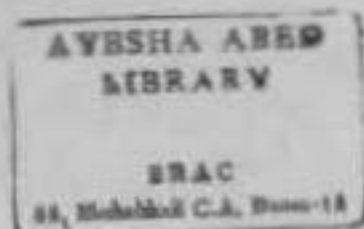


LIBRARY DEPARTMENT PROPOSAL



April, 1985



DANILAVEN RURAL ADVANCEMENT COMMITTEE

The Bangladesh Rural Advancement Committee (BRAC) is a non-governmental organization (NGO) involved in comprehensive integrated development programmes to assist the disadvantaged rural population to become self-reliant. BRAC works in organizing and mobilizing people into cooperative groups which then plan, initiate, manage and control group activities in both social and economic areas. Sectoral programmes such as agriculture, horticulture, pisciculture, animal husbandry, duck and poultry raising, nutrition, health care, family planning services and functional education are implemented by the groups. BRAC supports the self-sustaining growth of the groups' activities by providing training, credit and logistical assistance.

One of the major constraints faced by the disadvantaged people, striving to improve their lives, is the lack of employment opportunities. Agriculture, which is the primary employer in the rural areas, is only capable of absorbing 50 per cent of the total labour force. To secure employment outside of this sector is extremely difficult. To this end, BRAC has been working for the revival of hand-crafted items made from locally available materials, to generate stable income streams and employment for the rural poor.

AARONG

The Handicraft Central Committee (HCC) and BRAC started Aarong as a joint venture to provide marketing facilities for poor craft artisans. Aarong is now six years old and managed solely by BRAC. The objectives of Aarong are as follows:

1. To generate employment among disadvantaged rural producers by providing support services and marketing facilities; and
2. To promote traditional arts and crafts of Bangladesh.

Among the services which Aarong offers to the rural artisans and producers are the following:

1. Direct contact with the producers; elimination of the middleman; full payment for the producer's products at the time of delivery;

2. Information about the producers to the customers;
3. Rigid quality control to increase the producer's pride and quality of their products;
4. Design and product development services to assist the artisans in accessing larger markets;
5. Craft improvement training; and
6. Retail showrooms and sales personnel to market the products. (Aarong's sales average Tk.450,000 per month).

Aarong is able to offer this range of services as it has systematically developed the following services:

1. Producers Service

At Aarong's producer services section office and during periodic trips to the rural production centres, the staff of this section discuss, analyse, and plan with the individual producers. Designs, technologies, raw materials, price structure, product quality, planning and placement of orders, and quality control are reviewed;

2. Customer Services

This section assists customers with information about the producers and their products, showroom purchases, and placement of special and export orders. It also conveys requests, suggestions, and complaints from the customers to the Producer Services Section;

3. Design

The design staff researches, documents, and catalogues the designs and technologies which are indigenous to Bangladesh. On the basis of these traditional designs they discuss the designs and products with the producers and modify old designs, strengthen existing ones and supply new designs, tests technologies and experiments with designs and layouts to develop new textile prototypes, i.e. clay products, leather goods, stationery, garments, bed and table linen, saris, and shirts utilizing traditional motifs.

Aarong is now owned and operated by BRAC and the net margin of Aarong's earnings is used for research and product development to maintain continual innovation in the producers' products. Aarong's income, expenditures, assets, and liabilities are incorporated into BRAC's financial accounts for audit purposes. All Aarong employees are BRAC employees, and BRAC is liable for all matters connected with registration, taxation, and other statutory reports.

RATIONALE

Bangladesh, with 100 million people and over 1,800 persons per mile, is the most densely populated nation in the world. In 1980 it was estimated that 23 per cent of the labour force was unemployed and growing at the rate of 3.2 per cent annually. Real wages in 1980 were only 64 per cent of the 1964 levels. Agriculture employs 35 per cent of the population on either a full or part-time basis. Most households must resort to non-farm activities to make ends meet. As the population continues to grow, fewer people will be able to find full-time employment in agriculture and will be forced to look for employment in non-farm professions. Opportunities for rural non-farm employment stem from three sources:

1. Non-food goods and services which rise as rural incomes rise. (In Bangladesh rural incomes for the majority have decreased over the past 20 years);
2. Inputs and services to agriculture, such as tools and equipment, repair services, transportation, and processing which rise with increased agricultural productivity; and
3. Manufactured goods and handicrafts that feed into local and overseas markets.

