



## **Investing in Sustainability**

*LOLC*

*United Nations Global Compact Communication on Progress Report for 2011/12*

**Contents**

Introduction ..... 3  
Principles of the UN Global Compact..... 4  
Implementing the UNGC Principles ..... 5

## Introduction

Since LOLC Group's inception, social value generation is embedded into its business model. Through it, we create immense possibilities for financial empowerment for rural farmers, women and small entrepreneurs. We not only provide financial support for such entrepreneurs, but even help ensure value chain creation by providing strong market linkages for their products. We offer opportunities for people to turn aspirations into reality; we help develop communities and we bring progress to the Nation.

### Our Strategic Goal

A commitment to serve the national development agenda implicitly demands a commitment to the principles of sustainability. When you are building for the future with your right hand, you do not break down and despoil what you already have with your left. Instead, you work to sustain and preserve. Our insistence on triple bottom line reporting reflects our ultimate goal as a growing conglomerate: to deliver profit to our shareholders by investing in and supporting economic and national development, particularly in sectors where development policy seeks to promote and support growth. We are building for the long-term, serving both our stakeholders and the nation. By ensuring that, we measure and seek to control the impacts of our activities and investments on society and the environment just as we seek to maximise our economic impact and returns, this reporting approach helps us achieve our strategic goals.

### Making a Promise to the World

LOLC is a member of the UN Global Compact (UNGC), a group of responsible bodies and businesses that have embraced a charter on sustainability in practice. This charter, known as the UNGC principles, holds members of the Compact to specific commitments in terms of human rights, labour rights, environmental protection and action against corruption.

### A Statement of Commitment



*"Our strategic focus has long been on investing in innovative and sustainable initiatives, making a visible difference to our stakeholders' lives and promoting national development. Sustainability lies at the heart of our operations and to underscore the importance we attach to sustainable operations, LOLC is a signatory to the UN Global Compact and implements its charter in every aspect of its business."*

**Kapila Jayawardena, Group Managing Director/CEO**

## **Principles of the UN Global Compact**

### **Human Rights**

1. Businesses should support and respect the protection of internationally-proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.

### **Labour**

3. Businesses should uphold freedom of association and effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

### **Environment**

7. Businesses are asked to support a precautionary approach to environmental challenges.
8. Businesses are asked to undertake initiatives to promote greater environmental responsibility.
9. Businesses are asked to encourage the development and diffusion of environmentally-friendly technologies.

### **Against Corruption**

10. Businesses should work against corruption in all its forms, including extortion and bribery.

## Implementing the UNGC Principles

### 1. Human Rights

All Group companies and divisions adhere to the best principles and practices of human rights. Our Human Resource policies ensure that this is upheld at every Business Unit, Division and Subsidiary.

Rights of our employees are upheld in the plantation sector, where historical conditions have resulted in a particular sensitivity to human rights issues.

On the Group's Maturata and Pussellawa plantations, continuing improvements to worker housing and sanitation facilities, community medical care access and education for the children of estate families reflect our concern for human rights within a broader programme of community development, which goes beyond mere rights to the extension of public services and benefits.

Regular community meetings are followed up by management group review to ensure that the human rights regime on our plantations is exemplary and free from abuses of any kind.

Whilst upholding the rights of our employees, we also respect and recognize the rights of others. Some of our activities in this regard are as follows;

#### **LOLC Care: Strategic CSR**

LOLC Care was created to plan, develop and carry out the corporate social responsibility initiatives of the Group. Launched in 2009, this operation was created to prioritise diverse CSR initiatives of the LOLC Group. Today, the LOLC Care Committee, in which Board and Management across different business units and divisions are represented, approves and supervises LOLC and Group level CSR.

LOLC Care collaborates with the National Council for Child & Youth Welfare in the renovation and maintenance of "Madiwela Special Education School & Home for Boys", a facility for differently-abled males and "LOLC CARE Child Development Centre", a home for orphaned boys. In the first phase, the facility for differently abled boys and men was expanded to accommodate six more occupants; the second, a newly constructed "LOLC CARE Child Development Centre" which was recently opened will house and educate fifty orphaned boys.

