IT Social Outsourcing as a Development Tool:
IT Outsourcing to Social Enterprises for Poverty Reduction and Women's Empowerment in Kerala

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Abstract

Social outsourcing means the contracting out of goods or services to social enterprises. When used by government, it can be seen as a hybrid of the workfare outsourcing found in rural wage employment schemes, and the commercial outsourcing of government activities to the private sector. This paper focuses on a social outsourcing initiative operated by the government of Kerala State, India. Part of this outsources information technology (IT) services to dozens of cooperatives of women from below-poverty-line families. Interview and case study research was undertaken to assess the impacts on five areas of livelihood assets – financial, human, physical, social and political capital. This scheme has Keralan specificities and research shows that social outsourcing may introduce vulnerabilities and questions of sustainability. Overall, though, this paper suggests that IT social outsourcing has the potential to deliver not just significant developmental benefits to marginalised groups but also economic and political benefits to government. It should therefore be moving onto the agendas of international development agencies and of governments in developing countries.

A. Introduction

Governments in developing countries are increasingly involved in outsourcing: contracting out to a third party the provision of goods or services which could otherwise be provided by the client organisation. We can characterise two quite different models used, each of which has some potential shortcomings.

Some governments use what we might call "workfare outsourcing": employment schemes for poor citizens often paid on a daily basis and focused on public works projects. Examples include the Employment Guarantee Scheme used in India's Maharashtra state and Argentina's Trabajar programme (Ravallion 2003). These have undoubtedly delivered important poverty alleviation benefits. The shortcomings of this approach, though, may include problems of sustainability, difficulty of application to urban poverty (schemes have tended to be rural and seasonal, focused on the agricultural "lean period"), and the failure to create any institutional basis for enterprise and independent income-generation (Deolalikal 1995, Gaiha & Imai 2005). There are also accusations corrupt diversion of funds, and of creating public works assets that are ultimately damaging rather than beneficial to the poor (Bavadam 2003).

At the other extreme is what we might call "commercial outsourcing": competitive contracting out of internal and external services to private sector firms. Examples include outsourcing of information technology (IT) services by the Barbados government (Bishop 2001) and outsourcing of solid waste management by Kampala City government (Golooba-Mutebi 2003). The shortcomings of this approach may include the subjugation of public service values and goals to profit-seeking, and a loss of public sector control and accountability (Kakabadse & Kakabadse 2001, Heeks 2006). Outsourcing has also been politically unpopular with public sector trade unions.

One may see workfare outsourcing as driven by a developmental and poverty reduction agenda seeking to deliver equity goals. One may see commercial outsourcing as driven by a neo-liberal and new public management agenda seeking to deliver efficiency and effectiveness goals. Both can, of course, also be seen to be driven by a political agenda and political goals, claimed to run from vote-banking to union-bashing to corruption to career enhancement (Lacity & Hirschheim 1993, Peled 2000, Lakin & Ravishankar 2006).

Partly because of the problems associated with both workfare and commercial outsourcing, governments are showing an increasing interest in a hybrid form (see Figure 1) – "social outsourcing": contracting out the provision of goods or services to a social enterprise. In the UK, a number of local governments have outsourced activities such as leisure centre management, care services, and community transportation to social enterprises (ODPM 2003). There are also examples of social outsourcing by private sector firms, such as the "social offshoring" of IT services to firms like Digital Divide Data in Cambodia (Hutchinson 2005). And there are examples of social outsourcing by NGOs, such as use by international NGOs of social enterprises for printing or mailing activities (Via3 2003).

Figure 1: The Outsourcing Continuum
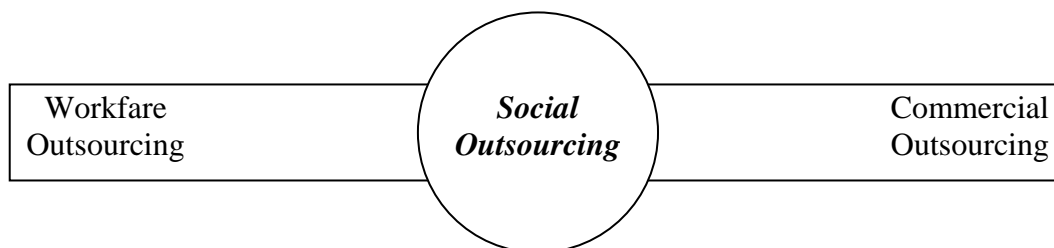
In this paper, though, we focus on social outsourcing by government, which has the aspiration that it will deliver a "triple win":
- Developmental benefits of enriching and empowering a disadvantaged group in society.
- Economic benefits of saving money for government.
- Political benefits of delivering simultaneously on neo-liberal, good governance and developmental agendas.

