



Care

Private Sector Engagement

RUGS to RICHES

Rural women from Bangladesh
weaving the way to export
markets in Europe

Business Case

Technical partner for financial analyses



LightCastle Partners
Inspiring Business | Boosting Economy



Why Inclusive Business?

One way of improving business sustainability is to ensure the sustainability of supply chains, and invest in workers. CARE Bangladesh has successfully facilitated a partnership between Classical Handmade Products (CHP), a local handicraft supplier and Kik a German retailer selling hometex products amongst other items.

The Case of Rugs From Bangladesh

Shilpa switched off her cell phone. She has no time to talk. She loves the play of colors woven into beautiful rugs that had at first seemed so difficult to make! Now she makes upto seven rugs a day weaving a secure life for her daughter who, she hopes, will break free of the inhibitions and restraints imposed on women in this remote village in Rangpur in northwest Bangladesh and be a doctor some day.

In 2008, Classical Handmade Products (CHP) created this opportunity for Shilpa who never thought she was capable enough to find a job anywhere! Shilpa is not alone. 454 other rural women like her have also been employed by CHP in rug making and 290 in basket making for a European buyer named Kik Textilien & Non-food GmbH (KiK) that is retailing a range of products to customers all over the world.

CARE Bangladesh (CARE) facilitated the market linkage in 2007 by helping to train women in the impact group of its USAID-funded project Strengthening Household Ability to Respond to Development Opportunities (SHOUHARDO) and supporting the local entrepreneur i.e. CHP to employ the workers in its village units to meet KiK's orders.

The Social Impact

Social impact of the rugs venture has been multifaceted.

Increased Lifetime Earnings Value of 455 Rug Workers:

Prior to training and employment in the rugs value chain, the present value of a worker's lifetime earnings was BDT 163,081, about US\$ 2,170 (financial analysis by LightCastle Partners Ltd.) from brickbreaking and construction work, small trades etc. After training and employment in the rugs value chain, the value has multiplied almost 33 times and stands at BDT 5,371,529, more than US\$ 70,000! Each month, a worker has the scope to earn BDT 7,200 (nearly US\$ 100) whilst the minimum monthly wage in Bangladesh in BDT 5,300, about US\$ 70 (Minimum Wage Legislation, 2013).

Benefits To The Local Economy:

The venture's positive impact on the local economy consists of indirect employment generation in packaging, transport and backward and forward linkages and incremental injection to the local economy cumulatively amounting to US\$ 0.3 million!

Health Services At Work And Doorsteps:

In order to provide health services to the workers, twelve village women have been trained under a CARE project funded by KiK to become government - certified community health workers specialized in ante natal and post natal care and skilled birth attendance. As many as 1,714 workers and their women family members are directly benefiting from these health workers, fondly called 'SHEBIKA', the caregiver. At the same time, as a snowballing effect of the initiative, the twelve poor women have been empowered with skills to generate income sustainably.

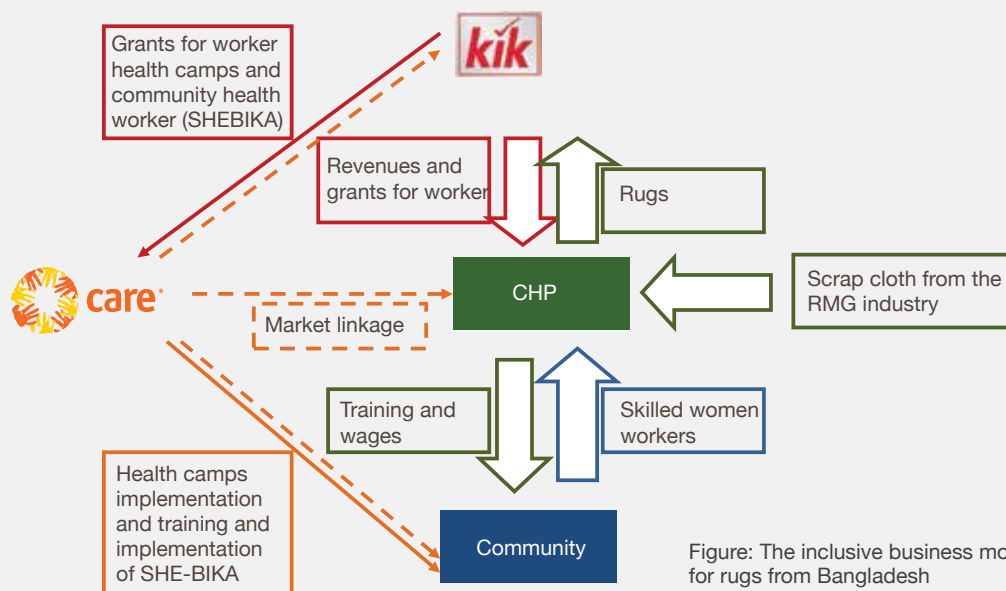


Figure: The inclusive business model for rugs from Bangladesh

The Commercial Impact

(Analyses by LightCastle Partners Ltd. with data from CHP.
Calculation details available on request)

