can take a view of the market that is modular and includes ranges.

Several key variables together form a map of the opportunities and segments for suppliers of IS and BPO services.[16] These variables were selected so the IS market could be divided into a number of segments, with each one demonstrating significant and meaningful differences in terms of location, employee profiles, challenges and required interventions to drive growth and impact.

The key variables include:

- Country income levels, based on the World Bank categorization by gross national income (GNI) per capita,[17] as BPO industries have very different talent pools from which to draw in low-income versus middle-income countries, and as some development actors consider middle-income countries, by definition, to be lower development priorities than low-income countries. (Note that a number of other factors usually correlate to country income levels, including presence of telecommunications, power, and other state services.)

- Employee education levels, divided into tertiary education, high school education and high school leavers with at least eight years of schooling and basic literacy.

In addition, there are three sub-variables, designed in most cases to describe the lack of alternative employment possibilities:[18]

- For high- and upper-middle-income countries, impact can be achieved by employing individuals with only a high school education or less, who otherwise have limited prospects for sustainable employment compared to college-educated individuals.

Exhibit 2: IS Supply Segmentation					
			No High School	High School	University/ College Graduate
High-Income Country		High-Employment Opportunity			
High-Income Country		Low-Employment Opportunity	A	A	
Upper-Middle-Income Country		High-Employment Opportunity			
Upper-Middle-Income Country		Low-Employment Opportunity	B	B	
Low/Lower/Middle Income County	Established BPO Industry	Urban	C	C	
Low/Lower/Middle Income County	Established BPO Industry	Rural	D	E	E
Low/Lower/Middle Income County	Emerging BPO Industry	Rural	D	F	F
Low/Lower/Middle Income County	Emerging BPO Industry	Urban	F	F	

Source: Monitor analysis

- For low- and lower-middle-income countries, we differentiate between the presence or absence of an established BPO industry,[19] as this factor affects what interventions are required to drive outsourcing activity.

- For low- and lower-middle-income countries, we further distinguish between urban and rural areas, as opposed to low/high employment opportunity areas. While some urban areas correlate closely with "high alternative employment opportunities" (e.g., Pune, India), not all do (e.g., Kisumu, Kenya). The urban-rural variable is a more meaningful distinction in this context, with more relevant and actionable implications for operating ISSPs in countries with an emerging BPO sector. For example, the availability of connectivity and power, the presence of skilled managers, and the level of workforce education are all variables that determine what BPO services can be offered, and that can vary significantly between urban and rural areas.

We have broken the analysis into six different IS segments (see Exhibit 2), which have a combined 2010 market size of about $4.5 billion, set to rise to about $20.4 billion by 2015. This market is similar in size to the $20 billion global orange juice industry.[20] Each of the six segments has the potential to raise incomes and provide jobs for people with low alternate employment opportunities. Each has the potential to create employment for individuals, whether they are affected by poverty in low, middle or high-income countries. The guiding principle is that an IS facility will create higher-income job opportunities for otherwise disadvantaged populations whether it is based in downtown Detroit, a slum area in Sao Paolo or a rural village in India.

ISSPs in all six segments[21] employ individuals who are otherwise socioeconomically disadvantaged in the context of their countries, and would struggle to find alternative employment. They all supply services ranging from voice and internet-related ones to more basic ones such as data entry and digitization.

The main characteristics of each of the segments are outlined on the following pages.

Segment A			No High School	High School	University/College Graduate
High Income Country		High-Employment Opportunity			
		Low-Employment Opportunity	A		
Upper-Middle-Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Low/ Lower/ Middle Income County	Established BPO Industry	Urban			
		Rural			
	Emerging BPO Industry	Rural			
		Urban			
Source: Monitor analysis					

SEGMENT A includes IS in low-employment areas within high-income countries, providing work to individuals who either did not complete—or have no education beyond—high school, and who otherwise have limited job prospects in their national context. The United States, United Kingdom, Canada, Ireland and Israel all fall into this segment. In the U.S., for example, unemployment in certain areas of Detroit stands at 50 percent.[22] ISSPs tend to provide voice services where a native accent is considered an asset. Clients are mainly from the domestic private sector. Examples of ISSPs serving this model are Call Britannia in the U.K. and Accenture Development Partners (ADP) in the U.S. Call Britannia is a call center with a social mission that is located in the high-unemployment area of Croydon (South London) and that favors hard-to-employ applicants and invests extensively in training so it can hire those who are permanently jobless or who lack relevant skills. In the U.S., ADP's outsourcing initiatives have created living-wage employment for the Umatilla tribe the state of Oregon. ADP has trained 250 tribe members in IT, and its centers offer outsourcing services to U.S. clients at contact centers and in software development and image processing.[23]

Segment B			No High School	High School	University/College Graduate
High Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Upper-Middle-Income Country		High-Employment Opportunity			
		Low-Employment Opportunity	B		
Low/ Lower/ Middle Income County	Established BPO Industry	Urban			
		Rural			
	Emerging BPO Industry	Rural			
		Urban			
Source: Monitor analysis					

SEGMENT B encompasses low-employment areas within middle-income countries such as Mauritius, South Africa, Argentina, Brazil and Russia. These countries may be middle income in aggregate, but can still contain large pockets of poverty. Consider South Africa, where the rural unemployment rate is 50.3 percent.[24] Such IS operations typically employ individuals with a high school education or less. Services are very similar to those in segment A, with a focus on voice services for international and domestic clients where a neutral accent is key and where technical reasoning is less paramount. Clients for the voice segment tend to be international, mainly from the U.K. and the U.S., and mainly from the private sector. Data services are typically provided for private, domestic clients. Companies like Genpact in South Africa—a unit of one of the largest global outsourcing firms—are examples of this, employing high school graduates to service, among others, the SABMiller account.[25] A typical company in this segment may have several hundreds of employees with high school—and some university—degrees. Such a company would usually provide back office or voice work, commonly working in direct partnership with large corporations.

Segment C

			No High School	High School	University/College Graduate
High Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Upper-Middle-Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Low/ Lower/ Middle Income County	Established BPO Industry	Urban	C		
		Rural			
	Emerging BPO Industry	Rural			
		Urban			
Source: Monitor analysis					

SEGMENT C includes IS in urban areas of low- and lower-middle-income countries that already have an established BPO industry employing individuals with high school degrees or less. India, China, Vietnam and Ukraine fall into this category. Services here typically include voice-based work for primarily domestic providers, and are often skewed toward document management, document publishing and image-related services. In this segment, clients are predominantly local government agencies and mid-sized domestic and international companies. The Anudip Foundation, which runs urban and peri-urban centers in India, and MSK Global, which has an IS operation in the Philippines, are examples of segment C IS players, which tend to be smaller BPO providers, often with around 100 high school-educated employees. Anudip, for instance, is located in West Bengal and has clients that are mostly local government agencies or mid-sized domestic and international companies focusing on basic data-based tasks.

Segment D

			No High School	High School	University/College Graduate
High Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Upper-Middle-Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Low/ Lower/ Middle Income County	Established BPO Industry	Urban			
		Rural	D		
	Emerging BPO Industry	Rural			
		Urban			
Source: Monitor analysis					

SEGMENT D includes ISSPs that employ individuals with an incomplete high school education and that are located in rural areas of low- and lower-middle-income countries like India, the Philippines and China—or rural areas of other countries with less-well-developed BPO sectors, such as Kenya. In this segment, tasks mainly (but not exclusively) include basic non-voice services such as data entry, digitization and video-tagging. This work is typically provided to domestic government and private-sector clients as well as international private clients. Organizations operating in segment D include B2R Technologies, Express Automation and a number of smaller organizations. B2R Technologies is an Indian rural-based IS provider with 100 employees offering basic data services. Its clients include a large international education provider and a local NGO. Express Automation is a rural Kenyan ISSP that also provides basic data services and that is linked to a parent company BPO, the much larger Indian company Paradigm Infotech.

Segment E			No High School	High School	University/College Graduate
High Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Upper-Middle-Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Low/ Lower/ Middle Income County	Established BPO Industry	Urban			
		Rural		E	
	Emerging BPO Industry	Rural			
		Urban			
Source: Monitor analysis					

SEGMENT E includes ISSPs that employ high school and university graduates in rural areas of low- and lower-middle-income countries with an established BPO industry, such as China, the Philippines, and India, where unemployment levels are above 50 percent for certain groups. [26] This segment often includes domestic voice services and otherwise covers a broad range of tasks starting with repetitive ones such as data entry and digitization but ranging up to publishing, document management and internet-based services. Most organizations in this segment are currently located in rural India. One example is RuralShores, which has centers in Bagepalli in the state of Karnataka. RuralShores workers process time sheets for United States trucking companies, under subcontract to a larger urban Indian BPO. [27] Employees are mainly university graduates who work in data, knowledge-based outsourcing and domestic voice services. Clients tend to be large BPO providers, IT companies, domestic government clients and international and domestic private-sector companies.

Segment F			No High School	High School	University/College Graduate
High Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Upper-Middle-Income Country		High-Employment Opportunity			
		Low-Employment Opportunity			
Low/ Lower/ Middle Income County	Established BPO Industry	Urban			
		Rural			
	Emerging BPO Industry	Rural		F	
		Urban	F		
Source: Monitor analysis					

SEGMENT F includes IS in rural and urban areas in low- and lower-middle-income countries without a large, established BPO industry. In urban areas in this segment, workers are typically high school graduates and dropouts, while in rural areas, they are typically high school and university graduates. Usually, IS is in low-employment areas where unemployment stands at 40 percent such as Kenya. [28] The service mix is lower value, such as publishing, document management, and data entry and digitization, and it is less likely to include higher-end voice activities. Work for this segment comes primarily from domestic-government and private-sector clients, but also from international private clients. Adept Systems, Dapro Information Management, and the IS component of Ken-Tech Data (now Techno Brain)—all based in Nairobi, Kenya— exemplify companies in this segment. Such companies recruit from a range of educational backgrounds and commonly focus on services that include basic data as well as more sophisticated, knowledge-based tasks. Adept Systems, for instance, employs about 20 people, some of whom are IS workers, and serves primarily international clients, to whom it provides basic data entry and transcription services.

