



Incentives & Opportunities for Scaling the “Impact Sourcing” Sector

Executive Summary

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Abbreviations and Acronyms

BPeSA	Business Process enabling South Africa
BPO	Business Process Outsourcing
CAGR	Compounded Annual Growth Rate
CEO	Chief Executive Officer
CIC	Community Information Centers
CIO	Chief Information Officer
FDI	Foreign Direct Investment
GASSCOM	The Ghana Association of Software and IT Services Companies
IAOP	International Association of Outsourcing Professionals
ICT	Information and Communications Technology
INR	Indian Rupee
IS	Impact Sourcing
ISSP	Impact Sourcing Service Provider
IT	Information Technology
ITES	Information Technology Enabled Services
KPO	Knowledge Process Outsourcing
LPO	Legal Process Outsourcing
NASSCOM	The National Association of Software and Services Companies (India)
PRIDE	Poverty Reduction through Information and Digital Employment
USD	US Dollars

Introduction

History tells us that innovation and technological change have been important catalysts for economic growth, social transformation and improvements in standards of living. However, the benefits have often flowed unevenly and disproportionately to the wealthiest, the best skilled and those living in the most politically stable environments, while others have fallen into deeper relative poverty, exacerbating socioeconomic gaps. Often, the achievement of economic growth necessarily implied a zero-sum contest among different societal groups or countries, where the advancement of some must come at the expense of others.

The Rockefeller Foundation (“Foundation”) has a stated mission to promote the well-being of people throughout the world that has remained unchanged since its founding in 1913. The Foundation has long held that progress and rising standards of living for all groups can be achieved with the adoption of thoughtful policies aimed at promoting the well-being of people throughout the world. Today, that mission is being adapted to an era of rapid globalization. The Foundation envisions that this century can be one in which globalization’s benefits are more widely shared and its challenges more easily weathered. To realize this vision, the Foundation seeks to achieve two fundamental goals. First, it seeks to build resilience that enhances individual, community and institutional capacity to survive, adapt and grow in the face of acute crises and chronic stresses. Second, it seeks to promote growth with equity in which the poor and vulnerable have more access to opportunities that improve their lives.

The globalization of technology services is the latest in a series of transformational events that is reshaping the world economy and has the potential to alter the socioeconomic trajectory of millions around the world. This era of globalization has been driven by technological advancements in telecommunications capacity, which has enabled a large volume of communications and data transmission at high speeds and has grown concurrently with the increased development and use of e-commerce and Internet-based tools.

These technological advancements have enabled private and public entities to leverage the skill sets and differential costs of labor markets around the world to utilize third parties to perform a wide range of operational and business functions. Private and public sector entities have taken advantage of these opportunities to outsource tasks associated with these functions to third parties located in near-shore and distant offshore locations in order to drive efficiency, lower costs and provide for more capital reinvestment in core functions and capabilities. The growth of the outsourcing sector has reshaped the economies of several developing countries. For example, according to NASSCOM’s Strategic Review 2012, India alone has generated employment for 2.8 million people in the IT and BPO sectors, with another 8.9 million jobs indirectly created as a result.

The Rockefeller Foundation, through its Poverty Reduction through Information and Digital Employment (PRIDE) work, seeks to harness the potential of global technology services to reach those populations that have historically been unable to tap into the job opportunities in the sector. This is called Impact Sourcing, which is defined as a nascent sector within the BPO services sector that focuses specifically on employing poor or vulnerable individuals who would otherwise not have opportunities for sustainable employment. In addition to immediate employment in good jobs resulting in income generation, Impact Sourcing provides transferable skills to enable and empower people to work in a range of sectors in the modern global economy. In this way, Impact Sourcing has the potential to extend the benefits of globalization to lift people out of poverty in Africa and Asia, as well as in underserved regions in developed countries like the United States suffering from chronic unemployment.

For governments around the world, Impact Sourcing takes advantage of business imperatives to expand the supply of labor while simultaneously generating large-scale employment for poor and vulnerable people. With the endorsement and backing of governments, buyers and suppliers of services have an opportunity to implement a sustainable socially responsible sourcing model at an affordable price. Impact Sourcing also allows for better business efficiencies through innovative use of distributed application platforms, crowd-sourcing processes, low-cost and virtualized infrastructure and targeted training techniques for a global talent pool. In short, Impact Sourcing is fostering a business model that is the classic win-win: it's a good business practice and it is socially responsible.

Avasant developed this study with the support of the Rockefeller Foundation to provide an overview of the Impact Sourcing industry, case studies of best-practice policies and incentives for the sector and recommendations for governments to implement in order to scale Impact Sourcing.

Methodology of the Study

The Rockefeller Foundation's PRIDE work has a primary goal to support the growth of the Impact Sourcing sector to create employment opportunities for poor and vulnerable people. In order to achieve this, the Foundation is attempting to answer three key questions:

- Are there viable Impact Sourcing business models?
- How can Impact Sourcing be scaled?
- What is the potential effect of Impact Sourcing on people's lives?

