



Fair Trade Outsourcing™

The 7th Impact Report

Post-COVID: **Impact** now more important than ever

The first quarter, and April, were certainly a wild ride for the world, and Fair Trade Outsourcing was not immune. There were winners and losers in the partial economic shutdown that occurred globally, and while FTO did have parts of its business negatively affected, all clients in our Enterprise division, the bulk of our business, were positively affected, in some cases extremely so.

As such, FTO has roughly tripled its workforce during the period March 15th - May 15th. This is good news, but for the purposes of this report, provides a challenging realization. Tenure of Agents and their households has a large impact on their economic outcomes. So when we add *lots* of new people, our impact stats suffer. Such is the price of progress.

Fair Trade Outsourcing has been fortunate to continue operating throughout the quarantine, which allowed our employees to continue working and receiving their monthly pay. We were able to transition our employees from office-based work to a work-from-home arrangement, which was no easy feat but significantly reduced our employees' transportation costs.

In contrast, our agents' families spent a lot more on their food, recreational, and educational needs -- aspects of a Filipino household's economics that play an important role in our agents' lives.

While our micro picture looks rosy, looking at the bigger picture globally, I'm saddened at [reports](#) that the economic fallout and overall societal insecurity will grow rapidly as a result of COVID and its limitations on human behavior.

Global forecasting agencies like the World Bank and the UN are saying that the global abject poverty rate (those living on <\$1.90/day), which the world (and the outsourcing industry) has amazingly reduced from 2bn people to just 650m from 1990 -2020. Sadly, it will now grow from 650m pre-pandemic to close to 1.25bn at the worse estimates. **That reverses almost 2 decades of progress**, and it will happen in less than a year.

So for anti-poverty warriors like your colleagues at FTO, it is saddening news, but also leaves us hopeful. There are many new people to serve with our mission and vision, of fighting poverty through fair trade, intelligent labor economics, and ultimately, the pursuit of capital ownership. Now, back to work.

Mike Dershowitz,
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Household Profile

Most of our Agents belong to low-income clusters, which mirrors the distribution of Philippine households based on the 2018 PIDS data.

Almost 90% of our agents who live in low-income households are the breadwinners of their families. Because of that, almost all of their earnings go into providing for their household's needs.

On average, our Agents have 4 dependents for whom they're providing support. These dependents are children and those ill or elderly adults who cannot contribute to the household's finances.

Here's a piece of great news: Our data from 2019 to 2020 has shown we have successfully reduced the number of low-income households and increased the number of middle-income households in our sample population. This satisfies our primary goal of pulling our agents from a lower income status and into the middle class.

People Impacted
since 2016

5,802

Agents

951

Dependents

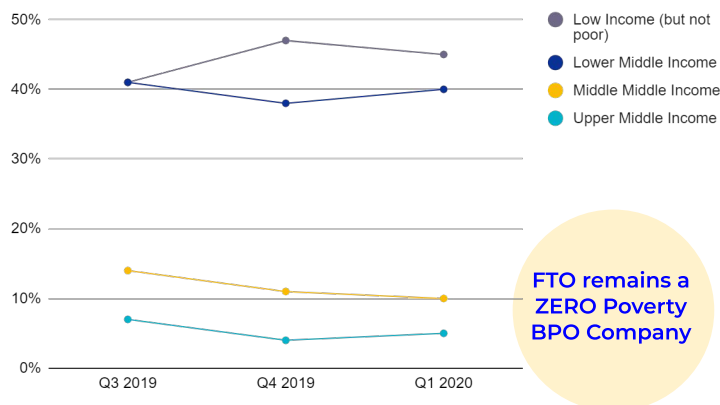
4,711

Students

137

Figure 1: FTO household distribution, by income cluster, Q3 2019 to Q1 2020

We make sure we pay our employees living wages, so they can live above the poverty line.



NOTE: Fair Trade Outsourcing has tripled its workforce in the first quarter of 2020, which changes the demographics and economic profile of its research population. So, the HHI of our agents may take time to improve using the FTO model.

