

MARKETING RURAL HANDICRAFTS
AARONG EXPANSION PROPOSAL



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BANGLADESH RURAL ADVANCEMENT COMMITTEE
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1. BACKGROUND

Bangladesh, with 103 million people, is the most densely populated nation in the world. Unemployment and underemployment are high and rising, both in the formal and the informal sectors of the economy. Real income has been in decline for both urban and rural workers; real wages in 1981 were only 64% of 1964 levels.

Agriculture employs 85 per cent of the population on either a full or part-time basis, but most households must resort to non-farm activities to make ends meet. As the population continues to grow, fewer people are able to find full-time employment in agriculture and are forced to look to non-farm work, where opportunities are available in 3 areas:

- Non-food goods and services such as construction, road, building etc;
- Inputs and services to agriculture, such as tools and equipment, repair services, transportation, and processing;
- Manufactured goods and handicrafts that feed into local and overseas markets.

For a rural landless person in Bangladesh the possibility for earning an income outside the agricultural sector is limited to very few activities, such as small trading, rickshaw pulling, or day labouring. Success as a small trader is restricted by the very low buying power of the local populace which is limited to essentials only. A rickshaw puller earns survival wages, and the opportunity for casual labour are seasonal and limited.

The development of small scale industrial units may increase production, but the number of jobs created in such units is small. As well as the high investment cost of an industrial unit, its centralized nature increases dislocation by fostering rural migration

into urban areas. Such units also strain the economy with added requirements for urban infrastructure.

Thus it is necessary to develop economically viable workplaces to benefit the maximum number of people. Given Bangladesh's present economic situation, labour intensive jobs need to be created.

2. BRAC

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

As pointed out above, one of the major constraints faced by rural people, in the attempt 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 30 percent of the country's labour force, to which over 1.2 million people are added each year. To secure employment outside this sector is extremely difficult, so BRAC has been working for the revival of handicrafts made from locally available materials, to generate stable income and employment for the landless and rural poor, especially for women.

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 Aarong shops indicate that 80 per cent of sales are made to Bangladeshis, demonstrating a very large domestic market for local handicrafts.

3. AARONG

In 1980, the Hennonite Central Committee (HCC) and BRAC set up Aarong as a joint venture, but it is now managed solely by BRAC. Aarong's objectives are to generate employment among rural artisans by providing support services and marketing facilities, and to revive and promote traditional arts and crafts of Bangladesh.

Among the services which Aarong provides are the following:

1. Direct contact with the artisan producers by elimination of the middleman; full payment for the producer's handicrafts at the time of delivery;
2. Information about the artisans to the customers;
3. Strict quality control;
4. Design and product development services to help the artisan reach wider markets;
5. Craft improvement training;
6. Retail showrooms and sales personnel to sell the products.

In Aarong's Producer Services Section and during periodic trips to the rural production centres, staff discuss, analyse, and plan with individual producers. Designs, technologies, raw materials, price

structure, product quality, planning and placement of orders, and quality control are reviewed.

Aarong's Customer Services Section gives customers information about the artisans and their products, and handles special and export orders. It also conveys requests, suggestions, and complaints from the customers to the Producer Services Section.

The design staff research, document, and catalogue the designs and technologies which are indigenous to Bangladesh. They discuss with the artisans and modify old designs, strengthen existing ones and supply new ones. They test new technologies and experiment to develop new prototypes - clay products, leather goods, stationery, garments, bed and table linen, saris and shirts - utilizing traditional motifs.

To capitalize on the demand for traditional crafts and to provide national outlets for handicrafts throughout Bangladesh, BRAC has proposed to establish a chain of Aarong shops. These are intended to:

- Increase income and employment opportunities for poor rural artisans and producers by bringing local support services and marketing facilities within their reach;
- Expand domestic markets for traditional crafts;
- Further popularize traditional designs and crafts.

The net margin of Aarong's earnings is used for research and product development to maintain continual innovation in the artisans' products. Aarong's income, expenditure, 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.

4. PROPOSAL

4.1 Shops

There are now four Aarong outlets in operation: 2 large shops in Dhaka, one large shop in Chittagong, and one small shop in Sylhet. A third medium sized shop is about to open in Dhaka (Gulshan) as well as a second shop in Chittagong. Apart from normal 'teething trouble' at the outset, all shops have been successful from both social and commercial points of view. More shops means more customers, more demand, and thus more income for rural artisans. Total sales increased by 54% in 1986 compared with 1985, though the usual increases in the past were around 30% p.a. According to independent sources, Aarong appears to be one of the best handicraft projects in the whole subcontinent, judged by a wide spectrum of evaluation criteria.

BRAC now proposes, therefore, to expand Aarong's operation by increasing the number of shops to 10 over the next 3 years by opening two shops in district towns in each of 1988 and 1989. The budget (see Annexes II and III) is calculated on extrapolation from the operation of existing Aarong shops. Thus, a small loss is expected in the first year, after which each shop is expected to be profitable.

