



rag^s2riches™

CASE STUDY

Rags2Riches and the Progress out of Poverty Index®

How an eco-ethical fashion company in the Philippines uses poverty data in pursuit of social goals.

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The Progress out of Poverty Index® (PPI®) is a Grameen Foundation product that allows poverty-focused organizations and businesses to measure poverty among the households they affect. Each PPI is created by Mark Schreiner of Microfinance Risk Management, L.L.C.

This case study was made possible by support from the Ford Foundation.

For more information on the PPI, visit www.progressoutofpoverty.org.

For more information on Grameen Foundation, visit www.grameenfoundation.org.



Introduction

Rags 2 Riches (R2R) is a retailer of handbags, accessories, and home goods that are woven from upcycled materials by artisans in and around Manila, the Philippines. This case study looks at how R2R has used the Progress out of Poverty Index®, or PPI®, to understand the poverty profiles of the artisans from whom it sources its goods. Such poverty data has helped R2R determine whether they are on the right track in achieving their dual mission of achieving social impact and sustainability.

The PPI is a country-specific poverty scorecard that allows an organization to measure the rate of poverty among its clients. Using the PPI, pro-poor practitioners can better determine their poorest clients' needs, which programs are most effective, how quickly clients leave poverty and what helps them to move out of poverty faster. The indicators in the PPI are inexpensive to collect, easy to answer, simple to verify, strongly correlated with poverty and liable to change over time as poverty status changes. The PPI is widely used by poverty-focused organizations in countries where a PPI scorecard has been developed.

The PPI is designed and created by Mark Schreiner from Microfinance Risk Management, L.L.C.

R2R's Values

People. Quality of life and quality of dreams.

Planet. Care for the environment.

Profit. Income to continue the positive influence.

Positive Influence. Engaging others in doing good while doing business.



The History of Rags2Riches

In 2007, nine individuals passionate about development work found it unfair and exploitative that women in Payatas, a poor community in Manila, were selling rugs at around US\$0.30 when the cost of fabric was US\$0.20. These women would get very meagre earnings from finished products as middlemen, who control both the supply of scrap cloth and the product's access to market, profit more.

These individuals founded Rags 2 Riches based on the concept that the rugs could be turned into highly fashionable items that can be sold at a higher price, paying these women more for their work. Rags2Riches, Inc. (R2R) was established in 2007 and is based in Manila, Philippines. It is a for-profit organization that helps mostly women, but also some men, in poor communities become artisans who produce eco-ethical fashion and home accessories out of scrap fabric. R2R's first few years were spent looking for communities with members who can be artisans, improving the quality of the products, and increasing production and income. They were later joined by partners, who infused high quality and creative designs in the products, and by established institutions that support R2R's work with the communities. Today, R2R is a widely-recognized social enterprise both locally and abroad, and its products are known to be highly stylish and fashionable and are associated with the biggest names in fashion and design.

Learn more about Rags2Riches and order merchandise online at www.rags2riches.ph.

Rags2Riches as a Social Business Enterprise

R2R takes what it calls an *eco-ethical* approach to sustainability.

