



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

August 24, 2011; Wednesday.

The Global Compact,  
United Nations.

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

Dear Sir/Madam:

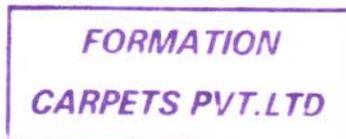
I hereby confirm our continued participation and support to the Global Compact initiatives, as Formation Carpets continues to adopt Global Compact principles deeply intertwined with its daily operations.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to be "Sulochana Shrestha-Shah", written over a large, light-colored circular scribble.

Sulochana Shrestha-Shah  
Managing Director



	[Global Compact Asia Template]
Telephone: 977-1-5000273  Fax: 977-1-5538473  E-mail: <a href="mailto:info@formationcarpets.com">info@formationcarpets.com</a> <a href="mailto:info@hostehainse.org">info@hostehainse.org</a>  Web: <a href="http://www.formationcarpets.com">www.formationcarpets.com</a> <a href="http://www.hostehainse.org">www.hostehainse.org</a>	<b>2011 Communication on Progress (COP)</b> from <b>Formation Carpets</b> <b>Nepal</b>
Project Name	Formation Village - Hoste Hainse
Company Name	Formation Carpets (2006 Best Practice from Nepal)
About the Company/Council	<p><b>Formation Carpets</b>, founded in Kathmandu, Nepal, in 1990, by Sulo Shrestha-Shah, is about carpet production with a DIFFERENCE. Not just carpet production, but carpet production fueled by a focus on welfare of the employees and conservation of the environment. All of Formation's carpets feature the Goodweave smiling face label that guarantees that no child has been employed in any process related to the production of the carpet, including dying and spinning.</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 the business and NGO sectors, as together they can bring social and economical changes at a more aggressive rate.</p>
Global Compact Principle(s)	<b>Human Rights</b>

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 link: [http://www.theadvocatesforhumanrights.org/past\\_human\\_rights\\_award\\_recipients.html](http://www.theadvocatesforhumanrights.org/past_human_rights_award_recipients.html)). 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.

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 recently 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 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.



2<sup>nd</sup> Generation Employees



2<sup>nd</sup> Generation Employee taking daily photo

### **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 job 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.

Some other labour standards are as follows:

- 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.

	<ul style="list-style-type: none"> <li>• It is compulsory for the employees to send their school-aged children to school.</li> <li>• Sponsorship /Scholarship Support Facility to the employee’s children.</li> <li>• Pre-School children have access to a well equipped Day Care Centre.</li> <li>• School children have access to Coaching Classes.</li> <li>• Employees and their children are provided with complimentary health insurance.</li> </ul> <p>All employees are informed of company policies. The process of dissemination is through quarterly meetings and interaction programs.</p> <p><b>Environment</b></p> <p>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.</p> <p><b>Anti-Corruption</b></p> <p>Politically-inclined trade unions constantly approach the company for extortion and bribes. 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 three 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>
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 Gaenzle, 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 Gaenzle 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 20 years, Hoste Hainse has touched the lives of over 4,000 children in an attempt to better their education.</p>

Initiative

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:

**Reporting System:** 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.

**Day Care Centre:** 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.



Day Care

**Scholarship and Coaching Class Facility:** 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.



Certificate Distribution to Graduates



Secondary School Matriculation

**Health Insurance:** Complimentary Health Insurance facilities are being provided, which includes hospitalization and accidental insurance.

**Other Facilities provided by Formation Carpets:**

- Provident Fund Facility for Permanent Employees
- Dearness Allowance (increased to Rs. 3,000/month)
- Dashain Festival Allowance
- Profit Bonus Allowance
- Transportation Allowance
- Leave Facility (as per the Labour Act of Nepal)
- Maternity Allowance (at Rs. 5,000 two times)
- Gratuity Facility for all employees regardless of termination or resignation

**Challenges Faced**

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 three 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.

**Impacts and 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.

<p>Future Plan</p>	<p><b><i>Immediate Plan:</i></b></p> <p>The company will continue raising awareness, enhancing skills and knowledge, and ensuring the rights of the weavers and their families for a sustainable livelihood. The immediate future plans are as follows:</p> <ul style="list-style-type: none"> <li>• Continue advancement and protection of rights of employees, especially women.</li> <li>• Continue health and environmental awareness programs.</li> <li>• Continue to support and facilitate eligible children of weavers to secure employment. Formation Carpets and Hoste Hainse give preference to such children during recruitment.</li> <li>• Continue to provide counseling and guidance to children to select their subjects/faculty in accordance with their interest and competence.</li> <li>• Continue to enhance and upgrade the daycare centre and coaching class rooms by making them more spacious and supplementing them with more facilities and teaching aids.</li> </ul> <p><b><i>Some Achievements:</i></b></p> <ul style="list-style-type: none"> <li>• Improved coaching classes with coaching now at two different levels: junior and senior. This way, the level of coaching is more adapted towards the level of the student.</li> <li>• Basic computer training offered as internships in the past has expanded to more organized computer training: office training, graphics training. This lets the intern select what he/she likes better. Also acts as a springboard for recruitment into Formation Carpets.</li> <li>• Counseling Services for children matriculating from high school. These services included guidance for the future as well as making available resources (physical as well as networking) for the success of the graduate.</li> <li>• Human Rights orientation/information sessions. Also included Corporate Social Responsibility and what "business with ethics" is all about.</li> <li>• Sanitation training programs for factory employees.</li> <li>• Feasibility study for Formation Village completed in Sarlahi where Hoste Hainse is supporting four schools for the underprivileged children (about 1,500 children).</li> </ul> <p><b><i>Long-Term Plan:</i></b></p> <p>Although political instability in the country has not allowed Formation Carpets and Hoste Hainse to forge ahead as fast as it wants to on the Formation Village concept, the long-term plan remains the same: establish a model "village" that is self-sustaining with employment, accommodation, all basic necessities, inclusive of health clinic, playground, sports club, shopping centre, temple or equivalent religious area, community hall, sports ground, etc. The concept involves expanding the current activities of Formation Carpets and Hoste Hainse and fusing them into one; from a model business, the aim is to go into a model community; thus a village.</p>
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