This research study focuses on these questions by providing a global overview of Impact Sourcing. Avasant reached out to a diverse set of stakeholders in the industry and leveraged a multipronged approach for data collection and best-practices gathering, including:

- Web-based survey questionnaires
- Primary interviews and discussions

- Secondary research and Avasant experience

A total of 77 responses to the online survey were received. Respondents included service providers; government ministries, departments and agencies; investment-promotion agencies; trade bodies; buyers and other experts in this field from more than 17 countries. In addition, Avasant followed the survey with several primary interviews and discussions with more than 108 stakeholders in 24 countries.

The key objectives of this study include:

- Identifying global best practices related to the outsourcing sector to determine which policy and incentive models best engage the target group for employment opportunities
- Examining the inventory of policies and incentives implemented in countries across the globe determining the likelihood of adoption in emerging outsourcing destinations
- Identifying countries that show the most promise for policy change and incentive implementation to encourage the growth of Impact Sourcing

Impact Sourcing Overview

Impact Sourcing is a by-product of the globalization of technology services, and specifically derives from the outsourcing of business processes relating to key operational functions (e.g., finance and accounting, human resources and travel and expense functions) (business process outsourcing, or BPO, services). Private and public sector entities (including multinational corporations and large governmental entities) are aggressively driving customer demand to outsource operational tasks to enhance efficiency. The increasing demand for outsourcing services will require the expansion of the outsourcing sector to new locations and new populations. Impact Sourcing attempts to capitalize on the expanding pool of providers or sellers of outsourcing services to employ poor and vulnerable people who otherwise would have limited opportunity for employment.

In a typical Impact Sourcing model, outsourced business process services are first broken down and grouped into smaller subsets of tasks that can be performed by individuals with at least some high school education. Next, locally based entities that can hire and train individuals from the poorest sections of society to perform such tasks offer their services in the marketplace to perform the work. With the assistance of governments or NGOs, the buyers of BPO services can be connected to an expanded pool of sellers or providers. For instance, the government of Ghana has worked extensively to develop a detailed branding and marketing strategy for the country as a preferred outsourcing destination in Africa. Such incentives and initiatives by governments have enabled a better business linkage between customers and service providers. A typical Impact Sourcing model includes low costs of service, more employed individuals who previously would not have had opportunity for employment, growth in demand for BPO services and higher wealth generation that contributes to overall economic and social development.

Impact Sourcing aligns well with many government policy agendas related to economic growth via ICT sector development, youth employment and e-government initiatives. Governments and policy makers can play a critical role in encouraging the growth of the Impact Sourcing sector by implementing policies and incentives that attract private sector attention and establish the country as a viable provider of Impact Sourcing services.

Size of the Industry

Avasant estimates the size of the Impact Sourcing industry to be approximately 561,000 employed individuals worldwide, which is approximately 10 percent of the total current BPO global employed workforce. The determination of industry size takes into account the “pure play” Impact Sourcing service providers (ISSPs) and mainstream BPO service providers and captive centers that hire poor and vulnerable people.

Country	Estimated IS Employees	Remarks
South Africa	126,000	<ul style="list-style-type: none"> Per multiple industry checks, the total industry employs approximately 180,000 to 200,000 employees covering domestic and international BPO service providers as well as shared service centers. Approximately 70 percent of these employees are not university graduates, thereby falling under the Impact Sourcing category (amounting to 126,000 employees as a conservative estimate).
Kenya	2,800	<ul style="list-style-type: none"> The total BPO industry in Kenya is estimated to be 7,000 employees, largely centered in Nairobi. According to industry estimates, 40 percent of these employees do not have a university degree. As a result, we estimate the Impact Sourcing market size to be around 2,800 employees.
Ghana	1,750	<ul style="list-style-type: none"> Ghana's BPO industry is estimated to be approximately 3,500 employees, out of which 50 percent can be classified in the Impact Sourcing category.
India	251,000	<ul style="list-style-type: none"> The total BPO industry in India employs approximately 1.2 million people. Of the 835,000 employees in international operations, approximately 77,000 can be classified as Impact Sourcing sector workers. Domestic market operations employ nearly 50 percent individuals who do not have a university degree (approximately 168,000). In addition, the direct rural BPO/IS market is estimated to employ around 5,000 people.
Rest of the World	179,300	<ul style="list-style-type: none"> The BPO sector in the rest of the world employs approximately 4.6 million people, with approximately 4 percent of such workers being classified as IS workers. There are approximately 1 million BPO workers in the United States alone, and approximately 3 percent of them, or 30,000, can be classified as IS workers
TOTAL	560,800	<ul style="list-style-type: none"> An estimated total 560,800 people employed in the BPO sector can be classified as Impact Sourcing workers, which is approximately 9.4 percent of the total global BPO workforce.