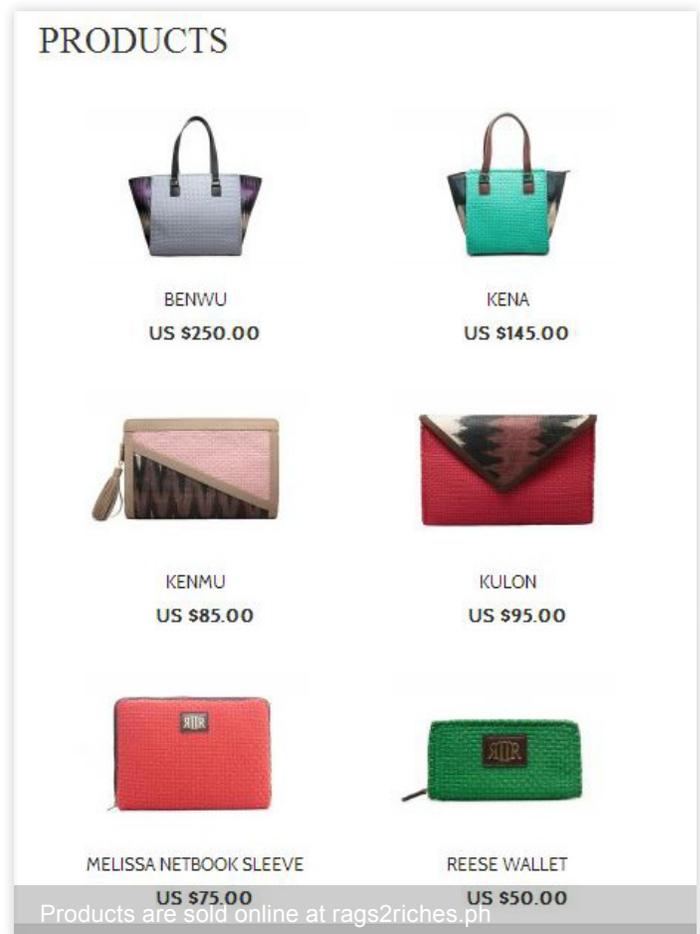
- ▶ **Social impact:** R2R sources handbags, jewelry, rugs, pillows, and other goods from member suppliers living in poor communities in Metro Manila. R2R's mission is to improve the artisans' quality of life and self-worth, so that these communities can be self-sustaining and grow to supply retailers beyond R2R. To realize this, R2R provides an integrated sustainable livelihood platform that includes business skills development, financial education, and savings programs.
- ▶ **Environmental sustainability:** Products are made from upcycled fabric scraps purchased from garment manufacturers and other sustainably sourced raw materials.
- ▶ **Product design:** R2R has partnered with local fashion designers while encouraging the use of indigenous weaving techniques, which gives R2R products a distinctive look.

As a result, R2R products provide economic empowerment to local women, reduce landfill waste and resource consumption, and are fashionable enough to compete on the global market.

The R2R Business Model

R2R works with local foundations, non-governmental organizations (NGOs) or Church-based institutions to identify and engage the communities that supply R2R's products. They are R2R's partner-institutions and their members are R2R's artisans. They complement the support being provided by R2R by helping the community get a site for training and cover costs of bringing weaver-mentors to the site.

Communities are treated like suppliers or production units, where at least 40 member-artisans commit to at least 10 hours a week of production time each. Incoming artisans should be able to buy a kit worth US\$4 and at-



tend an orientation from R2R. Initially, they have trainee status. While in the program, artisans work from home, allowing them to set their own schedule around other responsibilities.

It is R2R's vision that communities transform themselves into self-sustaining and legally-recognized entities that can supply their products to other companies. In order to do this, R2R has three basic building blocks to scale and sustainability:

Design integration. R2R transforms scrap, organic and indigenous raw materials into stylish home and fashion accessories by partnering with a team of renowned local and international designers. The infusion of creativity and innovation into the materials and techniques creates value for the products and the brand.

Skills training. R2R equips community artisans with the necessary skills and tools to create the products launched in the market. R2R envisions that as the capacity to create increases, so does the capacity to earn.

R2R created the Artisan Academy, a progressive modular training platform that gives the artisans an opportunity to learn new skills (e.g., crochet, embellishments).

Market access. R2R creates access to the artisans' products in the formal economy by penetrating both retail and corporate markets with a brand positioned as stylish, sustainable and handmade.

R2R empowers the communities and its artisans by engaging them in dialogues and consultations on matters regarding production, training, pricing and other services. Artisans have the potential to earn between \$4.50 and \$15 per day, depending on the number of hours worked.

