



4/176 Bhawani Mandup, HB Complex,  
(GPO Box 3459),  
Kathmandu, Nepal.

August 24, 2012; Friday.

The Global Compact,  
United Nations.

**RE: Statement of Continued Support for the Global Compact**

Dear Sir/Madam:

I hereby confirm our continued participation and support to the Global Compact initiatives, as Formation Carpets continues to adopt Global Compact principles deeply intertwined with its daily operations.

Thank you.

Sincerely,

Sulochana Shrestha-Shah  
Managing Director

**FORMATION  
CARPETS PVT. LTD**

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|   | [Global Compact Asia Template]  |
| Telephone:<br>977-1-5000273<br><br>Fax:<br>977-1-5538473<br><br>E-mail:<br><a href="mailto:info@formationcarpets.com">info@formationcarpets.com</a><br><a href="mailto:info@hostehainse.org">info@hostehainse.org</a><br><br>Web:<br><a href="http://www.formationcarpets.com">www.formationcarpets.com</a><br><a href="http://www.hostehainse.org">www.hostehainse.org</a> | <p style="text-align: center;"><b>2012 Communication on Progress (COP)</b><br/>from<br/><b>Formation Carpets</b><br/><b>Nepal</b></p>   |
| Project Name  | Formation Village - Hoste Hainse  |
| Company Name  | Formation Carpets (2006 Best Practice from Nepal)   |
| About the Company/Council   | <p><b>Formation Carpets</b> is a hand-knotted rug manufacturer based in Kathmandu, Nepal, which has been in business for the last 22 years. Formation Carpets exports hand-made rugs to North America and Europe. The activities of Sulochana Shrestha-Shah, the founder of Formation Carpets, was one of the contributing factors that led to the establishment of the Rugmark label (now known as Goodweave) in Nepal in 1995, the label that guarantees that no child has been employed in any process related to the production of the rug, including dyeing and spinning of the pile. Rugs with exclusive designs and of outstanding quality, balanced with the fact that these works of art are produced by employees in sound working conditions, and are environment friendly, is the mode in which Formation Carpets operates. Sulochana Shrestha-Shah was awarded the 1997 Advocates for Human Rights Award for her continuous spearheading of social issues from the business sector, her work at Formation Carpets, and pushing her motto "business with ethics."</p> |
| Partners/Participants   | <p>Formation Carpet's sister concern and NGO, <b>Hoste Hainse</b>, was registered a week before Formation Carpets was registered in 1990. The sole purpose of Hoste Hainse was to ensure sound working conditions of the employees of Formation Carpets, not only the employees, but also their children. Efforts like a complimentary day-care and pre-school facility for the children of the weavers so that the children would be looked after while their parents were working and also ensuring that the children would not end up playing on the streets were the first efforts of Hoste Hainse. As the children grew up, Hoste Hainse started to become involved in obtaining full/partial scholarships for them. This catapulted Hoste Hainse into the education sector. What started as a simple scholarship project for five children is now an organization that supports the education of over 2,000 children all over Nepal. Formation Carpets believes in the need for integration between</p>   |

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|                                    | <p>the business and NGO sectors, as together they can bring social and economical changes at a more aggressive rate.</p>   |
| <p>Global Compact Principle(s)</p> | <p><b>Human Rights</b></p> <p>The founder of Formation Carpets, Sulo Shrestha-Shah, has been instrumental in spearheading social "business with ethics" aspects of the business (perhaps even more than the business itself), which resulted in her being awarded the Advocates for Human Rights Award in 1997 (* see URL below). Shrestha-Shah has been equally vocal on women's rights issues, employing a 100% woman weaver workforce for the production of carpets, with men working in departments that require more physical labor. She was at the forefront of battling anti-child labor long before the establishment of GoodWeave, then known as Rugmark. This push for child-labor free carpet production ultimately led to the formation of GoodWeave in Nepal. On December 24, 1995, GoodWeave Nepal (the Nepal Rugmark Foundation) was established, with Sulo Shrestha-Shah serving as the organization's first elected president. She continued to work as a board member of GoodWeave Nepal for the next seven years, and today she holds an advisory role in the organization. In addition, Sulo Shrestha-Shah also held the post of General Secretary of GoodWeave International in 2002-2003.</p> <p>* URL: <a href="http://www.theadvocatesforhumanrights.org/past_human_rights_award_recipients.html">http://www.theadvocatesforhumanrights.org/past_human_rights_award_recipients.html</a></p> <p>Corporate Social Responsibility (CSR) principles were always followed at Formation Carpets, even before their formal introduction into the company about a decade ago. The formal introduction raised awareness amongst the employees, which made the employees feel more important as well as more valued. Being part of the United Nations Global Compact, and having been selected as the 2006 Best Practice from Nepal was a huge morale booster for the company as well as its employees.</p> <p>Formation Carpets not only protects, but also raises awareness of the human rights of its employees. All employees can express their feelings and opinions freely through administrative channels, as well as via an open-door policy. Sulo Shrestha-Shah is very visible to all the employees of Formation Carpets. The company believes that the employees are the center of the company and without them there is no existence of the company.</p> <p>In addition to providing free education to the children of the employees, Formation Carpets has for over a year started generating employment opportunities for the very children that it educated. As more and more children of veteran employees graduate from school and reach a legal age for working, Formation Carpets hires them into the company for work that their weaver mothers could only dream of doing -- operating a computer. Formation Carpets is digitizing its two-decade old carpet manufacturing process, which includes daily digital pictures of all carpets on every loom. An online information management system lets employees communicate directly with the customers of Formation Carpets. In the past, only two people handled client correspondence via email. Now, a workforce of 15 is in constant communication with customers on the other side of the world. This gives the children of the weavers a breathtaking insight on how the business works past the loom, that their mothers have been working on for years. Formation Carpets hopes to incubate the 2nd generation employees in international business with a goal to turn them into successful social</p> |