B. Research Question, Method and Framework

But is this aspiration met in reality? In particular can social outsourcing by government deliver the development benefits that other forms of outsourcing sometimes struggle to provide? In order to answer this question, we undertook a case study of the Kudumbashree initiative set up in India by the Kerala State Poverty Eradication Mission (SPEM).

Kudumbashree began formally in 1999. It initially focused on the assisted formation of a series of women's self-help groups around the state, based on two successful pilots run during the 1990s; first in Alappuzha municipality, and then in Malappuram district. These self-help groups were initially seen as performing a social development role but this was soon expanded to encompass savings/credit functions. They were then seen as the potential nucleus for economic activity. Building from this, the self-help groups have been used to stimulate the formation of more than 50,000 micro-enterprises since 1999 (Kudumbashree 2005): both rural and urban, both group and individual. Within this overall picture, the focus here is on group enterprises in urban areas of which there were 1,345 by 2006 set up through support from the central government's Development of Women and Children in Urban Areas scheme. These are seen as social enterprises because they fulfil the three criteria for a social enterprise: they are enterprise-oriented; they have social as well as business aims (such as encouraging savings, alleviating poverty and addressing female unemployment); and they are socially-owned in the sense that they are co-operatively owned by women from poor communities (SEL 2001).

These 1,345 social enterprises cover a wide range of activities such as clothing production, food processing and direct marketing. Our particular focus was on the 234 IT sector enterprises that have been set up. This focus came partly because the average annual double-digit growth of the IT sector worldwide provides significant general opportunities in this sector; partly because IT outsourcing from governments is a multi-billion-dollar activity annually, thus providing a specific business opportunity for IT enterprises.

Field research was undertaken in collaboration with a local partner, Planet Kerala. It began with pilot interviews and enterprise "case sketches" in January 2005 and then proceeded to a broader set of data gathering activities that was completed in January 2006:
- group interviews with the women members of 32 IT social enterprises, used mainly to build up detailed case studies of each enterprise;
- structured interviews conducted with 133 individual women working in IT enterprises, focused particularly on the livelihood impacts of their work;
- unstructured life-story sessions completed by six women from the IT enterprises, used as a source of broader background and contextual factors; and
- four semi-structured interviews with SPEM officials.

In addition, observational data and documentary evidence (such as annual audit figures) was gathered during visits to the IT enterprises and, in September 2005, a set of feedback sessions and visits was organised.

In order to answer our main question about the development benefits of social outsourcing, a natural point of departure was poverty. Of late, discussions on poverty

have moved on from understanding this merely in terms of income, to understanding the *multidimensionality* of poverty. Perhaps the most well-known conceptual model drawing from the new perspective of multidimensionality is the Sustainable Livelihoods (SL) framework (DFID 1999).

For the work reported here, we chose to focus on a subset of components within the SL model, taking an assets—vulnerability approach of the type that has been used previously for work on women and anti-poverty initiatives (Moser 1998). This approach starts with an identification of what the poor *have* (in terms of a multidimensional view of assets which can be deployed to reduce poverty and vulnerability) rather than what they *do not* have (such as baseline monetary indicators) and so it "contributes to the development of analytical tools to facilitate those interventions which promote opportunities, as well as removing key obstacles" (ibid.:1). It incorporates the notion of vulnerability as a dynamic, contextual concept which captures change processes and which can be linked to the ability of the poor to own and manage assets to promote livelihoods.

Assets are thought of not simply in tangible terms, such as physical tools but also in terms of intangible items such as social relations. Our pilot work suggested that four of the five main SL framework classes of assets would be relevant:
- *Human capital* represents the skills, knowledge, ability to labour and good health that together enable women to pursue different livelihood strategies and achieve their livelihood objectives.
- *Financial capital* denotes the financial resources that women use to achieve their livelihood including available stocks which can be held in several forms such as cash, bank deposits, liquid assets like livestock and jewellery, or resources obtained through credit-providing institutions; and regular inflows of money, including earned income, pensions, other transfers from the state, and remittances.
- *Physical capital* comprises the basic infrastructure and producer goods needed to support livelihoods.
- *Social capital* is the genre of social resources which women draw upon in pursuit of their livelihood objectives; mainly conceived as networks and relationships based on trust, reciprocity and exchanges.