With the active participation of LOLC staff, customers and other well-wishers, LOLC Care continues to support the Homes, organize cultural and religious activities for its pupils and help with the supply of educational and vocational training inputs and facilities. Proceeds from the LOLC Care Fund, in which LOLC matches every Rupee donated by others or raised through merchandising etc., are used to finance these activities.

### **Fostering Future Generations**

LOLC Micro Credit Ltd (LOMC) the micro credit company of the LOLC Group, has its own strategic CSR project, the *Isuru Diriya Sisu Upahara* Grade 5 Scholarship Awards programme. Instituted in 2010, the programme helps deserving pupils prepare for the national Grade 5 Scholarship Examination and rewards those who excel the exam with exceptional results.

The beneficiaries are gifted children from rural locations around the country, whose parents have few resources to spend on their education. Beneficiaries attend preparatory classes, which are held at various locations across the country, and high achievers are felicitated at a ceremony in Colombo.

In 2011/12, 230 children of LOMC customers who excelled at the Grade 5 exam, received scholarships, as well as savings passbooks with a Rs. 1,000/- initial deposit from Lanka ORIX Finance. The *Isuru Diriya Sisu Upahara* programme forms the central pillar of LOMC's CSR strategy. In addition, the Company's unique 'credit plus' approach to microfinance also helps realise its vision for sustainable development. Finally, LOMC service outlets islandwide carry out various at-need CSR initiatives of their own, based mainly on educational, entrepreneurial and other socially relevant themes.

### **Empowering Women**

LOMC's unique group loan model is designed to economically empower Sri Lankan women. It provides women entrepreneurs from grass roots level achieve economic empowerment by way of providing step-up group loans to start up and sustain businesses. One of the key indicators of the scheme's success is that 95% of the borrowers ascend to individual level to become SME entrepreneurs in less than three years. With industry's best NPL ratios maintained, these positive indicators reflect the entrepreneurial spirit and commitment of Sri Lankan women.

### **Creating Opportunities for Indigenous Youth**

Most often, staff recruitment for our branches and service outlets across the island takes place by way of employing youth from rural and urban settings, providing an opportunity for the Group to assist in eradicating youth unemployment and poverty. One good example of our recruitment process with a social consciousness takes place via LOMC.

The very nature and scope of LOMC's business has enabled the company to move beyond profit generation to developing communities and people through microfinance. Engagements with communities are done mainly by Micro Officers who are often recruited from communities in which the Company operates in. 95% of LOMC's workforce is deployed across the country and they engage with our customers on a regular basis. Therefore, we have deemed it vital that these Micro Officer whilst being employees of LOMC, also function as agents of change within their own communities. LOMC's recruitment policy of fostering indigenous school leavers has enabled youth from rural, poverty stricken communities to develop their leadership skills and the Company provides varied opportunities for them to enhance and utilize their skills to work towards achieving success and self-empowerment.

### **Educating Sri Lankan Migrant Workers**

Lanka ORIX Finance as its CSR initiative co-operated with the *Sarvodaya* organisation in a programme to enhance the financial literacy of Sri Lankan migrant workers in Europe and their family members at home. 20 such workshops were conducted in different parts of the country in the year under review, reaching out to over 500 beneficiaries.

Going ahead, this initiative will be continued on a larger scale in partnership with the International Fund for Agricultural Development that aims to reach 10,400 people in rural areas all over the country, including the North and East. The project has the support and co-operation of the Ministry of Foreign Affairs and the Sri Lanka Bureau of Foreign Employment.

In addition to these strategic CSR initiatives, LOFC's vast branch network across the country also carry out their own CSR projects throughout various communities across the country, often initiated and partly funded by employees.