entrepreneurs in the future.

### **Labour**

Formation Carpets conceives in high productivity of employees through freedom of work. Employees are never forced to work. Employees have the freedom to select their task/responsibility in the company. Formation Carpets believes in free competition of the employees irrespective of sex, cast, age, and religion; however, during employee recruitment, for women empowerment purposes, in a male-dominant society, it gives high priority to women and disadvantaged groups. There is no discrimination in benefits, compensation, access to training, promotions, termination or retirement based on race, caste, national origin, religion, age, disability or gender.

#### **Highlights:**

- There is no child labour involved in the company.
- The company is a licensee of GoodWeave Nepal, i.e., all carpets obtain the Goodweave (Rugmark) label to certify that the carpet was produced free of child-labor.
- Age bar (minimum age – 18 years) in the recruitment of the employees.
- It is compulsory for the employees to send their school-aged children to school.
- Sponsorship /Scholarship Support Facility to the employee's children.
- Pre-School children have access to a well equipped Day Care Centre.
- School children have access to Coaching Classes.
- Employees and their children are provided with complimentary health insurance.
- Employees are sent to supplemental training programs as and when needed at the expense of the company.
- Employees are paid 13 months of salary in a year, with the 13th month consisting of a Dashain Bonus, Dashain being the biggest festival of Nepal.
- A profit-sharing program (profit bonus) is available to all employees.
- Employees receive 30 days of paid vacation, in addition to 15 days of paid holidays, per year.
- Paid Maternity Leave is available at 2 months per maternity, up to 2 times.
- Employees are free to engage in a trade union, although the Formation Carpets in-house trade union has not been active since most of the employees are content.
- Gratuity packages well above government mandates are available for employees who wish to resign for whatever reason.

All employees are informed of company policies. The process of dissemination is through quarterly meetings and interaction programs.

### **Environment**

Formation Carpets focuses on using environmentally friendly dyes and uses no chemicals during the washing of the carpets. Since almost every step of carpet production is performed by hand with traditional methods, the carbon footprint of Formation Carpets is minimal. The company constantly researches organic alternatives for dyes and raw materials and also disseminates this information, as it becomes available, to its customers and vendors.

Formation Carpets has invested in the Wash Plant that it sends its hand-knotted rugs to,

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|                     | <p>although Formation Carpets does not hold any ownership in the Wash Plant. This is to ensure that our commitment not to pollute the environment by washing our hand-knotted rugs is maintained.</p> <p><b>Anti-Corruption</b></p> <p>Politically-inclined trade unions constantly approach the company for extortion and bribes and attempt to brainwash the in-house trade union committee. The political instability in Nepal over the years has made it worse. However, Formation Carpets has always been strong in fending these off, sometimes risking an entire shutdown of the company, to uphold its principles. To ensure the continuation of its operations, Formation Carpets has had to adapt alternative practices as its primary mode of manufacturing, i.e., mainly work in a distributed environment, as opposed to central. Formation Carpets now has four separate manufacturing units, with its operations office in a separate location. The finance department is also housed separately, with the warehouse being the only facility still in its central location. This distributed working environment has been adopted by almost all businesses with over 50 employees in Nepal to ensure that no central location exists for the politically-inclined trade unions to hold hostage and disrupt operations.</p> <p>Because of this shift, during a period when many business owners find it more profitable to shut down their main venture and engage in alternate business operations quietly, where employees are paid less, environments are less favorable for the employees, and other negative aspects, Formation Carpets has maintained its stance on CSR and is continuing to maintain its principles, even if it means a smaller bottom line.</p> |
| Project Duration    | 1990 - present  |
| Background/Abstract | <p><b>Formation Carpets</b> was founded in 1990 in Kathmandu, Nepal, by Ms. Sulo Shrestha-Shah, a Nepali business entrepreneur, together with Ms. Linda Gaenszle, a German designer. The main concern of the company was to create exclusive carpet designs, ensure outstanding quality in its products, assure a sound working environment for its employees, and at the same time consider activities that will aid in the conservation of the environment. Ms. Linda Gaenszle left the venture shortly thereafter to pursue other opportunities, but Ms. Sulochana Shrestha-Shah continued to spearhead the concerns.</p> <p><b>Hoste Hainse</b> was also founded in 1990, and had the initial purpose of ensuring sound working conditions for the employees of Formation Carpets and their children. Hoste Hainse later started providing educational scholarships to the children of the employees of Formation Carpets, and after successful fundraising efforts, expanded the scholarship project to cover rural/remote parts of Nepal to offer educational assistance to underprivileged children. Over the last 22 years, Hoste Hainse has touched the lives of over 4,000 children in an attempt to better their education.</p>  |
| Initiative          | <p>As a paragon in the carpet industry, Formation Carpet gives preference to employing women: 90% of its employees are women, opportunities are also provided to less privileged women. The company has entrusted Hoste Hainse with the responsibilities of implementation and monitoring of staff welfare activities. The following activities have been initiated:</p>  |