R2R recently opened the opportunity for the artisans to access financial products such as savings and microinsurance. Through savings, artisans are better able to cope with anticipated and unanticipated needs for money. Microinsurance, on the other hand, can lower the artisans' vulnerability to financial shocks in case of death or illness in the family. R2R has partnered with the Center for Agriculture and Rural Development (CARD), the leading microfinance institution in the Philippines, to provide savings and microinsurance for the artisans.

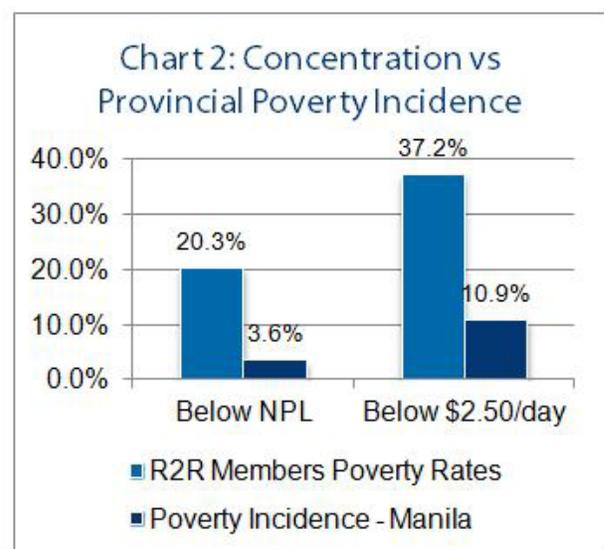
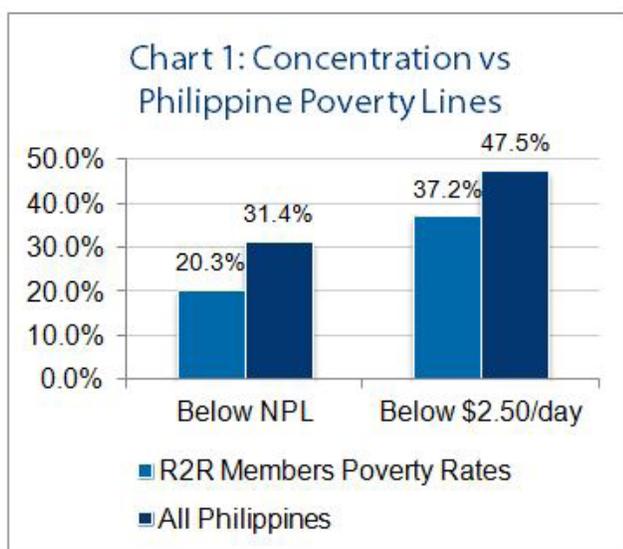
R2R is currently in 12 communities in Metro Manila, with 167 artisans in its program. A management team of 13 full-time staff handles the day-to-day operations, which includes community activation, training, materials sourcing and partnership building.

Pilot of the PPI at R2R

As a social enterprise, R2R is targeting the entrepreneurial poor. Even with zero knowledge of weaving, the artisans upon their entry into the program should demonstrate social awareness and commitment to take on entrepreneurship as a way out of poverty.

When Grameen Foundation introduced the PPI to R2R, the organization seized the opportunity to know the poverty levels of the artisans. R2R piloted the use of the PPI in December 2012 and collected PPI scores from 147 artisans in 10 communities where R2R has presence. These communities are: AOL Sucat, Rags2Riches Cooperative (Payatas), New Community Church, Dream High, Hulma, La Paz Damayan, Paradise Heights, SBC Taytay, SSDM BNSP, A-ha Learning Center and SSDM OFP.

The PPI results from the pilot confirm that R2R is reaching poor artisans in communities they serve. Of 147 artisans, 20.3% are below the national poverty line and 37.2% are below the US\$2.50 PPP/day. When compared against the national poverty incidence of 31.4%, poverty concentration of R2R's outreach is lower. On the other hand, if compared with the poverty incidence in Metro Manila, which is at 3.6%, R2R's concentration rate of 20.3% is significantly higher.





