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# CSR Funds in Banking Sector as an Effective Means for Financial Inclusion Initiatives in India

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## Abstract

*The objective of the financial inclusion initiatives is to ensure that everyone, particularly poor people has access to the financial services and products. The banking organizations must have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion as only banks have such required expertise, capabilities, technology and infrastructure to deal with financial inclusion problem. The objective of present study to find out the current CSR activities adopted by Indian banking sector and further to develop a framework that can ensure effective utilization of CSR funds for financial inclusion initiatives in India. The outcomes of study suggest that banking organizations like HDFC and ICICI have already started to use CSR funds for dealing financial Inclusion problem. These organizations have strategic and focused vision for their CSR initiatives and their CSR initiatives are integrated with their business expertise, core competencies and core business objectives. While other banking organizations like State bank of India, Punjab national bank and Bank of Baroda are still not clear with their CSR vision.*

**Keywords:** Corporate Social Responsibility (CSR), Financial Inclusion, Banking Organizations.

**Introduction:** The objective of the financial inclusion initiatives is to ensure that everyone, particularly poor people has access to the financial services and products. The banking organizations must have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion as only banks have such required expertise, capabilities, technology and infrastructure to deal with financial inclusion problem. One of the effective ways in which this can be achieved is through corporate social responsibility funds. Therefore, a specific business strategies and plans are required to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. The Reserve Bank also has advised banks to familiarize themselves with the issue of Corporate Social Responsibility, a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.

In general “corporate social responsibility can be described as a concept whereby companies integrate social and environmental concerns in their business operations on a voluntary basis”. Strategic CSR can be defined as an alignment of core business objectives and core competencies with the CSR practices. Financial Inclusion is defined as the “process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent

manner by regulated, mainstream institutional players”. Financial Inclusion and Financial Literacy act as twin pillars where Financial Inclusion acts on the supply side i.e. for creating access and financial literacy acts from the demand side i.e. creating a demand for the financial products and services.

In the past, it has been noticed that banking organizations used to perform CSR activities in an unplanned and generic manner. Even, many banking organizations still involve in those CSR activities which are not related to their capabilities and expertise. They can perform better if they carefully review their core business to formulate more strategic aligned CSR activities. In real sense, only few banking organization are responding in a positive manner in terms of their CSR initiatives while majority of them continue to struggle for right direction. The problem lies in the absence of clear CSR vision and misalignment between business and CSR strategies which results in the allocation of CSR funds in to those CSR practices that provide minimal advantage to both companies as well society. In literature, much research regarding corporate social responsibility, stakeholder analysis, business strategy and complete advantage has been proposed. However, one important aspect that probably has been missed so far is the how Indian banking sector can embedded their CSR funds to drive financial inclusion initiatives.

This study takes a particular interest in how can CSR funds can be used to achieve 100% financial inclusion by Indian banking sector.

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**Review of Literature:** The term CSR was evolved in the late 1950's but came to prominence in early 1970s when developed countries were facing lots of issues regarding poverty, unemployment, gender inequality and loss of biodiversity. In the period of 1980's to 2000, organization realized and started accepting a responsibility towards society. Bowen has defined CSR as the obligations of businessmen to pursue those policies to make those decisions or to follow those lines of relations which are desirable in terms of the objectives and values of our society. Frederick (1960) stated CSR as a means that businessmen should oversee the operation of an economic system that fulfills the expectations of the people.

The importance of CSR was realized by financial sector, when investors have started to consider extra-financial factors, like environment, society and governance (Bengtsson, 2008, Sjöström, 2009, Déjean et al., 2004). In today scenario, many banking organization have started to align their CSR practices with core value, products and services and publishing sustainability reports.

Dangi and Kumar (2013) discussed about significance of inclusive financial system and role of RBI towards strong banking infrastructure. In this paper they focused on current and future prospects of financial inclusion in India on the basis of GOI and RBI initiative, policy measures and various other facts and data provided by financial institutions. Finally they concluded that financial inclusion shows positive and valuable changes because of change in strength and technological changes.

