**Assessing the Role of CSR Practices of Commercial Banks in enhancing Financial Inclusion: A Study on Banking Sector in Bangladesh**

**Abstract:**

Financial inclusion is currently a high priority policy goal for developing and developed countries in order to ensure stable and equitable economic growth.This study aims to assess the role of CSR initiatives of commercial banks in enhancing financial inclusion in Bangladesh.The study also focuses on the benefits of financial inclusion and overall financial inclusion scenario of banking sector in the country.The study is based on secondary data extracted from the selected commercial banks for the period of 2008- 2012.The analyses show that geographic as well as demographic penetration of banking services in the country has increased significantly during the last five years. Consequently, financial inclusion in terms of total population has increased from 48.86 percent in 2008 to 63.46 percent in 2012. However,the overall financial inclusion through banking services has followed a modest pace. The study also found that the private commercial banks are contributing more in enhancing financial inclusion through CSR practices than state owned commercial banks and foreign commercial banks.The findings of the study might be valuable for the commercial banks to judge their performance in terms of CSR practices among the overall banking sector in the country. The study might also be useful for policymakers to promote more effective policies and guidelines to ensurean equitable financial inclusion for all the people including poor, underserved and underprivileged group of the society.

**Key Words:** Corporate Social Responsibility, Commercial Bank, Financial Inclusion,Bangladesh

**Introduction**

It is needless to mention that financial inclusion (FI) includes those peoples with the finance who are not getting proper financial services by the formal financial organizations. It is a burning issue all over the developing country in the world where Bangladesh is also trying to comprise all the people with the banking service. Last few years, Bangladesh Bank has taken different types of initiatives for increasing financial inclusion.It has emerged as a tool to achieve inclusive growth for poverty reduction since 2005, a year that the United Nation has declared International Microcredit Year. Studies revealed a positive correlation between financial inclusion and economic growth(King and Levine, 1993;Beck, 2008; Levine, 2005). Current development theories suggest that greater financial inclusion can have a positive impact on the lives of the poor. Financial inclusion is thus a high priority policy goal for developing and developed countries in order to ensure stable and equitable economic growth. Financial inclusion system has several merits. It facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access of the people to appropriate financial services can significantly improve the day-to-day management of finances. An inclusive financial system can help in reducing the growth of informal sources of credit (such as money lenders), which are often found to be exploitative. Thus, an all-inclusive financial system enhances efficiency and welfare of the people by providing avenues for secure and safe saving practices and facilitating a whole range of efficient financial services.

Financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. Financial inclusion is the delivery of financial services at an affordable cost to the disadvantaged and low income segments of society (Ullah, 2013).In this case, the banking sector of a countrycan play a lead role in promoting financial inclusion. In Bangladesh, the Central Bank of Bangladesh has initiated several measures to achieve greater financial inclusion. Under the CSR initiatives taken by the Central Bank of Bangladesh, the commercial banks in the country have taken different activities for financial inclusion such as facilitating ‘10 taka’ accounts and “General Credit Cards” “ Farmers Cards” for low deposit and credit, solar paneldistribution, big gas plant establishment, entrepreneur training, woman entrepreneur training and so on. The commercial banks are providing low interest agriculture loan, and collateral free loan to enhance financial inclusion all over the country.Moreover, majority of the banks donate sizeable amount of moneyfor educational scholarship every year. When a student gets the scholarship from a bank, he/she collects the money by opening an account with the respective bank.In this way, the student comes under financial inclusion of the bank. Under the CSR practices, one of the important financial inclusion initiatives of the banks is mobile banking. With this initiative, people can easily open an account at free of cost and transact with the bank.

The present study aims to assess the role of CSR initiatives of the commercial banks in enhancingfinancial inclusion among the common people in Bangladesh. The study also attempts to know the benefits of financial inclusion and overall financial inclusion scenario of commercial banks in the country.

