



Fair Trade
Outsourcing™

November 2019

Fair Trade Outsourcing

The Next Generation Impact Report

We entitled this report "Next Generation" because we are changing the measurement of our impact from the individual level, as we have done in our first four impact reports, to do a more comprehensive study of the household in which our agents live.

Make no mistake, this is a major shift in how we measure our impact, and represents our growing understanding of how we can best fulfill our mission of lifting families out of poverty using the outsourcing industry. No poor person is an island, and all Agents live within their families and, therefore, their individual economics are intertwined with their family economics.

Possibly the largest learning that is driving this change is this simple fact proven by our surveys: an Agent will sacrifice the potential for an individual middle-class life afforded by an FTO job with higher consumption in favor of a working poor life for their entire household with lower consumption for the household (but where the total household consumption has been lifted).

But what is possibly the most important part of this change is that we now have a sufficient baseline to measure ourselves *directly* against the economic measurements of the societies in which we operate, specifically proving how a fair trade outsourcing job lifts people out of poverty.

Additionally, this new measurement paradigm will turbo-charge our impact efforts. By understanding the true conditions in the household, we can directly attack *consumption* poverty by our Agent's households. This is starkly different than how many economists think about poverty, which is that if incomes are high enough, poverty will be reduced. This, of course, ignores price relativity in different economies a middle-income person in San Francisco knows when searching for housing.

But the conclusion is clear: this re-alignment provides the best long-term method for measuring Agent's economic welfare, *and* having the data to most effectively target our impact spending.

Thank you for joining us on this journey.

Mike Dershowitz
Founder and CEO
mike@fairtradeoutsourcing.com
+1 888 650 3214

Household Profile

Majority of our Agents come from low-income and lower middle-income clusters. A result that mirrors the economic stratification of Philippine society in the PIDS study.

Our data shows that 7 out of 10 Agents are the breadwinners. Most of the Agent's earnings go to supporting the whole household. On average, 5 people depend on our Agents. These dependents include both children and adults who may be ill or elderly and cannot contribute to the household's finances.

Our data inversely reflects the PIDS study when it comes to the median age of household members per income cluster. Most BPO workers are in their twenties and they may earn more than other members of the household. Comparatively, low-income families may likely have elderly household members.

In response, the company developed impact programs, such as Micro-Loans for Business and Motors for Progress, that give Agents from lower income clusters a chance to improve their finances exponentially.

People Impacted
since 2016

5,147

Agents

837

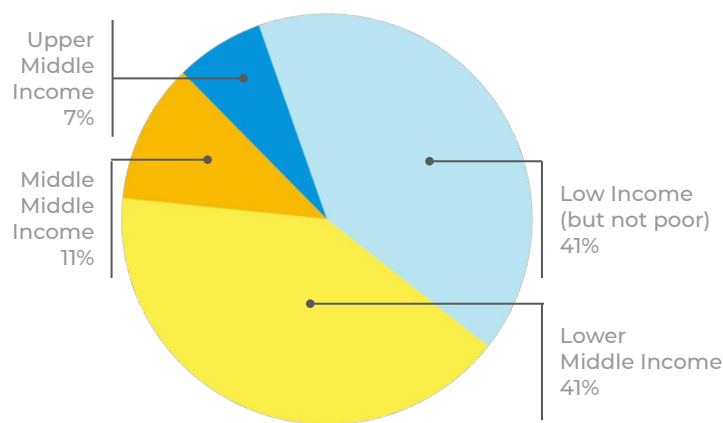
Dependents

4,173

Students

137

Figure 1: FTO household distribution, by income cluster



Because we pay living wages to our employees, even those in lower income clusters are able to live above the poverty line.

