Charsadda Cloth Project (CCP)

Executive Summary

Aim: to improve and expand existing cloth weaving industry in Charsadda, North Pakistan, increasing employment for both men and women and providing a model for sustainable industry.

This is a three phase project:

Phase One – 1 year
Improve output of existing production by providing the following services to existing weavers:
a) Dyeing
b) Marketing (domestic and international)
c) Upskilling workers
d) Improving quality control

Phase Two – 2 years
Establish sustainable business producing finished goods for the homewares market from existing production, introducing screen printing and embroidery.
a) Ethical – organic certified, fair trade cloth
b) Increase employment opportunities in weaving and finishing of products
c) Western design experts and local textile engineers to provide design and production consultancy services.

Phase Three – 3-5 years
Build new production facilities
a) In-house production of high-end, hand-made woven goods for international markets (in improved working conditions).
b) Improvement of textile technology to expand range of products, in particular in collaboration with local leather and furniture industries, eg by production of upholstery fabrics.
c) Establish local design facility
d) Establish formal technical training facilities.

New production facility to be managed by local management team and technical staff, with input from international consultants in areas of design, marketing and textile technology. FDS will oversee management and production.

All profits to be reinvested in business and local community projects to improve production, including education in textile design and production techniques.

Benefits
- Increased employment for weavers (mostly male) and product finishers (male and female) and ancillary workers.
- Improved working conditions

- Sustainable industry

Context

Location
Charsadda is a city of 1.7 million people, situated 17 miles from Peshawar located in the west of Khyberpakhtunkwa Province, bordering Mohmand Tribal Agency. It has good water supplies from the River Jindi, the Kabul River, and the Swat River. It has good rail and road links. The surrounding district is a fertile farming and fishing area. The city supports a number of traditional industries principally clothing, footwear and leather accessories, and furniture making. Shoes are sold across Pakistan and exported to Saudi Arabia and the UAE. However, participation levels in paid employment are extremely low.

The cloth industry is based on both hand and power looms and employs significant numbers. Cloth is sold domestically and overseas.

The Matta Mughal Khel weaving cluster is located in Matta Mughal Khel village in the Charsadda District. It has the potential to expand and generate additional employment in the area. In 2007 there were around 55 businesses in the Matta Mughal Khel, with a total of 288 looms, mostly hand looms, although this number will have been affected by recent flooding of the whole area. The principal products are Khaddi cotton, shawls and scarves.

Existing weaving industry

Most businesses are single weavers with apprentices working on narrow handlooms or small power looms, using a mixture of local hand-spun and imported machine-spun yarns. Production facilities are basic.

The benefit of hand looms are that they are constructed simply, do not require electricity and are easily transportable. However, they impose production constraints; eg, it is not possible to tension hand-spun yarn enough to produce bedsheet width cloth. This width requires high quality machine-spun yarn and power broadlooms.

Existing production is mainly devoted to heavy cotton cloth for winter clothing, for which the area is famous.

Weavers are often unable to finance the purchase quality raw materials (yarn and dyestuffs) and are reduced to producing lower-quality products, which in turn leads to lower cash returns.

Local weavers are adept at producing simple cotton weaves and designs, although they have indicated that they would like to learn more about other techniques to improve production.

Products and Services

Phase 1: Production and export of bulk homespun natural and dyed cloth from existing facilities.

A small management team will select existing producers and provide them with superior raw materials and support providing that the producers reach a certain standard of output.

Critical inputs from the team are
- Provision of good quality organic dyes
- Colour consultancy services to ensure colour range is orientated to export markets
- Training and introduction of quality control in raw material selection, weaving and dyeing processes
- Marketing of products in domestic, Indian and related regional markets.
- Marketing of products in Australia, UK and US.

The opportunity may arise at this point to help these producers form a cooperative. However, anecdotal evidence indicates that competition in the market may preclude this.

Phase 2 – Production of finished goods and upgrading of bulk cloth production

The management team will put in place the following improvements to existing production

1) Organic certification for yarns, dyes and printing inks, to meet EU requirements or GOTS (Global Organic Textile Standard; version 3) http://www.global-standard.org/the-standard.html

2) Institution of sustainable work practices and fair trade conventions

3) Further enhancement of existing bulk fabric range by introduction of block printing screen printing and embroidery.
Screen printing may require construction of an in-house facility.

Embroidery and other appropriate finishing will be subcontracted as outwork to households in the Charsadda and surrounding tribal areas. This represents the only acceptable employment for women in the regional cultural context as it exists at present.

4) Provision of western orientated design input for production of a coordinated range of homewares and soft furnishings for export. Ongoing additional market research into these markets is required to meet changes in fashion.

A number of international homewares and clothing designers have indicated interest in providing services to the weavers to educate them in the requirements of international markets. Where possible, FDS will hold collaborative workshops with international designers/textile experts.

Phase 3 – Establishment of new production, design and training facilities

Building on the experience gained in Phases 1 and 2, and in combination with further consultation with production engineers and other experts in relevant disciplines, the management team will oversee expansion to achieve the following:

1) Build a new vertically integrated in-house production line to include all processes from spinning, weaving, dying, to cutting and machining.