4.2 Export

Aarong's Export Department was established in December 1985 to expand Aarong's sales beyond the Bangladesh market. The department was set up from a sound position of having a wide range of products at its disposal, as well as a team of competent staff. However, to find the right balance of quality and production capacity suitable for the export market requires more research, contact making and

experimentation. The department is currently engaged in this work.

Aarong's Export Department staff exhibited Aarong products at Frankfurt Trade Fair in 1986, and made sales visits to the UK and the Netherlands. So far, most interest has been forthcoming from Alternative Trading Organisations (ATOs)*, and from Bangladeshi traders residing in Europe and North America. The Export Department is especially involved in the problem of scale of production: wholesalers require millions of a particular item within a short delivery date; retailers are shy of buying more than a tiny quantity at a time, which, when the costs of transport, handling etc. are counted, prices the goods out of proportion to their value. There is thus the possibility of setting up 'Aarong London' as a receiver/depot with agents who can do the rounds of department stores and boutiques with small quantities of products on a 'sale or return' basis.

1986 was the year in which Aarong's Export Department developed systems procedures to process orders and ship goods overseas. It also identified its strengths, weaknesses and training needs. It expects to increase its client list tenfold by the end of 1987.

From the interest and enthusiasm in Aarong's sample products shown abroad, BRAC is convinced that a large untapped market exists there. The days of mass production and standardisation of goods appear to be numbered, as people begin to seek out handmade and cottage industry products, particularly textiles (embroidery, weaving, garments) and ceramics. Aarong, with the assistance of its designers, is in a position to serve such a market. This would mean a huge

* ATOs are generally retail departments of voluntary organisations, and operate with a social rather than a commercial ethos, often selling the handicrafts produced at projects they fund in countries such as Bangladesh.

expansion in production, and therefore also a massive increase in income and employment for rural artisans.

To support this effort, BRAC requests support over an initial three year period for Aarong's nascent export trade. On the basis of a three month credit period for customers, and a one month advance supply of raw materials to artisan producers, four months' worth of working capital is tied up. Expected export sales for 1987 are 30-40 lakh Taka (3-4 million) - see Annex I.

5. FUNDING

BRAC's goal in working with the rural poor is to enable them to be self-reliant. BRAC has the same goal for itself as an organization - to reduce its dependence on external funding. With this end in view, BRAC has established two commercial ventures, BRAC Printers and the BRAC Cold Storage and Ice Plant. BRAC Printers has been providing funds to BRAC's programmes for the past 6 years, and the Cold Storage and Ice Plant for 2 years.

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 large and sophisticated cottage industries market, organisations like Aarong are not totally self-financing.

To fund Aarong's shop expansion and export venture, BRAC is proposing that 30% of the funds required be provided from its own resources, and 70% be sought from foreign funds. The latter contribution will foster partnership between BRAC and foreign funders by co-financing BRAC's development activities to assist the rural craftsmen of Bangladesh.

BARONG

SUMMARY BUDGET (ALSO SEE ANNEX-1)

(TAKA IN '000)

	1987	1988	1989	Total
NEW SHOP FINANCING				
Chittagong in 1987 Districts shops:	2,000			2,000
2 in 1988		4,000		4,000
2 in 1989			4,000	4,000
	2,000	4,000	4,000	10,000
EXPORT FINANCING	1,333	2,000	1,667	5,000
INCREASE IN WORKING CAPITAL	1,775	2,200	3,400	7,375
TOTAL FINANCING REQUIRED	5,108	8,200	9,067	22,375

(FIGURES IN TAKA)

BRAC's SHARE 30%	1,532,000	2,460,000	2,720,000	6,712,000
DONOR FUNDING SOLICIT 70%	3,576,000	5,740,000	6,347,000	15,663,000
	5,108,000	8,200,000	9,067,000	22,375,000

TOTAL FUND REQUIRED FROM DONOR OVER THREE YEARS

@ CDN \$1 = Tk. 23	TAKA	15,663,000
	CDN \$	681,000

DISBURSED AS FOLLOWS:

Year 1 (1987)	-	155,478
Year 2 (1988)	-	249,565
Year 3 (1989)	-	275,957
	CDN \$	681,000

GARONG

(TAKA IN '000)

PROJECTED SALES

	Actual		PROJECTION #1	
	1985	1987	1988	1989

EXISTING SHOPS

Dhaneondi	11,600			
Maghbazar	5,100			
Chittagong	4,700			
Byihet	1,500			
	<u> </u>	30,000		

PROPOSED SHOPS

Bulshan #2		1,200		
		<u> </u>		
		31,200	40,000	
Chittagong (II) #6			2,400	
			<u> </u>	
			42,400	55,100
2 district shops			3,000	3,900
2 district shops				3,000
	22,900	31,200	45,400	62,000
	800	4,000	10,000	15,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	23,700	35,200	55,400	77,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