For a poor rural inflexible person in Bangladesh the possibilities for earning an income outside of the agricultural sector is limited to very few activities, such as a small trader, rickshaw puller, or day labourer. Success as a small trader is

bound by the economic buying power of the local populace. A rickshaw puller earns survival wages. The opportunities of casual labour are seasonal and limited. The majority of the population's purchasing power is limited to essentials only. Therefore, the priority is to develop economically viable workplaces in order that the maximum number of people will benefit from the investment. Given Bangladesh's present economic context, the work activity must be labour intensive rather than capital intensive.

The development of small or large scale industrial units may increase production; however, their effect on the overall under-employment problem is negligible since the number of employees in such units is small. In addition to the high investment costs of an industrial unit, its centralized nature increases dislocation by fostering rural migration into urban areas. These units also strain the economy with added requirements for costly urban infrastructure. The average cost per workplace for a small scale industry (less than US \$ 100,000 investment) is approximately US \$ 2,000 and US \$ 11,000 for a large scale industry (over US \$ 2 million).

To create workplaces in rural Bangladesh, the supply of raw materials as well as the marketing of the finished products must be thoroughly examined and well planned. The weaving industry provides an example. To extend credit and training to a weaver for the purchase of thread and the upgrading of the loom quality is of little consequence if thread is unavailable and the market for the finished goods is non-existent. BRAC's development programmes are planned with consideration for these aspects.

Among is the final step in the creation of the workplace and the establishment costs are directly related to the rural workplace. Presently BRAC spends about US \$ 500 to create one economically viable rural workplace; this represents one-fourth the cost of a small industrial unit workplace. The expenditures incurred by BRAC include training, project personnel, and overhead

costs related to project areas, head office and logistics. These costs are inclusive from the establishment of the workplace to the creation of the finished product and exclusive of marketing costs.

PROPOSAL

BRAC and many other NGOs have successfully organized rural craft producer groups throughout Bangladesh. Through a policy of supporting and exhibiting traditional crafts and designs, BRAC has been able to stimulate a large demand for domestic handicrafts. BRAC sponsored the first national exhibition of Jamdani weaving and Kantha embroidery. Sales receipts from the Dhaka Aarong shop indicate that 80 per cent of Aarong's sales are made to Bangladeshis, demonstrating a very large and untapped domestic market for local handicrafts. To capitalize on this demand for traditional crafts and to support and further develop marketing services for rural artisans and producer groups, BRAC proposes to establish a chain of Aarong shops. This chain will provide national outlets for handicrafts throughout Bangladesh and assist in realizing the following:

1. Increase in income and employment opportunities for poor rural artisans and producers by bringing Aarong support services and marketing facilities within their reach;
2. Expansion of domestic markets for traditional crafts; and
3. Further popularization of traditional designs and crafts.

With the opening of 6 new shops the Aarong chain will number 7. The new shops will be developed in the following cities:

- Large shops - Chittagong, Dhaka (Maghbazar)
- Medium shops - Hudaib, Sylhet, Dhaka (Gulshan)
- Small shop - Jessore

SHOP OPERATIONS AND PROJECTED RESULTS

From the experience gathered from existing Aarong shops, the operating statistics has been estimated. It is expected that the

shop will make a small loss in the first operating year and thereafter will earn a profit.

It has been estimated that value added (or income received) by the rural producers will be 40% of Aarong sales value. It has also been assumed that average producer will earn approximately Taka 1000/year from this type of work.

FUNDING

BRAC's goal in working with the rural poor is to enable them to become self-reliant. BRAC has the same goal for itself as an organization - to reduce its dependence on external funding. With that end in view BRAC has established two commercial ventures, i.e. BRAC Printers and the BRAC Cold Storage and Ice Plant. It is envisaged that these commercial enterprises will contribute funds to BRAC's rural development programmes. BRAC Printers has been providing funds to BRAC's programmes for the past 5 years, and it is expected that the Cold Storage and Ice Plant will begin to do the same by the end of 1985.

Aarong is presently generating revenues sufficient to meet its annual operating budget; however funds must be injected into Aarong to meet its capital development costs. Even in countries, such as India which have a very large and sophisticated cottage industry markets, organizations similar to Aarong are not totally self-financing.