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

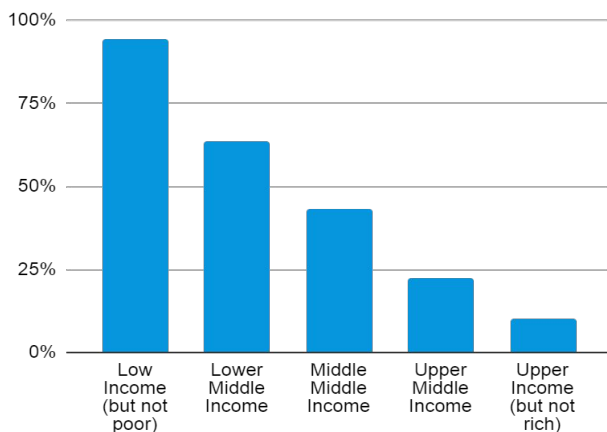
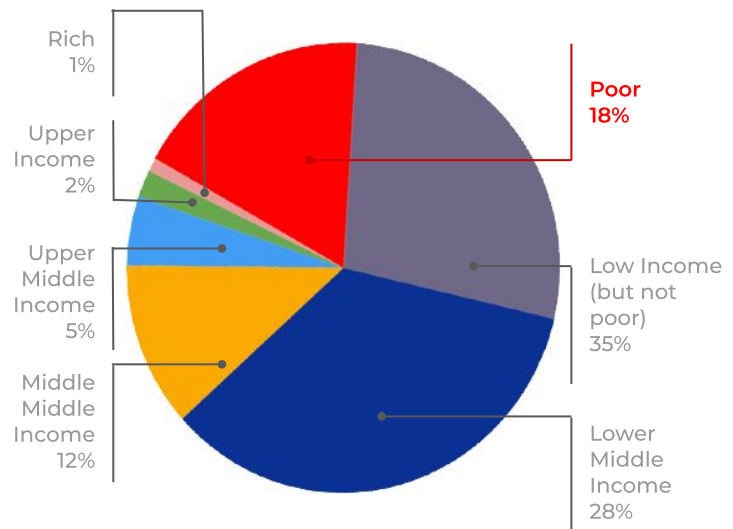


Figure 2: Philippine household distribution, by income cluster as of 2018*



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

Average
Dependence Ratio

1:4

% of Employees
who are Primary Breadwinners

56%

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	22	28	30	29.5
Philippines*	23	28	32	35

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

Household Consumption

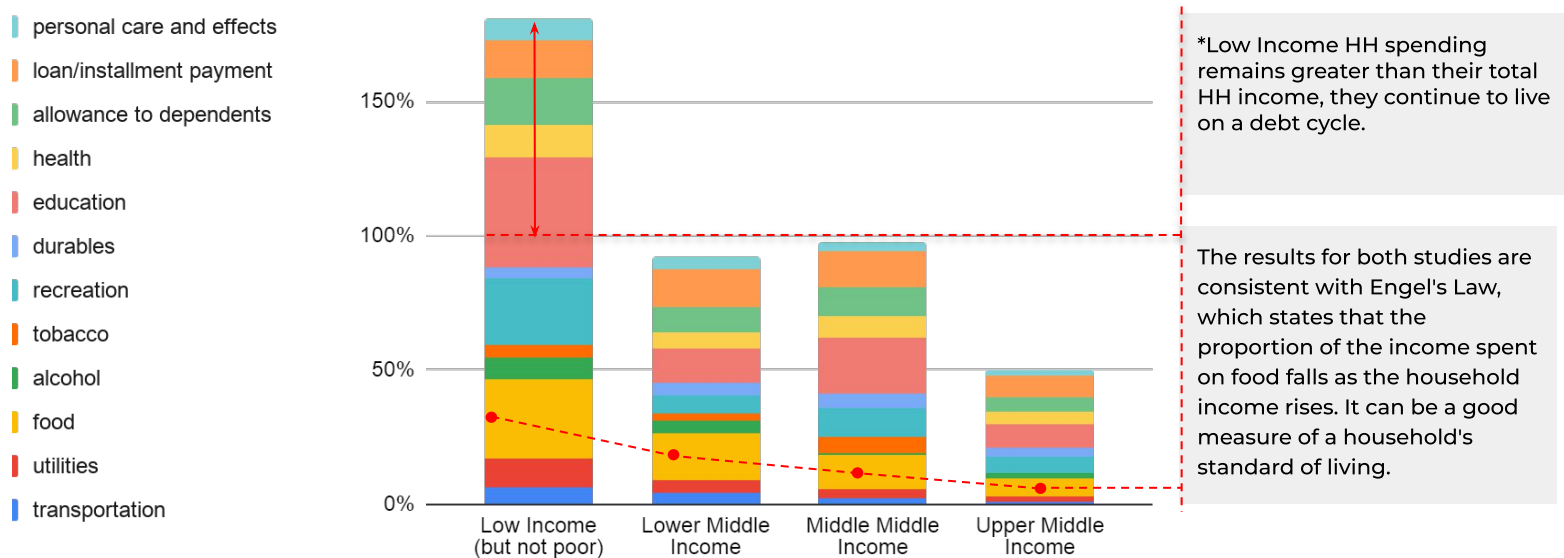
It's good to see that middle-income clusters from low to high earning families were able to compress their monthly spending compared to the previous report. However, it appears that low-income-but-not-poor families continue to spend more than what they earn, with expenses on food, recreation, and education pushing their monthly expenses beyond 150%.

