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August 24, 2021; Tuesday.

The Global Compact,
United Nations,
New York, NY 10017,
USA.

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
Founder & Chairperson

Formation Carpets

UNGC ID 3829

Member since July 30, 2003

Communication on Progress (COP)

August 24, 2021

Formation Carpets is pleased to confirm its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment, and Anti-Corruption. We have strict guidelines as well as measurement of outcomes in place. In our 2020/21 Corporate Sustainability Report below, we describe our actions to continually improve the integration of the Global Compact and its principles into our business, strategy, culture, and daily operations. We also commit to share this information with our stakeholders using our primary channels of communication.



2020/21

Corporate Sustainability Report

August 25, 2020 – August 24, 2021.

1. BACKGROUND

In the late 80's, when a documentary on European TV told the world that luxury rugs were being produced in South Asia via child labor, carpet exports from Nepal plummeted. Sulochana Shrestha-Shah, who had just returned to Nepal from Europe with a Master's in Mathematics, and was struggling to put her skills to use as an employee at the Royal Nepal Academy of Science and Technology, knew she had to do something. With her husband's ancestral property as collateral, she took out a loan for NPR 300,000 and began her journey as an ethical businesswoman.

Formation Carpets was established in 1990 as a social enterprise -- at a time when carpet factories were known as dark and dirty places, a bright model factory with shower facilities was established. Boasting women-empowerment with a 100% female workforce, men were only hired to perform heavy-lifting activities. As a social enterprise, the profits of the company were used to award full scholarships to the children of the employees, up to high school matriculation, while providing daycare facilities for the pre-school kids. This was facilitated by the non-profit, **Hoste Hainse**, which Sulochana Shrestha-Shah registered a week before Formation Carpets. Three decades later, some of these children now work as production managers of Formation Carpets, something their weaver mothers could only dream of.

Complimentary health insurance, maternity leave, and holiday pay, to name a few, were some of the benefits that made people want to work at Formation Carpets, but Sulochana Shrestha-Shah did not stop there – she started a campaign to end child labor at all other factories. She joined forces with Kailash Satyarthi in India to establish Rugmark (now Goodweave), an organization that rescues and rehabilitates children from child labor. In 1997, Sulochana Shrestha-Shah received the U.S.-based Advocates for Human Rights award for all the ethical work she spearheaded; her colleague, Kailash Satyarthi, would receive the Nobel Peace Prize seventeen years later in 2014.

At its peak, at the turn of the millennium, Formation Carpets employed over 500 women in-house, but the politically backed trade-unions during the Maoist Insurgency, which wiped out 75% of business houses in Nepal, almost shut down Formation Carpets in 2006. 2006 – 2016 were rebuilding years for Formation Carpets, and we are now happy to indirectly employ over 1,000 individuals, both men as well as women, throughout Kathmandu.

While hand-knotted rug manufacturing in Nepal may be a dying industry due to the rising cost in raw materials as well as skilled artisan labor, we will keep our doors open as long as we can to continue a legacy that was started to make a difference. Please visit www.hostehainse.org to learn more about our social endeavors.

Located in Jawalakhel, we do not have a showroom, but please stop by our factory to order your custom rug, or pick up a stock piece, after getting a tour of the zero carbon footprint production process. office@formationcarpets.com. +977-1-5550700.

2. SISTER ORGANIZATION



Hoste Hainse is a non-profit non-governmental organization (NGO) that has been catering to sustainable community development through education for the last 30+ years. We build and run non-profit free-for-all community schools for underprivileged children across rural Nepal, where poverty levels are high and education penetration low. Our education programs are primarily funded via donations, but we also run sustainable fundraisers spanning both income generation programs as well as eco-friendly endeavors, which now cover about 15% of our budget. Our income generation programs are local and currently include fish farming as well as milk delivery, while our eco-friendly endeavors include fundraising through recycling (Recycle for Education), reusing (Reuse for Education), and tree planting (Plant for Education) to name a few. Hoste Hainse is a member of both the United Nations Global Compact as well as IUCN (International Union for Conservation of Nature).