Figure 3: Average of FTO employee's contribution to their monthly household income, by income cluster

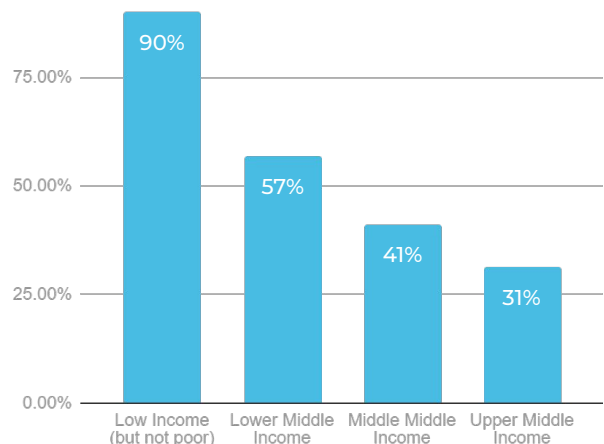
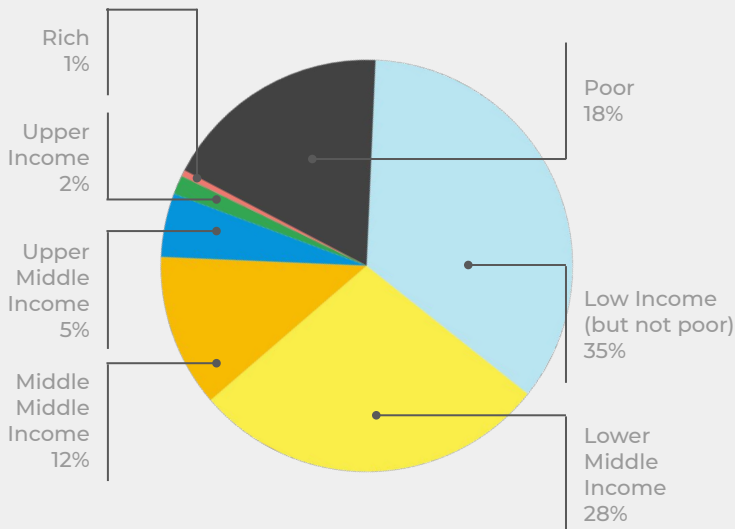


Figure 2: Philippine household distribution, by income cluster*



*Source: Jose Ramon G. Albert, et al, PIDS Discussion Paper 2018

Average
Dependence Ratio

1:5

% of Employees
who are Primary Breadwinners

71%

Table 1: Median Age of Household Members, by Income Cluster

	Low Income (but not poor)	Lower Middle Income	Middle Middle Income	Upper Middle Income
FTO	35	29	27	27
Philippines*	23	28	32	35

*Source: Jose Ramon G. Albert, et al, PIDS Discussion Paper 2018

Household Consumption

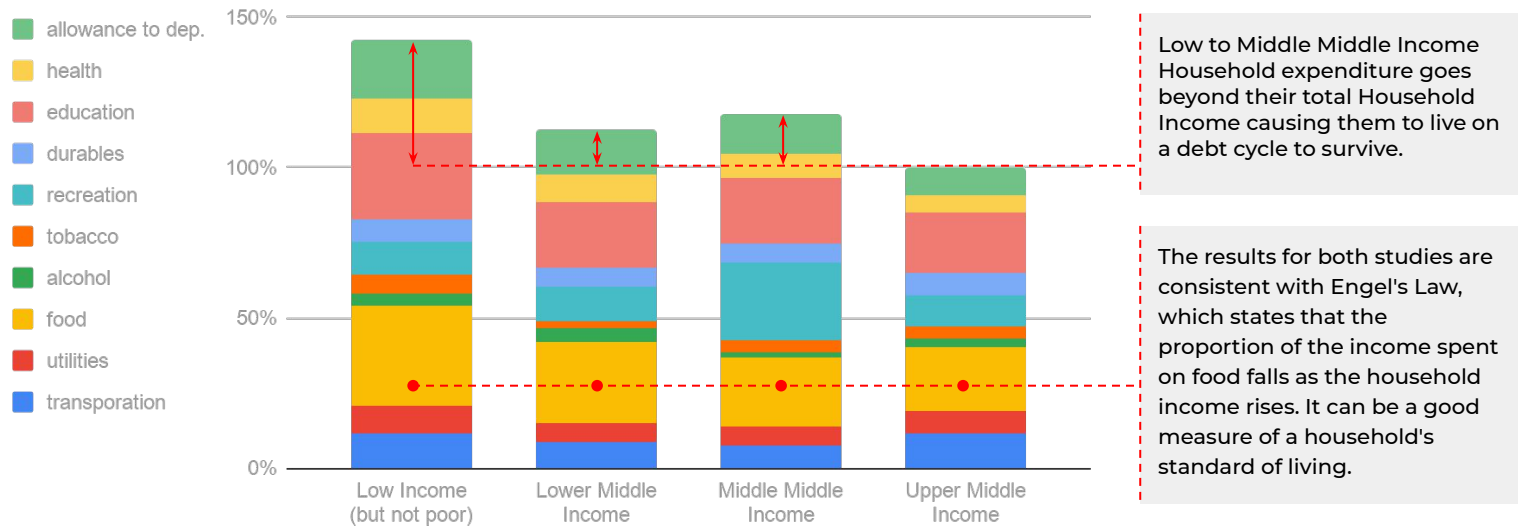
Our previous report revealed that an increase in income is just part of the strategy in our fight against poverty. An essential part of the struggle is managing household consumption.