Key Impact Sourcing Archetypes

To provide employment opportunity for a large number of people, PRIDE has adopted a systems approach to catalyzing the IS sector. There are two primary routes to growing IS: Impact Sourcing service provider development and directly employing poor and vulnerable people in traditional BPO Service Providers. ISSPs have a proven ability to create more equity by reaching people as part of their mission, but they experience challenges with scale. On the other hand, traditional BPO Service Providers have a proven ability to scale but do not traditionally employ poor and vulnerable people. The Rockefeller Foundation has identified three key archetypes to test the two routes to growing Impact Sourcing. Each of these archetypes faces specific sets of challenges and requires different approaches to sustain and scale them. As a result, these archetypes offer a range of policy choices and initiatives for policy makers to help scale up Impact Sourcing. This research report provides specific recommendations for each of these archetypes. The three archetypes are:

- **Impact Sourcing service provider (ISSP) development:** ISSPs refers to service providers that have been formed with a specific objective of poverty alleviation in the sections of the society

with the highest poverty rates. Organizations in rural India such as B2R, RuralShores and HarVa, and Digital Divide Data (DDD) in Kenya, Cambodia and Laos can be classified as ISSPs.

- **Direct employment of the poor and vulnerable sections of the society in the traditional BPO industry:** As the BPO industry has evolved, large traditional BPO service providers have started employing people from the “bottom of the pyramid” with the dual purpose of addressing rising cost pressures and the need for additional labor to match buyer demand, and as a corporate social responsibility initiative. Hence, there is both a commercial and a social aspect to employing poor and vulnerable people in these organizations. BPO service providers have also started setting up operations in smaller towns and rural locations to tap into the talent pool in these areas.
- **Traditional BPOs subcontracting to Impact Sourcing service providers:** In order to achieve scalability and reduce costs, traditional BPO service providers often subcontract a part of their business to ISSPs. This model has helped ISSPs obtain steady workflow with limited sales and marketing expenditure. This model is commonly observed in more mature BPO destinations such as India, where there is a large traditional BPO sector. This archetype also has the potential to further develop the IS sector by promoting collaboration between traditional BPOs and ISSPs.

	Impact Sourcing Service Provider Development	Direct Hiring by the Traditional BPO Service Providers	Subcontracting to ISSPs
Strengths	<ul style="list-style-type: none"> ▪ Maximum social impact ▪ Flexible and dynamic in nature due to small size ▪ Established in urban or rural regions with small investments 	<ul style="list-style-type: none"> ▪ Can leverage existing infrastructure ▪ Established brand and require low sales and marketing effort ▪ Have structured training programs and sufficient middle- and top-management skills 	<ul style="list-style-type: none"> ▪ Low sales and marketing expenditure by ISSPs ▪ Assured long-term demand ▪ Can leverage traditional BPO companies’ quality assurance and training ▪ Knowledge transfer from traditional BPO organizations
Challenges	<ul style="list-style-type: none"> ▪ Sales challenges due to small size and limited capacity ▪ Scalability is a challenge in rural regions with limited supplies of skills ▪ High investment in training ▪ Need for investment in middle-management skills and trainers 	<ul style="list-style-type: none"> ▪ Limited social impact and reach if not committed to continually employing poor and vulnerable people ▪ Lack of flexibility in training programs ▪ HR challenges if working out of existing locations 	<ul style="list-style-type: none"> ▪ Existing contracts of traditional BPO organizations can prohibit subcontracting ▪ Challenge managing multiple small contracts ▪ Low middle-management buy in toward subcontracting
Examples of Countries	<ul style="list-style-type: none"> ▪ India, Kenya, Ghana 	<ul style="list-style-type: none"> ▪ Kenya, Ghana, South Africa, India 	<ul style="list-style-type: none"> ▪ India, South Africa, United States

Opportunities for and Challenges to the Impact Sourcing Sector

Opportunities

The BPO industry has seen a rapid growth over the past decade. As per the 2012 Strategic Review report by NASSCOM, the current global BPO spend is estimated to be at US\$153 billion. Currently only 27 percent (US\$41 billion) of this is offshored, creating a huge potential market yet to be tapped by the offshore BPO industry. This gap and the ever-growing demand for BPO services provide a huge potential for Impact Sourcing to scale with the right kind of support and policy initiatives. Going forward, Impact Sourcing has the potential to grow at a higher rate than the traditional outsourcing industry.

Ever-expanding digital content and the need to manage information on the Internet have created substantial demand for tasks such as digitization, data mining and content management. Given the right tools and processes, these tasks could be outsourced to a distributed workforce. These projects can be broken down into micro-tasks that can be assigned to trained workers anywhere in the world, provided they have access to power, a PC and Internet connectivity. In the survey we found that almost all BPO service providers operating in the African region provide digitization as a key service to clients in the United States and Europe. At the same time, these firms draw between 40 percent and 80 percent of their workforce from the underprivileged sections of the society and therefore fall within the scope of Impact Sourcing.