EXPORT #3

FUND REQUIRED

(1) Export 4 months credit #4		1,333	3,333	5,000
Less previous year's w/c		-	(1,333)	(3,333)
		<u> </u>	<u> </u>	<u> </u>
(2) Cost of opening new shops #5		1,333	2,000	1,667
(2,000,000 x 1 shop) #6		2,000		
(2,000,000 x 2 shops)			4,000	4,000
(3) Increased working capital required due to increase in sales #7		1,775	2,200	3,400
		<u> </u>	<u> </u>	<u> </u>
		5,108	8,200	9,067
		<u> </u>	<u> </u>	<u> </u>

FINANCED BY

BRAC	30%	Taka	1,532,000	2,460,000	2,720,000
\$ CDN \$ 1 = Tk. 23		CDN \$	66,609	106,957	118,261
DONOR	70%	Taka	3,576,000	5,740,000	6,347,000
\$ CDN \$ 1 = Tk. 23		CDN \$	155,478	249,565	275,957

TOTAL REQUIRED	TOTAL	BRAC 30%	Donor 70%
	Taka		
	22,375,000	6,712,000	15,663,000
	CDN \$	291,826	681,000
TOTAL REQUESTED OVER THREE YEARS:	Taka		
	15,663,000		
	CDN \$		681,000

DISBURSED AS FOLLOWS

Year		
1 (1987)	-	155,478
2 (1988)	-	249,565
3 (1989)	-	275,957
		<u>681,000</u>
	CDN \$	<u>681,000</u>

Notes:

- The projected sales figures for the shops are calculated in anticipation of a 30% increase in sales.
- The Sulshan shop is due to open in mid 1987. The sales figure for 1987 is a six months projection.
- Export figures are based on the expectation of a dramatic increase in sales.
- For export, on average three months are required before payment is received. Also one month's advance supply of raw materials is given to the artisan producers. Thus a total of 4 months credit is required.
- Approximately Tk. 2,000,000 is required to open a new medium sized shop. In the table the figures are calculated for one medium sized shops in 1987 and two shops each in 1988 and 1989.
- A second shop in Chittagong is planned to be opened towards the end of 1987. No sales projections are provided for in 1987 for this shop as the sales may not commence till December or January 1988.
- The increase in working capital is required for higher requirement of stock due to 30% increase in sales.

$$\frac{\text{Increase in sales}}{12 \text{ months}} \times 3$$

**AARONG EXPANSION PROGRAMME
BUDGET**

I. LARGE SHOPS: (1,750-2,000 sft.)	
Cost per shop	
A. Rent Advance	350,000
B. Frontage Construction	250,000
C. Internal Decorations, Furniture and Fixtures	550,000
D. Air Conditioning	240,000
E. Stocks (Working Capital)	1,750,000

SUB-TOTAL	3,140,000
 II. MEDIUM SHOPS: (700-1,000 SFT.)	
Cost per shop	
A. Rent Advance	250,000
B. Frontage Construction	150,000
C. Internal Decorations, Furniture and Fixtures	400,000
D. Air Conditioning	160,000
E. Stocks (Working Capital)	1,000,000

SUB-TOTAL	1,965,000
 III. SMALL SHOP: (350-400 SFT.)	
A. Rent Advance	150,000
B. Internal Decorations, Furniture and Fixtures	300,000
C. Air Conditioning	80,000
D. Stocks (Working Capital)	500,000

SUB-TOTAL	1,030,000

NEW AARONG SHOPS
PROJECTED FINANCIAL STATEMENT

(Tk. in '000)

	Yr.-1	Yr.-2	Yr.-3
1. LARGE SHOP			
Sales Revenue	3,900	4,680	5,700
Cost of goods sold (Purchase price and other direct expenses)	3,042	3,650	4,446
Gross Margin	858	1,030	1,254
General, Administrative, Selling Expenses & Depreciation of Fixed Assets	670	700	720
Producers Services, Design & Design Services, Product Development etc.	215	238	262
Net Margin/(Loss)	<u>(27)</u>	<u>92</u>	<u>272</u>
Taka value Added (40% of Aarong sales)	1,560,000	1,872,000	2,280,000
Number of Producers Serviced (Avg. income Tk.1000/producers)	1,500	1,800	2,200
2. MEDIUM SHOP			
Sales Revenue	1,775	2,160	2,592
Cost of Goods Sold (Purchase price & other direct expenses)	1,386	1,685	2,022
Gross Margin	389	475	570
General, Administrative, Selling Expenses & Depreciation of Fixed Assets	300	315	324
Producers Service, Design, Design Service and Product Development	92	102	112
Net Margin/(loss)	<u>(3)</u>	<u>58</u>	<u>134</u>

Taka value added (40% of sales)	710,000	864,000	1,036
No. of producers serviced (Avg. Income Tk.1000/Producers)	700	850	1,025
3. SMALL SHOP			
Sales Revenue	1,000	1,300	1,690
Cost of Goods Sold (Purchase price and other direct expenses)	780	1,014	1,318
Gross Margin	220	286	372
General, Administrative, Selling Expenses & Depreciation on Fixed Assets	165	170	175
Producers Services Design, Design Services & Product development	56	41	45
Net Margin/(Loss)	(1)	75	152
Taka value added (40% of sales)	400,000	520,000	676,000
No. of producers Serviced (Income Tk.1000/Producers)	400	500	675