2) Establish local design facility to work in collaboration with international experts as required.

3) Establish formal technical training facilities for all textile workers, both in-house staff and other producers.

4) Improve the quality and range of textile products and expand production to include hemp, wool, linen and silk.

5) Employment of these improved textiles in the production of high-end, hand-made woven goods for international markets, including clothing.

6) Expansion of range of products in collaboration with local leather and furniture industries, eg, to produce accessories such as bags and furniture using upholstery fabrics.

Markets/Customers

Bulk cloth - local domestic market and international markets.

Bulk cloth currently purchased by Afghan Interiors from Charsadda costs between A$0.50 - $1.00 per metre, at the factory gate. This compares favourably with both major competing counties, India and China.

India in particular has seen a significant increase in production costs of textiles. This represents a close market with potential for the project to supply quality bulk raw cloth to Indian clothing/homewear manufacturers.

Local market may be boosted by improved variety and quality of cloth.

Afghan Interiors commissions and imports cloth into Australia direct from weavers. Initial enquiries indicate an additional small but significant market for bulk cloth sales to designers of homewares and clothing in Australia, especially if dyed.

Demand for quality organic certified cotton in Australia and other western countries is expanding.

Homewares and soft furnishing - local domestic market and international markets

Domestically, outside the Charsadda region, demand for Charsadda Khaddi always exceeds supply due to limited production facilities.

Heavy competition exists in Western markets for homewares and soft furnishing. However, the mix of low production costs, organic certification, and local traditional handicraft skills combined with western design input will provide a distinctive product with a competitive edge.

Once Phase 3 facilities are constructed, the company will be able to offer made-to-order services for international designers. Eco-sustainability in the construction of the facilities may also provide opportunities for the sale of green credits in the international energy markets.

Business Model

Registered company or not-for-profit organisation with FDS Pakistan and FDS Australia as shareholders.

All profits to be reinvested in business to improve production, including education in textile design and production techniques, and in local community projects.

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Consultancy fee structure and managerial fees will be reviewed independently by arrangements agreed with donor organisations

Human Resources

The following estimate is based on the assumption that separate funding will be available from other projects for the FDS Pakistan office in Peshawar. This will exercise financial supervision and liaise with FDS Australia, thereby keeping to a minimum the requirements specific to the Charsadda scheme.

The advisory/supervision team from FDS will comprise the following:
FDS Pakistan representatives: Malik Waris Afridi, Shafiq Afridi
FDS Australia representative: Michael Prato

Charsadda Phase 1

Management Team:
Managing Director: Shafiq Afridi
Production Manager: Shahsaoud Khan
Accounting and bookkeeping: Rafi

Yarn to be purchased and dyed. Production of cloth to be outsourced to existing producers vetted by management team.

Colour consultant: international expert - to be advised
International Marketing and Sales consultancy: Michael Prato and Shafiq Afridi
Domestic and regional sales: 1 to be recruited
Dyeing expert and supporting staff to be recruited, (4), or dyeing outsourced to local contractor.

Phase 2

Screen printing consultant: international expert - to be advised
Screen printing team to be recruited locally – manager and two operatives
Security – 2 staff, or as required
Design consultant: international expert(s) - to be advised.
Embroidery and women's liaison consultant – to be advised
Women's local liaison officer: 1 staff female

Embroidery and finishing work to be outsourced on piecework basis.

Phase 3

Major investment in human resources for production. To be scaled up as required with a probable minimum workforce of 50 initially. This number will be reviewed in planning for Phase 3.
Production Engineer consultancy (local)
Textile Engineer consultancy (local)
Design and Training staff: to be reviewed in planning for Phase 3

Marketing/Pricing

Phase 1

Income will be from sales and export of cloth to international wholesale markets.

Pricing will take into account production costs, and may vary by country depending on transport and other costs. However, in principle, wholesale prices will be determined by market research into retail prices in each export market. In general, wholesalers expect to be able to mark up cloth by 100%. By working back from the retail price of similar cloth in existing markets, we can determine an approximate wholesale price. Prices must also allow for a 15% commission for marketing/sales agents.

At present a medium weight Charsadda Khaddi, ie hand-loomed 100% cotton suitable for upholstery, is bought at the factory gate by Afghan Interiors for PKR60 per metre (AUD 0.70). This is sold by the metre in Afghan Interiors shop in Australia for A$5.50. Other outlets sell a similar weight of cotton cloth at $10 -$12 per metre.

This suggests a minimum wholesale cost of $2.75 landed price in Australia. Subtracting commission agent's fee of 41c, ex Pakistan transport costs of 10c per metre and production costs of 70c the margin is $1.54 per metre, ie over 200% above raw production costs. Even with management costs to be determined, the return available for reinvestment should remain well above 100% of raw production costs.

Production costs and comparison with producers in other countries

Costs of production are cheap. Labour costs are low, even with FDS's intention of applying fair trade premiums to producers.