Rising costs in major cities of India and South Africa due to wage inflation and an exponential increase in real estate costs are creating opportunities for established BPO service providers to look at rural and emerging cities in order to manage operational costs and profitability. Such entities are increasingly establishing operations in smaller cities and towns to leverage the local talent pool and lower the cost of business. This evolution in the existing BPO models is leading to new opportunities to provide sustainable employment to people who might otherwise be outside the reach of the global technology services industry. Traditional BPO players such as Aegis and Xchanging have been able to realize this potential and have successfully made forays into smaller cities and towns in India.

With many countries in Africa aggressively adopting e-governance programs, governments can stimulate demand for Impact Sourcing services, particularly with respect to content-digitization projects. Governments are the largest purchaser of goods and services in many countries and can act as the anchor client for Impact Sourcing service providers.

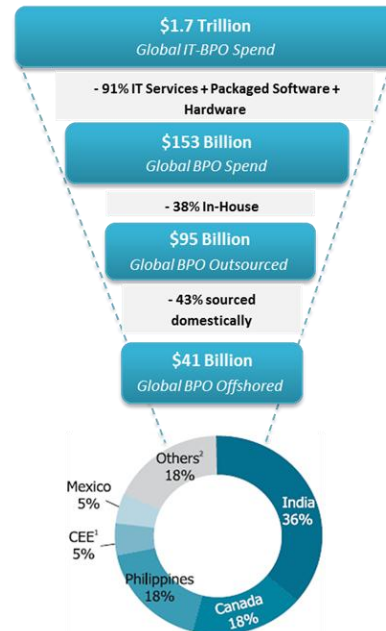


Figure 1: Global BPO Market Size Estimation by NASSCOM

Leveraging these trends, the Impact Sourcing sector has the potential to grow, employing approximately 2.9 million people by 2020 (roughly 23 percent of total employment in global BPO market), even considering a conservative 20 percent CAGR, translating to overall revenues of over US\$55.4 billion. Given the right policies and programs, this is an achievable goal and presents tremendous opportunities for policy makers to significantly increase employment, alleviate poverty and contribute to economic growth.

Challenges

As an emerging and upcoming sector, Impact Sourcing faces unique challenges that can be addressed by targeted policies and incentives. Based on the survey results, the top three challenges cited by the service providers were:

1. Inadequate initial demand for services
2. Inadequate skilled resources
3. Inadequate government support

Impact Sourcing service providers have raised concern over the lack of initial demand or awareness in the buyer market as a key constraint. Difficulty in sourcing the right talent, longer training times and the high cost of training are some of the other important issues limiting the growth of this sector. This means that significant initiatives are required by policy makers on both the demand and supply sides to enhance the IS sector. Additionally, ISSPs have identified inadequate government support in terms of policies and incentives that support organization incorporation, procurement policies and lack of subsidy on supporting infrastructure such as telecom and electricity as key challenges to growth and development of the Impact Sourcing sector.

A key challenge observed was around the mismatch between the requirements of the Impact Sourcing sector and the current incentives and policies provided by most governments. Based on our survey analysis, many governments are not providing the targeted incentives to spur Impact Sourcing activity such as providing financial grants for business setup, training incentives and grants for business setup, training incentives and grants for business setup, training incentives and grants for business setup. To foster employment for poor and vulnerable people in the BPO sector, policy makers will need to align their policies and incentives to the needs of the Impact Sourcing sector.

	Service Providers (Attractiveness)	Government Bodies (Focus)	IPA, Trade Bodies & Other Experts (Focus)
Financial grants for setup	Very High	Low	Very Low
Tax incentives on earnings	High	High	Medium
Tax incentives on procurement	Medium	Medium	Low
Hiring incentives and grants	High	High	High
Training incentives and grants	High	Very High	Very High
Subsidies on telecom and electricity	Very High	Low	Very Low
Subsidies on land/building procurement	Medium	Low	Very Low
Development of ICT infrastructure	Very High	Medium	High
Awarding government contracts	High	Very Low	Very Low