## **2. Labour**

As a conglomerate, LOLC employs a large and varied workforce employed in a diversity of working environments. Across the Group, our employees enjoy freedom of association and a voice in management deliberations affecting their careers, pay or working conditions. On our plantations, workers' committees and collective agreements determine wages, grievance handling and more.

Gender equity, another area of historical concern, is maintained, with female staff appointed on our estates to oversee women's issues. LOLC is an equal opportunity employer, without bias, concerning recruitment, pay and benefits, training and development opportunities or

promotion. Women, for example, serve and have served in the highest positions at LOLC and its subsidiaries. We simply recruit individuals with the best qualifications, skills, experience and mindset, irrespective of sex, race or religion.

Our employment policy prohibits the hiring of anyone under 18 years of age. We shun child labour and will brook no relaxation of this policy. We also insist that all employees undertake to abide by our policy against sexual harassment. The LOLC Group does not approve of or condone forced or compulsory labour. In all these matters, we are governed by the law of the land and the terms of employment agreed with our employees.

### **Human Resources**

The brilliant performance and relentless contribution by our team of young, competent and dynamic employees deployed across the country in different business sectors has been the key success factor towards positioning LOLC as a leading and reputed Group in the country today.

With the support and encouragement of a robust leadership that always works alongside their teams, the Group's workforce has ensured sustainable growth year on year. The financial year 2011/12 posed several challenges in the management and development of the Group's employees especially with LOLC's penetration and startup operations in diverse industries including Hospitality, Motor Engineering, Plantation, Stock Broking and Insurance.

The Group's HR policies were aligned to cater to the different business segments and relevant employment practices in each industry, while adhering to the core HR principles and policies of the Group. This created the need to re-model the HR architecture to cater to a diverse group of employees combined with several HR requirements of both the Group's Financial and Non-Financial sectors by identifying different trends, necessities and interventions within the Sri Lankan context.

The business requirements challenged the team of HR practitioners within the Group to review the core processes and operations of HR, innovate and acquire the needed knowledge of managing people of different industries. The reorganisation has enabled us to give equal and adequate focus to both sectors while reaping the economies of scale through the strengthening of a HR-shared services platform within the LOLC Group.

Our financial services sector expanded its footprint with 31 new branches and service centres. It has created a closer affinity with our customers and enables our regional teams to build a robust client relationship and to serve and be recognised in the community. The belief in and

sustenance of an inclusive culture within LOLC has been key to delivering exceptional service to our clientele and key to our organisational well-being.

Growth enabled us to create more opportunities for our existing employees to take up new challenges in newly opened branches, with enormous possibility for career development. The increasing network of LOLC mini branches paved way to develop potential leaders in the regions where employees were appointed as Officers-In-Charge of the newly opened centres. Growth has brought greater employee mobility within the Group through promotions, transfers, lateral career moves, etc. which has generated improved employee morale and minimised stagnation in positions for several years. These opportunities provided to a total of 3,699 employees within the Group a high performance and rewarding working climate, paving the way for us to be a preferred employer in the financial services sector.

The employee retention rate of 82% within the Group testifies to this fact. The financial services sector saw a growth of 24% with a total of 449 new employees joining the Group. A retention rate of 86% was achieved in this sector for the financial year with a 90% + rate being maintained at leadership levels. A total of 92% have been trained in the financial services sector with an investment of around Rs. 18.5 Mn with a greater part of overseas programmes being sponsored by funding agencies, etc. The training programmes were designed and selected not only to enhance the knowledge of the employees but also to enhance their capabilities in relationship building, negotiation skills, etc., and develop identified individuals to be future leaders who could take up the responsibility of spearheading the business operations of the Group.

LOLC's Flagship HR Programme 'From Student To Professional' (FSTP) initiated in the last financial year created great enthusiasm among young school leavers with career ambitions to become leading professionals in the financial sector. The programme exceeded their expectations. The benefits of the programme has resulted in providing on the job training opportunities for 51 trainees out of whom 16 have already been absorbed to the permanent cadre of the Group. The programme has benefited us immensely by having readily available, trained and adaptable personnel to be deployed for job openings within the Group.