For Segment F, the green "F" area spans High School and University columns in the "Emerging BPO Industry - Rural" row. In the "Emerging BPO Industry - Urban" row, the green spans No High School and High School columns. Let me verify.

High School and University columns. Urban row has green in No High School and High School columns.

No High School + High School columns.

JOB CREATION THROUGH BUILDING THE FIELD OF IMPACT SOURCING is vertical side text, and 10 is page number.

Sizing the IS Field

Today, the total global IS market generates an estimated $4.5 billion in revenues, representing 3.8 percent of the entire $119 billion BPO industry and directly employing about 144,000 people across all segments.[29] Of this, $1.2 billion is estimated to reach IS workers as employment income. Analysis suggests that the share of IS in total BPO could increase to approximately $20 billion in 2015, directly accounting for 780,000 jobs and just over 11 percent of the $178 billion total BPO market. Of this, more than $10 billion will reach IS workers through employment income.[30]

The growth of IS can be seen as being driven by four key factors. First, there is the continuing expansion of the global demand for BPO services overall. Second, there is increased domestic demand for outsourcing in emerging economies (not just from the private, but also from the public sector, supported in particular by e-government and record digitization trends). Third, there are cost pressures that will push traditional BPO services into cheaper locations in peri-urban and rural areas. Fourth and finally, there are rising wage expectations among traditional BPO employees that will force service providers to open up lower-end tasks for less-educated individuals.

Analysis suggests that by the year 2015, direct IS employment in all segments could result in approximately 624,000 additional indirect jobs, which include all associated IS jobs such as managerial positions, with 3.2 million lives impacted. Exhibits 3 and 4 highlight how these expected revenue and job numbers break down across the different segments in 2010 and 2015 respectively.

Global IS Sizing Assumptions

This map and the accompanying sizing are based on the recognition that IS affects various populations in different ways, occurs across a broad range of contexts, and requires very specific interventions depending on the context.
For instance, IS occurs in low-employment parts of high-income countries when less-educated individuals receive BPO employment (segment A). IS

also takes place in upper-middle-income countries with organizations employing individuals without tertiary education. But here, different, specific interventions are required to grow the sector (segment B). For lower-income nations, the market size of IS varies significantly. Interventions necessary to bolster IS in places with an established BPO industry vary significantly across urban areas (segment C) and rural regions (segment E).

On the other hand, countries without an established BPO industry need to engage in similar actions in urban and rural areas to push IS forward (segment F). Part of this requires establishing the viability of an overall BPO sector in the country. The exceptions here are interventions to strengthen IS for rural individuals who did not complete high school but who have attained basic literacy. Interventions for these workers would be largely similar in lower-income countries with or without an established BPO industry (segment D).

The Business Case for IS

Key components of the business case for IS focus mostly around the ability of ISSPs to provide a high-quality service for a cost that is typically 40 percent lower than an average established urban BPO. This is especially compelling for the rural operators in India who are competing against an established set of players with contracts already in place. IS leverages the fact that for certain tasks, base-of-the-pyramid service providers cost less to employ and can undertake small-scale, sometimes part-time work that is often unattractive to traditional BPOs. However, three factors help determine the competitiveness of an ISSP: (a) the

---

Impact of IS

Impact Sourcing (IS) employment provides measurable increases in income levels. Data suggests that IS employees benefit from income increases between 40 percent and 200 percent. In addition to the benefits of formal, stable employment, our research suggests that IS employment also increases family investment in health care and education.

Exhibit 3: 2010 IS Market Size by Segment and Percent of IS Market Size[32]

			No High School	High School	University/College Graduate	
High-Income Country		High-Employment Opportunity				
		Low-Employment Opportunity	A—$1.3B, 29%			Direct Jobs: ~32,300 / Percent of Total BPO: 1.1%
Upper-Middle-Income Country		High-Employment Opportunity				
		Low-Employment Opportunity	B—$0.9B, 21%			Direct Jobs: ~26,400 / Percent of Total BPO: 0.8%
Low/Lower/Middle Income County	Established BPO Industry	Urban	C—$2B, 44%			Direct Jobs: ~71,000 / Percent of Total BPO: 1.7%
		Rural	D—$2M, 0.05%	E—$0.2B, 6%		Direct Jobs: <100 / Percent of Total BPO: 0.002%
	Emerging BPO Industry	Rural		F—$0.03B, 1%		Direct Jobs: ~10,500 / Percent of Total BPO: 0.2%
		Urban				Direct Jobs: ~3,700 / Percent of Total BPO: 0.03%

Source: Monitor market sizing model

Exhibit 4: 2015 IS Market Size by Segment and Percent of IS Market Size

			No High School	High School	University/College Graduate	
High-Income Country		High-Employment Opportunity				
		Low-Employment Opportunity	A—$1.4B, 7%			Direct Jobs: ~32,600 / Percent of Total BPO: 0.8%
Upper-Middle-Income Country		High-Employment Opportunity				
		Low-Employment Opportunity	B—$2.4B, 12%			Direct Jobs: ~65,000 / Percent of Total BPO: 1.3%
Low/Lower/Middle Income County	Established BPO Industry	Urban	C—$12.4B, 62%			Direct Jobs: ~508,000 / Percent of Total BPO: 7%
		Rural	D—$0.1B, 1%	E—$3.5B, 17%		Direct Jobs: ~5,700 / Percent of Total BPO: 0.1%
	Emerging BPO Industry	Rural		F—$0.2B, 1%		Direct Jobs: ~145,000 / Percent of Total BPO: 2%
		Urban				Direct Jobs: ~23,500 / Percent of Total BPO: 0.1%

Source: Monitor market sizing model

Exhibit 5: Comparative Costs for Urban BPOs and Rural ISSPs in India (in US$)

Bar chart data:

Category	Rural ISSP	Urban BPO
Average Monthly Salary	114	200
Average Training Cost	540	750
Average Monthly Telecom Cost	583	583
Average Churn Percent	4	40

Source: Monitor Analysis; Interviews with RuralShores, eGramIT, Anudip, BPO Experts[33]

comparative cost of recruiting IS employees, (b) the comparative cost of training these employees, and c) the comparative rate of employee attrition.

These comparative data highlight the fact that rural ISSPs in India benefit from lower salaries, lower training costs,[34] lower attrition, and similar telecom costs to their urban counterparts. This combination of factors creates a cost advantage for the ISSPs, and also indicates what levers potential field builders can pull in addressing key challenges to help ensure that these organizations have compelling value for their customers.

There are countervailing costs to consider as well—especially for those managing rural BPOs. These costs include backup power and connectivity, plus the high cost and difficulty of attracting and retaining middle management. These cost constraints will emerge more significantly as the IS field begins to grow beyond the relatively limited number of centers in place currently.

The Demand for IS

Current IS clients are private-sector companies, telecommunication firms, third-party BPO providers, and local and international organizations outsourcing segments of their business processes. On the public side, government constitutes a key client, especially through e-government services and archive digitization. Foundations and educational institutions are other public clients currently and potentially buying from ISSPs.

Twenty-one customers or customer agents were interviewed for this analysis, with their views including perspectives from executive and purchasing sides. They gave feedback about their buying criteria, preferences, behavior and attitudes towards IS activity. Similar to conventional BPO customers, IS customers primarily desire cost savings and increased efficiency through outsourcing. Based on interviews, it appears that only a small proportion of IS clients are driven primarily by the desire to invest in a social cause.[35] A substantial portion of potential clients for IS say they are interested in it primarily for cost savings.[36] Their main interest is receiving a certain quality of services for the most competitive price, and with a minimum risk of failure. Buyers will then have a set of secondary criteria around language requirements, security needs, scale preferences and turnaround speed. An IS "label" may be seen as adding value—but only if the buyer's quality and price requirements are met first. Buyer interviews suggest that most clients know where the work is processed, but are initially hesitant to outsource to IS destinations if these are perceived to be less developed in terms of infrastructure, technology or education levels. Interviewees, however,

| **Primary** Buyer Purchase Criteria | → | ▪ Cost ▪ Quality ▪ Risk |
| **Secondary** Buyer Purchase Criteria | → | ▪ Language ▪ Security ▪ Scale ▪ Speed |

Exhibit 6: Global BPO spend breakdown by category and industry vertical[38]

2010 Global BPO Spend Percent
Breakdown by Category

- Training 6%
- Procurement 2%
- Human Resources 16%
- Finance & Accounting 23%
- Customer Care 52%

2010 BPO Revenue Percent
Breakdown by Vertical

- BFSI* — 50%
- Hi-tech/Telecom — 22%
- Manufacturing — 6%
- Retail — 4%
- Healthcare — 3%
- T&T** — 5%
- Cost & Utilities — 2%
- MPE — 2%
- Other — 7%

Source: Monitor analysis

expressed broad agreement that when such concerns are overcome, there is an interest in competitive IS services.

A much smaller segment of clients, whose mission may be socially oriented, would prefer ISSPs to traditional BPOs and could have a certain willingness to pay a premium for IS services. Universities, large NGOs and charitable organizations fall into this category. Especially where such organizations fear public pushback for outsourcing some of their services, IS could present an effective and socially responsible alternative that could even be seen as enhancing their brand.