**Review of Literature**

The Central Bank of Bangladesh and Government of Bangladesh has taken different initiatives to increase financial inclusion. Especially, in recent years, the Central Bank of Bangladesh has brought about deeper engagement of the country's financial sector with a social responsibility driven financial inclusion strategy (Bangladesh Bank, 2013a). The main motto of the Central Bank is that all peoples in Bangladesh will come under the financial inclusion’s umbrella. However, the common CSR practices in Bangladesh by different organizations are centered on mainly poverty alleviation, healthcare, education, charity activities, cultural enrichment, youth development, women empowerment, patronizing sports and music etc. (Alam, et al. 2010). The study by Noman(2013) investigated the enhancement of financial inclusion among the 64 districts of Bangladesh. The study attempted to find out the most financially inclusive and less financially inclusive districts in the country. It was revealed that 19 districts show positive changes, 35 districts negative changes, and the remaining 10 districts show no changes.

The study by Ullah (2013) examined the nature and magnitude of CSR initiatives and practices by the commercial banks in Bangladesh. The study found that almost all of the banks in the country have more or less engagement in CSR activities. The areas of involvement in CSR activities include community investment, environmental banking, financial inclusion, and CSR reporting. Masud (2011) conducted a comparative study on CSR activities of private commercial banks (PCBs) in Bangladesh. The researcher revealed that participation of the PCBs in different areas of CSR activities are limited. However, every bank under the study has a very good consideration and contribution to education and health sector. Moreover, the banks have active involvement in the management of natural disasters, especially cyclones and floods.Another study provided efforts to know how and in what ways the commercial banks in Bangladesh have been discharging their CSR to enhance financial inclusion (Halder and Rahman, 2014). The study found that most of the banks which design and implement CSR initiatives cover the entire community in the surrounding of their working area. CSR initiatives being implemented by the commercial banks for rural development have been a positive impact on overall development of society. Many banks have promoted and implemented CSR initiatives through setting up their own foundation or in partnership with NGOs. The study by Ahmed (2013) focused on CSR practices of Southeast Bank Ltd.- a leading private commercial bank in Bangladesh. The researcher found that the bank practices its CSR in the area of education, health, community development, environmental issues, art and culture, sports etc. However, the bank expenses the highest amount of money in the education sector through scholarship program whereby school, college and university tuition fees and other expenses are paidfully without imposing any condition.

Sharma and Mani (2013) analyzed the CSR activities carried out by Indian commercial banks. The researchers reported that though the Indian banks are making efforts to contribute in different areas of CSR activities but still there is a requirement of more emphasis on CSR. The banks focus on the community welfare and farmers’ welfare programs but the efforts for women welfare and education are not sizeable. The study also found that the public sector banks have overall highest contribution in CSR activities while theprivate sector banks and foreign banks are still lagging in this area.In line with the previous study, Al-Tamimi (2014) investigated CSR practices of the commercial banks in UAE. The study revealed that the UAE banks make a positive contribution in supporting community activities such as donations and sponsorship, but they need to contribute more. The banks ensure equal access to their banking services for all women, irrespective of their marital status, race, etc. However, the UAE banksare not heavily involved in problems of climate change. Moreover, the banks strongly support CSR efforts to payback while they place less emphasis on public policy support for CSR.

In order to bring the vast unbanked/under-banked population under the umbrella of formal financial service, the Central Bank of Bangladesh has taken steps to introduce bank-led mobile financial services (Bangladesh Bank, 2013a). In this regard,Ahmed (2012) attempted to find out the problems and prospects of mobile banking in enhancing financial inclusion of the banking sector in Bangladesh. The study found that all of the respondents (100%)do agree that mobile banking services are speedy. Nearly 61% of the respondents think that mobile banking saves time than traditional banking, and 56% replied that it is less expensive than traditional banking. However, only 21% of the respondents use mobile banking for ‘Air-time top-up’ service. The study reported that although the concept of mobile banking is new in Bangladesh but its potentiality is high. In line with the previous study, Ndlovu (2013) investigated the role of mobile banking to rural financial inclusion in Zimbabwe. The study revealed that mobile banking has the potential to reduce poverty by bringing the previously excluded rural communities into mainstream economic activities in the country. A study in Mexico evaluated the development and potential of mobile banking in enhancing financial inclusion in the country (Alonso, 2013). The study revealed that majority of the respondents perceives mobile banking as a channel to access the financial system. However, by gender, it was found that males have a greater number of mobile banking accounts than females.