In another study Peachey et al. (2004) provided an overview of the importance of access to finance for all and to record the main obstruction to access in different parts of the world has been described. It had also tried to create a tenacious framework for examining the available data on access and to link this through to indicators of wider economic development. Basu (2006) illustrated key findings of household survey specializing in finance sector access. It also analysed the problems and challenges in financial access and to evaluate the success, scalability, and financial sustainability of recent approaches and innovations. This report also provides a clear cut view over broader range of financial services and spectrum of financial services.

Badajena, Nirbachita and Gundimeda (2013) had examined the degree of financial inclusion through SBLP across sixteen states for the period 2008, against the backdrop of growing regional inequalities which the formal banking system faces across various regions in India. By using cross sectional regression technique, author examined the role of self help group bank linkage model, banking density, financial literacy, and level of economic development in achieving financial inclusion

across various regions in India. He concluded with positive impact that SBLP provide an alternative way to broaden financial services to unbanked section of the society.

**Objectives of the Study:** The present study tries to find out the current CSR activities adopted by Indian banking sector and further to develop a framework that can ensure effective utilization of CSR funds for financial inclusion initiatives in India. The study starts with an overview of the current status of CSR practices by top five Indian banks which are State bank of India, HDFC, ICICI, PNB and Bank of Baroda.

**Methodology:** The present study is a conceptual paper based on exploratory research design. Secondary data are collected from the annual reports and sustainability reports of top five banking organization in India to know their current CSR activities and financial inclusion initiatives.

#### **Banks CSR Initiatives and CSR Expenditure:**

**State Bank of India:** As a part of its CSR activities, State bank of India has taken significant initiatives in area of socially relevant schemes which included distribution of safe and clean drinking water facility through installation of 43,161 water purifiers to 42,000 schools and 1,40,000 fans to 14,000 schools. This bank also donated 313 ambulances and medical vans to ensure quality healthcare. Bank invested around 123 crores as CSR expenditure in financial year 2012-13. In addition to this, bank also donated money to National donations to Prime Minister's and Chief Minister's Relief Funds for natural and other calamities.

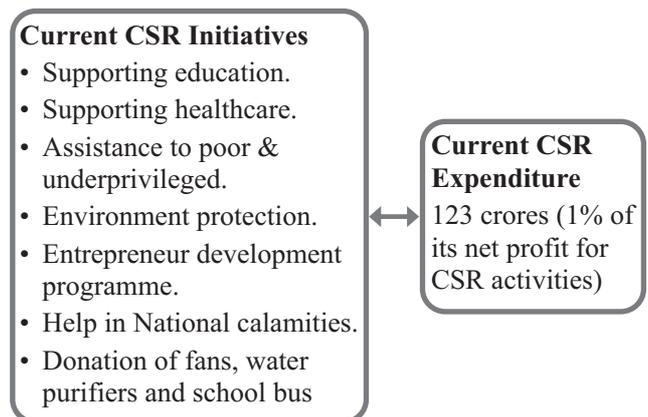


Figure 1: CSR initiatives by State Bank of India [Source - SBI annual reports 2012-13]

**HDFC Bank:** HDFC bank is engaged in various CSR initiatives in the area of financial inclusion through differentiated products and services and taking banking to unbanked parts of the country. In addition, bank also supports local communities by providing them with livelihood opportunities and by conducting social

awareness campaigns.

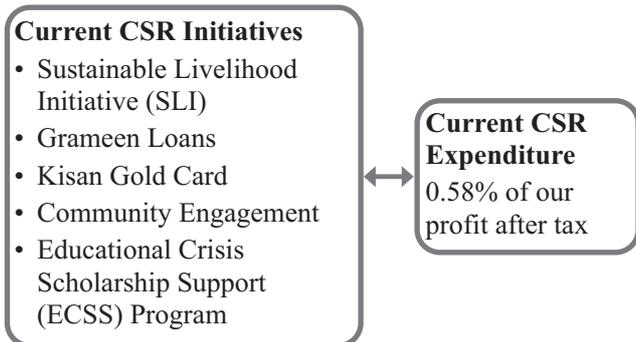


Figure 2: CSR initiatives by HDFC Bank [HDFC sustainability and annual reports 2012-13]

**ICICI Bank:** Social responsibility is an integral part of ICICI's work culture and core values. This bank has established ICICI foundation trust to promote inclusive growth in the sectors of health care, education, sustainable livelihood, and financial inclusion.

