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Department of Off-site Supervision
Bangladesh Bank
Head Office
Dhaka

DOS Circular No. 01 **Date: 1 June 2008**

Chief Executives/Managing Director
All Scheduled Banks and Financial Institutions in Bangladesh

Dear Sirs,

Mainstreaming Corporate Social Responsibility (CSR) in banks and financial institutions in Bangladesh

1. Introduction

1.1: Globally, the notion of Corporate Social Responsibility (CSR) is fast gaining acceptance as the contribution that businesses can and should make voluntarily towards environmentally sustainable and socially equitable development. Besides the usual financial reporting, 'non-financial' or 'sustainability' reporting is accordingly also fast gaining usage.

Stated briefly, CSR is about (i) taking stock of the economic, social and environmental impacts of a business, (ii) mitigating the negative impacts and bolstering the benign impacts, (iii) taking up action programs and community investments to reduce social exclusion and inequality and to address the key sustainable development challenges ('meeting the needs of the present generation without impairing the ability of future generations to meet theirs' is a generally accepted meaning of 'sustainable development').

Because of their ethical and public interest dimensions, many of the desired social and environmental practices are compulsorily mandated by laws and regulations (e.g., safe and healthy work environment, equal opportunity and fair treatment in respect of gender and ethnicity in hiring and career advancement, avoidance of forced labor or child labor, and so forth). CSR programs and actions go beyond such mandatory compliances into voluntary engagements to promote equitable, sustainable development. Besides the self evident ethical case, a strong business case for CSR (as investment in a strategic asset or distinctive capability, rather than an expense) is also getting clearer with developing practice; seen as benefiting a business by:

-building reputation, brand value, customer loyalty, employee motivation and retention;
-mitigating risks in own operations and in assessing suppliers and clients;
-cutting down wastes (of energy, raw materials etc.), driving up efficiency;
-gaining new markets for products and services, in the communities/social groups benefited by the CSR actions.

1.2: It would be of strategic, longer run competitive advantage for banks and financial institutions in Bangladesh to embrace CSR in their management approaches and operations, with initiatives chosen in broad-based, extensive stakeholder engagement. Besides adoption of socially and environmentally responsible practices in own internal operations, banks and financial institutions can make major CSR contribution by speeding up financial inclusion of the large socially disadvantaged rural and urban population segments; drawing them in with appropriate financial service packages and with financing programs innovatively designed to generate new employment, output and income. The following could be some priority areas, among the broad range of possible useful initiatives:

- Self-employment credit and Small and Medium Enterprise (SME) lending programs, taken up solo or in association with locally active Micro Finance Institutions (MFIs), designed to create productive new on-farm /off-farm employment, such initiatives are of particular urgency for regions with endemic high seasonal unemployment (e.g., the manga afflicted Northern districts);
- Financing programs for installation of biomass processing plants (e.g. biogas plants), solar panels in rural households, for waste recycling plants in locations populated by urban poor, and for Effluent Treatment Plants (ETPs) in manufacturing establishments;
- Credit programs for diversified production of crops, oilseeds, spices, vegetables, fruits etc. by rural households, financing the growers directly or through suitable intermediaries in the value chain. Credit support for combinations of farming activities (like co-production of a minor crop with a major one, fish/duck farming with aman rice of deepwater variety in low lying fields), may also be well worthwhile;
- Mobile phone based/ local MFI outlet supported programs promptly delivering remittances from migrant workers to recipients in remote rural households; programs for card based/ mobile phone based delivery of financial services to such households;
-Financing programs supporting folk crafts, folk musical and performing arts, aimed at promoting domestic tourism and markets in cultural products/events besides income and employment for the population groups involved.

With the employment and new income generated by successfully executed programs, the targeted population segments can eventually constitute big new client bases for financial products and services.

1.3: Banks and financial institutions are also well positioned to foster CSR in their client businesses in various economic sectors, engaging with them in assessing the social and environmental impacts of the enterprises/projects seeking finance. For smaller enterprises, the PKSF has developed a set of guidelines (Revised and Updated Guideline for Management of Microenterprise Environmental Health and Safety (EHS) Risks, PKSF, August 2004) for this purpose. For larger projects (valued at USD10 million or higher), the Equator Principles, a set of guidelines developed under the aegis of the IFC, are being used by a large number of leading international banks.