Figure 2 : Attractiveness vs. Focus of Government Initiatives

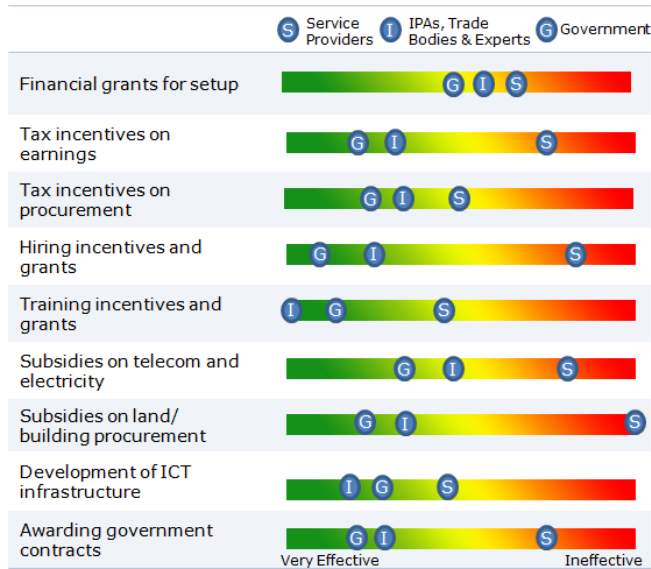


Figure 3 : Effectiveness of Government Policies and Initiatives

As per the survey, the governments and IPAs, trade bodies and experts rated the policies as more effective as compared to service providers, clearly underlining the disconnect between the two sets of stakeholders. For instance, service providers have indicated that grants toward helping them set up operations, subsidies on telecom and electricity and policies toward development of ICT infrastructure are most attractive, whereas policy makers are focused on training and hiring incentives and grants, as well as tax incentives. Policy makers need to address this crucial divide by ensuring policies are well designed and effectively implemented so as to maximize their benefits.

It is important to note that all stakeholders, including public sector and private sector, are largely aligned on the area of training incentives and grants. Most governments have indicated that there is a focus on providing training grants that are directly related to the number of people employed. Policies like this are directly linked to employment generation and help with easier implementation.

This report provides governments interested in supporting and promoting the growth of Impact Sourcing with a series of policies, incentives and best practices that have been implemented with success across the globe to address these challenges.

Country Analysis

Various countries have shown a strong appetite for adopting and implementing Impact Sourcing as a way of generating employment. The main countries examined for this study were Ghana, Kenya, South Africa and India. All of these countries have demonstrated strong potential to develop a vibrant Impact Sourcing sector. Additionally in this study, Avasant has highlighted several other countries that have demonstrated a fair to strong potential for building the Impact Sourcing sector. These include emerging BPO services destinations such as Uganda, Bangladesh, Haiti, Dominican Republic, Brazil and the Pacific Islands. In addition, several other countries could also benefit from Impact Sourcing by considering and implementing key recommendations from this report.

A detailed overview of policies, incentives and initiatives adopted by these countries has been included in Annexure 1 of the full report.

Primary Focus Countries

Country	Remarks
Ghana	<ul style="list-style-type: none"> Due to the government’s focus on developing the BPO industry in general, there is a high likelihood for the Impact Sourcing sector to scale in Ghana. The population in Ghana has strong English-speaking skills and high school graduates that possess basic skills to work in the data-entry areas of BPO. More important, the government has adopted a focused approach to developing the overall BPO sector. In Ghana, much of the policy change has been driven by a central administrative body that has successfully approved a number of Impact Sourcing–favorable policies.
Kenya	<ul style="list-style-type: none"> Kenya has a relatively new but fast-growing BPO industry. While there is high graduate talent availability, policy adoption can be slow. For these reasons Kenya has a fair likelihood of developing the Impact Sourcing industry. The domestic market in Kenya is untapped, and with an expanding banking and telecom sector, a large number of opportunities are opening up for Impact Sourcing services. The Vision 2030 initiative is already guiding policy making and shaping infrastructure in Kenya to help build the BPO sector. Various IT parks have been commissioned for construction that would help scale the BPO industry in regions around major cities. These IT parks can be leveraged to achieve Impact Sourcing objectives through targeting key populations for hiring within these cities.
South Africa	<ul style="list-style-type: none"> Due to the early adoption of Impact Sourcing, South Africa has a very high likelihood for scaling it up even further. South Africa already has almost 70 percent of its BPO workforce in Impact Sourcing jobs. Call centers and captives form a major part of the BPO industry, and skill profiles of

Country	Remarks
	<p>high school leavers and high school pass-outs, along with government-sponsored training programs such as Monyetla, have helped in building the Impact Sourcing sector.</p> <ul style="list-style-type: none"> ▪ Growth in the Impact Sourcing sector can be accelerated with relatively modest efforts to promote industry awareness and maturity, and by targeting key decision makers in select regions (Western Cape, Limpopo, etc.) to promote the development of the BPO industry in their respective provinces.
India	<ul style="list-style-type: none"> ▪ Due to a very mature and prominent BPO sector as well as several initiatives in Impact Sourcing already under way, India has a very high likelihood to further scale Impact Sourcing. ▪ India has a well-developed educational system that can be leveraged to expand jobs to target potential employees with a high school level of education or below. Per current estimates, India now employs the highest number of Impact Sourcing professionals. ▪ Redirecting policy efforts to support Impact Sourcing will require proactive engagement with policy makers and politicians. However, one potentially fruitful option to highlight the viability and benefits of Impact Sourcing is to identify a few champion states (such as Karnataka and Tamil Nadu — which already have rural BPO policies in place) to facilitate faster decision making and implement changes that promote Impact Sourcing.