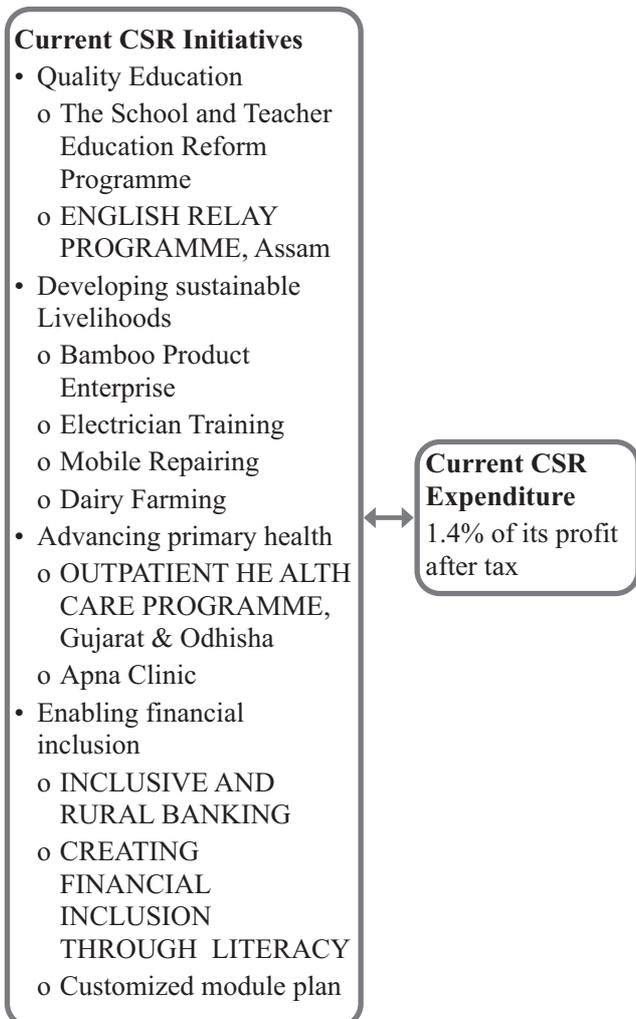


Figure 3: CSR initiatives by ICICI Bank [Source- ICICI Bank sustainability and annual reports 2012-13]

**Punjab National Bank:** PNB is doing CSR activities through an association of the wives of the senior officials of the Bank as well as senior lady officials of the Bank called PNB Prerna. This year, PNB Prerna completed its two years of existence and the event was marked with distribution of food to the needy and destitute. One of the Bank's ongoing CSR initiatives is the Farmers' Training Centers (FTCs) and Rural Self Employment Training Institutes (RSETIs). These centers are operational at various locations in the country and are making an effort to upgrade the knowledge and skills of farmers and impart vocational training to rural youth. Bank has continued to contribute towards expansion of agricultural and rural development through PNB Farmers' Welfare Trust, PNB Centenary Rural Development Trust (PNB CRDT), Rural Self Employment Training Institutes (RSETIs), Financial Literacy Centres (FLCs) and PNB VIKAS- Village Adoption Scheme.