Benefits accrue to all the stakeholders who are able to significantly improve their financial return due to this intervention. The social impact is clearly manifested through increased life time incomes, rising employment opportunities etc. This has also led to a strong base of skilled and motivated workforce for CHP and a robust supply chain for KiK. Their respective investments have yielded high positive returns i.e. the benefits accruing from the investment are higher than the costs incurred.

Table: Investment Valuation for Rugs

Business entity	Net Present Value (NPV) (US\$)	Internal Rate of Return (IRR)
CHP	471,147	39.3%
KiK	793,038	43%

The Net Present Value (NPV) and Internal Rate of Return (IRR) are different measures of Return on Investment (ROI). The NPV is the sum of all outgoing and incoming cashflows, considering the time value of money i.e. the present value of net cashflows. The IRR is the discount rate at which the present value of all cash inflows equals to the present value of all cash outflows. For any project, the higher the NPV and IRR, the more profitable the investment.

Out of this rugs supply chain, the NPV for CHP is US\$ 471,147 and the IRR is as high as 39.3% assuming that the business will continue perpetuity.

CHP produces upto 80,000 units of rugs every month and has sold about 2 million units of rugs and baskets to KiK since 2008 to April 2013 through 14 factories. KiK on the other hand has US\$ 793,038 as the NPV of its investments and an IRR even higher at 43%, again assuming perpetuity. These findings make the investments very profitable for both the retailer and the supplier. What made all this happen???

No choice but sustainability!

KiK's interest in such a venture was stimulated by a number of factors which have placed inclusive business at center stage the world over.

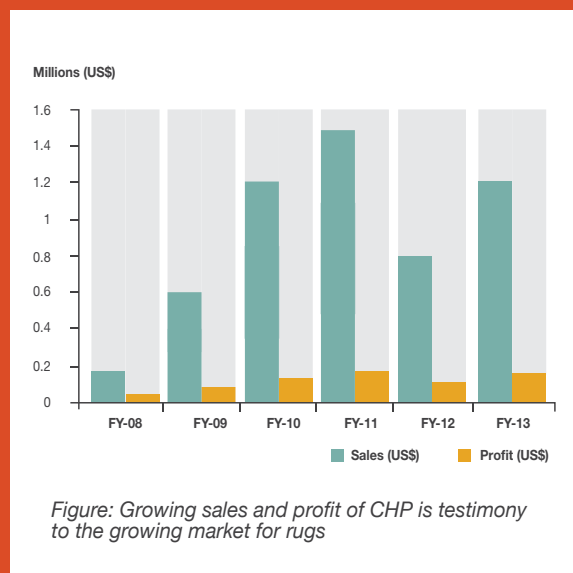
Scrutiny of business by powerful stakeholders

Historically, companies viewed any links with the poor as little more than corporate philanthropy - nice if you could afford it, but certainly not critical to the achievement of business profitability. However, things have changed. According to KiK, stakeholders like consumers, media, civil society, governments and international organizations are increasingly aware and powerful, leading to close scrutiny of corporate actors. As a result, the inability to comply with social and environmental standards threatens the survival of businesses. In 2007, KiK was concerned about criticisms of the conditions in which its goods are produced in Bangladesh as well as poor working conditions in Germany; the company's public image; and the perceived narrow focus of the discount retailer on achieving growth at all costs.

While shareholders are demanding improved profitability, there is pressure to improve supply chain sustainability and deal with increasing scrutiny - not just from activists, but from customers and the public - on employment practices, safety and environmental issues.

Globalization leading to saturation of suppliers and markets

Globalization has increased the interdependence of countries for essential goods and services. While globalization has increased the consumption of natural resources, it has also tended to put in place multi country global value chains in search of cost leadership (World Bank, 2013). The importance of global value chains, especially with respect to developing countries has increased.