The average wage for a loom worker currently is Rp 9,000 per month.(approx A$100; Current exchange rate A$ = Rp 92.)
Machine-spun cotton yarn costs between Rp 15,000 – Rp 20,000 per 45kg bale. A 45kg bale will produce 300m -400m of 1.5m wide cloth, depending on quality.

The labour cost of 1 metre of machine-loomed cloth is currently between Rp 3 and Rp 4. Loom production rate is on average 120m finished cloth over a 24hr continuous run.

The cost of a modern dyeing facility is between Rp 3,000,000 – Rp 4,000,000, (A$ 32,600 – A$ 43,500)

To be determined; Cost of dyes. Cost of colour consultant
Current prices for Indian, Chinese equivalents and wholesale prices in EU, UK and US.

Phase 2
Marketing emphasis will be on is a sustainable organic, fair trade, hand-made product, which carries a premium price in western markets.

Finished homeware items will be marketed to higher end stores. The quality of design and finish will have a significant effect on pricing in western markets.

Financial Requirements

Source of Funds

FDS is seeking donors to provide 100% of start-up costs for this project. This does not include the preparatory work and research already completed at FDS Australia's expense. The funding is required to bring the scheme swiftly to scale and to achieve its ultimate goal of widespread job creation and economic uplift within a short time frame. While FDS considers the business model described in phases 1 and 2 to be feasible over the long-term without outside funding, it is more desirable to achieve a quick impact in an area of high unemployment.

Based on our cost analysis, phases 1 and 2 of the project should become self-financing by the time of their scheduled completion. Major funding for phase 3 will be sought after completion of phase 1 and when phase 2 indicates that the business plan is working.

Phase 1 Approximate funding requirement is A$65,500 if dyeing is outsourced, or A$97,600 – A$109,000 if in-house facilities are built.

Use of Funds
See separate cost analysis. Analysis to be updated on receipt of new data

Competition

Textiles are one of Pakistan's biggest industries. Heavily-capitalised concerns are concentrated in Punjab and Sindh, specialising in high volume production of towels, bedsheets, clothing, etc., for export, often in partnership with foreign firms.
Smaller factories exist in some parts of Punjab that produce smaller volume production of light cottons and calicos for the domestic clothing market.

Traditional handloom manufacture continues only in remoter parts of the country such as the North, the Sindh desert and Balouchistan.

Charsadda, in the mountainous north-west, with its freezing winters, alone specialises in heavy handwoven cottons

The CCP is not intended to compete domestically for markets or investment with the large Punjabi firms, but to exploit its niche position in hand-produced goods. Rather, the availability of cheap cotton fabrics from the Punjab provides a potentially important feedstuff for further value-adding at Charsadda in the future.

Elaboration and diversification of fabrics and design is also made easy by its proximity to the wool-weaving and hemp-growing districts of Swat and Chitral to the immediate north, the ready availability of silk and linen yarn from nearby China, and the fact that it is surrounded, from Hazara and Abbottobad in the East, through Swat and Indus Kohistan in the North, to Afghanistan in the West by areas with a rich surviving tradition of embroidery and other handicraft skills.

In export markets competition in this class of goods is mainly from India, and to a lesser extent, China.

Price levels in India are still roughly comparable, but have risen noticeably recently and are set to rise further as both Indian and Chinese economic growth accelerate. The steady appreciation of the Indian Rupee will be an important factor in foreign markets.

Pakistan is also suffering high levels of inflation, but this is more than offset by the remorseless depreciation of the PKR against all major currencies which has extended over many years. The most probable outlook therefore is for the price differential in foreign markets to widen further in Pakistan's favour for the foreseeable future.

Cost of production and exchange rate considerations aside, however, the CCP’s permanent competitive edge will ultimately depend on a combination of quality control, good environmental and developmental credentials, and, above all, high design values and good connectivity with Western markets.

Risks

Power Supply
Problems with power outages are a chronic occurrence in Pakistan, particularly in summer.

Risk reduction strategy: inclusion of generators in phase 3. There is high potential for the use of renewable energy sources such as solar and hydroelectric power given the climate and nearby river systems.

Security concerns
The general security situation in Khyberpakhtunkwa is highly volatile and potentially dangerous. Charsadda does not suffer from the military operations or the drone attacks common in the adjacent tribal areas but sporadic bombings and assassinations are common together with a constant medium level threat of kidnapping.

As an Australian based NGO, there is potential risk of the CCP being associated with a “foreign hand” in extremist circles and thereby becoming a specific target.

Risk reduction strategy: FDS, in particular FDS Pakistan, has a deep knowledge of the area, access to and intimate acquaintance with its tribal leaders and leading political and government figures. While it is impossible to avoid the operations of chance, this “insider’s knowledge” will allow FDS to take action to avoid potentially threatening situations. An effective communication strategy with the local population and the overwhelming popularity of a project bringing increased employment to the area are likely to keep security threats to a minimum.

Grievances and disputes caused by disruption of the existing cottage industry

Risk reduction strategy: FDS’s phased approach to the CCP is specifically designed to be both inclusive and immediately financially beneficial to all people engaged in the current industry. An expansion of international markets not yet tapped by the local industry will avoid stealing local market share from existing producers. Training facilities will be made available to all workers in the sector.