The above review of literatures suggests that the nature and patterns of CSR practices of banking sector differ from country to country and even from bank to bank.However, there are not many studies directly related to CSR practices of commercial banks in enhancing financial inclusion in Bangladesh.

**Materials and Methods**

The study is based on secondary data and information on CSR initiatives of the commercial banks, major financial inclusion programs undertaken by the banks,geographic and demographic penetration of financial inclusion programs and benefits of financial inclusion. Currently,there are 52 commercial banks operating in Bangladesh. Some of them arestate owned commercial banks (SCBs), and some others areprivate commercial banks (PCBs) and foreign commercial banks (FCBs). Data were collected from10 (ten) selected commercial banks for the period of 2008- 2012. Random sampling method was applied to select the banks. The sample selection had been made as per random sampling process i.e. selecting one (1) bank out of every five (5) banks from the total of 52 listed down commercial banks. Moreover, empirical data and information were extracted from financial reports of Bangladesh Bank (the Central Bank of Bangladesh), annual reports of commercial banks, CSR initiatives reports and published journals to get an overall scenario of financial inclusion of commercial banks in the country. Summary descriptive statistics (viz. summation, mean, frequency, maximum, minimum, ratio and percentage) were applied to analyze the data.

**Results and Discussion**

***Benefits of Financial Inclusion of Commercial Banks of Bangladesh (CBBs):***

Through the financial inclusion of CBBs, people enjoythe following benefits:

* Access to credit in the formal sector may also open up entrepreneurship opportunities for low income populations and increase the scope for investment.
* Linkages with the formal financial sector enable people to access different credit, savings and insurance products with flexibleconditions provided by regulatory institutions. In terms of cost, easy access to the formal financial sector reduces the growth of informal sector credit provided by moneylenders who can often be expensive and exploitive.
* A single account can be used for multiple purposes including making payments for essential utilities, receiving benefits from government programs; therefore contributing to financial deepening.
* Access to financial services allows the poor to save money safely outside their homes, prevents the concentration of economic power with a few individuals and helps to mitigate the risks that the poor face as a result of economic shocks or natural calamities.

***Overall Financial Inclusion Scenarios of CBBs:***

Table 1 shows the overall financial inclusion scenarios of commercial banks in Bangladesh between 2008 and 2012.The findings indicate that there was a rising trend of financial inclusion of people into the banking sector of the country. It is observed that the number of deposit accounts in the banks has increased from 37.60 percent in 2008 to 51.12percent in 2012. This is mainly due to introducing10 Taka account by the banks during the last five years. Consequently financial inclusion in terms of total population increased from 48.86 percent in 2008 to 63.46 percent in 2012. Similarlyfinancial inclusion increased from 77.63 percent in 2008 to 95.12 percent in 2012 in terms of adult population.