As a result of an increasing expected demand for IS services over the next five years, the client mix for IS is expected to shift slightly to a greater share of international work. Today, we estimate that international services account for 10 percent of all IS, a figure which is expected to rise to 25 percent by 2015.[37]

Of the overall BPO market, basic voice services account for 30 percent,[39] and basic data work 17 percent, which combined constitute almost all of what we believe to be the total addressable services market for IS. Within this addressable market, voice services for IS split into (a) basic inbound calls for domestic and international clients, and (b) in- and outbound voice for domestic clients. Within the "basic data services," experts expect the more low-value services (i.e., form data entry, transcription, image-tagging and digitization services) to be relevant for both international and domestic clients. Knowledge-based services, such as document publishing and management, as well as location-based knowledge services such as local research, are expected together to be more relevant for domestic clients.

The IS service mix is expected to shift from its current composition. Currently, data work constitutes an estimated 90 percent of IS with the remaining 10 percent of IS coming from voice services. Driven by an expected increased local demand in emerging markets, voice work is anticipated to increase to approximately 20 percent by 2015.

5. Case Studies and Impact Sourcing Models

IS Case Studies

As is the case with any field in its early stages, there are a range of different actors using a variety of models to provide services in this sector. The following case studies in Exhibit 7 illustrate some of the archetypes of service provision in this subfield. These case studies illustrate some of the key issues and operating constraints that need to be managed as these companies and the overall field of IS both grow.

The following five case studies showcase a selection of ISSPs located in a number of countries, employing individuals with a variety of educational backgrounds, and demonstrating a range of different IS models that are further described later in this section.

Exhibit 7: Case Study Reference Table					
	txteagle	Samasource	RuralShores	eGramIT	DDD
Founded	2009	2008	2008	2006	2001
Profit Status	For-profit	Non-profit	For-profit	For-profit	Non-profit
Urban/Rural	Mainly urban	Urban, peri-urban and rural	Rural	Rural and peri-urban	Urban and peri-urban
Geographies	Global, with most work happening in India, China, Indonesia	India, Kenya, South Africa, Pakistan, Haiti	Rural India	Rural India	Cambodia, Kenya and Laos
Employee numbers	Impossible to define	Fluctuates but 900 cumulatively	800	700 (~400 full time, 300 part time or on contract)	750
Annual revenue in USD	700,000	Not disclosed	Not disclosed	Not disclosed	2,300,000
Services offered	Basic data and image tasks Location-based services	Basic data and image tasks Transcription Creation and content moderation	Basic data and image tasks Inbound/ outbound voice Rules based transaction services	Basic data and image tasks Inbound/ outbound voice Translation research and technology solutions	Basic data entry and image tasks Data base creation and management
Attrition Rates	Not applicable	Varies from negligible amounts to 30%	Not disclosed	4%	5%
Intermediary		x			
Micro Distribution	x	x			
Subcontractor			x	x	x
Partner			x		
Direct			x	x	x
Source: Monitor interview, web research[10] All data current and accurate as of January 2011					

txteagle

txteagle[41] is a for-profit company based on an infrastructure-free, distributed model that connects workers through mobile phones or the internet, providing them with local knowledge sourcing or basic BPO tasks in return for payment in the form of airtime credit or mobile money. These tasks range from market research, local data collection and opinion research to data processing. Going forward, the company is focusing primarily on market research and local data collection, i.e. work that can only be done in a specific location, as these types of tasks are not subject to traditional BPO cost pressures and therefore enable txteagle's workers to earn greater compensation.

txteagle

PROFILE OF RECRUITS

- **Average age:** 24 years
- **Education:** 25% tertiary education, 75% high school
- **Male: Female ratio:** 70:30
- **Urban: Rural ratio:** 80:20 (txteagle estimate)
- **Background:** Most workers are urban and middle class, high school and university graduates
- **Compensation:** Workers earn $0.5 to $5 for completing a 20 minute survey ($2 average)—but pay depends on nature and complexity of task. Recruiters receive $0.25 for every person who completes work
- **Attrition:** not applicable

This model can provide work to anyone with the required internet connectivity or mobile phone connection. Approximately 80 percent of its workforce is urban and from middle class backgrounds, but the 20 percent non-urban workforce can give global organizations unprecedented access to insights about local conditions, customs and markets. From an educational perspective, roughly 25 percent of txteagle workers have tertiary education, the rest being high school graduates. Importantly, the company does not aim to provide full-time employment or career development paths through its work. Instead, it aims to provide individuals with an additional source of income—primarily in small amounts that vary from country to country, as this model assumes that earnings are supplemental to other sources.

Currently, txteagle has its strongest presence in China, India, Latin America, Southeast Asia and Africa. In this model, recruitment is conducted through internet cafes and similar technology hubs that attract new staff members, for whom they are paid a "finder's fee." Quality control is managed through algorithms; "maths instead of managers" is a company dictum. While this no-infrastructure, no-training model keeps costs low and allows for a quick scale, the system is not able to provide a predictable, stable or full-time salary level of income to its workers.

Samasource

Samasource[42] is a non-profit based in San Francisco that acts as an intermediary to 16 service providers in five countries[43] across the globe. It is responsible for marketing and selling IS work by branding it "fair trade" and focuses mainly on clients in the United States and United Kingdom. Once work has been acquired, it is split into "micro work" which is then distributed to ISSPs in different countries, with these ISSPs managing the day-to-day execution of tasks. This allows smaller companies to work with clients and on projects that they would otherwise not be able to access.

Using this approach and also employing consolidated marketing and sales at the front end, Samasource has been able to create employment for more than 1,000 individuals over the last three years. Because the company works with such a variety of service providers, the way in which base-of-the-pyramid individuals are impacted varies. In some cases, service partners working with Samasource directly hire these employees. One example of this is Horizon Contact Centers in Kenya which hires from slum areas. Others have employed refugees (e.g., Built on Respect in Dharamsala), while other service partners have benefitted low-income communities indirectly through the trickle-down effect of employing well-educated individuals in situations of high youth unemployment. For example, salaries paid to employees of Kenyan service providers such as Daproim are on average 45 percent above alternative employment options.[44] One of the key challenges here is ensuring that base-of-the-pyramid workers benefit through this model and that work streams are predictable and reliable for service providers.

samasource	Anudip Employee — anudip FOUNDATION
PROFILE OF RECRUITS	**SURESH**
■ **Average age:** 24 years ■ **Education:** 70% university graduates, 30% high school graduates ■ **Male: Female ratio:** 50:50 ■ **Background:** In Kenya most employees are urban (lower) middle class, in India workers have less education and are often rural ■ **Compensation p.m.:** Earn $80-$280—majority of peers are unemployed and dependent on their families ■ **Attrition:** varies depending on service providers from negligible amounts to nearly 30%	■ **Age:** 19 years ■ **Education:** University student of English (BA) ■ **Family:** Lives with his parents in Kodiya, his father is an accountant. Suresh heard about Anudip (a Samasource service provider) through his friends and attended computer training at an Anudip Training Center. After its completion, the trainer recommended that he apply at the MERIT center where he was successful in gaining employment. He joined Anudip to be independent from his parents for his university fees. It has been his ambition to work at a computer center. He earns $112/month and recently became a full time employee. Suresh enjoys his work. He has the flexibility of managing his schedule when he has exams or other college commitments and is happy about the support he gets from Anudip. *"Anudip has a good atmosphere to grow."*

RuralShores

RuralShores[45] currently has eight IS centers across India, all located in villages with populations of less than 20,000 and all at least three hours' drive from cities. By paying upwards of $70 per month, RuralShores offers employment that is twice as lucrative as local alternatives. Rural-Shores is responsible for business development and overall management, but as it scales the company, it plans to expand using a partner and subcontractor model. In this system, the center partners handle daily task operations and process associate recruitment while the parent company runs middle and top management procedures and acts as the main client interface.

Most of RuralShores' employees are high school graduates from agrarian, low-income families, some of whom pursue college education on the side. The management positions are usually filled with experienced hires from urban BPOs, who are paid higher wages to ensure retention. Income increases are 100 percent above average salaries for other employment options. Few employees have alternative career possibilities, so the attrition rates are much lower than the urban average of 40 percent, making it possible to operate with a lower cost base. The reduced cost and low attrition rates are the principal reasons that rural ISSPs in India appeal as lower cost alternatives to mainstream BPOs.

Because of its location and cost structures, RuralShores prices its services about 40 percent less than urban BPOs. The company is planning on aggressive expansion over the next ten years, aiming to create 500 new centers that will each hire 200 workers. All told, this will provide additional employment for an estimated 100,000 rural individuals.

RuralShores *Countryside Nationwide*	**Rural Shores Process Associate**
PROFILE OF RECRUITS	**VENKATALAKSHMI**
■ **Average age:** 18-25 years ■ **Education levels:** →Process Associates: High school, graduates, some pursue college while working →Process Leads & Center Managers: Graduate and post-graduate degrees ■ **Background:** Most employees come from agrarian families with low income levels ■ **Compensation p.m.:** ~$70 as a PA ~$180 as a Center Manager plus benefits	■ **Age:** 22 years ■ **Education:** College drop-out (dropped after 2nd year) ■ **Family:** Father is a farmer, 2 brothers (in college and 4th grade). She has been working here for 8 months and currently works on the client's driver log process. Before RS, she worked in Bangalore at a bank's back-office. Though she earned more, she was not happy with the work and quality of life. Since shifting to RS she has worked on 4 processes and is also doing a course in tally accounting. ■ **Goal:** To work in a government job (she plans to appear for entrance exams.) *"I am the only girl working in my village. I want to continue learning here and eventually work in a government job."*

eGramIT

eGramIT[46] uses a direct delivery model, contracting with BPO buyers directly for work performed in centers they manage in rural areas. Through a decentralized system, the company has the capacity to quickly ramp up for larger projects due to its virtual workforce bench. It has four centers in Andhra Pradesh, India, located in rural villages with between 1,000 and 15,000 inhabitants. The rural locations mean eGramIT can provide services for a cost that is about 40 percent lower than prices charged for comparable work by urban BPOs.

