

# Prospects And Challenges Faced by Indian Banks During the Implementation of CSR Activities

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## Abstract:

The purpose of this paper is to investigate what issues and challenges banks face while implementing CSR practices. The methodology employed is a conceptual approach, involving a cross-sectional study that qualitatively analyzes the CSR activities undertaken by Indian public sector banks.

As the significance of Corporate Social Responsibility (CSR) has steadily grown, Indian corporate entities have come to recognize that the ultimate objective extends beyond merely generating profits. Instead, it encompasses the cultivation of trust and the development of a sustainable rapport with society. This article centers its attention on examining and evaluating the various facets and hurdles of CSR practices within the Indian banking industry.

The practical implications of this research paper are significant. The insights presented can guide organizations in designing CSR programs based on their objectives, proactiveness, activity nature, characteristics, and potential benefits. Additionally, it sheds light on the opportunities and challenges faced by organizations in the context of CSR during a pandemic.

**Keywords:** Corporate social obligations, Public Sector Banks, Prospects and Challenges, Pandemic.

## Introduction:

In India, Corporate Social Responsibility (CSR) is a legal requirement for certain companies, including public banks, under the Companies Act, 2013. Public banks must allocate a portion of their profits to CSR activities. These activities typically focus on financial inclusion, education, healthcare, rural development, environmental sustainability, and community welfare. Public banks must adhere to CSR guidelines, report their activities, and establish a CSR committee to oversee them. CSR in India reflects a growing awareness of corporate responsibility and contributing to the well-being of communities.

CSR at a glance:

Provisions under the Companies Act, 2013:

Under the Companies Act, 2013 it is a mandatory provision to contribute 2 percent of the average net profits of companies. CSR is required and applicable according to Sub-Section 1 of Section 135 of the Companies Act, 2013 during the three immediately preceding financial years, on CSR activities.

The net worth of the company is Rs 500 crore or more.

Turnover of the company to be Rs 1000 crore or more.

The net profit of the company to be Rs 5 crore or more.

**Table 1: Evolution of CSR Initiatives**

Phase I 1850-1914	Phase II 1910-1960	Phase III 1950-1990	Phase IV 1980-present
Pure philanthropic and charity during industrialisation, Corporations responsible to owners and managers.	CSR was developed as a social activity during the independence struggle. Corporations were for owners, managers and employees.	CSR was growing under a mixed economy paradigm. Corporations were responsible for owners, managers and other target environments.	CSR in a globalised world but in a confused state. Corporations are responsible to owners, managers, target environment and the public at large.

Source: Dhingra and Mittal (2014).

Businesses have four main responsibilities towards society:

**Economic Responsibilities:** Ensuring stakeholders receive a satisfactory return on investment, fair wages for employees, and providing quality products and services at reasonable prices.

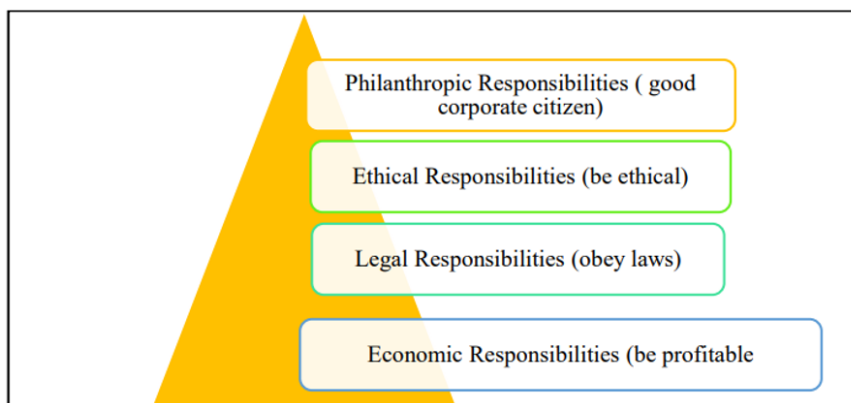
**Legal Responsibilities:** Adhering to existing laws and regulations to maintain social order and uphold ethical standards.

**Ethical Responsibilities:** Acting ethically towards stakeholders, even beyond legal requirements, by treating them fairly and honestly.

**Philanthropic Responsibilities:** Voluntarily taking actions to enhance the quality of life for stakeholders, such as charitable contributions and community support, demonstrating a commitment to social well-being.

Indian public banks have shouldered the responsibility of driving corporate social responsibility (CSR) initiatives in the country. Despite grappling with various challenges and obstacles, these banks have remained steadfast in their commitment to fostering CSR practices. Their unwavering dedication to social and environmental causes underscores their pivotal role in promoting sustainable development and positive change within Indian society.

**Carroll’s four-part model of CSR**



Source: Carroll (1999).

**Objectives of the research:**

1. The paper aims to examine and understand the key issues related to Corporate Social Responsibility (CSR) in India. This involves identifying and analyzing the challenges and obstacles faced by banks in effectively implementing CSR initiatives.
2. The paper seeks to explore the challenges that hinder the successful execution of CSR activities in the Indian context. These challenges could include regulatory, social, economic, or environmental factors that impact CSR practices.