Although we did ask questions about the fifth asset – *natural capital* – it did not emerge as a factor directly associated with work in an IT sector enterprise. On the other hand, the issue of empowerment – what one might in broad terms define as *political capital* – was a frequent theme of interviewees, and we therefore substituted this for natural capital.

C. Social Outsourcing of IT Services in Kerala

Social outsourcing, like any outsourcing, requires a conjunction of demand and supply. Demand was provided in Kerala as a result of the state's IT strategy which, in part, has sought to promote computerisation of government activities, to develop the IT sector in Kerala, and to increase the IT skills base of the state through training (GoK 2003). Demand and opportunity have been assisted by specific decisions, such as a 1999 court ruling that mandated some computerisation within local councils (*panchayats*).

Like most governments worldwide, that in Kerala faced an internal supply constraint; both a lack of staff with IT skills capable of supporting the planned computerisation and training programmes, and a retention problem – that staff who gained IT skills were tempted to leave for the private sector. External outsourcing has been seen as a solution to such supply problems, and there were private sector IT services firms operating in Kerala that could have been called upon.

However, officials in SPEM decided to adopt a different approach, answering the demand via the creation of IT-oriented social enterprises under the Kudumbashree initiative. Starting with just one or two pilot enterprises in1999, this approach fairly quickly developed a standard business model.

Support is provided to bring together a group of (typically ten) unemployed women from below-poverty-line households. They are nominated or occasionally invited from the self-help groups; sometimes from a single group, sometimes from two or three neighbouring groups. They must each be able to invest US$30, something – at least during initial days of uncertainty about the viability of IT enterprises – that excluded some of the poorest or more risk-averse participants. Government then supplies a grant of ten times the total amount of the group's investment, and helps secure a matching amount as a bank loan. The women thus typically register their cooperative enterprise with starting capital of roughly US$6,000 of which half must be repaid.

As noted above 234 of these IT social enterprises have been created since 1999, and they operate in three main areas:
- IT training: 151 of the enterprises work mainly on IT training. Almost all are attached to a state secondary school, with their computer equipment in a classroom, and most of their work involves the paid training of school children, with some after-hours/vacation-time training of others such as local community members.
- Data entry and digitisation: 80 of the enterprises do data entry work that mainly supports computerisation of government; for example, digitising the state's voter records or entering and helping process the results of a state-wide poverty survey.
- PC assembly and maintenance: an activity of just three of the women's enterprises, who build PCs from parts, sell them (mainly to public sector organisations) and arrange annual maintenance.

A summary example of each enterprise type is provided in Table 1.

Table 1: Profile of Typical IT Social Enterprises

	Type of Women's IT Enterprise		
Variable	**IT Training**	**Data Entry**	**Hardware Assembly**
Name and location	Divine Computers, Vadakara	Technoworld, Kumarapuram	InfoShree Systems and Peripherals, Kasargod
Date of formation	2002	1999	2003
Main activities	IT training to secondary level students in state schools	Digitisation of records for state and local government; some work for private clients	Assembly of computers, and sales of peripherals to state government, schools and a few private clients
Core cooperative membership	6 members with pre-degree qualifications	10 members with Bachelor degrees	10 members with pre-degree qualifications
Additional employees	None	52 casual workers and one male supervisor	Four male installation and maintenance assistants
Turnover in 2004/5	US$2,380 (485 students trained)	US$15,600	US$8,440 (160 PCs sold)
Average earnings per member per month	US$33	US$55	US$50

The digitisation enterprises operate largely on the most straightforward outsourcing basis. Tenders are issued by government departments for the data entry and processing work they need to undertake. Bids are received from the social enterprises and from competing private sector providers, and a contract is issued to the winning bidder. Similarly, there is open competition for the supply of PCs. The IT training units work on a rather different basis. Discussions are held with individual secondary schools to see if they wish to have a training enterprise attached to their school; typically if they lack either the human or IT resources necessary to undertake IT training. If they agree, an enterprise is assigned to the school and training work is outsourced but there is no open tender for this business.

D. The Livelihoods Impact of Social Outsourcing

Having provided the background, we can now turn to the originally-posed question and outline findings on the impact for women enterprise members of involvement in this social outsourcing project. It should be noted that this analysis relates only to the core women members of each IT cooperative, of whom there were roughly 1,500. However, these IT enterprises also significantly affect other poor women and men indirectly: those employed for additional work (an estimated 2,500 women); those whose good and services are purchased through the earned income of the core women members; and members of the core-group households and wider families.