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|                  | <p><b>Reporting System:</b> Hoste Hainse performs quarterly monitoring of the company, its day care centre and coaching class. It inspects work place conditions and interacts with employees regarding their children.</p> <p><b>Day Care Centre:</b> The Company runs a Day Care Centre in its own factory area for infants and pre-school children of weavers which is monitored by Hoste Hainse.</p> <p><b>Scholarship and Coaching Class Facility:</b> The Company provides scholarship support through Hoste Hainse to the children of weavers in various boarding and government schools of Kathmandu. Currently over 200 children of weavers are receiving scholarships, and 45 children are benefiting from coaching class facilities. Over 60 children have already completed their high school exams.</p> <p><b>Health Insurance:</b> Complimentary Health Insurance facilities are being provided, which includes hospitalization and accidental insurance.</p> <p><b>Other Facilities provided by Formation Carpets:</b></p> <ul style="list-style-type: none"> <li>• Provident Fund Facility for Permanent Employees</li> <li>• Dearness Allowance (increased to Rs. 6,000/month)</li> <li>• Dashain Festival Allowance (13 months salary per year)</li> <li>• Profit Bonus Allowance</li> <li>• Incentive Payments (based upon performance and achieved goals)</li> <li>• Transportation Allowance</li> <li>• Leave Facility - 30 days paid vacation + 15 days paid holidays</li> <li>• Maternity Allowance (at Rs. 5,000 two times)</li> <li>• Gratuity Facility for all employees regardless of termination or resignation</li> </ul> |
| Challenges Faced | <p>The lack of political stability in Nepal continues to take its toll on the business sector. To ensure the continuation of its operations, Formation Carpets has had to adapt alternative practices as its primary mode of manufacturing, i.e., mainly work in a distributed environment, as opposed to central. Formation Carpets now has four separate manufacturing units, with its operations office in a separate location. The finance department is also housed separately, with the warehouse being the only facility still in its central location. This distributed working environment has been adopted by almost all businesses with over 50 employees in Nepal to ensure that no central location exists for the politically-inclined trade unions to hold hostage and disrupt operations. This distributed environment means more overhead and higher costs of operation on one end, but on the other it also means employment generation for the additional overhead.</p> <p>On a positive note, all four separate manufacturing units have been started by ex-employees of Formation Carpets. The company incubated these manufacturing units per se, to make them successful ventures of their own. Support has not only been financial, but also operational (management).</p>   |

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| Impacts and Benefits | <p>The privilege of being part of the United Nations Global Compact is priceless. This has been not only a network booster internationally, but also a morale booster internally. The countless visits by interested organizations to see the model business at Formation Carpets has a positive effect on the employees. Employees have become more conscious about their health, their children's education, the surrounding environment, and how they play a part in the grand scheme of things. Vendors as well as customers alike are happy to work with Formation Carpets because of its good track records and constant pushing of the envelope with respect to social and environmental issues.</p> <p>The COP allows Formation Carpets to reflect upon itself once a year, from a "softer angle," the "harder angle" being financials and operational benchmarks. It gives the board as well as the employees (with whom the COP is shared before it is published on the UNGC website) a feeling of accomplishment and motivation, not to mention appreciation on the international level, that everything they have worked for so hard, stands for something positive in the bigger picture.</p> |
| Future Plan          | <p>Formation Carpets will continue working on all its programs/facilities mentioned above, refining each program/facility as it goes forward and the program/facility gains maturity.</p> <p>Each new program/facility is tested with the help of the employees and feedback is taken seriously. Thus, upon the maturity of a program/facility, it is a truly "tried and tested" implementation, and not based upon merely theory.</p> <p>The "Formation Village" remains to be the ultimate goal of the company, but adjusting according to the environment is a must. Therefore, while the "Formation Village" may not end up being in one central location, what has become apparent is that it will be a spread-out network of employees, vendors, suppliers, non-profits and related companies/individuals that share the same belief as Formation Carpets, which is business is not only about the bottom line, but more importantly giving back to society and the community -- "business with ethics."</p>   |