The eGramIT workforce is comprised of rural university graduates who earn $80 to $340 per month, nearly twice as much as they would earn working for rural alternatives, such as government schools. Their wages are almost on par with city salaries, resulting in extremely low attrition rates of around 4 percent. Comparatively, BPO attrition rates in urban India can be as high as 40 percent. The income boost is further increased by higher savings rates for employees, as they can continue living with their families and can thus save money on their work commutes, lodging and food. By working in shifts, eGramIT employees can also continue supporting their families by earning other sources of income and helping with family activities, such as running the household, farming or shopkeeping.

Rural employees receive training that costs the company $500 per employee, compared to a cited average of $1,500 in nearby urban locations. eGramIT is able to provide a range of services to its domestic and international clients: basic digitization services, product profiling, image editing, bill and payment processing, voice services, and knowledge-based tasks such as translations, research, technology solutions and customized software. For all these services, prices fall below those of urban competitors.

GramIT The Pioneer Rural BPO Company	**eGramIT Junior Process Associate**
PROFILE OF RECRUITS	**ARINDAM**
■ **Average age:** 25 years ■ **Education levels:** Most are college graduates, some are post-grads ■ **Male/Female ratio:** 45:55 ■ **Background:** Most employees belong to agrarian families with low income, small percent have fathers in government jobs ■ **Compensation p.m.:** $100 as a process associate to ~$340 as center manager ■ **Attrition:** 4% vs 40% in urban BPOs, average tenure in eGramIT is 1.5 years	■ **Age:** 32 years ■ **Education:** B.A. in Social Work ■ **Family:** Married with two children. His parents also live with him and his father runs a provisions store. Arindam was a teacher at the local government. school when he heard about eGramIT. As a teacher he was earning as little as $30 p.m. and wanted a better job. After undergoing the training program of eGramIT, he joined them in 2008 as a trainee at a salary of $35 p.m. Today as a PA, he earns $100 p.m. and finds himself better equipped in skills and in a financially better position. Working the early shift allows him to manage both his job and help his father with their little village store. ■ **Goal:** To continue working here and grow at eGramIT. *"I save most of my salary from eGramIT and have invested in a small piece of land in a nearby town for my children's future."*

Digital Divide Data

DDD[47] is a social enterprise with the explicit objective to create jobs for poor and disadvantaged youth in developing countries—and to empower them to participate in the global economy. DDD is registered as a not-for-profit organization in the United States, as an international nongovernmental organization in Cambodia, and as a private business in Laos and Kenya. The organization started in 2001 by hiring a small group of youth in Phnom Penh; as of 2010, it has grown to more than 750 employees in four offices in Cambodia, Laos and Kenya, with an annual earned revenue of $2.3 million. DDD's staff of data management operators (DMOs) are primarily poor and disadvantaged youth. DDD aims for gender balance among its staff—and about 10 percent of DMOs have physical disabilities. In Cambodia, staff are paid approximately $100 per month compared to a Cambodian per capita income of $54 per month. Prior to starting work, DDD trains DMOs in the English language, technology and soft skills, at a cost of $500 per employee. Additionally, the company provides DMOs with scholarships to study at local universities. By providing jobs with scholarships and the potential for a career path to disadvantaged youth, DDD has been able to keep its attrition levels very low.

After about three to four years of employment with DDD, DMOs graduate. Most leave to take higher positions in other companies, where, on average, they earn $281 per month. Some graduates are promoted internally to serve as managers. The employment period and opportunity to attain a university degree allows staff members to develop personally and build their skills and knowledge to ensure lasting improvement in their income. This has a deep social impact. To cover the cost of extensive training and scholarships, DDD has relied on philanthropic support, and some volunteer and subsidized managerial talent from developed countries.

DDD provides digitization services to for-profit businesses, including publishers and content hosts. It also services nongovernmental organizations such as development agencies and universities and government agencies such as national libraries. For some larger contracts or contracts requiring specialized skills, DDD has used a subcontractor model, partnering with other firms to complete a portion of the client work. The organization initially started by providing basic data entry services. Over time, it has endeavored to move up the value chain, providing services such as extensible markup language (XML) tagging that is less commoditized and thus less subject to decreasing payment rates. DDD aims to employ 1,500 disadvantaged youth in Southeast Asia within the next three to four years, and has recently opened a center in Kenya.

	DDD (Digital Divide Data) Operator
PROFILE OF RECRUITS	**BUN**

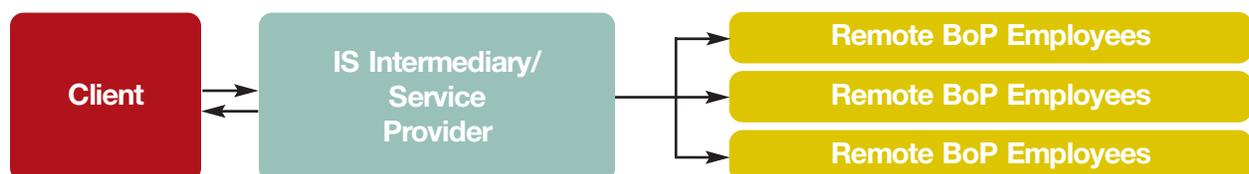| **PROFILE OF RECRUITS**	**BUN**
Average age: 17-21 years **Education:** High School graduates; employees receive a scholarship to study at university **Male/Female ratio:** 53:47 **Background:** Youth from poor families, many from rural areas, 10% with physical disabilities **Compensation p.m.:** $100, depending on location and other factors **Program attrition:** 2% **Staff turnover:** 20%	**Age:** High school diploma **Education:** College drop-out (dropped after 2nd year) **Family:** Bun began as a security guard at DDD in 2007, and after passing exams became an operator. He now has a scholarship to study and is planning on studying business administration and English. As a result of working at DDD he is able to support his family financially. *"Before I was just a student who lived in a rural area but now I can live in a big and modern city and work in an air-conditioned place."*

IS Models

As the case studies in the previous section illustrate, our research suggests that IS organizations tend to operate using one or more of the five archetypal models that are outlined below. These service delivery models are not mutually exclusive, and some organizations combine two models in their business model. The five models are "micro distribution," "intermediary," "subcontractor," "partner" and "direct."[48] Exhibit 8 summarizes these models.

Exhibit 8: IS Models Reference Table					
	Micro Distribution	Intermediary	Subcontractor	Partner	Direct
Scalability	Highly scalable due to minimal investment costs and broad reaching coverage	Scalable due to ability to leverage multiple service providers (who provide capital investment and staff)	Highly scalable, as there is easy access to large pools of work; limited by work allocated and ISSP capacity	Scalable due to ability to leverage multiple partners (who provide capital investment), while keeping one brand	Scalability limited by investment, and ability to secure and deliver large contracts
Management Cost	Limited: no on-the-ground management, training or recruitment costs	Higher management costs to deal with multiple service providers	Higher management costs to deal with BPO provider, but lower client-facing costs	Higher management costs to deal with multiple partners and the parent provider	Lower management costs (no dealing with third parties and multiple systems)
Quality Control	Low cost, algorithm-driven quality control	Quality control complex and affected by multiple organizations in the delivery system	Quality control affected by multiple organizations in the delivery system	Quality control affected by multiple organizations in the delivery system	High level of quality control
Client Management/ Business Development (BD) Cost	Each organization responsible for client management and business development (BD)	Centralized client management/ business development (BD)	BPO responsible for client management/ business development (BD)	Centralized client management/ business development (BD); partners need not source business	Each organization responsible for client management and business development (BD); requires extensive sales force
Investment Requirements	Low CAPEX due to no on-the-ground infrastructure	Low CAPEX as service providers are responsible for infrastructure and human investment	Low CAPEX for BPO organization; IS organization responsible for all hard and soft investment	Low CAPEX for operator as partners responsible for infrastructure and human investment	IS organization responsible for all hard and soft investment; highest direct investment requirement model
Product type	Product is limited and commoditized but location specific	Potential for higher value product	Potential for higher value product	Potential for higher value product	Potential for higher value product
Social Impact	Doesn't offer full-time employment; difficult to track impact; limited training provided	Offers full-time employment; third parties complicate impact tracking; training provided	Offers full-time employment; third parties complicate impact tracking; training provided	Offers full-time employment; third parties complicate impact tracking; training provided	Offers full-time employment; easy to track impact; training provided
Other		IS partners are free to focus on delivery, and to pursue their own client relationships directly	Model well suited to introducing IS to new BPO markets; has the benefit of parent BPO brand; IS partners are free to focus on delivery; higher reputational risk for BPO provider; complex ISSP-BPO deal structuring process; limited autonomy for ISSP	IS partners are free to focus on delivery	Model well suited to countries with established BPO sector and presence

Micro Distribution Model

In this model, large tasks are broken down into small pieces of very basic data work, such as image tagging or transcribing small pieces of scanned text, which individuals with adequate skills can sign up to do remotely, from home or from any internet connection with sufficient bandwidth. Compensation occurs through a mobile payment infrastructure like M-Pesa or mobile phone credit. Remuneration levels are not sufficient to be a main or steady source of income, but instead are positioned as top-up income, while training and capital costs are zero. The distributed micro model has the advantage of having a broad impact, as it can potentially reach anyone around the world who has literacy and appropriate internet access.

The workload in this model fluctuates due to the sporadic nature of the work and as the intermediary (e.g., txteagle, a company specializing in micro work distributed via online technology) is responsible for its own business development, marketing and client acquisition. The challenge here is to efficiently manage quality control with so many disparate sources of work. This model tends to concentrate in urban areas given the need for internet cafes, and usually employs college graduates. It does, however, have the potential to be leveraged to increase the incomes of rural farmers. Data collection on local prices, for instance, could be submitted via mobile technology. Where rural internet hubs permit, such as the "digital villages" in Kenya that provide free or low-cost internet access in rural locations, farmers could engage in basic data entry tasks online. This is a concept that still needs to be tested. Additionally, the commoditized work within this model could potentially become automated and thus be shifted to almost any destination. Buyer decisions for this type of work are often driven only by price, and the field is thus vulnerable to race-to-the-bottom cost pressures. Location-based services, including market research (the gathering of local opinions, prices, or data that can only be provided from a specific location) are another component of this model, which benefits from the fact that these services cannot be provided elsewhere. One example of this model is txteagle.