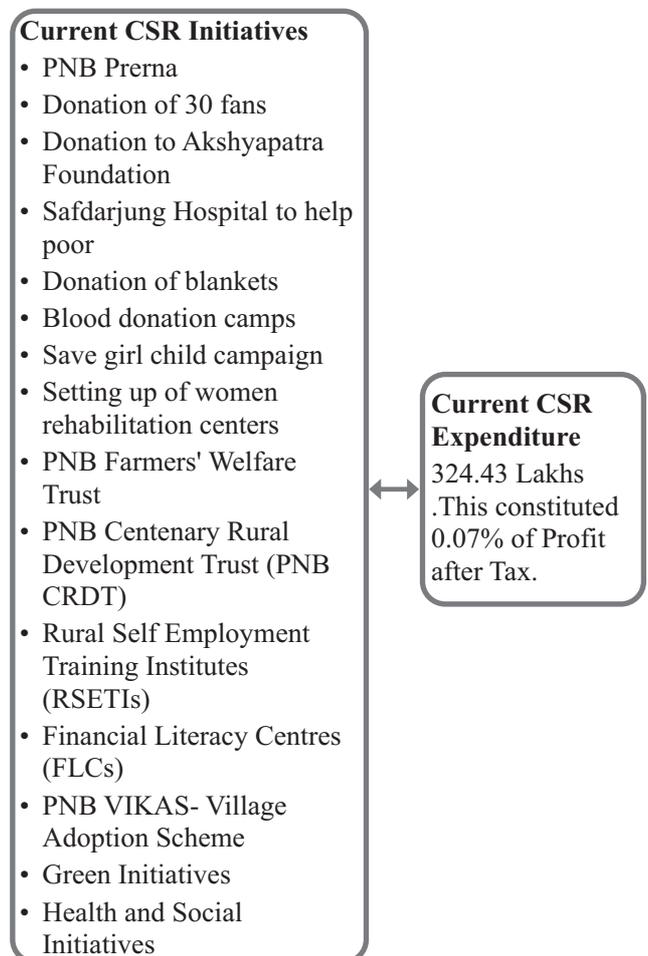


Figure 4: CSR initiatives by PNB Bank [Source-PNB sustainability and annual reports 2012-13]

**Bank of Baroda:** Bank of Baroda's CSR activities are embedded in its core value. Bank has always upheld inclusive growth high on its agenda. Bank has established

36 Baroda Swarojgar Vikas Sansthan (Baroda R-SETI) for imparting training to unemployed youth, free of cost for gainful self employment & entrepreneurship skill development and 52 Baroda Gramin Paramarsh Kendra and for knowledge sharing, problem solving and credit counseling for rural masses across the country, as on 31.03.2011. Bank has also established 18 Financial Literacy and Credit Counseling Centres (FLCC) in order to spread awareness among the rural masses on various financial and banking services and to speed up the process of Financial Inclusion, as on 31.03.2011.

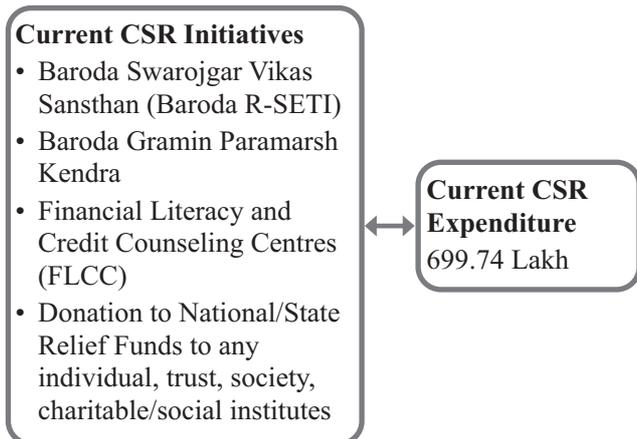


Figure 5: Integration of core competencies and CSR initiatives by TCS [Source- Bank Of Baroda sustainability and annual reports 2012-13]

**Conclusion:** In order to achieve 100% financial inclusion in India, Banking organization can play a vital role through investing their CSR funds. Banks like HDFC and ICICI are working to deal with this problem by accelerating their CSR funds in to financial inclusion activities. But it has also noticed that they are investing into wide range of other CSR activities like **supporting education, health and gender empowerment** which allows the CSR contributions pie to be cut into more pieces and the goodwill spread among many beneficiaries. So they must have clear CSR vision and should be focus on only financial inclusion activities. On the other hand banks like State bank of India, Bank of Baroda and Punjab national bank are still looking for strategic CSR as their CSR activities are limited to only donation and charity.

Therefore, there is lot to achieve in term of contribution towards financial inclusion by banking organization through their CSR funds. Indian Banking must address these issues as a part of their corporate social responsibility and should make purposeful efforts to reach financial inclusion. It not only will help Indian society to attain social inclusion but also helps monetization of Indian Economy and transforming unbanked region to bank.

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