This increase in spending is brought on by two things: one, the long-term quarantine because of the pandemic, and two, the increased hiring activity of FTO, which diluted the demographics of our sample population.

Based on PIDS data and our current report, expenditure on food decreases as family income increases. This is consistent with Engel's Law which states that "as income rises, the proportion of income spent on food falls." That increase in consumption may have been influenced by the need to store as much as food as possible throughout a quarantine.

Surprisingly, most of the budget has also been allotted to recreation and education, two significant areas in a Filipino household's economics. While education is understandably valuable and seen to bring greater ROI for the family, expenses related to recreation don't really have any ROI. It's purely consumption wherein the reward is relief from the stress brought on by the pandemic and the long-term quarantine.

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



11% Saved on HH Food Budget

Agent who received a FREE refrigerator from this program **SAVED 11%** (on avg.) in Household Food Expenses. From 53% down to 42%.
#WinAFridge



Personal Finance and Debt Management Training are regularly conducted to help our agents better manage their personal and household cash flow.. #CashFlowTraining #DebtManagementTraining



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

Families tend to spend also for household appliances and electronic gadgets. Based on the current report, all income clusters have more or less close percentages for durable expenditures.

Almost all households from all income clusters have cell phones and TVs, which reflects the importance given by families on communication and entertainment. However, when the percentage and category of durables owned by lower income families are compared with middle income families, we see a stark difference. Most households in the low-income cluster prioritize owning smartphones over ownership of TVs. Because of the global shift to streaming services, smartphones now replace TVs.

The fact that fewer low-income families own a fridge can be easily explained by the proliferation of roadside eateries. Some of these have space for diners but most of them sell their home-cooked dishes over the counter built right beside the kitchen. That ease of access is the reason why, among low-income families, a TV has greater value than a fridge.

Middle-income families tend to spend an average of P13,000 more or less on their kids' education. Meanwhile, low-income families spend nearly 10,000 pesos for their children's education. That amount is almost two-thirds of the average household income of the lower income families.

In terms of private transportation, low-income families are 50% more likely to own motorcycles than cars. They cost less to buy and maintain compared to four-wheeled vehicles.

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

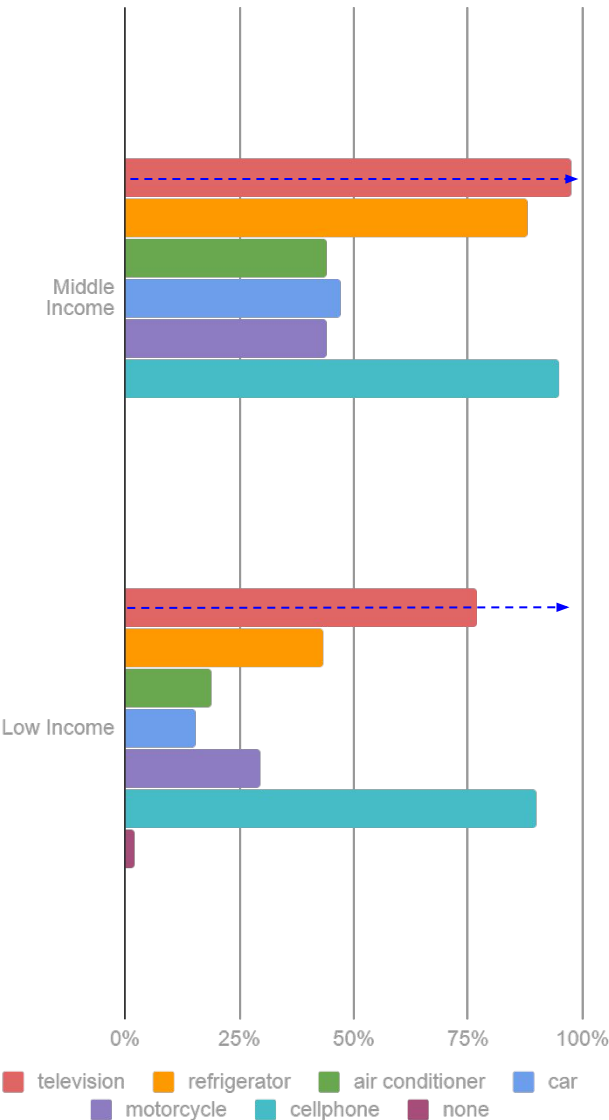


Figure 6: Average expenditure for education (per child) of children (aged 5-14) by FTO households, by income cluster