United Nations
Global Compact
Member



Our Story

Hoste Hainse was founded in 1990 by Sulochana Shrestha-Shah, and had the initial purpose of ensuring sound working conditions for the employees of its sister concern, Formation Carpets, a for-profit hand-knotted rug exporting business. The efforts of Hoste Hainse included hygiene programs with complimentary health insurance, provident fund facilities, and paid maternity leave, to name a few, for a 100% female workforce advocating women empowerment. Programs like a day-care and pre-school facility for the children of the employees, to ensure the children would not end up playing on the streets (which was a problem that plagued Nepal then), were one of the first milestone efforts of Hoste Hainse. As the children grew up, Hoste Hainse started to become involved in obtaining full/partial scholarships for them to attend school with the proceeds of Formation Carpets business. This catapulted Hoste Hainse into the education sector.





In parallel, Sulochana Shrestha-Shah was at the forefront of battling child labor issues in Nepal, hand-in-hand with 2014 Nobel Peace Prize Winner, Kailash Satyarthi, which led to the establishment of Goodweave in 1995 (Goodweave was known as Rugmark until 2009). Sulochana Shrestha-Shah was the first elected president of Rugmark Nepal. The organization is dedicated to ending illegal child labour primarily in the hand-knotted rug manufacturing industry, via a certification program that allows companies like Formation Carpets that pass inspection to attach a logo certifying that their product is made without child labor. More importantly, Goodweave rescues children forced into child labor and has facilities for rehabilitation, which includes education and reunification with parents. In 2013 Goodweave branched out into the brick sector via Better Brick Nepal to eliminate child, forced and bonded labor in brick kilns through an incentive-based system linked to market demand for ethically produced bricks.

By 1997, Sulochana Shrestha-Shah was awarded the Advocates for Human Rights Award [cached] for her continuous spearheading of social issues from the business sector, her work at both Rugmark/Goodweave (via Formation Carpets) as well as Hoste Hainse, pushing her motto "business with ethics." The Human Rights Award yielded in multiple synergies with like-minded individuals and organizations, and launched the Hoste Hainse education programs across rural Nepal, primarily where poverty levels are high and education penetration low.



Us Today



Hoste Hainse currently runs four schools, grades ECD (Early Childhood Development) through 10, across four villages in the district of Sarlahi, Province #2, which lies in the Terai, the plains in the south of Nepal. Sarlahi is considered a developing region which means that poverty-levels are very high, gender discrimination rampant, access to basic facilities difficult, and education penetration in the average household extremely low. Sarlahi, with a literacy rate

below 50%, is one of the least educated districts in Nepal. Our programs in Sarlahi started in 1998, and 20+ years later we are proud to share that our high school matriculation rate

(SLC/SEE) has always been over 90% (100% for the last five consecutive years) since inception, with the national averages being at about 40%, and the government school averages even lower than that. As of now, the number of girls in high school is climbing up to the same level as boys, and in total our schools touch the lives of over 2,000 underprivileged children. Because our schools are so high performing, even children not enrolled in our schools flock to our classrooms, and we do not have the heart to turn them away. Further, our education programs are complemented by Income Generation Programs, such as fish farming and milk delivery, which is indigenous to the region, and are run by parents and other members of our schools, which in turn generates funds to make our schools as self-sustaining as possible. At the present, about 15% of our total Sarlahi budget is covered by our income generation programs.

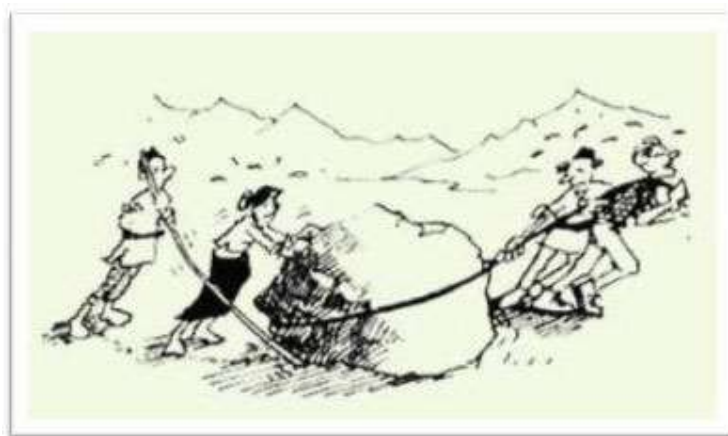
Hoste Hainse also provides educational support to schools in Jhapa, Nawalparasi and Bajura in conjunction with partner organizations, *Chance for Life Nepal*, *Nepalhilfe Bietigheim-Hersfeld*, and *Zukunft Entwickeln*, to name a few. Post-earthquake (2015), we started educational support programs in Sindhupalchowk and have re-built schools in the region.