Every household no matter their income potential spend much of their earnings on food. This result mirrors the PIDS study, which shows that food expenses gradually decreases for families who earn more. This can be explained by Engel's Law, which states that "as income rises, the proportion of income spent on food falls."

The Budget Tool and Win-A-Fridge Raffle have been seminal in helping agents manage their household finances. The recently launched Cash Flow Management Training is expected to make budgeting easier for Agents to understand and implement.

The PIDS study informed our research methodology, but the data was insufficient. FTO added data points, such as utilities, transportation, and allowance to dependents -- expenses that are essential to every household. Thus, our research has a clearer grasp of how the working poor lives beyond their means and are likely to get caught up in a vicious debt cycle or become victims of unscrupulous money lenders.

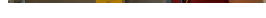
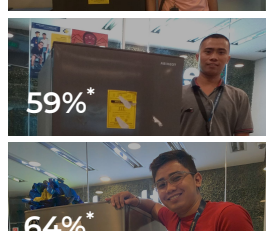
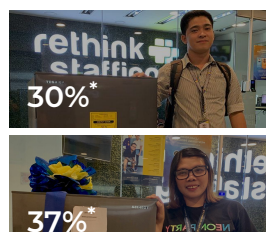
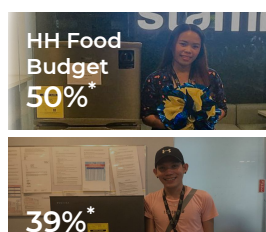
Figure 4: Share of expenditures to total monthly expenses of FTO households, by income cluster



We want to free our agents from predatory money lenders through ethical lending and financial education, and show them a path towards economic security and a way out of persistent poverty. **#EthicalLending**

We are giving away refrigerators for free, twice a month, to help our agents manage household food budget. For households without a fridge, more than 1/3 of their budget is spent on food. **#WinAFridge**

To help our agents better manage personal and household cash flow, we are conducting regular Personal Finance and Debt Management Training. **#CashFlowTraining**



*Household food budget prior to getting a fridge.



Durable Ownership vs. Food Budget and School Attendance of Children (aged 5-14)

Following food costs, purchases of household appliances and electronic gadgets are the next category of expenses that eat up most of an Agent's household income. Food is a basic need, but it's surprising to learn that many families in lower income clusters would rather buy a TV and cellphone than a fridge, which would have helped them manage their food expenses.

These families spend a lot on food because they buy their meals in retail, enough to feed the family for breakfast, lunch or dinner. That's why we have a Win-A-Fridge Raffle twice each month. A fridge can be useful in storing leftover food and ingredients for cooking their meals. The amount of food they can cook can be scaled up to feed the whole family three times a day.

Many families still have school-aged children who need financial support. Because of their limited funds, most families that belong to lower middle income cluster have many school-age kids who don't attend school. Meanwhile, Agents who are in higher-income families spend more on education despite the fact that they have fewer kids. Now that they earn more, they can send their kids to private schools that offer better quality education.

