

Financial sector Corporate Social Responsibility (CSR) engagements: Indicative Guidelines for expenditure allocations and end use oversight

1. Introduction: Initiated by Bangladesh Bank (BB) in 2008, the CSR mainstreaming campaign in Bangladesh's financial sector has enthused all banks and financial institutions into a broad range of direct and indirect CSR engagements including humanitarian relief and disaster response; widening of advancement opportunities for disadvantaged population segments with support in areas of healthcare, education and training; 'greening' initiatives arresting environmental degradation, and so forth.

Direct and indirect budgetary CSR commitments of banks and financial institutions have increased several-fold since 2008, the already substantial and further increasing levels of financial involvements in CSR engagements have understandably raised concerns about ensuring allocation of the budgetary resources on an arm's length basis, free of insider interests connected to members of the boards and senior managements, as also about proper end use monitoring. The following Indicative Guidelines for allocation and end use monitoring of CSR engagements of the financial sector, drawn up in a consultative process with banks, financial institutions and their CSR stakeholders, are accordingly being issued, effective forthwith. These indicative guidelines are intended to cover only the CSR support initiatives in the communities outside the banks and financial institutions; not those to do with upgrading of working conditions, health and safety measures, gender fairness etc. for own employees that are covered by relevant labor laws and regulations.

BB's Green banking & CSR department and its Offsite and Onsite supervision departments will keep track of adherence of banks and financial institutions to these indicative guidelines, as part of routine assessments of their quality of governance and internal controls.

2. Administrative setup, budgetary allocation process:

i) Annual CSR programs in terms of board approved CSR policies of a bank/financial institution will be drawn up and implemented by a dedicated CSR unit set up its head office; or in case of larger programs, by a foundation set up specifically for this purpose. Activities of the dedicated CSR units/foundations will be under oversight of BB's CSR and supervision departments, besides that of the bank's/financial institution's own internal audit and internal controls.

ii) The dedicated CSR unit/foundation will propose budgetary allocations for CSR programs annually for approval of the board of the bank/financial institution; the board will approve allocations by appropriations from annual post tax net profits. The proposals for board approval must scrupulously avoid any allocation in favor of any entity directly or indirectly connected with directors, senior management members of the bank/financial institution or with the trustees of its CSR foundation.

iii) A bank/financial institution with no post-tax net profit surplus may postpone making fresh CSR program expenditure commitments but should continue honoring previous commitments (like educational scholarship for a student's educational course period etc.). CSR engagements in priority sector lending (like agricultural, SME and green financing) should also remain undiminished scale.

iv) Every bank/financial institution/its foundation shall exercise utmost care in ensuring that the CSR support allocations do not end up aiding or abetting financing of militancy and terrorism. Any suspected event of such abuse of CSR assistance must be reported to law enforcement authorities, stopping the CSR assistance forthwith; failure to do so will attract penal proceedings under AML CFT laws and regulations.

3. Expected range/coverage of allocations for CSR initiatives: BB's DOS Circular No 01 of June 2008 and the subsequent circulars on the subject comprehensively enumerate the expected ranges and areas of CSR engagements of banks and financial institutions in the communities they operate in. Given the current pattern of relative urgencies of needs in diverse areas, broad adherence to the following allocation pattern will be advisable:

i) Education and job focused vocational training being crucial in widening advancement opportunities for the underprivileged population segments, around thirty percent of total CSR expenditure should be (a) for scholarships/stipends for students from low income family in reputed academic and vocational training institutions, and (b) for support towards upgrading of facilities in academic and vocational training institutions substantially engaged with students and trainees from the underprivileged rural and urban population segments. Selection processes for scholarships and stipends should elicit enough information to preclude applicants from drawing benefits from multiple banks/financial institution sources.

ii) Preventive and curative healthcare support assistance for underprivileged population segments comes next in priority, around twenty percent of total CSR expenditure allocation in this area would be appropriate. Support assistances in this area would include direct grants towards costs of curative treatment of individual patients, towards costs of running hospitals and diagnostic centers

engaged substantially in treatment of patients from underprivileged population segments, and towards costs of preventive public health and hygiene initiatives like provision of safe drinking water, hygienic toilet facilities for poor households and for floating population in urban areas, and so forth.

iii) The remainder of direct budgetary CSR expenditure allocations should be used in such other areas as emergency disaster relief, promoting adoption of environmentally sustainable output practices and lifestyles, promoting artistic, cultural, sports and recreational facilities for the underprivileged, upgrading facilities and lifesavings equipments in emergency rescue services like the fire brigades etc., infrastructure improvement for disadvantaged communities in remote far flung areas and so forth.

The above outlined indicative allocation guidelines are for direct budgetary CSR expenditures only. Indirect costs associated with promotion of inclusive financing for productive SME initiatives in agriculture, manufacturing and services, and for environmentally beneficial 'green' projects are partly mitigated by such policy supports as concessional refinance lines, with the remainder to be viewed as investment costs of expanding into newer client bases.

4. End use monitoring of CSR expenditure allocations: Every bank/financial institution shall be responsible for monitoring of proper utilization of the CSR support assistances for the intended purposes. In case of CSR assistances to institutions/organizations, it would be advisable for the concerned dedicated CSR units/foundations to get into Memorandums of Understanding (MOUs) with the assistance recipients stipulating phased disbursements commensurate with progress in proper end use. In cases of assistances to individuals, the dedicated CSR unit/foundation should collect and file reports/documents sufficient to ascertain proper end use, withholding the assistance in unsatisfactory cases. Boards of banks/financial institutions should review reports of CSR allocation end use monitoring annually before approving fresh allocations for subsequent years; and all end use monitoring records should be kept available for inspection by internal and external audit and by BB supervision officials.