A paragon in providing educational support to underprivileged children across Nepal, Hoste Hainse has more success stories than it has been able to tell, public relations being one of its weaknesses. To tackle this, we have recently started an informal blog, which aims to tell stories expediently as they happen, before they get lost: www.hostehainse.org/blog.

Hence, what started as a simple scholarship project for five underprivileged children at a carpet factory is now an organization that supports over 2,500 across Nepal.

Our Name

In case you are wondering, the colloquial Nepalese expression "Hoste Hainse" can best be translated into English as "Heave Ho" which is the term most used in Nepal while collectively working on a challenging task. So, let's Hoste Hainse!



More information @ www.hostehainse.org.

3. GLOBAL COMPACT PRINCIPLES

Human Rights

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.

* URL: http://www.theadvocatesforhumanrights.org/past_hrads

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.

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.

In addition to providing free education to the children of the employees, Formation Carpets has 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 has digitized its almost three-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 10 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 entrepreneurs in the future.



Formation Carpets Family

The 2nd generation employees of Formation Carpets have been gaining more momentum, viz-a-vis, more and more of Formation Carpets work is being performed by them, which is the perfect recipe for creating a Formation Village, where the mothers are in production (weaving) and their children in operation (management).

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. Need-based scholarships are provided by Hoste Hainse.
- 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.
- Provident Fund facilities are integrated into monthly salary, with the company matching 100%.
- Performance-based bonus/incentive packages are also offered.
- Employees receive 30 days of paid vacation, in addition to 14 days of paid national 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, as well as through continuous informing via the administrative manager.

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, 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.

Further, environmentally friendly approaches such as rain water harvesting as well as using solar panels to charge redundant energy sources (batteries) have been adopted at the workplace.

Via Hoste Hainse's "Recycle for Education", "Reuse for Education", and "Plant for Education" fundraising programs, Formation Carpets is actively involved in playing its part with respect to SDG 13, Climate Change. "Recycle for Education" is a recycling program, "Reuse for Education" is a re-use campaign, and "Plant for Education" a tree-planting venture. For more information, please visit the following URL's:

- Recycle for Education: www.hostehainse.org/recycle
- Reuse for Education: www.hostehainse.org/reuse
- Plant for Education: www.hostehainse.org/plant

Anti-Corruption

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 six 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.

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.

Formation Carpets has maintained its stance against the politically-inclined trade unions, and has gone as far as taking some offenders to Labor Court for the extortion issues to be handled in a fair manner.

Measurement of Outcomes

GoodWeave performs an Annual Assessment/Audit of all its licensees to ensure its licensees are in compliance with their standards. These standards include Human Rights, Labour, Environment as well as Anti-Corruption along with other pillars that GoodWeave mandates compliance with. Formation Carpets has all of its compliance related assessments as well as audits completed and is pleased to report steady progress year after year.

4. CHALLENGES FACED

Although it seems that political stability has arrived in Nepal, the reality is that we are still a long way from true business stability. Hastily decided policies as well as disorganized overall government oversight, bundled with extreme corruption, 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 a central one. Formation Carpets now has ten 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.

On a positive note, most 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). At the present, about 50% of Formation Carpets' production stems from the manufacturing units.

The devastating earthquakes that struck Nepal in April and May of 2015 also took its toll on business, but Formation Carpets has managed to recover and come out even stronger.

2020 marked the onset of the global Coronavirus pandemic, which is still unfolding in 2021 as we speak with no end in sight. Through our strong networking with GoodWeave, we were able to distribute much needed relief packages to our employees. Salaries were paid even during the lockdown period, and for employees that wanted to leave with gratuity, this facility was also not withheld. We will need to see how the COVID-19 pandemic will unfold entirely and thus would like to refrain from making any pre-mature comments on how we have handled this crisis.

5. IMPACTS & BENEFITS

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.

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.

Formation Carpets is has been an active Participant in the UNGC "Engagement Tier," but this year is continuing as a Signatory as we navigate ourselves through the pandemic. Formation Carpets' founder, Sulochana Shrestha-Shah, is also the founding president of the local chapter of the UNGC – Global Compact Nepal (GCN).

6. FUTURE PLAN

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.

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.

The "Formation Village" remains to be the ultimate goal of the company, but adjusting according to the environment is a must. Post-earthquake reconstruction outside of Kathmandu may yield in the long-awaited "Formation Village." But it may come even sooner on the outskirts of Kathmandu valley where land has been purchased by Formation Carpets stakeholders. Should that not succeed, what will have 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."