With the strategic acquisition of Dickwella Resort & Spa, around 80 employees were absorbed to the non-financial sector making the total staff cadre as of end March, 856. The retention rate was 72% which is impressive considering Hotel Riverina, Tropical Villa and Club Palm Garden being closed for refurbishment.

LOLC's recreational team and club, 'Spirit' is dedicated in stimulating team spirit among LOLC employees through numerous recreational initiatives. It has over and above their routine job scope, played a vital role in bringing all the employees of the sectors of the Group together.

Inculcating values in the hearts of employees, 'Spirit' started off the year with a Blood Donation Campaign which had an overwhelming response, focused towards our employees helping the community. Events such as 'Peduru Party' and a 'Six-a-side' Cricket Tournament were organised to bring employees together from all regions/sectors to showcase their talents. The annual event such as the Pirith Ceremony, LOLC Dinner Dance and the Kiddies Christmas Party were also organised by the active cross functional team. The LOLC Basketball team was awarded the Champions Trophy in the Mercantile Basketball Tournament, while the Badminton team maintained their consistent form in the Championships and became the Runners-up.

### 3. Environment

Preserving Sri Lanka's environmental wealth is a vital element in our policy. It supports, for example, our investment in tourism, which is critically dependent on the natural beauty and biodiversity of our island. In a different but not dissimilar way, our interests in renewable energy not only preserve the environment but support the social goal of universal electrification and literally power national development. In this way, we can often broker a concurrence between the interests of our customers and shareholders and the interests of the environment.

Our plantations are run using best-in-class agricultural practices in which sustainability is an important consideration. Many estates rely at least partly on their own hydropower and dendropower resources, and undertake numerous reforestation and ecology-friendly waste-management programmes.

Group companies conserve vital resources and recycle wherever possible. LOLC Motors harvests rainwater, recycles waste water using a microbiological system and prevents the leakage of refrigerant from its air conditioning systems into the environment. The Company's 'Green Motor Service Facility' maximises the use of natural lighting. Meanwhile, LOLC Micro Credit is taking measures to wean customers off two-stroke vehicles whose emissions reduce air quality.

At its head office in Colombo, LOLC possesses the largest environmentally responsible installation of any commercial building in this country in the form of a rooftop solar array that generates 15% of daily power requirements - a full 48 kW. Our green investment policy has

seen our interests in the renewable-energy sector intensify in recent years. Hydro Power Free Lanka, a Group company, is already generating 3.2 MW from its mini-hydro plants, while 7 MW more, now in various stages of development, will add another 20 MW within the next 5 years at an initial investment of approximately US\$ 30 Mn. These projects are registered to earn carbon credits from the United Nations Framework Convention on Climate Change (UNFCCC).

Several estates of the Maturata and Pussellawa Groups have substituted wood for fossil fuels for tea drying, with the estates' own forestry projects supplying the fuel. LOLC Eco Solutions, another subsidiary, has several biomass-fuelled and hydropower plants and is moving forward with its assessment of potential wind-power investments. In addition, our strategic investment in United Dendro Energy (UDE) is showing results as its 6 MW wood-fired power plant takes shape at Kalutara and its forestry and agricultural programmes and outgrower registrations come on-stream. The Kalutara plant will be ready for operation by the end of 2013. UDE's operations will generate thousands of jobs in the rural sector. Both its power generation and plantation operations will earn UNFCC carbon credits while reducing the Group's carbon footprint.