Source: Monitor analysis

Intermediary Model

The intermediary model aggregates and distributes work to different service providers, which may be geographically dispersed across the world. In this example, the intermediary is responsible for marketing and client acquisition, allowing the service providers to focus on service delivery. The type of work involved will typically be low-end, repetitive tasks. Often, the intermediary will be involved in quality control and the reassembly of smaller tasks into one whole, finished product. In some cases, the IS service provider will be linked directly to the client, assuming quality control responsibilities. The intermediary may or may not invest in training of the employees at the service provider level, depending on individual arrangements.

This model requires some sales and marketing scale in order to ensure a constant work stream to its service providers all year round, since many of these providers tend to be small and have relatively limited business generation capabilities. The challenge of the intermediary model lies in managing a range of smaller providers, for both the work product and to ensure that employees at each subcontractor are from the target employee population. Samasource is one example of this model, in that it distributes work to its service partners across many geographies while remaining responsible for marketing and client relations.

Source: Monitor analysis

Subcontractor Model

Large BPO companies make use of this model when they outsource part or all of long-term contracts to IS centers that work exclusively for them, thus assuring business for these smaller ventures. The subcontracted IS provider acts as a captive unit for the larger, established BPO provider. The subcontractor benefits from the increased credibility and access to contracts and workflow. Quality control is easily assured in this model, as are workforce fluctuation and work sustainability, which allows services to range across a wide spectrum of degrees of complexity. Using this model is an easy way for a developing country to build its BPO credibility by signaling that it works with established providers and that its location has desirable qualities as a BPO destination for other potential investors. The presence of a larger, established BPO provider can convince customers to source their services from countries previously perceived as risky. On the downside, such exclusive contracts can hamper scale of the subcontractor, given that the entire business development process hinges upon having a large BPO. Paradigm Express in Kenya exemplifies this model because it has subcontracted work from larger BPO companies such as Paradigm Infotech in India.

Source: Monitor analysis

Partner Model

In this case, a parent IS provider is responsible for business development, while operations are managed entirely by the center partner, including quality control and the hiring and training of employees. This allows each partner to service a range of tasks across the value spectrum, while top and mid-level management are provided by the parent IS company. This model has the central advantage of requiring less of an IS service provider's capital investment up front in order to ramp up to scale, and more flexibility in the face of fluctuating demand and work. Similar to the intermediary model, the smaller center partner can focus entirely on operations, while the IS parent focuses on obtaining new work and quality control. RuralShores in India is an example of this model, as it takes on customer relationships and sales, while passing on the actual work to center partners.

Source: Monitor analysis

Direct Model

In this model, the organic growth of the company is driven by business, as new IS delivery centers are only set up when there are assured work tasks to support them. As a result, this model brings great stability in terms of business supply and outputs, with increased levels of quality control, but a strong requirement for a capable sales force to keep the supply of contracts flowing. This model is capable of taking on a wide range of services, and can be combined with subcontractor or contract-supplier models. The income impact here is high, but is limited in terms of its reach, as IS workers have to live in the direct vicinity of job centers to gain employment. The direct model does entail higher infrastructure costs, as clients are hesitant to enter into the desired long-term contract without infrastructure being in place. This makes scaling up slow and sometimes difficult. There is heavy competition from smaller, urban low-cost BPO providers. When DDD and eGramIT take on work contracts directly from non-BPO clients, they are examples of this model.

Source: Monitor analysis

This extensive study of the emerging IS space, involving interviews with more than 120 practitioners, experts and buyers from across the BPO spectrum, identified nine key barriers to the growth of IS. This list is neither exhaustive nor final, and we envision an ongoing process whereby it is refined and potentially expanded. The nine recurring challenges fall into three themes: *demand constraints*, *positioning and branding constraints*, and *supply constraints.*

Demand Constraints

Accessing Clients and Contracts

Primarily due to their relatively small size, the early stage of their growth, and their location in either rural areas of established BPO countries or in capitals of countries with new BPO industries, ISSPs often struggle to create relationships with clients with significant BPO expenditure. They are often unable to secure the long-term contracts that would guarantee work and enable them to invest and scale. This can become a chicken-and-egg situation, with clients unwilling to provide large contracts as they feel the ISSP is too small, and the ISSP unable to scale up in the absence of large contracts. Additionally, due to lack of economies of scale, many ISSPs are often unable to invest in significant business development activities.

Part of this is driven by the fact that many ISSPs are operating in countries with an emerging BPO sector, which makes them less desired destinations for outsourcing work. This is partly driven by the simple fact that many ISSPs are new, relatively small, and don't have extensive track records. The situation is similar to that of any emerging business entering a new space with large, established players. Another driver of this is the cost and expense of maintaining a sales force that can search for clients, particularly internationally. Meanwhile, domestic clients in many countries are still relatively small. India is an exception to

this trend, as its ISSPs have been able to leverage the country's BPO brand and relatively large domestic market to access business.

One way to access demand for smaller ISSPs is to subcontract to larger, more established BPOs. Several IS players are already doing this. But ISSPs must prove to larger BPOS that they can offer their capabilities seamlessly, aligning systems and processes across the bigger and smaller players. In addition to this problem, other issues can arise in subcontractor models, as illustrated in several of the case studies provided above.

Finally, many potential clients appear to be unmoved by the social impact story of ISSPs. They face broader concerns about whether to move the processes being outsourced offshore in the first place, and the potential public relations and political implications of doing so. Most buyer purchase criteria for BPO work revolves not around social impact, but around the three key pillars of price, quality and risk level. In addition, most BPO providers market their services on the basis of having highly skilled employees with college degrees. This creates a paradox for ISSPs, which aim to both employ less skilled labor and also meet client buyer purchase criteria.

Creating Anchor Demand

Many ISSPs address the customer acquisition issue by identifying a source of anchor demand in a country that is more open to using a nearby provider for services. In India in particular, several of the rural BPOs have anchored their business in local government contracts, which provide them with an opportunity to build a track record, begin to scale up, and handle a range of business processes—usually on the data side. eGramIT's relationship with the Department for Rural Development in the state of Andhra Pradesh is a salient example of this. Here, the company operated a telephone hotline for citizen complaints.[49] However,

in many countries, modifying government procurement policy in favor of IS is a challenging task that would require energy, investment and patience. In some countries, there are large enough local businesses—usually mobile carriers or banks—that can provide work to local outsourcers. But in other markets, particularly in Sub-Saharan Africa, there are relatively few local private-sector buyers. As a result, ISSPs report that securing a guaranteed stream of work on which they can invest and scale remains a significant challenge.

As in India, state and national governments could be a significant source of this demand, but in most IS destinations, current procurement guidelines often do not encourage domestic outsourcing. In many cases, such guidelines and requirements often make it more challenging to include small providers in such government work in the first place.[50]

Positioning and Branding Constraints

Growing IS in Countries with Limited/ Emerging BPO Industries

The growth of rural BPO in India demonstrates that a domestic BPO industry can enable the growth of IS as a simple response to the need to reduce cost and attrition for certain services. This is the market that has seen the most development of new BPO models, building off the cluster of existing BPO providers, India's established reputation, its existing customer relationships, and the management and process expertise already generally in place in the southern and western parts of the country.

Conversely, ISSPs operating in countries with an emerging BPO sector face a number of additional hurdles. They are not on the radar for potential clients, their geography represents a perceived risk in addition to their IS status and size, and securing a subcontracting deal with a large BPO is more problematic because these countries are not typically on the list of places that BPO operators themselves are considering for sourcing diversification. Some countries have addressed this aggressively, such as South Africa, where coordi-

nated, heavy investment from government, the Business Trust, industry associations, and others combined to recruit top BPO players into South Africa and train large cadres of high school graduates to make them BPO ready even though such training is often expensive to undertake. In South Africa, the 40-week program, which generates the best employees and results, costs the government about $3,450 per student. These programs have tended to focus on higher-value services like voice and employees with at least a high school education.

Positioning/Branding IS to Clients

Different clients have different attitudes toward IS, and for this reason, ISSPs face difficulties in positioning and branding their offerings. As noted in the demand section above, currently a large majority of BPO clients in international and even domestic markets, across voice and data services, are primarily concerned with getting a service of a defined quality provided for a specific price. Given the business case for IS described above, ISSPs remain well positioned to compete on several of the key buyer purchase criteria. And there is a small segment of corporate clients that buy IS for reasons of corporate social responsibility, and a smaller segment of non-corporate entities that also buy IS for reasons of social impact. For example, Samasource includes Stanford University among its clients. Government clients also have diverse attitudes toward IS, varying from the purely cost-quality-risk-driven approach of some agencies to a broader national social benefit outlook found in other departments. The latter, to the extent it has been seen, occurs primarily in India among state government departments, such as West Bengal and Andhra Pradesh.

It is important to note, however, that there is a paradox in this market. To convince customers to send work to an untried destination, the BPO sector's strategy has always been one of hiring college-educated workers and touting that fact as they assure clients that their vital business processes are in good hands. However, for IS to succeed on the impact side of the equation, the

providers need to recruit those who are often less than college educated, thereby inserting greater risk in the client's mind and taking away one of the key selling propositions that the BPO sector has commonly used. This puts a greater emphasis on training capabilities for a given ISSP, and rigorous training may need to be not just an operational necessity, but a future selling point.