Table 1: Financial inclusion of CBBs in terms of population (2008-2012)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Year | Adult population (millions) | Total population (millions) | Population per bank branch (in number) | Number of deposit A/Cs in bank(millions) | Deposit A/Cs as percentage (%)of adult Population | Financial inclusion as percentage(%) of adult population | Financial inclusion as percentage(%) of total population |
| 2008 | 89.62 | 142.40 | 20566 | 37.60 | 43.83 | 77.63 | 48.86 |
| 2009 | 92.24 | 144.20 | 19681 | 38.97 | 42.25 | 78.61 | 50.28 |
| 2010 | 94.50 | 146.10 | 18947 | 48.68 | 51.51 | 87.23 | 56.42 |
| 2011 | 95.34 | 148.50 | 17460 | 49.23 | 53.12 | 88.10 | 60.23 |
| 2012 | 97.12 | 150.30 | 16234 | 51.12 | 56.23 | 95.12 | 63.46 |

Source: Bangladesh Bank, 2013b

Table 2 presents the major financial inclusion programs undertaken by the commercial banks in Bangladesh.It can be seen that PCBs (08), as compared to SCBs (01) and FCBs (01) have substantial engagement in credit programspromoting financial inclusion of socially disadvantaged peoplein both rural and urban segments of the country. However, it is important to note that self-employment credit and Small and Medium Enterprise (SME) lending programs ofall SCBs, PCBs and FCBsare taken up solo or in association with locally active MFIs. The findings also show that majority of the financing programs for installation of biomass processing plants generating biogas fuel andorganic manure, Effluent Treatment Plants (ETPs) in manufacturing establishments, andsolar energy units in households in off grid rural areas including char lands are supported by PCBs (07) as compared toSCBs (01) and FCBs (01). Similar scenario is observed in promoting financing programs for rural craftsmen and folk/music/drama groups holding cultural events intourism sites of the country.

It is worth to mention that only the PCBs (08) have taken initiatives to promote card based/mobile phone based delivery of migrant workers’ remittances to the recipients in remoterural households. However, 25 banks have recently obtained mobile banking licenses; 06 among them have started operation. They areoffering basic banking and financial services such as payment of local remittances,withdrawal and deposit of cash with branches, payments of utility bills, and purchasing goods and services, payments of salaries, allowances and pensions of officials in corporates, industries andfactories and other offices, interbank fund transfer, immediatemobile balance recharging and so forth. All of the commercial banks in the country have involvement with agricultural credit programs where the FCBs provide agricultural credits mostly through locally active MFIs. However, the PCBs (08), as compared to SCBs (01) and FCBs (01) have substantial engagement in promoting special crops agricultural loans to the landless sharecroppers who are unable to access in institutional credit.

Table 2:Major financial inclusion programs undertaken by CBBs

|  |  |  |  |
| --- | --- | --- | --- |
| Programs Bank | SCBs | PCBs | FCBs |
| Self-employment credit and SME lending programs | 01 | 08 | 01 |
| Financing programs for installation of biomass processing plants, solar panels in rural households | 01 | 07 | 01 |
| Mobile phone based/ local MFI outlet supported programs | 00 | 08 | 00 |
| Financing programs supporting folk crafts, folk musical and performing arts | 01 | 08 | 01 |
| Special Crops Agriculture Loan | 01 | 08 | 01 |

Source: Review of CSR Initiatives

***Financial Inclusion in geographic and demographic penetration of banking services:***

The commercial banks in Bangladesh have take initiatives to enhance financial inclusion in geographic and demographic penetration of banking services all over the country. Figure 1 depicts financial inclusion in geographic penetration of banking services of CBBs between 2008 and 2012.It can be seenthat the numbers of bank branch per 1000 square kilometer have increased tremendously from 16 in 2008 to 53 in 2012. Similarly, the numbers of ATM booth per 1000 square kilometer haveincreased 4 fold during the last five years. The findings indicate that financial inclusion of the CBBs in terms of geographic penetration of banking serviceshas increased overtime in the country.

Figure 1: Financial inclusion in geographic penetration of banking services of CBBs (2008-2012)

Source: Bangladesh Bank, 2013b

Figure 2 showsfinancial inclusion in demographic penetration of banking services of CBBs during 2008 and 2012.The data show that the numbers of branches per 100,000 populations have increased from 2 in 2008 to 6 in 2012. However, the numbers of ATM per 100,000 populations have increased slightly from 1 in 2008 to 3 in 2012. Trend in geographical penetration indicates that access of common people to banking services has increased steadily in the countryduring the last five years.