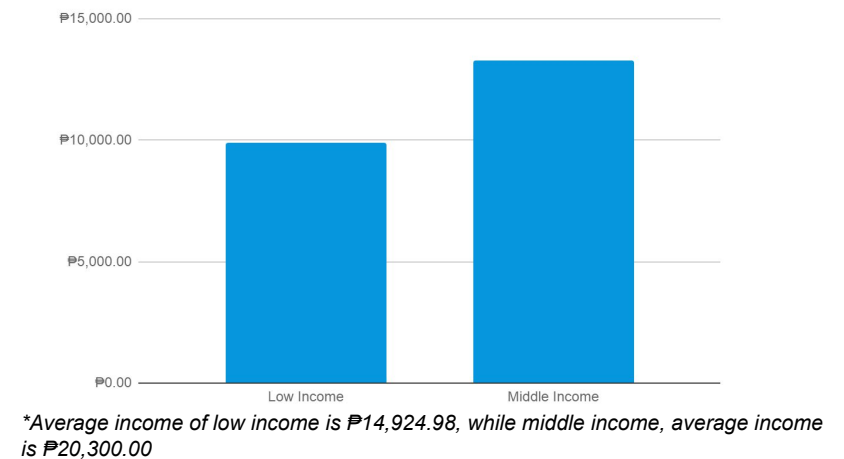


Table 2: Share of expenditures on food to total monthly expenses of FTO households, by income cluster

	Low Income (but not poor)	Lower Middle Income	Middle Middle Income	Upper Middle Income
FTO	30%	17%	12%	7%
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

Most of the households surveyed reside in properties for free and with consent, which means they don't own the residential property they live in but they don't pay rent either. Comparatively, less than one-fourth of low-income families are paying rent. The good news is that nearly half of these households own their homes. Meanwhile, paying for mortgage continues to be a part of the household expenditures of middle-income families.

According to the PIDS data, middle-income cluster families usually live in fully-owned houses made with strong roof and walls. The FTO study, however, reveals that even though their household income is higher than most, many of our agents still live in houses made of light materials. The warm and humid climate may be one of the reasons why light materials (e.g., coco lumber, amakan wall panels, bamboo wall cladding, nipa roof shingles, etc.) are often used in building Philippine houses.

At the same time, many homes are made of concrete, which reveals the Filipinos' preference for more durable housing materials that can withstand the harsh winds and destructive rains during the wet season. Some areas may be prone to flooding, which means houses must be built with a higher and stronger foundation, preferably concrete and packed earth.

The number of agents who do not have access to electricity still remains at 4% of our sample population, while 6% of our agents still do not have access to clean water and rely on peddlers and other impermanent sources for their drinking water needs.

Figure 7: Housing tenure of FTO households, by income cluster

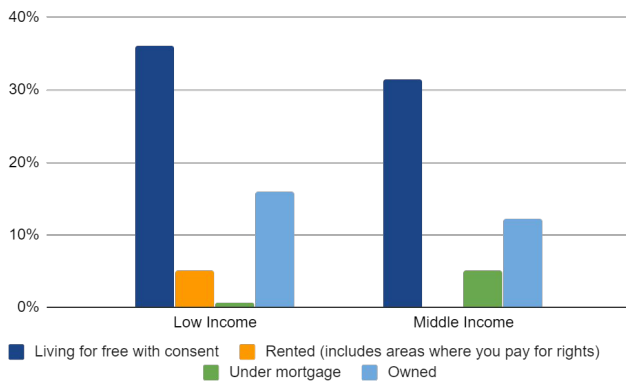
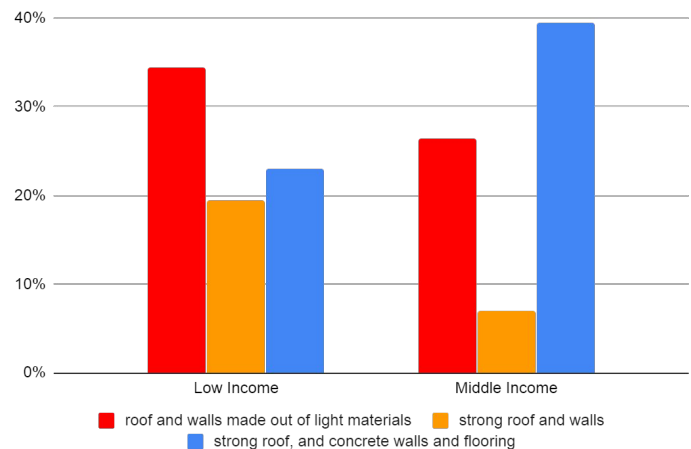