Aarong, being a marketing outlet of hand-crafted goods produced by artisans, is now planned for expansion to other parts of Bangladesh with a view to reach more rural craftsmen and expand the Bangladeshi handicrafts market. To fund Aarong's shop expansion programme BRAC is proposing that 30% of the funds required will be provided from its own resources, and 70% will be sought from foreign funds. This will open up a new partnership between BRAC and foreign funders in co-financing BRAC's development activities to jointly work for the uplift of the poor rural craftsmen of Bangladesh.

PROJECTED FINANCIAL STATEMENT

(Tk. in '000)

	<u>Yr.-1</u>	<u>Yr.-2</u>	<u>Yr.-3</u>
1. LARGE SHOP			
Sales Revenue	5,150	5,500	5,850
Cost of goods sold (Purchase price and other direct expenses)	<u>2,452</u>	<u>2,780</u>	<u>3,003</u>
Gross Margin	693	770	847
General, Administrative, Selling Expenses & Depreciation of Fixed Assets	535	560	577
Producers Services, Design and Design Services, Product Development etc.	<u>172</u>	<u>191</u>	<u>210</u>
Net Margin/(Loss)	(74) ****	19 *****	60 *****
Take value Added (40% of Aarong sales)	1,260,000	1,400,000	1,540,000
Number of Producers Services (Avg. income Tk. 1000/producers)	1,200	1,400	1,500
2. MEDIUM SHOP			
Sales Revenue	1,350	1,500	1,650
Cost of Goods Sold (Purchase price & other Direct expenses)	<u>1,053</u>	<u>1,170</u>	<u>1,287</u>
Gross Margin	297	330	363
General, Administrative, Selling Expenses & Depreciation of Fixed Assets)	229	240	247

Producers Service, Design, Design Service and product Development	74	62	90
Net Margin/(Loss)	(6)	8	26
	*****	*****	*****

Take value added (40% of sales)	553,500	600,000	660,000
------------------------------------	---------	---------	---------

No. of Producers serviced (Avg. Income Tk.1000/ Producers)	553	600	660
--	-----	-----	-----

3. SMALL/BIOP

Sales Revenue	540	600	660
---------------	-----	-----	-----

Cost of Goods Sold (Purchase price and other Direct Expenses)	<u>421</u>	<u>468</u>	<u>515</u>
---	------------	------------	------------

Gross Margin	119	132	145
--------------	-----	-----	-----

General, Administrative, Selling Expenses and Depre- ciation on fixed Assets	92	96	99
--	----	----	----

Producers Services, Design, Design services and Product Development	<u>29</u>	<u>31</u>	<u>36</u>
---	-----------	-----------	-----------

Net Margin/(Loss)	<u>(2)</u>	<u>4</u>	<u>10</u>
	*****	*****	*****

Take value added (40% of sales)	216,000	240,000	264,000
------------------------------------	---------	---------	---------

No. of Producers Serviced (Income Tk.1000/Producers.	200	240	260
---	-----	-----	-----

LARGO EXTENSION PROGRAMME
BUDGET

I.	LARGE SHOPS : (1,750 - 2,000 SFT.)		
	Cost per shop		
	A. Rent Advance	150,000	
	B. Frontage Construction	150,000	
	C. Internal Decorations, Furniture and Fixtures	400,000	
	D. Air Conditioning	150,000	
	E. Stocks (Working Capital)	<u>1,000,000</u>	
	SUB-TOTAL	1,850,000	
	Two Large Shops @		
	Tk. 1,350,000		5,660,000
II.	MEDIUM SHOPS : (700 - 1,000 SFT.)		
	Cost per Shop		
	A. Rent Advance	100,000	
	B. Frontage Construction	75,000	
	C. Internal Decorations, Furniture and Fixtures	300,000	
	D. Air Conditioning	75,000	
	E. Stocks (Working Capital)	<u>500,000</u>	
	SUB-TOTAL	1,050,000	
	Three Medium Shops @		
	Tk. 1,050,000		5,150,000
III.	SMALL SHOP : (350 - 400 SFT.)		
	A. Rent Advance	50,000	
	B. Internal Decorations, Furniture and Fixtures	150,000	
	C. Stocks (Working Capital)	<u>250,000</u>	
	SUB-TOTAL	450,000	
	One Small Shop Total @		
	Tk. 450,000		<u>450,000</u>
	TOTAL BUDGET		7,260,000

Tk. 7,260,000 = US \$ 268,669

Rate of Exchange : Tk. 27 = US \$ 1.00

CO-FINANCING

BRAC 50% = US \$ 80,667

CO-YUNDEE 20% = US \$ 188,322