Figure 5: Proportion of FTO households that own durables, by income cluster

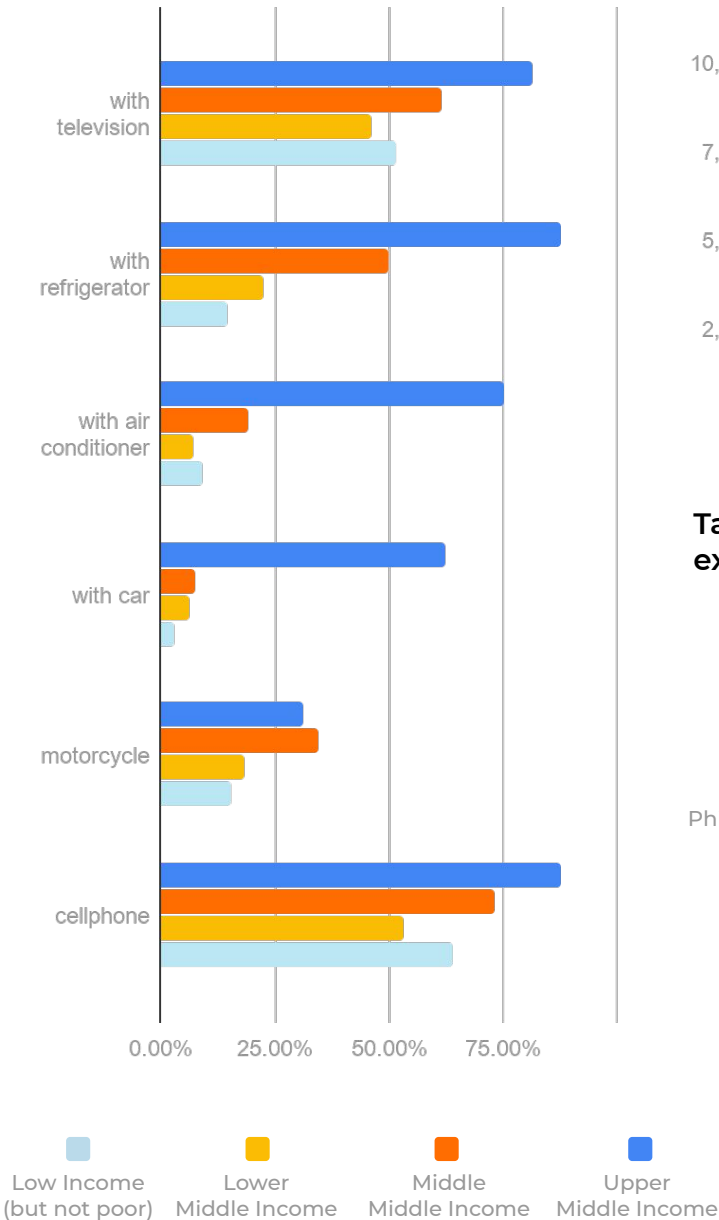


Figure 6: Average expenditure for education of children (aged 5-14) by FTO households, by income cluster

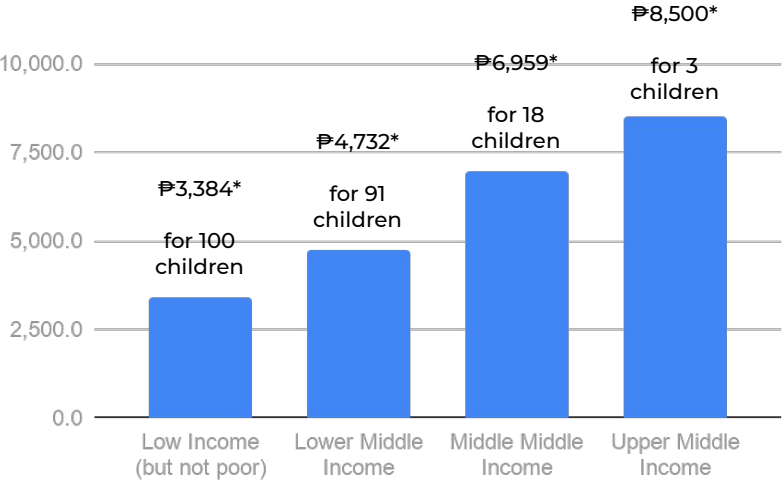


Table 2: Share of expenditures on food to total monthly expenses of FTO households, by income cluster

	Low Income (but not poor)	Lower Middle Income	Middle Middle Income	Upper Middle Income
FTO	33%	27%	23%	21%
Philippines*	54%	44%	35%	28%

*Source: Jose Ramon G. Albert, et al, PIDS Discussion Paper 2018

The lower income clusters tend to prioritize durables that provide entertainment and a way to communicate, such as TVs and cellphones.