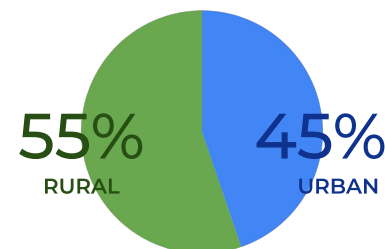
Figure 8: Housing material of FTO households, by income cluster



As the household income rises, ownership of capital, such as real property, gradually materializes. However, not all families choose to invest in a home they can own and made with strong roof and walls.

The decision not to invest in real property may be influenced by one's financial goals and desired standard of living that revolves around consumption. To some, owning a house may be considered a liability rather than an investment.

Figure 9: Housing distribution of FTO households



4%

of FTO households

DO NOT have access to distributed power source.

6%

of FTO households

of Households rely on peddlers and other means to access water (since there is NO WATER SOURCE in the premises)

The previous report showed that more than half of our Agents live in the urban area. This time we have more employees living within the rural.

Accessibility of transportation, banks, hospitals/clinics, and supermarkets are now mostly available in rural with much lower cost living.

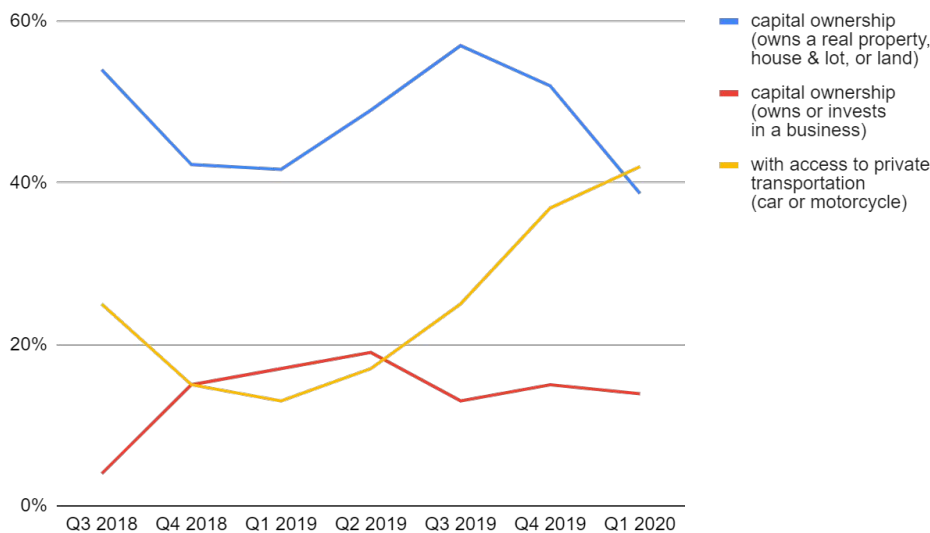
Capacity Building Drives Capital Ownership and Investment in Private Transportation

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

The percentage of agents who own or invest in business slightly went down while investments in real properties rapidly declined by 10%. Ownership of private transportation, either a car or motorcycle, continues to increase due to the convenience and flexibility of owning a private vehicle.

In comparison, capacity building, which is a form of investment on one's future employment, continues to produce agents who have upleveled their skills. Those were certified to have raised their skills level up by one step are given a basic salary increase of P1,000. If the agent was able to uplevel by two steps, then they receive twice that amount as a raise.

Figure 10: FTO household's capital ownership and access to private transportation, per quarter



Recently, there's an uptick of recruitment activity at FTO, which significantly changed our sample population. The demographics now comprise of workers who are in their 20s, breadwinners of their families, and belonged to households that doesn't own real property.