Figure 2: Financial inclusion in demographic penetration of banking services of CBBs (2008-2012)

Source: Bangladesh Bank, 2013b

Figure 3:Financial inclusion through deposit accountsin urban and rural areas (2008-2012)

Source: Bangladesh Bank, 2013b

Figure 3 shows financial inclusion of urban and rural people to banking services through deposit accounts during 2008 and 2012. It can be seen that the number of deposit accounts per 1000 people in urban areas was 250 in the year of 2008. It has increased to 350 by the year 2012. The number of deposit accounts in rural areas was low as compared to urban areas in each year from 2008 to 2012. However, the number of deposit account holders in rural areas has become almost two fold during the last five years (105 accounts in 2008 and 200 accounts in 2012). The findings suggest that people’s access to banking services in rural and urban areas of the country is quite impressive. The reason is that each and every commercial bank is operating online banking system under which people can easily deposit and withdraw money from any part of the country.

 Figure 4: Financial inclusion through loan accounts in urban and rural areas (2008-2012)

 Source: Bangladesh Bank, 2013b

Figure 4 depicts a comparative scenario of providing loan services by the commercial banks in rural and urban areas of the country.The data shows that, on average, 50 people per 1000 population in urban areas received bank loans in the year of 2008. It has increased by, on average, 22.37 percent during the last five years. The number of loan accounts in rural areas is also impressive. In 2008, on average 35 people per 1000 rural population gained access to loan facilities of the commercial banks. The number of loan account holders in rural areas has increased by, on average, 20 percent during 2008-2012. It is worth to mention that most of the commercial banks has initiated agent banking system in rural areas of the county to enhance financial inclusion. Moreover, the banks are providing low interest loans to the farmers for producing special crops.

***Summary of the Findings:***

The findings of this study can be summarized as follows:

1. Low income people can easily access to banking services and take small amount of loan at low interest rate.
2. The rate of overall financial inclusion through banking services is increasing at modest pace. Financial inclusion in terms of total population has increased from 48.86 percent in 2008 to 63.46 percent in 2012.
3. Private commercial banks (PCBs) are more advance in enhancing financial inclusion than state owned commercial banks (SCBs)and foreign commercial banks (FCBs).
4. Financial inclusion in terms of geographic anddemographic penetration of banking services has increased tremendously during the last five years.
5. Access of the common people to banking services in both rural and urban areas of the country has increased overtime.

 **Conclusion**

The study examines the role of CSR practices of banking sector in enhancing financial inclusion in Bangladesh. The findings of the study show that geographic as well as demographic penetration of banking services in the country has increased significantly during the last five years. Financial inclusion in terms of total population has increased from 48.86 percent in 2008 to 63.46 percent in 2012. Now the common people, particularly the lowincome people in both rural and urban areas of the country can easily access to and enjoy various types of banking services. However,the private commercial banks (PCBs) have higher contribution in CSR practices to enhance financial inclusion than state owned commercial banks (SCBs) and foreign commercial banks (FCBs). Therefore, SCBs andFCBs should provide more efforts in this regard. The expansion of financial inclusion through banking services can be made possible by introducing innovative products, developing the efficient and effective service delivery mechanism, increasing the financial literacy of the potential users of banking services, and so on. Moreover, the banking for women can be a new window in enhancing financial inclusion in the country. The reason is that majority of the Bangladeshi women does not have ability or intension to deal with a bankdue to their lack of financial knowledge or insufficient money in hand.The findings of the study might be valuable for the commercial banks to judge their performance in terms of CSR practices among the overall banking sector in the country. The study might also be useful for policymakers to promote more effective policies and guidelines to ensurean equitable financial inclusion for all the people including poor, underserved and underprivileged group of the society.

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