Filipinos depend on their phones to keep in touch with their families. Similarly, they like to watch TV together and share a meal as a family.

Food is a central element in any Filipino household. Filipinos like to celebrate birthdays, fiestas & other special occasions.

Housing Profile

The PIDS data reveals that middle-income families usually live in houses that are made of durable materials with strong roof and walls. The FTO study reflects the same results. As their household income rises, families are likely to invest in raising the security and quality of their living conditions.

Surprisingly, more than 10% of the upper middle-income households and greater than 25% of the middle middle-income households in the FTO study are still renting a house or lot. These are outliers in an economic class that normally invests their hard-earned money in housing and home improvements. Meanwhile, lower income families mostly live in insecure living conditions with homes made of light materials and on land they do not own.

Almost all Agents live in homes with access to electricity. However, there's a small percentage that still live without access to clean water nearby. They rely on peddlers and other impermanent sources for their water needs.

Figure 8: Housing tenure of FTO households, by income cluster

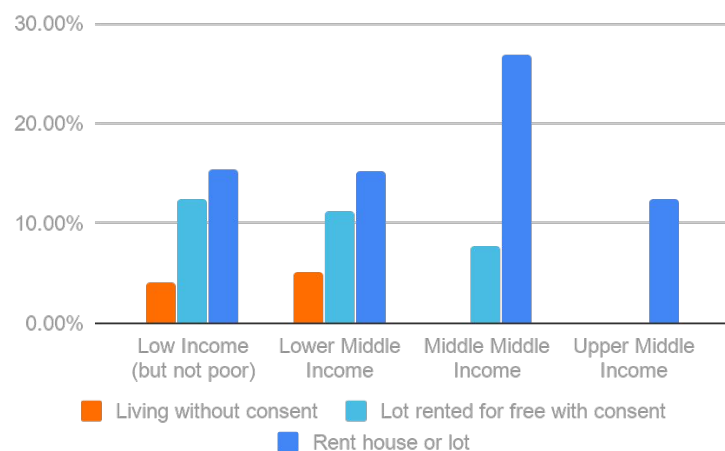
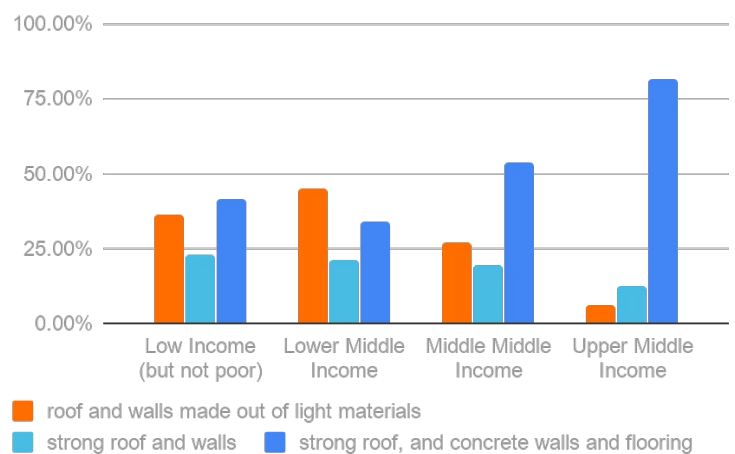


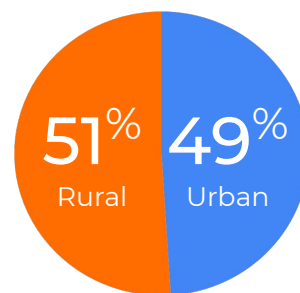
Figure 9: Housing material of FTO households, by income cluster



As the household income rises, ownership of capital, such as real property, gradually materializes. However, the middle middle-income cluster seems to prioritize expenses on recreation in addition to essentials, like food & education.

Add their purchases of TVs, cellphones, aircons, and motorbikes, and you'll see a standard of living that revolves around consumption, leaving them wanting in real property ownership. Nearly 30% of these households do not own the house or lot where they live in.

Figure 10: Housing distribution of FTO households



The biggest percentage of rural households (44%) are from the Low Income cluster and they also spend the most in transportation (mostly public, 11.72% of their monthly household budget). They are followed by the Upper Middle Income cluster whose transportation expense is driven by fuel consumption for the private vehicles they own.