Owning a motorcycle gives Agents the freedom to travel wherever and whenever they want. Private transportation shortens their travel time to and from work, which allows them to pursue opportunities to build their capacity and earn more.

#PrivateTransportation
#MotorsForProgress
#ZeroInterestMicroloanForMotorcycle



A microloan for business allows our Agents to generate more income, so they can pull their families out of poverty and into the middle class. **#CapitalOwnership**
#ZeroInterestMicroloanForBusiness



Recently, we launched the Zero-Interest Microloan for Workstation for those who need to work from home. This is also valuable to parents who need a PC for their kids, who may have to take classes online. **#PCsforProgress** **#WFH**
#ZeroInterestMicroloanforWorkstation

As of March 2020, trainings have already shifted to online or distance learning mode to ensure employees' safety during this Covid-19 crisis.

#LearningAndDevelopmentTrainings

The Leadership and Mentoring Program continues to produce certified leaders. The current batch has 7 enrollees and continue to engage with their mentors.

#LeadershipMentoringProgram



Proof: Reinmark's story



Cashflow Training



Win-a-Fridge Raffle



Desperate to earn a college degree, Reinmark had to find a way despite his father's disapproval. Instead of applying to one of the leading universities, he went to a community college where quality education was more affordable. He had been a consistent Dean's Lister so he could take advantage of zero tuition and miscellaneous fees.

He worked part-time and managed to juggle an encoding job and studying until he graduated. He was paid P10 (\$0.20) per one thousand characters from his part-time job. He usually worked 3 to 4 hours, but barely earned \$5.

In September 2017, he joined Fair Trade Outsourcing. After three months, he was transferred to an account with higher pay. After five months, he was promoted as a team leader. Because his father suffered from a mild stroke and hypertension, and his brother needs maintenance medication, he feels only heartfelt gratitude towards his job as a team leader which pays well and supports the medical needs of his family.

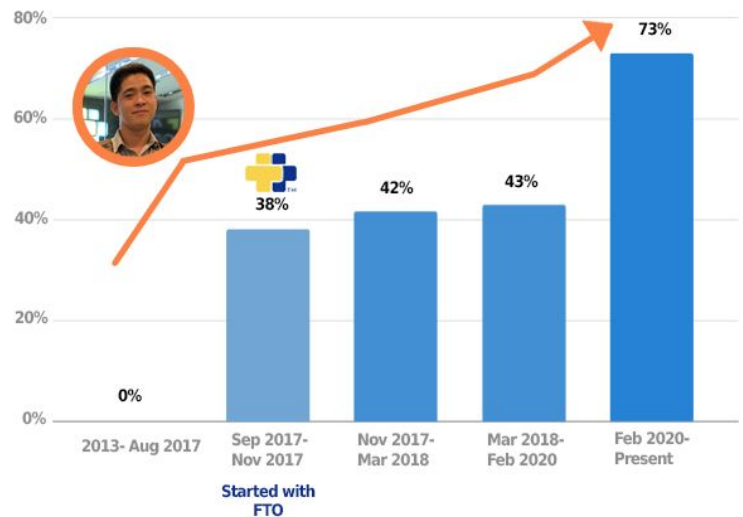
Reinmark has been actively attending company programs to develop his skills and improve himself. He attended the first batch of the Directed English Proficiency training where he leveled up one tier, and also joined the first batch of the Leadership Mentoring program.

In February of this year, Reinmark was transferred to a new account as a team leader and with a much higher salary. Since his father had passed away, half of his salary goes to his dependents -- his mother, brother, and a nephew.

Reinmark currently stays at a hotel with other agents who had to work throughout the quarantine as essential workers. He thanks the company for doing its best to ensure that FTO employees are safe. Because his mother is already a senior citizen, he worries about harming her health if he traveled back and forth to their home. He's proud of working at FTO and with the company's response to the crisis.

Since his transfer to a new account, his salary has increased. So, even though he's not with his family because of the quarantine, he can assure that they will have enough money to buy groceries and other necessities.

Portion of Reinmark's Contribution to His Household



Aleamar Farm to Office Table

- Started in a data entry account and promoted to team leader
- From a nipa hut to a concrete house
- Microcredit business, Aleamar lends to farmers
- Private transportation with a motorcycle



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 and promoted to Team Leader
- Certified as a leader through the FTO Leadership Mentoring Program
- Now promoted to Operations Manager



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



Jestony Super Dad

- From Data Entry Worker promoted to Workforce Officer
- Availed Catastrophic Fund
- Availed a Zero Interest Microloan for Business

