



Assessing the Role of Corporate Social Responsibility Practices of Commercial Banks in Enhancing Financial Inclusion: A Study on Banking Sector in Bangladesh

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ABSTRACT

Financial inclusion (FI) 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 corporate social responsibility (CSR) initiatives of commercial banks in enhancing FI in Bangladesh. The study also focuses on the benefits of FI and overall FI 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 5 years. Consequently, FI in terms of total population has increased from 48.86% in 2008 to 63.46% in 2012. However, the overall FI through banking services has followed a modest pace. The study also found that the private commercial banks are contributing more in enhancing FI 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 ensure an equitable FI for all the people including poor, underserved and underprivileged group of the society.

Keywords: Corporate Social Responsibility, Commercial Bank, Financial Inclusion, Bangladesh

JEL Classifications: G2, M14

1. 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 FI. 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 FI and economic growth (King and Levine, 1993; Beck,

2008; Levine, 2005). Current development theories suggest that greater FI can have a positive impact on the lives of the poor. FI is thus a high priority policy goal for developing and developed countries in order to ensure stable and equitable economic growth. FI 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.

FI refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. FI 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 country can play a lead role in promoting FI. In Bangladesh, the Central Bank of Bangladesh has initiated several measures to achieve greater FI. Under the corporate social responsibility (CSR) initiatives taken by the Central Bank of Bangladesh, the commercial banks in the country have taken different activities for FI such as facilitating “10 taka” accounts and “General Credit Cards” “Farmers Cards” for low deposit and credit, solar panel distribution, 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 FI all over the country. Moreover, majority of the banks donate sizeable amount of money for 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 FI of the bank. Under the CSR practices, one of the important FI 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 enhancing FI among the common people in Bangladesh. The study also attempts to know the benefits of FI and overall FI scenario of commercial banks in the country.

2. REVIEW OF LITERATURE

The Central Bank of Bangladesh and Government of Bangladesh has taken different initiatives to increase FI. 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 FI strategy (Bangladesh Bank, 2013a). The main motto of the Central Bank is that all peoples in Bangladesh will come under the FI’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 FI 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, FI, 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 FI (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 non-governmental organizations. The study by Ahmed (2013) focused on CSR practices of Southeast Bank Ltd. - a leading PCB 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 paid fully 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 the private 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 banks are 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 FI 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 FI 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 FI 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 FI in Bangladesh.

3. MATERIALS AND METHODS

The study is based on secondary data and information on CSR initiatives of the commercial banks, major FI programs undertaken by the banks, geographic and demographic penetration of FI programs and benefits of FI. Currently, there are 52 commercial banks operating in Bangladesh. Some of them are state owned commercial banks (SCBs), and some others are PCBs and foreign commercial banks (FCBs). Data were collected from 10 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 1 bank out of every 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 FI of commercial banks in the country. Summary descriptive statistics (*viz.* summation, mean, frequency, maximum, minimum, ratio and percentage) were applied to analyze the data.

4. RESULTS AND DISCUSSION

4.1. Benefits of FI of Commercial Banks of Bangladesh (CBBs)

Through the FI of CBBs, people enjoy the 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 flexible conditions 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.

4.2. Overall FI Scenarios of CBBs

Table 1 shows the overall FI scenarios of commercial banks in Bangladesh between 2008 and 2012. The findings indicate that there was a rising trend of FI 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% in 2008 to 51.12% in 2012. This is mainly due to introducing 10 Taka account by the banks during the last 5 years. Consequently FI in terms of total population increased from 48.86% in 2008 to 63.46% in 2012. Similarly FI increased from 77.63% in 2008 to 95.12% in 2012 in terms of adult population.

Table 2 presents the major FI 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 programs promoting FI of socially disadvantaged people in both rural and urban segments of the country. However, it is important to note that self-employment credit and small and medium enterprise lending programs of all SCBs, PCBs and FCBs are taken up solo or in association with locally active microfinance institutions (MFIs). The findings also show that majority of the financing programs for installation of biomass processing plants generating biogas fuel and organic manure, effluent treatment plants in manufacturing establishments, and solar energy units in households in off grid rural areas including char lands are supported by PCBs (07) as compared to SCBs (01) and FCBs (01). Similar scenario is observed in promoting financing programs for rural craftsmen and folk/music/drama groups holding cultural events in tourism 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 remote rural households. However, 25 banks have recently obtained mobile banking licenses; 06 among them have started operation. They are offering 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 and factories and other offices, interbank fund transfer, immediate mobile 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.

4.3. FI in Geographic and Demographic Penetration of Banking Services

The commercial banks in Bangladesh have taken initiatives to enhance FI in geographic and demographic penetration of banking

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. CBB: Commercial Banks of Bangladesh

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. CBB: Commercial Banks of Bangladesh, SME: Small and medium enterprise, MFI: Microfinance institution, SCBs: State owned commercial banks, PCBs: Private commercial banks, FCBs: Foreign commercial banks

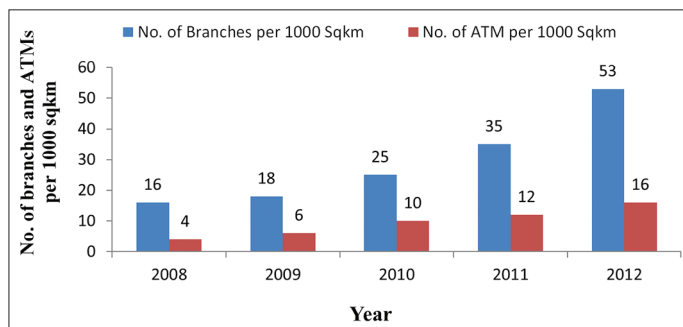
services all over the country. Figure 1 depicts FI in geographic penetration of banking services of CBBs between 2008 and 2012. It can be seen that the numbers of bank branch per 1000 km² have increased tremendously from 16 in 2008 to 53 in 2012. Similarly, the numbers of ATM booth per 1000 km² have increased 4-fold during the last 5 years. The findings indicate that FI of the CBBs in terms of geographic penetration of banking services has increased overtime in the country.