Interviews with buyers, intermediaries and experts who advise clients on purchasing outsourcing services suggest that there will be, at best, only limited appeal to a "fair trade" branding on outsourcing choices. Such a "fair trade" equivalent would label IS services that successfully ensure the outsourced services create high-income alternative employment opportunities for socioeconomically disadvantaged individuals.[51] On the whole, key buyer purchase criteria do not center on social impact, and in fact, some experts indicted that ISSPs working in rural areas, or with workers who have below-high-school educational achievement, would actually be an obstacle in terms of convincing potential customers that they can do the job.

This raises a challenge for the IS players to both compete on the main buying criteria—especially risk and track record—and to layer on the additional appeal of having a strong impact on the incomes of IS workers. The challenge is to do all this without negatively affecting the cost position necessary to compete for contracts.

Navigating the Political Implications of Offshoring

Outsourcing, and in particular offshoring, have always been linked in the public imagination in the United States and Europe to job losses and job exports. This has led to strong public support for legislative changes to limit offshoring, exemplified by recently proposed legislation called the "Creating American Jobs and Ending Offshoring Act."[52] As a result, there is always the risk that positive public relations from IS could, with a certain interpretation, turn negative as related to job losses or exports. This issue complicates the positioning

and branding dilemma facing both ISSPs and IS clients, who frequently will not want to advertise or broadcast that they are sending any kind of work out of a company or a given country.

Supply Constraints

Recruiting, Employing and Training the 'real' BoP

We have preliminarily defined IS in relation to *who is employed,* in order to delineate the impact of the activity in terms of increased income and other poverty-reducing dimensions.[53] To that end, we have proposed an initial working definition of IS as BPO activities that provide formal employment or supplementary income to individuals with limited opportunity for sustainable employment. Practically, this will mean looking to hire people in areas with high unemployment, from a range of backgrounds (primary school through college graduate level), depending on the context and the alternative employment opportunities for that set of potential workers.

In this context, recruiting, training, and retaining employees are challenges faced by all ISSPs, irrespective of the segment in which they operate. For an average BPO operating in Bangalore and hiring urban graduates who have alternative employment opportunities, training costs amount to up to $1,000 per worker and even so, attrition can still be as high as 40 percent, thereby eroding the cost competitiveness of a typical urban BPO[54] (see Exhibit 5).

Interestingly, rurally based ISSPs that hire rural university graduates (segments E and parts of F) often face lower training costs in addition to the lower salaries and lower attrition rates that are associated with rural communities. Indian-based eGramIT, for instance, reports training costs of only $500 per employee.

Exhibit 9: Kenya BPO Cost Variation

Training Cost in US$ (y-axis: 0, 200, 400, 600, 800, 1000)

- High School from Disadvantaged Background: 1,000
- Tertiary Education: 500

Source: Monitor analysis and field interviews with Kenyan BPO and IS provider and IS training organization[55]

Moreover, eGramIT pays employees average monthly wages of $110, 40 percent less than average wages in urban Indian BPO centers. Due to the lower cost of living in rural areas, this remains a very attractive salary. By recruiting highly skilled graduates who have few employment alternatives in their rural locations, eGramIT is able to reduce attrition to 4 percent.[56] Still, mid-level management for rural centers often has to be recruited from urban areas because such positions require higher levels of education and, more importantly, prior experience in the BPO industry. Retaining such mid-level managers in rural areas is frequently challenging due to the lower standards of living associated with life outside major cities.

However, ISSPs operating in areas where there is a pool of individuals who are defined as BoP (e.g., segment D and parts of segments C and F) can face major obstacles linked to recruitment and training costs. Training and recruiting BoP employees who, for instance, live in slums or peri-urban areas and lack high school qualifications, involves search and training costs that can be much higher

per recruit than for a conventional BPO. In Nairobi, even the training of high school graduates from slum areas is associated with an additional approximately $500 cost per employee.[57] And such workers would still have to perform lower-end BPO services because the training courses can simply not substitute for a university education of several years. While some of these costs can be offset by reduced attrition rates of rarely more than 5 percent, the momentum in the field will typically tend toward hiring the best-trained workers that can be found. These are usually easier to source and to qualify. As a result, ensuring that an ISSP is employing and retaining BoP employees can be complicated, and potentially more expensive than hiring better-educated workers, even if the salary differential theoretically makes it an economically attractive long-term option.

Avoiding the 'Race to the Bottom'

The low-value data outsourcing services offered by most ISSPs are in many ways a commoditized, and therefore highly price-sensitive, product. As a result, ISSPs providing these services can manage only a limited sustainable competitive advantage. In the markets where IS has taken off the fastest, such as India, it has done so not out of any social mission, but simply because rural BPOs can offer the best cost position, driven by low salaries and reduced attrition, for comparable quality. Success has simply been a matter of addressing one of the key buyer purchase criteria, namely low cost. However, this has the potential to quickly lead to a 'race to the bottom" as people increasingly enter the market to compete, especially in the lower-value data services, solely based on cost in some regions where employees are willing to work for less. It would be conceivable that the outsourcing field—given the relentless pressure to take out costs—could find itself in a similar position as, say, the garment industry globally. It is imperative that IS, by providing income benefits to the poorer segments of the labor economy, does not create new class of "digital sweatshops."

Accessing Infrastructure in Rural and Low-Employment Areas

Power, telecommunication, and to a lesser degree transport infrastructure are essential enablers for a competitive IS industry. One of the reasons that rural ISSPs in India have been able to compete with urban BPOs is that they are able to access power and telecom connectivity at costs that allow them to be competitive. Despite the recent installation of a new fiber optic cable, telecom costs in East Africa remain significantly higher than in other BPO destinations, a factor that directly affects their competitiveness, even in urban areas.[58]

Although there are a number of pilots in the pipeline, such as Kenya's "Digital Villages" project,[59] many rural areas in East Africa have connectivity and power infrastructure challenges that affect the competitiveness of the IS industry and neutralize any potential salary cost difference. While there is a plethora of ISSPs based in rural areas in India, elsewhere rural IS activity has been limited to a small number of pilots.

Another key challenge of operating IS in rural areas is employing skilled managers. In rural India, where there is a lack of highly skilled individuals, IS providers cite difficulty in finding middle managers willing to move from urban to rural areas. If the field is to scale up with the value proposition of low-cost, low-attrition, high-skill workers in rural areas, this constraint will need to be addressed.

Identifying Investors

Existing BPO providers and individuals with BPO experience have catalyzed the IS space in India, but such expertise, and a related willingness to invest in ISSPs, is lacking in countries without an established BPO industry. Whether it is large BPOs, such as Paradigm Infotech, investing in rural ISSPs such as eGramIT, or organizations such as RuralShores that supply contracts and recruit management with BPO experience, there is a clear link between IS growth and investment and expertise transfer from the BPO sector.

A number of ISSPs—inasmuch as they are typical small and medium enterprises (SMEs)—also face typical SME challenges around securing investment that would allow them to scale and bid for large contracts.[60] Investment funding and patient capital from impact investors who understand the social potential of IS could potentially allow ISSPs to invest in business development activities, additional facilities, and training and recruitment schemes to drive significant growth. And an increasing number of impact investors are focused on livelihood creation issues, coming out of their positive experience with microfinance. However, many impact investment funds are focused—as they are in Africa—on the agriculture and clean tech sectors. In addition, many impact investors are set up using a private equity fund model, in which they typically do not invest in earlier-stage enterprises. Often, impact investors also have difficulty making the relatively smaller investments of below $5 million that many emerging ISSPs need.[61]

7. The Action Agenda

This analysis identifies a preliminary list of potential interventions that could address the challenges enumerated above and that could push IS forward. This longer list of 22 possible activities is outlined in a separate document, and is positioned not as a definitive set of answers, but as a starting point for thinking among various stakeholders who may want to consider how to help the field accelerate, both in revenue terms and in terms of social impact. The following broad-brush action agenda could contribute to increased activity and growth in the field, in terms of revenue, the number of players, and income increases for the poor or disadvantaged workers employed in ISSPs. The broad action agenda reflects many of the priorities established by industry participants in a convening of key stakeholders, held in Nairobi in December 2010.

Before identifying the broad set of activities, we see four potential meta-routes to scale the field, within which many of these interventions could fall. Routes chosen will, as always, depend on which segments are prioritized for focus.

■ **Route 1:** In markets with an existing strong BPO presence, shape the natural evolution toward alternative sourcing options that are rural or urban using lower-income, lower-skill workers. In this route, the main driver will be cost economics, and two main tasks will be (a) ensuring it does not become a race to the bottom, and (b) supporting the inclusion of lower-income strata in the workforces through training and recruitment.

■ **Route 2:** In markets with less BPO presence, start the IS field from scratch. This route can take three forms:

(a) Attract existing large BPO companies with recognized brand names (e.g., Wipro, Genpact, Tata Consultancy Services) to "set up shop" directly in a country and serve large international clients, then have an outside entity train large numbers of people to make them job ready, as the South African government did to support the development of its BPO sector. This variant would encourage large firms to employ people with limited employment opportunity as well as drive the emergence of local ISSPs.

(b) Anchor the growth of the nascent field in local needs, in order to generate the anchor volumes, demand, and track record that are often required to succeed on bigger contracts later. While government is one natural potential source of demand for such work, especially in countries with little established BPO sector presence, such a route to scale should not depend solely on changes to procurement rules. Instead, the anchor demand will need to come from local private-sector actors in finance, telecoms and other transaction-intensive sectors.

(c) Encourage the development of smaller firms with concentrated or distributed activity and enable them to liaise with larger BPO players, such as Paradigm Express, a Kenya-based ISSP affiliated with the much-larger Indian BPO company, Paradigm Infotech. This will reduce the need for a large, client-facing sales force and allow ISSPs to become a part of the portfolio of options for existing BPO providers.