Countries with Potential to Build the IS Sector

Country	Remarks
Bangladesh	<ul style="list-style-type: none"> ▪ Bangladesh is one of the most promising emerging IS destinations in Asia, driven by strong government support for the BPO sector. ▪ With a market size of US\$15 million, the Bangladeshi BPO sector currently employs around 9,000 people, mostly servicing US and UK markets. ▪ Government has also outlined the “Digital Bangladesh 2021” initiative, underscoring the need for increasing investments in education and enhancing skills of poor and vulnerable populations through technology intervention.
Brazil	<ul style="list-style-type: none"> ▪ The government of Brazil is committed to creating long-term jobs and policies toward income creation. ▪ Ahead of the Olympics and FIFA World Cup, the government aims to generate large-scale employment for people living in favelas (local slums), which account for approximately 6 percent of population or more than 11 million individuals. ▪ The BPO industry currently is over US\$4 billion, serving mostly domestic clients, but has the potential to scale higher, with growth in sectors such as e-governance, oil and gas, tourism and health.

Country	Remarks
Dominican Republic	<ul style="list-style-type: none"> ▪ DR faces high unemployment coupled with high income disparity. However, being one of the larger economies in the region, along with its superior telecom infrastructure, it is well suited to grow its BPO industry (as well as the Impact Sourcing sector). ▪ Currently 25,000 bilingual agents are employed in more than 50 BPO companies and contact centers located in metropolitan areas and free zone parks. The market size is expected to be US\$550 to US\$600 million and has grown at a CAGR of 12 percent over the past three years, thanks to public and private sector involvement.
Haiti	<ul style="list-style-type: none"> ▪ BPO services have been identified as critical to economic recovery and job creation in the country. Currently, Haiti’s policy makers are conducting analyses and adopting policy recommendations that will help market Haiti to the world and identify its niche in the BPO and Impact Sourcing sectors. ▪ Global agencies such as the Inter-American Development Bank are also taking an active role in funding and directing expenditure in the nation.
Pacific Islands (Pacific Rim Countries)	<ul style="list-style-type: none"> ▪ There are many opportunities to use the BPO/KPO industry to help the Pacific Islands address their development objectives. The current ICT capacity-building efforts have been supported by the Asian Development Bank (ADB) and include several e-governance projects, Outer Islands ICT Network Project, Schoolnet and Community Access Project, aimed at developing the ICT capacity in government as well as enhancing ICT skills for teachers and students in government schools. ▪ Investment-promotion initiatives have begun to attract foreign investment, indicating a large appetite for policy changes.
Uganda	<ul style="list-style-type: none"> ▪ The government of Uganda has identified the BPO industry as one long-term solution to address the issue of joblessness among educated youth as well as to increase investment in the sector. ▪ National Information Technology Authority (NITA-U) is the apex body that is driving this initiative; it is in the process of setting up an incubator BPO park in Kampala, with key regional and global players showing interest.

Recommendations for Scaling the Impact Sourcing Sector

Proactive governments, investment-promotion bodies and service providers, as well as buyers of outsourcing services, will have a major role to play in the growth of the Impact Sourcing sector in the coming years. Governments and policy makers need to adopt a multipronged approach to enhance the Impact Sourcing ecosystem by supporting demand creation and strengthening the supply side in terms of trained human capital and the infrastructure by building capacity, as well as encouraging an enabling environment in terms of policies and incentives (e.g., tax breaks and grants).

In order to scale the Impact Sourcing sector, policy makers need to implement initiatives that develop capacity, stimulate demand and improve the enabling environment. Governments will have to work closely with service providers and investment-promotion and trade bodies to create policies conducive to the growth of the Impact Sourcing sector. The key recommendations for overall development of the sector are as follows:

1. **Simplification of policy incentives to facilitate better adoption and create deeper impact for Impact Sourcing**

Based on our research study, one of the key challenges for service providers is the ability to leverage existing incentives that support BPO and Impact Sourcing sector development. Almost 40 percent of the service providers indicated that they haven't received or availed themselves of any government grants. A strong focus by policy makers on simplifying existing policies and devising new incentives with few riders, followed by effective on-the-ground implementation of these policies, would enable the ISSPs to leverage these benefits.

Key areas where service providers are looking for policy reforms and incentives include the following:

- a. **Financial grants** to enable the setting-up of the organization, such as capital incentives and subsidies on procurement, interest-free loans, etc.
- b. **Subsidies on telecom and infrastructure**, such as those provided by the government of Karnataka in India, to encourage the setup of BPO-focused companies. The government is providing a 50-percent-of-capital-investment subsidy after installation of the equipment / capital goods, and a 50 percent subsidy on the Internet and telecom post installation of these.
- c. **Tax rebate on earnings**. Bangladesh has provided a good example of such a policy, as the government provided income tax holidays through 2011 as well as imposing no taxation on any call center products.
- d. **Effective training incentives** such as Morocco's US\$7,000 subsidy per recruit over the first three years of employment, which has helped drive the BPO sector there. The government-supported Monyetla Work Readiness Programme training incentive scheme in South Africa provided training support grants that covered the costs of company-specific training up to a maximum of R12,000 (US\$1,480) per agent .