Financial Capital: almost every enterprise was achieving the goal of providing its members with an income of at least US$1 per day. Although a relatively limited sum, this was seen to have made a significant difference to the lives of the women surveyed. In just over half of cases, this income represented 50% or more of total household income and, in a few cases, it was the sole source of household income (for example, single women living with elderly parents).

Some of the money was spent on everyday household expenditure but the value of the income was more often reported in relation to exceptional items: purchase of healthcare when family members had been ill; funding of educational expenses; paying for land purchase or house construction; redeeming loans or items such as gold jewellery that had been pawned; paying for the marriages of family members. In the case of almost every woman interviewed, it was this income that was seen to have been the main benefit delivered by social outsourcing and the main factor in reducing the vulnerabilities they had previously suffered.

The presence of an income had allowed some women to join savings schemes or to take out individual loans. In addition, 75 per cent of the enterprises studied had paid off their initial loan, some within two or three years of start up despite it being originally offered as a five-year loan, and some had taken further loans to update or expand their IT infrastructure.

Income from the enterprises may be the main source of vulnerability reduction but it does bring its own vulnerabilities that stem from the source of this income: outsourcing from public sector organisations. One issue – listed by every surveyed enterprise group as one of its main challenges – is the irregularity and delay in payments received. Enterprises sometimes had to wait three, six, even twelve months to receive payment for services or goods provided. The cash flow problems created were such that some women had resorted to pawning gold items in order to ensure that loan repayments were made on time. A second issue, discussed further below, is the sustainability of this income source over time.

Human Capital: the Keralan population has higher levels of education than found in areas with equivalent income levels thanks to its particular institutional history, even though there are limited opportunities for the employment of the competencies thereby created. Hence, the women working in the IT enterprises typically had up to ten years of education prior to joining; many had basic typing skills as well.

Despite this comparatively high starting level of human capital, work in the IT enterprises had enabled the women to strengthen this asset yet further. This has happened most clearly in relation to technical skills: all had built up computer operational skills but many had specialisms around computer troubleshooting or networking.

Particular roles within the group – leader, deputy leader, secretary – were rotated to allow a spread of managerial and supervisory skill development. Entrepreneurship skills were rather harder to pin down: about half of those questioned did not feel they had built up such skills but others did recognise the way in which they now had a much better understanding of basic enterprise issues: balance sheets, cash flow, customer relations, etc.

Physical Capital: investment in physical capital varied but a typical pattern has been for an initial IT investment of around US$5,000 for five computers, a printer and software that was subsequently doubled, after two-three years, to ten computers. These assets are cooperatively-owned but they mean that each woman has a work-related asset worth the equivalent of something like two years' income. This can therefore form useful collateral for additional loans. However, the pace of technical change quickly erodes this value since all IT assets, whether hardware or software, depreciate to near zero worth within about five years. Mirroring this, there must be continuous investment to replenish these assets.

Social Capital: because of its intangibility, changes in social capital did not seem to be particularly well recognised by the women surveyed. The majority of individuals did not identify significant changes to any of the three main relations that women in business may forge: business linkages to suppliers and customers; social and community linkages; and other institutional linkages such as those to supporting or regulatory institutions (Duncombe & Heeks 2002). However, when asked directly and collectively about such changes, many more did become apparent.

All the interviewed groups identified important new linkages they had forged to public officials; particularly those in the State Poverty Eradication Mission and in local government offices. These were typically a combination of business and institutional linkages since SPEM itself often acted as an intermediary between the IT enterprises and both their suppliers (of hardware, software, training and even some loans) and their public sector customers (though in other cases the women were in direct contact with their customers). Dominance of the public sector was reflected by the relative lack of private sector contacts which most women felt they had built up. There was little recognition of changes to social and community linkages except for the key linkages women had forged with the other core members of their own enterprise.

Political Capital/Empowerment: women described their empowerment in terms of changing self-identity and status. They talked constantly about their new confidence – in tackling problems, in approaching institutions, in dealing with other people. They talked too about respect, recognition and acceptance in their communities – not simply because of having a job but because of having an IT-related job: something associated with modernity and progress.