Photos by Rags2Riches

UPWARD MOBILITY

Nhing Estabillo, above, started with R2R as a weaver, but has since worked her way up to workshop supervisor. In this time, her family's quality of life has dramatically improved.

Key Insights from the Pilot

The PPI pilot comes at an appropriate time. R2R's priority for the current year is improving social outcomes from their work and deepening impact on the lives of the artisans. However, R2R is facing two key challenges: maintaining the quality and production level of the artisans, and keeping them in the program.

R2R treats its communities as enterprises and suppliers, hence quality and volume of production are important metrics of their performance. R2R knows it needs to better understand how various factors affect the arti-

sans' productivity and the communities' overall performance in the program. Now that R2R knows the poverty levels of the artisans and the overall poverty profile of the communities, management must now ask, "Is there a meaningful relationship between poverty and productivity?" If a relationship exists, R2R must identify if the correlation is positive or negative and the cause of the correlation. For example, if poor communities are less productive, perhaps they simply cannot comply with some program requirements (e.g., training, materials). What other behavior and attitudes associated with this poverty group affect productivity?

Another serious challenge to the R2R model is reducing fallouts from the program. Since R2R's inception in 2007, they have reached out to more than 900 artisans. Due to fallouts, however, to the current number of artisans is 167. Artisans drop out of the program for various reasons:

- ▶ if they are unable to meet the quality standard of R2R,
- ▶ if their pay does not match their more frequent need for cash,
- ▶ if they find work that pays higher,
- ▶ if they find a job or employment, or
- ▶ if certain problems and conditions in the communities make it difficult for them to continue participating in the program.

Knowing the poverty levels of artisans can lead to a better understanding of the fallout issue and reveal if R2R's business model is incompatible with the needs of poor communities. If poorer artisans require additional support or a change in how they are approached by R2R, this will be discovered in this analysis.

Lessons and Future Plans

R2R knows very well that improved quality of life means artisans have to stay long enough in the program to reap the benefits of being an R2R artisan. R2R is focusing on existing communities and improving retention of artisans in the program, and it will conservatively increase its presence in present communities to bring in more artisans. They see that the PPI will be very useful in the following processes and areas of their work:

- ▶ Determining the poverty levels of artisans and whether they fit the profile of R2R's target members;
- ▶ Profiling of artisans and communities in need of social services and other interventions;
- ▶ Understanding the relationship between poverty levels and productivity, as well as poverty levels and fallouts; and
- ▶ Finding indications of movement out of poverty.

R2R will also integrate the PPI in its regular survey of artisans that helps them assess improvements in their quality of life. The survey, which will be improved to include questions that will help explain behaviour and decisions, generate results on R2R's quality-of-life indicators: savings, children's education, frequency of meal intake and access to social services (social security, health service). PPI results will be part of the annual reporting to the artisans and other key stakeholders (partners, investors), and will be regularly reported to the Board.

In the future, R2R sees that the PPI can be a useful tool in targeting and selecting communities where they can expand, in segmenting the artisans according to their needs and conditions, and in tracking movements in their poverty levels.

Conclusion

Both the founding members, board and management of R2R believe that running a social business enterprise is never easy, and that balancing financial and environmental sustainability with social outcomes can be a tricky act. It needs careful planning, an exhaustive understanding of internal and external conditions, and a well-thought out strategy that can lead to desired social outcomes. R2R, however, knows its strengths – the business model that they carry, and the partnerships that they can build and rely on. R2R sees that the PPI can be part of the overall strategy to help them better understand the artisans, and continuously improve the R2R model and brand.

But social outcomes – improved quality of life of the artisans – do not happen overnight. In order not to lose sight of their vision, R2R relies on a well-grounded and committed leadership, a very patient management and dedicated partners to continue their work with poor communities. Stephanie Cuevas, R2R's Operations Director, aptly puts it that R2R is mainly a business, but it is also about doing good while doing business.■