2. Promoting digitization in government processes and amending procurement policies to actively include ISSPs

Governments have a unique opportunity to generate demand, especially with the numerous e-governance activities that have emerged over the past decade. ISSPs in India such as HarVa work for the state government of Haryana to carry out data entry of forms pertaining to the National Rural Employment Guarantee Scheme. Digitization of population census, birth and death records, and land records can help create opportunities for ISSPs to sustain and scale operations. For example, countries in Africa, including Kenya and Ghana, are actively considering e-governance and digitization initiatives to improve their processes and increase transparency. Such initiatives can provide the necessary anchor demand to some of the ISSPs. This would require building awareness and educating various government departments on the concept of outsourcing, thus making government a viable source for ongoing business for ISSPs.

3. Enabling broad-based infrastructure development to develop the overall BPO industry

Infrastructure is the backbone of the IT and BPO industries, and it is particularly important in the Impact Sourcing industry, where targeted investments are required to enable an environment for business to take advantage of lower-cost but sufficiently skilled labor to perform subsets of BPO service tasks. Governments should address the following with respect to infrastructure development that can benefit the Impact Sourcing sector:

- Facilitating the development of international standard commercial real estate, including technology parks, free zones, etc.
- Enabling quality telecom availability with high-speed access
- Providing access to uninterrupted power
- Developing roads and transportation networks to facilitate travel
- Supporting other local facilities and civic amenities to support growth in businesses

Governments need to undertake significant intervention both in terms of investments and policy formulation to accomplish the above objectives.

4. Promotion of incubation centers / mini-tech parks in smaller locations and rural areas by the government

Encouraging business to move from cities to developing regions requires investment from governments to provide business with adequate facilities. These investments enhance the economic viability of doing business in such regions. Several countries have successfully created incubation centers and provided benefits similar to special economic zones to encourage companies to set up new operations in smaller (tier 2 and tier 3) cities and rural locations. Expansion to these regions is key to the development of the Impact Sourcing sector, as they typically have a convergence of sufficiently skilled labor that otherwise would have limited opportunity for employment to perform BPO tasks.

5. **Generating demand by promoting outsourcing to organizations with “Socially Committed Business” certification/scores**

One way to generate demand for Impact Sourcing services is to promote organizations that show a commitment to Impact Sourcing, which in turn can engender interest among those who value economic activity that achieves socially responsible ends. One method of promotion is to have governments or independent organizations adopt a certification program, such as “Socially Committed Business,” to promote BPO companies that proactively employ poor and vulnerable populations. For example, South Africa has deployed a scoring system, known as the BEE (Black Economic Empowerment) scorecard that scores socially responsible enterprises. Firms with a good BEE rating obtain a higher weighting, which gives them more visibility and potentially preferential status in certain competitive bidding environments (e.g., public sector projects). Such a certification process would help build awareness and enable service providers (including qualifying traditional BPO organizations) to leverage certification as a successful marketing and positioning tool while also providing employment to poor and vulnerable people.

In addition to the above recommendations for overall development of the Impact Sourcing sector, governments and other stakeholders can implement policies and incentives to support the growth of specific Impact Sourcing archetypes.

Recommendations for Archetype I (Scaling Up Impact Sourcing Service Providers)

1. Intensify focus on developing sales and marketing channels for ISSPs — with an emphasis on promoting the aggregator model

The biggest challenge faced by ISSPs is a lack of ability to connect with potential buyers and market their services in the domestic and international markets. Aggregator organizations such as Samasource and RuralShores have proven that they can act as an effective intermediary for ISSPs and provide required sales support to generate demand for their services.

Policy makers, donor organizations and other industry stakeholders need to work together to enhance an aggregator model that would enable smaller ISSPs to receive ongoing, annuity-based work with a low investment in sales and marketing efforts, especially in the start-up phase. Financial support should be considered to strengthen existing aggregator networks as well as to incubate new organizations to expand the provider network and tap into newer buyer markets beyond the United States and India.

2. Formation of an ISSP industry association/platform to help network, share best practices and advocate policy change

Currently, ISSPs are very small organizations and have limited say in policy formulation and industry forums. Creating a specialized industry association composed of ISSPs and other key stakeholders would provide a platform to provide visibility to Impact Sourcing and enable structured growth of the industry.

Such a platform would enable ISSPs to express a collective view on issues and advocate policy change with policy makers. Additionally, a specialized industry association would enable ISSPs to reach out to clients by generating awareness and organizing events and seminars, thereby promoting the overall Impact Sourcing sector. Industry associations or a platform for best practice sharing would also enable ISSPs to identify key quality certifications required to build confidence levels in potential buyers.

3. Fostering entrepreneurship to promote job creation in rural and urban areas

Incentives to promote entrepreneurship can be a catalyst to spur growth in the Impact Sourcing sector. Financial support initiatives such as soft loans to aspiring entrepreneurs who have a BPO focus and relevant training and information to successfully start businesses can help jump-start the Impact Sourcing sector. In addition, policy makers should also strongly consider developing incubation facilities that entrepreneurs can take advantage of to kick-start their operations. Such policy initiative can direct some of the growing global impact investing industry toward Impact Sourcing.