Change in gender relations was less clear. These women were taking on traditionally male (e.g. management) roles; some were hiring and managing men as employees; some were breaking away from traditional female goals of security and stasis to push for growth in their enterprises. However, men still filled the pivotal roles in the State Poverty Eradication Mission and as local government customers. There remained a degree of deference to fathers or husbands as ultimate decision makers in the household. And women's triple role – wife/mother, worker, community member – constantly came to the surface as women described their own aspirations and the expectations of others around them.

Sustainability: several of these social enterprises have been running for more than six years, and the great majority for more than four – longer than the average lifespan of an IT small enterprise (Liedholm & Mead 1999, Wyngaard 2006). However, questions still arise about the sustainability of this social outsourcing initiative around three main aspects:

- *Membership*: the average number of core members in the surveyed enterprises was seven: less than ten because women drop out due to marriage or taking a new job. In only one or two cases, though, has this loss of members seemed to jeopardise the enterprise: most groups simply replace lost members with other employees.
- *Support*: development of these social enterprises has required a significant degree of institutional support from government departments, banks, other financial intermediaries, and other local organisations. The social enterprises may find it difficult to sustain themselves without ongoing intervention and support. Having said this, they have moved beyond the start-up phase and there is a solid network of different small enterprise support institutions that could be called upon to provide finance, training, etc. if any individual institution stopped providing support.
- *Markets*: the intervention of a single institution – SPEM – has been critical in providing access to markets and it remains a key intermediary in the location of and interaction with public sector customers for many enterprises. Action taken on disintermediation of SPEM includes more direct response to tenders by IT enterprises, the taking on of private sector customers, and the planned creation of a separate body that could provide marketing and support services for the enterprises. There are also concerns about loss of market. Some IT enterprises, for example, are diversifying into call centre and data analysis work in case the pace of digitisation work slackens.

In all, there are some concerns about sustainability but they are not yet an overriding issue and they must be balanced against a recognition of the outcomes that any unsustainability cannot take away. Even in the inconceivable event that all these IT social enterprises were to cease operations, this could not remove the household assets already purchased: land, housing, gold, education for children, healthcare for family members, marriage; etc. In addition, there are assets that the women can take forward into future employment. When asked about this, they mentioned the more obvious and tangible items: their computers and software and, even more "time-proofed", their computing knowledge and skills. Almost all mentioned two other factors: their "team spirit", with a widespread assumption that their cooperative group would continue to work together as a social enterprise in any new venture and, most frequently mentioned, aspects of empowerment, particularly the self-esteem and self-confidence that are central to the success of new business ventures (Heeks et al 2004).

E. Conclusions

This is an initiative that demonstrates social outsourcing can be used to bring direct benefits to members of poor communities in developing countries. These are not the most excluded or the absolute poorest of the poor and they have received an education but there is no sleight of hand here: these are women who had no job, who came from below-poverty-line households, most of which were scraping by on US$1 per day or less. Through social outsourcing they have undergone an experience of change that is centrally about empowerment. In part this has been the empowerment of accessing new assets: new skills, new income, new physical assets, new contacts. But just as much this has been a story of psycho-social empowerment: new attitudes, new confidence, new status, new roles and new identity.

Of course, the Kudumbashree project comes with caveats: ongoing vulnerabilities, introduced vulnerabilities, questions of sustainability, uncertainties about comparative benefits of alternative livelihood pathways. But these should be seen as question marks rather than fatal flaws. This is not a study in perfection but it does demonstrate that social outsourcing can touch and improve the lives of the poor over a sustained period of several years.

In looking to broader conclusions, some care must be taken because of the importance of context. Kerala is characterised by a particular institutional history of government, civil society and culture; the women involved were poor and jobless but educated; a strong public sector market for digitisation and training created a window of opportunity for this type of activity; there was a political will to allow outsourcing to be shaped by developmental goals; and individuals – notably TK Jose, the Executive Director of Kudumbashree – have been pivotal to creating and sustaining the initiative.

Nonetheless, social outsourcing has delivered sufficient benefits to warrant greater attention by other governments. We have described here its developmental benefits. But government departments report positive feedback on achieving their IT goals at low cost. And the initiative's political credentials have ensured its survival despite changes of government in Kerala in 2001 and 2006.

Overall, social outsourcing shows how business and development can be brought together. Poverty reduction and empowerment are being achieved through social outsourcing not by rejecting business but by embracing it: by creating new enterprises; by seeking to create new entrepreneurs; and by demonstrating how small business can deliver development goals.

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