Five Priority Areas for Focus in the Coming 2-3 Years

The action agenda to catalyze the field's growth centers on five broad areas:

1 **Training, Recruiting, and Engaging BoP Workers.** This area is key to realizing the promise of engaging the poor and vulnerable in the field, and reaching below the easy-to-find, already-trained employees who typically have other employment options, at least in urban areas. Here, the agenda must focus on efficient recruitment and training models that can make BoP workers part of the IS workforce, and do so in a cost-effective way. This is particularly important for both (a) existing ISSPs, which already target this segment but for whom this is a significant cost, and (b) existing large BPO providers, which may want to employ this segment of workers if all costs can be made neutral to their traditional model (as seen in South Africa).

2 **Creating a Shared Platform for the IS Field.** The various stakeholders who are, or will become, active in the field will need a central point to share information, market research findings, lessons and best practices. This platform can also be leveraged to define minimum measurable standards certification around fair labor and recruitment, but also around quality. It can also represent the ISSPs in important discussions with government and clients around impact, incentives, infrastructure and procurement requirements. The platform could encourage diversification from highly commoditized services toward adding higher-value and location-specific services. It could serve as an intermediary for investors and investees, and could also help underwrite the shared costs of introducing new BPO destinations. Lastly, it could more generally assist ISSPs in building the IS brand, raising awareness and addressing perceived risks.

3 **Creating Means of Connecting Small ISSPs with Established BPOs.** Especially in emerging BPO countries without large, established sectors in place, anchor demand is expected to come, in part, from existing BPOs that are likelier to embrace an emerging country than are end clients in wealthier economies and markets via the subcontractor model. As this stands, it will be imperative to create a means for smaller ISSPs to access these bigger BPOs and offer a way for them to diversify their sourcing base across regions, cost positions and tasks. Such an initiative would inevitably need to address bringing smaller ISSPs, whether intermediary, subcontractor, partner or contract supplier, in line with the business requirements of the bigger established BPOs. Encouraging BPOs to "set up shop" in emerging BPO destinations is another means of spurring IS growth in these markets.

4 **Introducing ISSPs to Larger Pools of Demand.** This task could conceivably be under-taken by the shared industry platform articulated in item two above. Alternately, other measures could create ways to directly raise the profile of the IS field as a viable option for large buyers. More research on end-client demand will be required to inform these efforts, but there is a definite opportunity to convene larger buyers, introduce them to the IS concept and to ISSPs, and potentially minimize the risk of their engagement of ISSPs.

5 **Unlocking Domestic Anchor Demand.** While government contracts cannot be a panacea for the nascent field, further exploration of how to unlock the potential of gov-ernment and e-government as an anchor client is warranted. In addition, any initiative in this area should focus equally on building domestic anchor demand among domestic private-sector clients for data and some voice services especially given stated procurement con-straints and requirements. This may take the form of spinning off of local existing captives (e.g., for mobile operators), or other means of leveraging the local economy to provide con-tracts to ISSPs. Governments can encourage domestic anchor demand by enacting policies and incentives such as a "minimum domestic seat" requirement for any large contract out-sourced to another party, or by enacting enabling procurement policies.

Appendix: List of Interviewees

Experts

John Arnold
Fairtrade UK

Fatgiyah Bardien
South Africa Business Trust

Raju Bhavnagar
BPO and Government Relations, NASSCOM

Jonathan Campaigne
PRIDE Africa

Guy Cogan
BPO Specialist, Monitor Group

Michael Corbett
*International Association of
Outsourcing Professionals*

Sucharita Eashwar
NASSCOM, South India

Jessica Freireich
Impact Investment author, Monitor Group

Todd Furniss
Plum Tree Partners

Emily Gichuki
Safaricom

Ed Glotzbach
TPI

Ed Granger-Happ
NetHope

Richard Heeks
*Professor of Development Informatics,
Institute for Development Policy and
Management, Manchester University*

Arun Jethmalani
Managing Director, ValueNotes

Jonty Joffe
BPO Specialist, Monitor Group

Stephen Jordan
*US Chamber of Commerce,
Business Civic Leadership Center*

Cynthia Kahumbura
Kenya BPO and Contact Society

Eunice Kariuki
Kenya ICT Board

Stephen King
Omidyar Network

Bulelwa Koyana
Interim CEO. BPeSA

David Michelson
BPO Specialist, Monitor Group

William Miracky
BPO Specialist, Monitor Group

Suparno Moitra
NASSCOM, East India

Karim Morsli
Genesis M.O.

Daniel Mwanzau
World Vision

Ossama Nazmi
Xceed Contact Center

Dr. Bitange Ndemo
*Permanent Secretary, Kenya Ministry
of Information and Communication*

Thu Hue Nguyen
Vietnet ICT

Michael Nkonu
Fair Trade Africa

Nicholas Nganga
Horizon Contact Center

Martin Njorange
Horizon Contact Center

Gilda Odera
*BPO/ITES Working Group at the Office
of the Prime Minister*

Cyrus Ongaki
World Vision

Nilu Paul
Strat-etech Consulting

Tom Rausch
PRIDE Africa

Jeff Rich
PlumTree Partners

Pumela Salela
World Bank

Jan Schwier
BPO Specialist, Monitor Group

Meera Shenoy
EGMM

Tom Siambi
ACWICT

Randeep Sudan
Global ICT Dept, World Bank

Mac Steele
author, paper on economic effects of offshoring

David Stewart
Horizon Contact Center

Dickson Tibenkana
Top Link Solutions

Alhassan Umar
ITES Ghana

Peres Were
BPO/ITES Working Group, Kenyan Office of the Prime Minister

Brian Whittaker
SA Business Trust

Buyers and Buyers Representatives

Vinod Bang
Mahindra Satyam

Sanjeev Bhatia
Wipro

Jay Desai
Northern Trust

Denny McGuire
TPI

Hital Muraj
Cisco

Milind Godbole
Aditya Birla Minacs

Mike Wells
Merchants

Dan Monahan
Teradata

Pradeep Mukherji
Avasant

Moses Mwaura
Enablis

Anish Nanavaty
WNS

Sid Pai
TPI India

Venguswamy Ramaswamy
Tata Consultancy Services

Anand Ramesh
Everest Research Institute

S.S. Rawat
Department for Rural Development, Andhra Pradesh

Gabriel Rozman
Global Delivery Network at Tata Consultancy Services (TCS)

Melinda Gonzalez Sandlin
Benprise

Russ Sandlin
Benprise

Minakshi Sarkar
Ujjivan

Eric Simonson
Everest Research Institute

R.U. Srinivas
Hexaware Technologies

Rein van der Horst
Genpact, SA

Joan Wekesa
Enablis Entrepreneurial Network

IS Organizations

Tom Abell
Accenture Development Partnerships

Mark Arnold
MSK Global

David Ashworth
Samasource

Dipak Basu
Anudip Foundation

Radha Basu
Anudip Foundation

Taddy Blecher
Invincible Outsourcing

Leila Chirayath
Samasource

Michael Chertok
Digital Divide Data

Dhiraj Dholwani
B2R Technologies

Pierre D'Silva
eGramIT

Nathan Eagle
txteagle

Bryan Forst
Uran Software

Diana Muthee Gitiba
Adept Technologies

Simon Healy
OrphanIT

Venkatesh Iyer
B2R Technologies

Jessica Long
ADP

Saloni Malhotra
DesiCrew

Mfanu Mfayela
Bizworks

Heidi Minx
Built on Respect

Dr. Sridhar Mitta
NextWealth

Stephen Muthee
Daproim

Nicholas Nesbitt
KenCall

Catherine Nyaga
Horizon

Pavitra V.S.
Vindhya e-Infomedia

Sriram Raghavan
Comat Technologies

Govinda Reddy
RuralShores

Geoff Ridden
G7 Systems

Biplab Saha
Source for Change

Priyesh Shah
Express Automation

Munjal Shah
Ken-Tech Data

Lakshmanan Manickam
Ken-Tech Data

Monica Thige
Ken-Tech Data

Olive Muigua
Ken-Tech Data

Srinivas Varma
eGramIT

Manoj Vasudevan
SourcePilani

Mahesh Venkateswaran
Usha Martin Rural Services

Verghese Jacob
Byrraju Foundation

25 Employee interviews across Adept, Daproim, Ken-Tech Data, RuralShores, eGramIT, Anudip Foundation and Uran Software

Endnotes

1 NASSCOM Strategic Review 2010

2 For the purposes of this paper business process outsourcing (BPO) will refer to all outsourcing activities, thus including both onshoring and offshoring.

3 The interviewees work in Armenia, Cambodia, Egypt, Ghana, India, Kenya, Kuwait, Laos, Nepal, Philippines, South Africa, the United Kingdom, the United States and Vietnam.

4 The Department of Trade and Industry's (2005) Sector Development Strategy, BPO&O and NASSCOM Strategic Review (2008, 2007) and Business Process Association of Philippines (2008) via BPO Stakeholder Report from the SA Business Trust (2009).

5 NASSCOM India IT-BPO Strategy Review, 2010.

6 It should be noted that while the rate of United-States-based business process outsourcing (BPO) is declining, it is still by far the single biggest country in terms of overall BPO jobs.

7 Kavur J. "Canadian outsourcing will grow in 2010, says IDC." *ComputerWorld Canada*. January 2010. Available at: http://www.itworldcanada.com/news/canadian-outsourcing-will-grow-in-2010-says-idc/139814. Accessed November 11, 2010.

Sourcingline.com. "Philippines BPO sector attains 50 percent target, revenues touch USD 4.7 billion." July 18, 2010. Available at: http://www.sourcingline.com/resources/philip-pines-bpo-sector-attains-50-target-revenues-touch-47-billion. Accessed November 11, 2010.

Reyes, MA. "RP's IT BPO revenues seen to reach USD 25 billion by 2016." *The Philip-pines Star.* October 27, 2010. Available at: http://www.philstar.com/Article.aspx?arti-cleId=624452&publicationSubCategoryId=66. Accessed November, 11, 2010.