Figure 2 shows FI 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 country during the last 5 years.

Figure 3 shows FI 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 2-fold during the last 5 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.

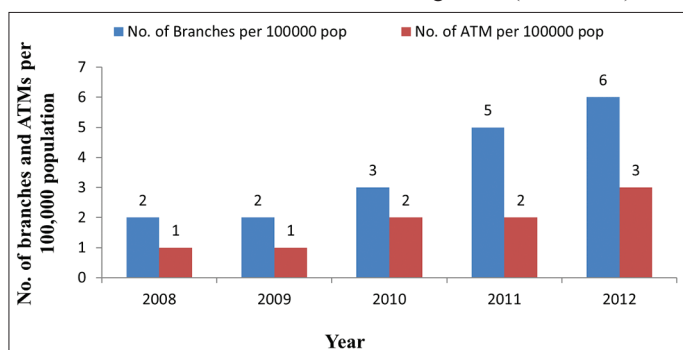
Figure 4 depicts a comparative scenario of providing loan services by the commercial banks in rural and urban areas of the country. The data shows that, on average, 50 people/1000 population

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



Source: Bangladesh Bank, 2013b

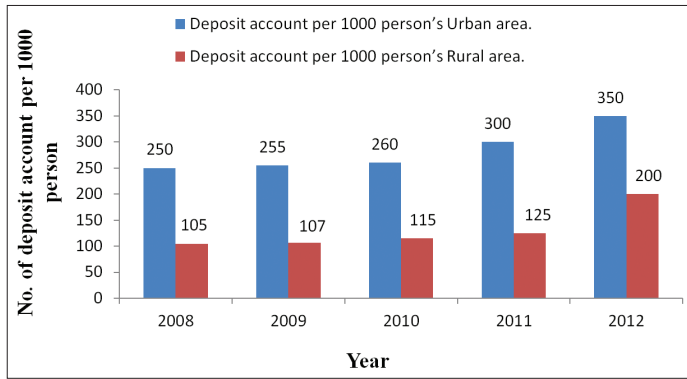
Figure 2: Financial inclusion in demographic penetration of banking services of Commercial Banks of Bangladesh (2008-2012)



Source: Bangladesh Bank, 2013b

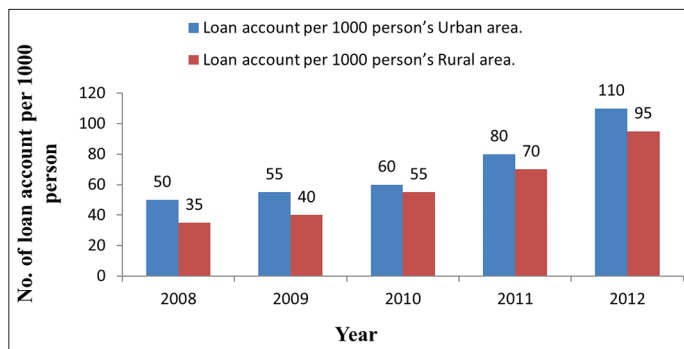
in urban areas received bank loans in the year of 2008. It has increased by, on average, 22.37 percent during the last 5 years. The number of loan accounts in rural areas is also impressive. In 2008, on average 35 people/1000 rural population gained access to loan facilities of the commercial banks. The number of loan account

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



Source: Bangladesh Bank, 2013b

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



Source: Bangladesh Bank, 2013b

holders in rural areas has increased by, on average, 20% 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 FI. Moreover, the banks are providing low interest loans to the farmers for producing special crops.

4.4. 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 FI through banking services is increasing at modest pace. FI in terms of total population has increased from 48.86% in 2008 to 63.46% in 2012
3. PCBs are more advance in enhancing FI than SCBs and FCBs
4. FI in terms of geographic and demographic penetration of banking services has increased tremendously during the last 5 years
5. Access of the common people to banking services in both rural and urban areas of the country has increased overtime.

5. CONCLUSION

The study examines the role of CSR practices of banking sector in enhancing FI 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

5 years. FI in terms of total population has increased from 48.86% in 2008 to 63.46% in 2012. Now the common people, particularly the low income people in both rural and urban areas of the country can easily access to and enjoy various types of banking services. However, the PCBs have higher contribution in CSR practices to enhance FI than SCBs and FCBs. Therefore, SCBs and FCBs should provide more efforts in this regard. The expansion of FI 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 FI in the country. The reason is that majority of the Bangladeshi women does not have ability or intension to deal with a bank due 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 ensure an equitable FI for all the people including poor, underserved and underprivileged group of the society.

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