99%

of FTO households

have access to electricity

4.4%

of FTO households

rely on peddlers and other means to access water (since there's no water source in the premises)

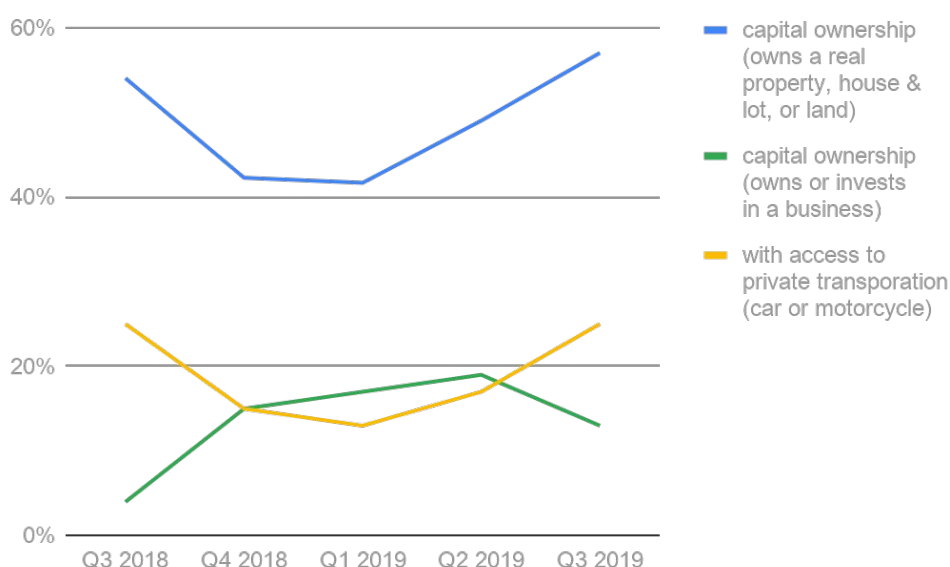
Capacity Building Drives Capital Ownership and Investment in Private Transportation

Capital ownership not only refers to owning a business. It also means owning real property, whether residential or commercial, and owning private transportation, such as a car or motorcycle.

Since we started our impact reports in 2018, we have seen the rise of capital ownership among our survey respondents. More and more employees of Fair Trade Outsourcing are investing in or owning real property, and have access to private transportation.

Data from our Learning and Development programs, which gives our employees the opportunity to increase their basic pay by levelling up and getting certified, more than 20% of our employees have raised their incomes since 2018. Because of a higher disposable income, they are likely to invest their earnings into owning a private vehicle or real property. They also have the option to invest that extra money into a small business, which delivers substantial ROI. This leads them further towards real property investment, which raises their standard of living significantly.

Figure 11: FTO household's capital ownership and access to private transportation, per quarter



Three batches of Agents have completed the FTO Upleveling Program in English proficiency. Of these 3 groups, 54% have received increases in basic pay.
#EnglishProficiencyTraining

The recently launched Leadership and Mentoring Program has produced 3 certified leaders, two of them were promoted to Operations Manager while enrolled. #LeadershipMentoringProgram

The motorcycle Juhnly got through Motors for Progress has given him the freedom to pursue opportunities to earn more. He was able to complete a directed training in English Proficiency and levelled up because he spent less time on the road and more time on improving his skills. As a result, he was moved to a Customer Service Acct. from Data Entry.

#PrivateTransportation
#MotorsForProgress
#ZeroInterestMicroloanForMotorcycle

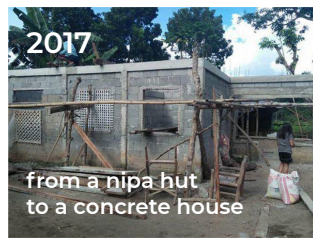
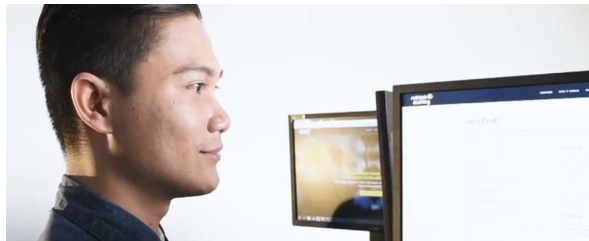


With a microloan from FTO, these agents became entrepreneurs who grew their small business and were able to earn up to twice their monthly income. They were able to pull themselves and their families out of poverty and into the middle class successfully.