8 Before the 2008 recession, the BPO industry in the Philippines grew at an annual rate of 40 percent, the one in South Africa grew at 33 percent, and the one in Mexico grew 25 per-cent, notes the article "Philippines catches recovery wave," written by Jennee Grace U Rubrico and published March 9, 2010 in the *Asia Times.* Available at: http://www.atimes.com/atimes/Southeast_Asia/LC09Ae01.html. Accessed November 19, 2010.

Everest Research Institute. "Ready to Compete - South Africa's BPO Capabilities in the Financial Services Sector." December 2008. Available at: http://www.everestresearchinsti-tute.com/Product/10531. Accessed April 18, 2011.

Study by A T Kearney cited in the article "BPO market expands" written by Matthew Malinowski and published May 22, 2009 at www.bnsamericas.com. Available at: http://www.bnamericas.com/news/technology/BPO_market_expands_25*_in_2008. Accessed November 19, 2010.

9 The BPO Partnership. Developing the BPO Sector: Report to Stakeholders. November 2009. Available at: http://www.btrust.org.za/index.php?id=157. Accessed November 24, 2010.

10 Kenya ICT Board and McKinsey & Company. Seizing the Prize – Driving BPO Sector Growth in Kenya. March 2009.

11 Government of South Africa. Ready to Work: South Africa's Monyetla Work Readiness Programme for Business Process Outsourcing. 2009

12 Republic of Kenya. Vision 2030—A Globally Competitive and Prosperous Kenya. October 2007. Available at: www.safaricomfounda-tion.org/fileadmin/template/main/downloads/Kenya_VISION_2010-final_report-October_2007.pdf. Accessed November 23, 2010.

13 Monitor analysis and interviews.

14 For instance, DDD tracks multiple other indicators of impact beyond just income increases, including self-confidence and family income.

15 The National Rural Employment Guarantee Act (NREGA) was introduced in India in 2006 and stipulates that every poor, rural household has a right to 100 days of paid employment per fiscal year, if the adult members of the household volunteer to do unskilled, manual labor. Information available at: http://india.gov.in/sectors/rural/national_rural.php. Accessed November 18, 2010.

16 Note that this is not a map of buyers and clients for the services, who will have requirements that break down along different lines (e.g., by voice versus data or by other various buyer purchase criteria).

17 The World Bank divided economies based on gross national income (GNI) per capita data and identified the following groups: low-income countries with a GNI per capita of $995 or less; lower-middle-income countries with a GNI per capita of $996 to $3,945; upper-middle income-countries with a GNI per capita of $3,946 to $12,195; and high-income countries that have a GNI per capita of $12,196 and higher. Available at: http://data.worldbank.org/about/country-classifications. Accessed November 17, 2010.

18 We take this view of alternative approaches because it is always a question of "impact versus what alternative?" and in some cases the alternative is subsistence farming in rural areas. In others, however, the alternative is another BPO job if in the setting is an established BPO country in an area where this is supported.

19 This is based on the size of the BPO industry.

20 Monitor market sizing analysis. Available at: www.ft.com/cms/s/0/1831a65c-c5a8-11df-ab48-00144feab49a.html. Accessed November 22, 2010.

21 The segmentation frame and individual segments were based on Monitor market analysis.

22 2010, ICAI

23 Cayuse Technology website. Available at: www.cayusetechnologies.com. Accessed November 14, 2010.

24 Klasen S. "Surviving Unemployment Without State Support: Unemployment and Household Formation in South Africa. *Journal of African Economies.* May 14, 2008. Available at: http://jae.oxfordjournals.org/content/18/1/1.full.pdf+html. Accessed April 18, 2011.

25 Monitor interviews and Genpact website. Available at: www.genpact.com/home/aboutgenpact/our-history.aspx. Accessed November 17, 2010.

26 Per Table 19 in the ILO report found at http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-new_delhi/documents/publication/wcms_123408.pdf, this figure is 54.7 percent for female youth graduates in rural areas.

27 Per the *New York Times* article at http://www.nytimes.com/2009/11/13/world/asia/13india.html, Bagapalli's population is about 170,000 and it is situated 100 kilometers north of Bangalore.

28 This comes from 2009 data from the CIA World Factbook.

29 The current market estimate is heavily skewed by China, which accounts for almost $900 million and about 50 percent of the market in segment C with its program to employ high school graduates in BPO jobs.

30 Note that this forecast is based on an assumption that the market will evolve in this direction in the base case, with only moderate involvement and priming from government, philanthropic players and others.

31 All of the IS market sizing data are based on the Monitor market sizing model. In terms of job creation expectations, as a comparative perspective, it is worth noting that the average level of employment in a Kenya Stock Exchange listed company is about 1,800 to 2,000 people. The average level of employment of a Forbes 40 Indian company in 2007 was about 25,000. Once-state-owned firms are excluded. These figures come from Monitor analysis.

32 Note that Segment C in 2010 is skewed by China, which accounts for $900 million of the segment. "Potential IS" refers to the addressable IS market.

33 This assumes a 2Mbps radio connection on Airtel and Reliance. The relative cost is higher for IS in rural areas due to small center sizes.

34 Lower training costs are driven by lower trainer salaries and lower rent, but roughly equivalent levels of employee and trainee education, given the current educational profile of most rural BPO employees in India.

35 Further interviews to validate and test this initial finding will be conducted in the next phase of work.

36 Accenture Development Partners. BPO Tutorial and Global BPO Findings and Strategies. March 2010.

37 According to Monitor market sizing analysis, this increase is explained by two factors. First, the voice component is currently still very low, thus representing an untapped market for IS. Second, many African countries have language capabilities that suit the European market, which they can leverage to provide cheap voice services to Europe.

38 This vertical split is based on Indian BPO export numbers; *BFSI = Banking Financial Services Insurance; ** T&T – Transport & Travel; MPE – Media Publishing & Entertainment; Source: IDC, NASSCOM IT BPO Strategy Review.

39 This is based on Monitor analysis of the NASSCOM Strategic Review.

40 Anju M et al. Digital Divide Data. MIT Sloan School of Management. September 2009. Note that websites consulted here, on November 18, 2010, include info on Samasource (http://www.samasource.org/ and http://memeburn.com/2010/08/ samasource-ceo-on-bridging-the-digital-divide-and-creating-a-global-meritocracy); RuralShores (http://ruralshores.com); eGramIT (http://www.egramit.com); and txteagle (http://www.txteagle.com).

41 Monitor analysis in collaboration with txteagle. Employee research was not undertaken with txteagle hence no employee profile

42 Monitor analysis here was done in collaboration with Samasource and its service providers.

43 As of November 2010, these countries include Kenya, India, Pakistan, Haiti and Uganda.

44 According to interviews, service provider employees earn an average of $180 per month and would otherwise earn about $124 per month.

45 Monitor analysis in collaboration with RuralShores.

46 Monitor analysis in collaboration with eGramIT.

47 Monitor analysis in collaboration with DDD.

48 All models including graphics are the result of Monitor analysis in collaboration with the service providers DDD, eGramIT, RuralShores, Samasource, and txteagle.

49 This "customer grievance service" was specifically done for India's National Rural Employment Guarantee (NREGA) Program.

50 An example of this is found in Kenya, where large government digitization contracts have gone to large Indian BPO firms. The recent structural changes to government in Kenya may provide an opportunity to change this situation.

51 This would be analogous to the current use of fair trade labeling for certain food and clothing products, which indicate that the commodity in question, such as coffee, was produced in ways that were not exploitative and that provided good incomes for participating workers and growers.

52 Lison J. "US Senate details anti-offshoring Bill." Allbusiness.com. September 30, 2010. Available at: http://www.allbusiness.com/ government/government-bodies-offices-legislative/15142309-1.html. Accessed November 8, 2010.

53 For instance, DDD tracks multiple other indicators of impact beyond just income increases, including self-confidence and family income.

54 Monitor interview research.

55 Note that the field of training less-qualified individuals for IS tasks is only beginning to be explored. These cost figures are therefore only rough indications based on training an individual for basic IS tasks. Also note that the category of tertiary education includes about 25 percent of high school graduates and 75 percent of university and college graduates.

56 Monitor interview research.

57 Monitor interviews and research. As a point of comparison, the Monyetla program in South Africa funds the training of disadvantaged high school graduates over a period of four months at various BPO providers. The associated costs here are roughly $2,100 per employee. These figures come from the South Africa government paper "Ready to Work: South Africa's Monyetla Work Readiness Programme for Business Process Outsourcing," which was published in 2009.

58 Interview with ICT Board in Kenya, September 2010.

59 The Digital Villages project is a government and private-sector initiative, designed to connect both rural and urban areas in Kenya to accelerate the growth of ICT. Every constituency represented in Parliament will get a minimum of eight work stations, either personal computers or monitors hooked up to personal computers, grouped within a 15-kilometer radius. The first Digital Villages are expected to go online by the end of June 2011. The Ministry of Youth Affairs' Youth Enterprise Fund (YEF) is financing this project.

60 G20 countries pledged $528 million at the recent summit in Seoul, South Korea to create an SME Finance Innovations Fund to address the "missing middle" financing challenge. The fund will initially support winners of the G20 SME Finance Challenge funded by the Rockefeller Foundation, but will also support other successful innovative SME models. Information available at: http://socialfinance.ca/blog/post/a-close-look-at-who-won-the-g20-ashoka-changemakers-sme-finance-challenge. Accessed November 18, 2010.

61 According to the Global Impact Investing Network (GIIN), only four of its current members focused on Africa will typically consider deal sizes below $5 million each.

For more information, please contact:

Mike Kubzansky
Partner
Monitor Group
mkubzansky@monitor.com

James Nyoro
Managing Director
The Rockefeller Foundation
impactsourcing@rockfound.org

www.mim.monitor.com
www.monitor.com

www.rockefellerfoundation.org

MONITOR **INCLUSIVE MARKETS**

THE
ROCKEFELLER
FOUNDATION