2. Source materials useful in drawing up CSR programs and sustainability reports:

2.1. The Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI), a major international effort, provides a general framework for sustainability reporting by corporates in all economic sectors. Two Financial Services Sector Supplements [SPI-Finance 2002 for social performance indicators, and UNEP FI for environmental performance indicators are used with the Sustainability Reporting Guidelines in reporting sustainability performance (CSR performance) of banks and financial institutions including insurance companies. The Collevecchio Declaration on Financial Institutions and Sustainability enunciate six principles (commitments to sustainability, to do no social or environmental harm, responsibility, accountability, transparency, sustainable markets and governance). These principles and the performance indicators discussed in the Reporting Guidelines and the Sector Supplements (downloadable from websites mentioned in References at annexure-A) may suitably be used for drawing up the to-do lists (i.e., the CSR programs) with targets and timelines.

3. Initiating CSR programs in banks/ financial institutions:

3.1: Embracing CSR has to begin with decision at the highest corporate level (board of directors), and adoption of action programs and performance targets chosen in consultative processes involving the internal and external stakeholders concerned. A first time CSR program of a bank or financial institution would be likely to include action plans for:

i) Ingraining environmentally and socially responsible practices within the organization;

ii) Engaging with borrowers in scrutiny of the environmental and social impacts of their proposed undertakings (along the PKSF 2004 or Equator Principles 2006 guidelines, as relevant);

iii) Reaching out with financial services to the less well off population segments of the community (with own initiatives along lines indicated at paragraph 1.2 above); and

iv) Community investments by way of donations to initiatives of Civil Society Organizations (CSOs), NGOs and institutions involved in health, education and culture; for social and environmental improvement including nutrition, health and education in the disadvantaged population segments (most banks and financial institutions in Bangladesh already have significant outlays of such charitable expenditures, these can fit in appropriately as elements in the new structured CSR programs).

3.2: Foreign banks in Bangladesh having structured CSR programs (in line with their home country practices) can come forward to usefully mentor the new, incipient CSR initiatives of local banks. Networking and joint initiatives in CSR programs among banks and financial institutions may be useful in some cases in devising more inclusive, comprehensive programs of necessary critical size.

3.3: Reporting of the CSR initiatives can begin in a modest way as supplements to usual annual financial reports, eventually to develop into full blown comprehensive reports in the GRI format. Like the statutory financial reports, the CSR reports are expected to be available in the public domain for perusal by stakeholders.

4: Monitoring of CSR performance:

While adoption is voluntary and not mandatory, Bangladesh Bank shall monitor CSR adoption and CSR performance of banks and financial institutions, as an additional dimension of their management performance.

Contents of this circular may please be brought up for board level discussion and decision as deemed appropriate.

Meanwhile, please acknowledge receipt.

Yours faithfully,

Sd/-
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General Manager
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Annexure A

References:

1. *Sustainability Reporting Guidelines* (www.globalreporting.org, info@globalreporting.org).

2. *Financial Services Sector Supplement: Social performance*, for use with the sustainability reporting guidelines (www.globalreporting.org).

3. *Financial Services Sector Supplement: Environmental Performance*, for use with the sustainability reporting guidelines (www.globalreporting.org).

4. *The Collevecchio Declaration on financial institutions and sustainability* (www.foe.org/camps/intl/declaration.html).

5. *Revised and Updated Guideline for Management of Microenterprise Environmental Health and Safety (EHS) Risks*: August 2004, PKSF (available at Bangladesh Bank website www.bangladeshbank.org.bd).

6. *The Equator Principles*, July 2006 (www.equator-principles.com).

7. Probal Dutta , Sudipta Bose: *Corporate Social and Environmental Reporting on corporate websites: a study on listed companies of Bangladesh,* The Cost and Management, Vol.35 No.4, July-August 2007, pp31-49.

8. Theresa Moyo, Shanon Rohan: *Corporate citizenship in the context of the financial services sector: what lessons from the Financial Sector Charter?* Development Southern Africa, 23:2, 289-303, 01 June, 2006.

9. John G. Ruggie: *Globalization, the Global Compact and corporate social responsibility* , Transnational Associations,6/2000, 291-294.

10.Jane Covey, L. David Brown: *Critical Cooperation: An Alternative Form of Civil Society-Business Engagement,* IDR Reports: A continuing Series of Occasional Papers, Vol. 17, No.1, 2001.

11.David Husselbee: *NGOs as development partners to the corporates: child football stitchers in Pakistan,* Development in Practice, 10:3, 377-389, 01 August 2000.

12. Department of Environment, Govt. of Bangladesh (www.doe-bd.org, info@doe-bd.org).

13. UN Environment program (www.unep.org).

14. Sustainable Development Networking Program (SDNP) Bangladesh (www.sdnbd.org).