Core business need

In order to continue sourcing through KiK's discount business model to keep appealing to a broad range of consumers, sustainability and reputational concerns rank high in KiK's Priorities. The giant focuses on three key dimensions of sustainability - economy, ecology and working practices and environment (Sustainability Report, KiK, 2010).

KiK aspired to develop a robust value chain that produces required products efficiently, uses minimal resources, minimizes harmful emissions and takes care of workers' economic and social wellbeing to enhance productivity and motivation. Aligned to that, what KiK actually looked for was an 'inclusive business' approach that would include and nurture the skills of poor workers in an environment friendly and fair way and also contribute to the sustainability of business.

Economy

Turnover, efficiency

Ecology

Climate, use of resources, emissions, biodiversity

Working Practices and Environment

Wages and salaries, health and safety and employment and human rights

Source: Sustainability Report, KiK, 2010

Reputation

Many large International retailers source their products from Bangladesh, mostly RMG. Bangladesh's unique selling proposition that puts it ahead of many other countries, next only to China, is the country's low worker wages that significantly helps to bring down production costs. In recent times, deadly accidents due to poor safety standards in Bangladesh RMG factories have killed thousands of poor workers. This has sparked off a series of angry reactions from consumers, human rights organizations as well as pressure groups.

Alternatively, the environment and worker friendly rugs-sourcing business has offered a welcome relief to retailers like KiK and provided an opportunity to improve their reputations through a sourcing model that includes the poor close to their homes rather than an urban intensive production mechanism which causes urban problems through large scale rural-urban migration.

How is inclusive business relevant to the rugs value chain?

Nature of product and required skills

Rugs are textile based floor coverings that are usually made out of assorted materials. They have evolved to form a very important part of modern home décor and are used extensively in the developed world.

Bangladesh's hometex sector has seen significant expansion of as much as 20 percent (Bangladesh Export Promotion Bureau) annually in recent times. Northwest Bangladesh, the most poverty stricken region of the country has many skilled craftsmen and women who are adept at making various crafts. Among them, rugs are quite popular. Thanks to the existence of Bangladesh's large RMG industry, low cost rugs are in most cases made of waste cloth from RMG factories, on traditional handlooms.

Rugmaking is labor intensive but demands a skill set with which a rural workforce with low literacy and skills base can be easily trained. In addition, the cheap and widely available raw materials from the RMG industry have turned rug making into a suitable livelihood for the rural poor. Inclusive business there identifies the large scope of the involvement of poor producers in rug making as well as other hometex and crafts products.

Business sustainability

Rugs have already occupied an important business segment appealing to profitable international markets and large businesses have flourished based on this product. In order to enhance chances of continuation of this business, it is important to strengthen the value chain which mostly originates in about 1,000 rural locations of developing countries, not only for rugs but also for other hometex products and crafts. The most important links here are the workers and their skills.

These drivers of change made a strong impression on KiK. Owing to KiK's large size and the fact that it thrived on low cost mass production, its sourcing process could easily come under the lens of strong scrutiny. Responding to business sustainability concerns and scrutiny of increasingly aware stakeholders, KiK was committed to finding a supplier who could meet its sustainability and responsible business needs.

Impacts of the population at the base of the pyramid (BoP) on craft and hometex business

Innovative, high value craft - serving trendy, high end markets in Europe

Folk art and culture are key aspects of the crafts industry which also produces much of hometex export products. This nature of crafts and hometex inherently embeds stories and skills of poor rural artisans and craftsmen and women most of whom live in developing countries like Bangladesh.

With an increasingly sophisticated and environment conscious wealthy customer base in Europe and North America, new markets for natural products and crafts are emerging. Potential inclusion of the middle and low income customers into this market would not only add large sales volumes but also improve the reputation of retailers. At the same time, involving such poor people in high value international business promotes inclusive growth and dignified livelihoods, and helps rejuvenate and nurture age old handicraft skills.

How did CARE add value to the rug business of KiK and CHP?

CARE, one of the largest and oldest humanitarian aid organizations, is fighting global poverty by working in:

84 Countries,

Supporting **1,000** projects

Reaching over **122** million people.

At the same time, in order to explore the means of sustainability, CARE has increasingly become conscious to involving the private sector in development. In order to do so, CARE is increasingly designing and implementing pilots in inclusive business.

The centerpiece of CARE's six decades of operations in Bangladesh has been the empowerment of the socially and economically marginalized women.