#ZeroInterestMicroloanForBusiness
#CapitalOwnership



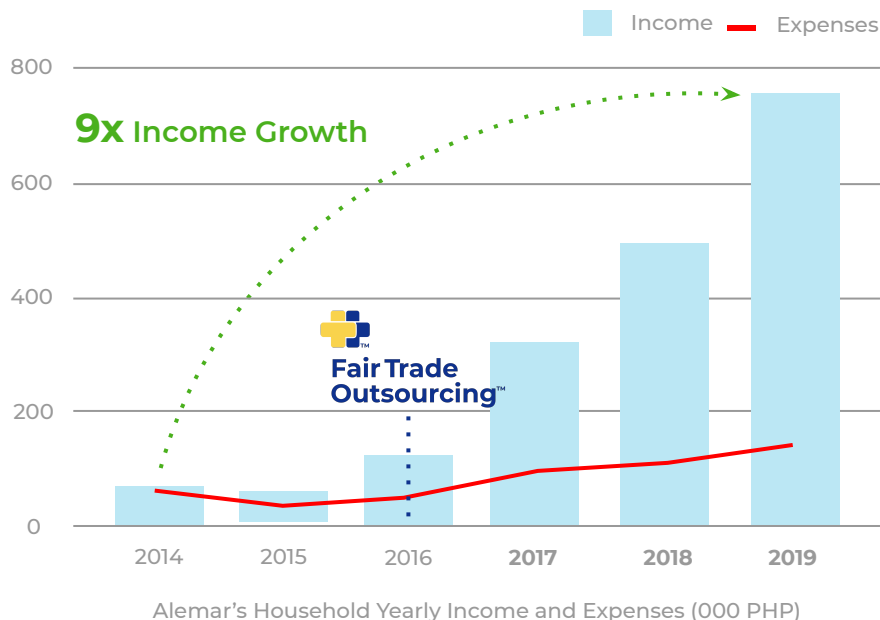
Proof: Alemar's story



Before Alemar joined Fair Trade Outsourcing in 2016, he and his family worked as subsistence farmers. He used to skip school on Fridays to help his parents in tilling and harvesting crops.

As soon as he graduated from college, he was hired as a data entry specialist in FTO in 2016. Pretty soon, due to hard work and perseverance, he was promoted to team leader and started earning more. However, he lived frugally and was able to put aside money. He used his savings to establish a microcredit business and to buy the land that his parents had tenant farmed for 20 years.

Today, his family owns 4 hectares of land and employs people themselves, multiplying their household income by 8 times in just 4 years because a member of their family earned a BPO job.



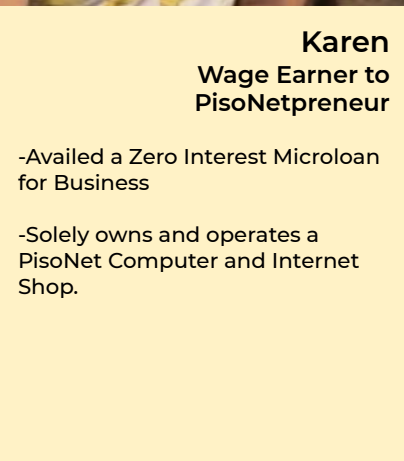
Juhnly
Go-getter Power Agent

- Started in a data entry account
- Availed a Zero Interest Microloan for Motorcycle
- Uplevelled by 1 notch in English Proficiency through the directed Training Program
- Now in a customer service account



Cathy
QA Specialist
Internetpreneur

- Started in a customer service account
- Promoted to Quality Assurance Specialist for FTO
- An online entrepreneur



Karen
Wage Earner to
PisoNetpreneur

- Availed a Zero Interest Microloan for Business
- Solely owns and operates a PisoNet Computer and Internet Shop.



Nica
Wonder Woman

- Started in a proctoring account, then moved to an appraisal writing account
- promoted to Team Leader
- certified as a leader through the FTO Leadership Mentoring Program
- now promoted to Operations Manager