4. Leveraging infrastructure and capacity created under telecenters and common service centers by various governments

Governments all over the world have been investing in the creation of telecenters and digital centers in rural and remote areas with a view to leveraging ICT for development. We have seen several examples, including Digital PASHA in Kenya and Citizen Service Centre in India. Other developing countries are using similar centers to digitally provide various government services to rural areas. Such state, donor and Public Private Partnerships (PPP)-funded investments have created an ecosystem to foster the development of ISSPs. Developing a business model to convert the cost centers into profit centers by capturing smaller tasks (or “micro-work”) for Impact Sourcing service providers from these centers and generating employment can catalyze growth in the sector. This will foster local entrepreneurship and also create multiple opportunities for people in the region.

Recommendations for Archetype II (Direct Employment in the Traditional BPO Service Providers)

1. Implement targeted incentives and build capacity to hire from specific sections/regions of the society

Hiring of socially and economically underprivileged people into the mainstream BPO industry requires a compelling business case for the BPO service providers as well as a strong push from the government. Governments have a crucial role to play here by helping to create an environment conducive to the private players to invest and hire and by building human capacity.

Large-scale hiring of poor and vulnerable populations by traditional BPO service providers can be driven by a strong business case. The cost benefit for these organizations can be enhanced by reducing the initial investment requirements, as well as by providing hiring and training incentives. Policies can also

be formulated to promote hiring from economically disadvantaged regions, as practiced in Poland and Chile. Similarly, the Monyetla Work Readiness Programme in South Africa aims at developing unemployed youth in South Africa to successfully enter the BPO sector, thereby building capacity for BPO companies.

2. Influencing behavior of traditional BPO organizations by altering procurement policies

Government procurement policies as well as the procurement policies of private organizations can be modified to include certain provisions for mainstream BPO players to encourage them to hire from disadvantaged locations (e.g., a certain percentage of work has to be done in rural areas, or a certain percentage of employees needs to come from a specific background). Provisions like this can either take the form of preferential treatment to BPO companies with higher numbers of employees from disadvantaged locations or government tender or tax rebates / government grants to organizations that utilize the services of organizations that have a larger number of people from disadvantaged locations employed. This would be a strong motivation for the mainstream BPO companies to hire poor and vulnerable people.

Mechanisms such as the BEE scorecard in South Africa and women- or minority-owned business set-aside preference programs in the United States have successfully proven that government policies can play a crucial role in influencing corporate behavior by putting in place incentives for preferential treatment while participating in government bids and doing business locally.

Recommendations for Archetype III (Subcontracting to ISSPs)

1. Quality assurance and certifications

Industry bodies or governments should be encouraged to subsidize quality certifications for ISSPs. They should also provide the ISSPs with adequate information on how to obtain certifications, as well as any financial support required to obtain them. Industry or government certification will help build the credibility of ISSPs, increasing confidence in traditional BPO organizations to subcontract some of their work to ISSPs.

2. Building greater industry awareness at all levels, especially at middle-management layer

For Impact Sourcing to grow, proponents will need to actively increase awareness and obtain commitment, or “buy in,” from middle management of BPO service providers, as this group is responsible for the day-to-day management of subcontracting relationships. The recent inclusion of key Impact Sourcing service providers in events organized by NASSCOM and NASSCOM Foundation in India has raised the general awareness levels. In addition, government support for Impact Sourcing events and road shows will further enhance awareness across all levels in buyer organizations.

Conclusion

The concept of Impact Sourcing dovetails with the policy priorities of many governments to improve standards of living for their populations. This study demonstrates the potential significance of Impact Sourcing to both contribute to economic growth and alleviate poverty through focused development of the technology services industry. Global demand created by the customers of BPO services and the response by BPO service providers to adapt to such demand present governments with a unique prospect to capture a larger percentage of such opportunities in the form of Impact Sourcing–related jobs. This growth trend is exemplified by the projection that by 2020, the Impact Sourcing sector is expected to grow substantially, to employ 2.9 million people and generate revenues of US\$55.4 billion. In addition Impact Sourcing is expected to increase its share of global BPO services revenue to 17 percent by 2020, employing nearly 23% of the total BPO global headcount.

Governments that desire to develop a locally based technology services industry can implement policies and incentives to develop necessary infrastructure, build human capacity by supporting skill-development initiatives and attract technology services providers to jump-start the Impact Sourcing sector. Additionally, governments can act as key sources for generating anchor demand, for example by prioritizing e-government projects (such as digitization), which can effectively be outsourced to Impact Sourcing service providers. In short, this study underscores the idea that Impact Sourcing presents significant opportunities for economic growth and poverty reduction that many countries can take advantage of by implementing a series of policies and incentives that support and promote the growth of the sector.