With such pro-poor development and women empowerment approach and familiarity with the rural context, CARE was able to:

- Help CHP with the identification of potential sites for new production units;
- Identify recruits for the weaving job opportunities and provide set-up resources (handloom, staff training, and training allowances), emphasizing people who needed jobs the most;
- Reassure the new weavers' families and local communities that the work was both honorable and secure.
- Provide support in counseling of workers, communication between the employer and workers and health of workers with a keen focus on women empowerment
- Carry out market linkage and manage worker supplier-buyer relationships

Twenty five women initially went through a six month training on rug-making aligned to KiK's European customer's specifications and were paid a monthly stipend. Three production units were set up with 25 women workers in each. By December, 2008, CHP established five village rug units employing 12 poor women. Gradually increasing demand for rugs helped CHP expand and create more employment.

CARE helps companies realize responsible and sustainable business benefits by:

- **Communicating** effectively with local suppliers and communities
- **Understanding** which material issues will affect the business over time
- Creating linkages with local suppliers
- Managing the **supplier-buyer relationship**
- Building **sustainable operations** and strengthening local supply chains
- Expediting **supply chain development** that would normally take much longer to bring products to market

And...there's more to be done!

The rugs business model has been an important milestone for CARE, KiK and of course CHP in terms of social as well as commercial impact. though in a relatively small scale, the model has had a remarkable impact on women empowerment in one of the most poverty stricken and remote areas of Bangladesh.

1	Women empowerment
2	Entrepreneur development
3	Door-to-door health service for remote, poor communities
4	Some addition to the export basket of the country
5	Job creation and income generation
6	Recycling of scrap RMG clothes for rugs and use of dry leaves for baskets

However, there is more to be done!



Questionable sustainability of livelihood:

Currently, CHP is a supplier to KiK and another buyer from USA. KiK's business and ability to retain its workers is subject to the number of orders the enterprise is able to generate from its existing or new buyers. This has placed the workers at a precarious situation with respect to job security and year-round income.

Poor literacy and numeracy of workers:

The workers, and in general people in the northwest region, have poor literacy and numeracy with only 50 percent of children aged 6-15 actually going to school.

Slow improvement in social empowerment of women:

While the women working in the rug factories are earning and contributing to family expenses in many ways, more can be done to provide them with a voice in the family and the community. Husbands and in-laws continue to influence and dominate women especially in their health related decisions e.g. use of traditional birth attendants rather than skilled birth attendants (SBA).



Poor physical health:

The workers' health continues to suffer - mostly body ache due to long hours of work, despite health camps and deployment of SHEBIKA. Even though SHEBIKA, the offshoot community health worker project of CARE from the rugs model, is yet to start operating in full swing and have recently been provided training on physiotherapy under the CARE project, the number of SHEBIKA, their access to training, medical accessories and medicines limits the effectiveness of their service delivery.

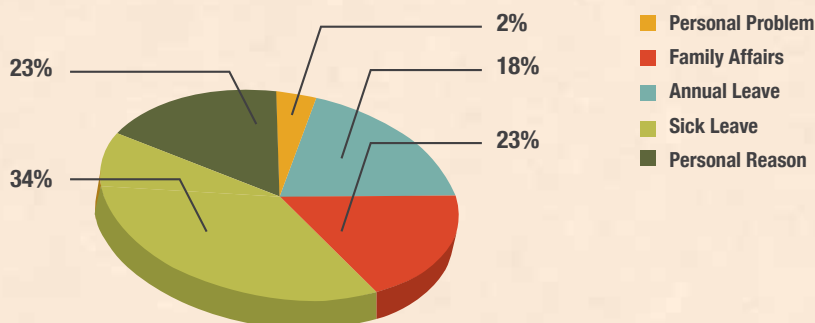


Figure: Types of Leave taken by Rug workers

Moderate mental health:

Many workers suffer from moderate levels of depression and are indifferent towards the work they are doing - the level of motivation is rather low.

Evidently, "Rugs to Riches" is a path that leads to shared prosperity and the social and commercial benefits have already been demonstrated through current operations. More investment in this sector can help diversify the sustainability risks of local suppliers and ensure longer term job security for

the women workers. At the same time, investment in other areas like health, literacy etc. can also yield visible impacts on the society and business by unleashing the full potential of the rural women rug and basket workers.



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ACRONYMS:

CHP	Classical Handmade Products
IRR	Internal Rate of Return
NPV	Net Present Value
ROI	Return on Investment
SHEBIKA	Sustainable Healthcare by EnaBling Improved Knowledge and Access
BoP	Base of the Pyramid

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