Gal Oya Plantations, operated by LOLC and Brown & Company is a public-private partnership with the Government of Sri Lanka. The company is just completing a project which includes the revival and refurbishment of the sugar plantation and power plant, with the factory scheduled to commence operations in July. The project also included the renovation of the water purification plant, with excess purified water being sold to the National Water Supply and Drainage Board. The 5,200 ha sugar cane plantation will also support the production of ethanol as a by-product whilst generating 2 MW of bagasse based clean energy. Benefits to the local community include direct employment for nearly 1,200 persons, and indirect employment for over 15,000 persons and 5,500 farmer families, thus contributing towards income generation and improved quality of life. The Company strives to be of benefit to this community by helping raise living standards and underwriting community welfare. Its CSR activities include infrastructure development and maintenance, healthcare programmes, support for education and for farmers' representative organisations, and numerous contributions to community social, cultural and religious life.

More broadly, LOLC promotes initiatives such as internal paper recycling and the use of energy-saving light bulbs while limiting the use of air conditioning, computers and lighting. It has also plans of replacing its fleet of conventional vehicles with new hybrid motors. Besides these measures of its own, LOLC also encourages its customers to adopt more 'green' measures. Our credit appraisal process requires the production of an environmental assessment report, with local environmental authority clearance where applicable. Further along the process, our staff

evaluate and report on these businesses with regard to their environmental friendliness. The Group's Code of Conduct demands compliance with rules on sustainability and environmental friendliness with regard to the development of new products and services.

#### 4. Anti- Corruption

LOLC has in place a comprehensive policy and regulatory framework to pre-empt and guard against any form of corruption. The Group's anti-money laundering policy commits us to specific, comprehensive precautions to help prevent the systems and processes of the Group being used for money laundering or the financing of unlawful activities. Safeguards include customer identification routines and due diligence processes.

We maintain an inclusive, supportive and confidential whistle-blower procedure that frees every employee to make material reports to Internal Audit and Enterprise Risk Management without risk or fear.

LOLC is in compliance with the legislation of the Government of Sri Lanka in relation to the Convention on Suppression of Terrorist Financing Act No. 25 of 2005, the Financial Transactions Reporting Act No. 6 of 2006, the Prevention of Money Laundering Act No. 5 of 2006, and all relevant Acts and Regulations of the Government. LOLC together with Lanka ORIX Finance and Commercial Leasing and Finance is assigned an Issuer Rating of '[SL] A-' with stable outlook by ICRA Lanka Ltd. ICRA Lanka Ltd is a wholly owned subsidiary of ICRA Ltd, which is an associate of Moody's Investors Service.

The Group also maintains transparency in all external and internal communications with stakeholders including its Annual Report, announcements made through the Colombo Stock Exchange, press releases, its website and staff announcements.

Recognizing LOLC's sound Enterprise Risk Management (ERM) mechanism, the Group's ERM Division won the prestigious Achievement Award for Governance, Risk Management and Compliance (GRC) for 2012 presented by the Open Compliance and Ethics Group (OCEG) in Washington DC U.S.A. LOLC was the only Asian Company who won the Achievement Award alongside other notable winners namely, The Bureau of Public Debt-Office of Financing of the U.S. Department of Treasury, The Federal Home Loan Bank of Chicago and Sybase, an SAP Company.

At the awards ceremony, LOLC Group's Enterprise Risk Management system was acclaimed by the judging panel, with notable praise bestowed on the Group's centralized Integrated Risk Management Structure. LOLC was praised for managing the complexity in regulatory and risk

issues in their risk profiles, whilst facing a range of corporate cultures throughout its multitude of subsidiaries, and the challenge of governing a growing conglomerate.

The task of ensuring that LOLC's risk management processes are effective and robust falls under the purview of the Group's Enterprise Risk Management Division. LOLC's recognition at the OCEG Awards is attributed to the Group's success in establishing and implementing an organizational structure and framework for risk management drawing on the synergies of Internal Audit, Risk Management, Information Systems Audit and Compliance.

*-end-*

*Source: "Sustainability Report" of the LOLC Annual Report for 2010/11 (Pgs 208-216) and the LOLC Group website [www.lolc.com](http://www.lolc.com) (press releases and general info).*