**Literature Review:**

**Ritu Chaudhary, Rakesh Kumar Yadav (2022)**, Indian banking Sector: Overview of its CSR Practices and Challenges. The objective of the study examine CSR practices in the Indian banking sector and highlight the challenges faced during implementation. An exploratory analysis using secondary data sources. Data was gathered from national and international journals and bank websites. Key findings are: Banks increasingly use CSR as a marketing tool; Few banks articulate their CSR philosophies online; Limited public disclosure of CSR investments; Lack of reliable indicators for tracking CSR progress; Need for grassroots-level CSR dissemination and transparent implementation.

**Varun Kumar (2022)**, The objective of the study was to explore the areas of benefits of CSR practices and issues and challenges faced in implementing CSR practices. The finding of the research says that corporates and banks fail to consider CSR's holistic view. Lack of transparency is the biggest challenge faced by CSR. The creation of shared and sustainable value thereby integrating the company's development goals with the interests of its stakeholders is a big challenge in the road of CSR. Another issue faced was the lack of sufficient financial resources, local capacities, and infrastructure. The research concluded that its successful execution can face challenges such as the need for consensus, public engagement, stakeholder capacity at different levels, and transparency, among others.

**Nilesh R. Berad (2011)**, The research design chosen for this study is descriptive. This selection aligns with the study's objectives, aiming to achieve a high degree of accuracy and conduct an in-depth analysis of the research topic. The study primarily relies on available secondary data, which was extensively utilized. The researcher collected the necessary data through a secondary survey method. This involved gathering information from various sources, including news articles, books, and websites. The data collected was systematically enumerated and recorded for the study's analysis. The researcher also concluded that to attract and retain skilled talent, companies are compelled to enhance working conditions and demonstrate social responsibility.

**Dhavalkumar Bharkat Kumar Sayata, Dr. Jyoti Thakkar (2021)**, The article intends to examine the position of "Financial inclusion" as a matter of social responsibility of the commercial banks. It reviews the concept of social responsibility and how it is useful to sustain in the market. The paper aims clearly to make some recommendations for overcoming the challenges and also make corporate social responsibility more successful for banks. The main methods used in this study are semi-interviews, field observation, and documentation review. The study concluded that HDFC Bank Ltd. surpassed in complying with CSR Provisions of The Companies Act, of 2013 as compared to State Bank of India.

**Research Methodology:**

The research design chosen for this study is of the descriptive type. This selection aligns with the study's objectives, aiming to achieve a high degree of accuracy and conduct an in-depth analysis of the research study.

The study primarily relies on available secondary data, which was extensively utilized. The researcher collected the necessary data through a secondary survey method. This involved gathering information from various sources, including news articles, books, and websites. The data collected was systematically enumerated and recorded for the study's analysis. The researcher also explored the recent investment of a few public sector banks in CSR practices.

**Findings/ Results:****SBI Bank:**

By the State Bank of India CSR Report titled "Providing Service Beyond Banking" (The CSR Journal, 2021), it is evident that CSR is deeply woven into the fabric of this leading commercial bank. Similar to other financial institutions, SBI has played an active role in supporting the COVID-19 relief fund. This support has encompassed initiatives such as "ECHO," which focuses on training healthcare professionals, "PRAAN," aimed at designing electromagnetic ventilators, Gram Seva programs for rural development, as well as various projects and centers dedicated to empowering individuals with disabilities, among others.

**In 2022-23, SBI took the following initiatives:**

**Network Dominance:** SBI's vast network includes 22,405 branches, 65,627 ATMs, and 76,089 Customer Service Points, solidifying its market dominance in various banking services.

**Environmental Stewardship:** SBI earned a 'B' rating in the 2022 Carbon Disclosure Project, showcasing its dedication to combating climate change through initiatives like EV chargers and green building certifications.

**Clean Energy:** SBI boasts a significant renewable energy portfolio of 23,679.55 MW capacity and substantial financing of renewable projects worth Rs. 36,243 crores.

**CSR Initiatives:** SBI's extensive Corporate Social Responsibility (CSR) efforts, including tree planting and aiding millions, highlight its commitment to social well-being and environmental conservation.

**Workforce Inclusivity:** SBI leads in promoting diversity and inclusion by employing 5,190 individuals with disabilities, despite its substantial market presence.

**Axis Bank:**

As outlined in their CSR Focus Areas and Programs (Axis Bank), Axis Bank directs its efforts towards several key areas, including poverty alleviation, environmental sustainability, fostering the growth of Micro, Small, and Medium Enterprises (MSMEs), as well as providing sanitation and healthcare services to underprivileged communities.

**Axis Bank Surpasses CSR Spending Goals in FY 2022-23:**

**Going beyond:** The company's CSR obligation, as per the Companies Act, 2013, was Rs. 199.46 crores, which is 2% of the average net profit. However, they spent Rs. 201.92 crores, exceeding their required amount by Rs. 2.46 crores.

Since there was no surplus from CSR projects in the previous fiscal year, the company can carry forward this excess amount of Rs. 2.46 crores to be set off against their CSR obligations in the succeeding fiscal years. This demonstrates their commitment to corporate social responsibility by going beyond their mandated spending.

**IDBI Bank:**

The bank has been steadily intensifying its CSR efforts, demonstrating active engagement in projects geared towards socio-economic development, rural electrification, and contributions to the Covid relief fund. It has also been actively involved in providing vocational and life skill development training, empowering Persons with Disabilities (PwDs), and supporting underprivileged segments of society. A particular focus has been placed on advancing rural education, including the generous donation of computers to rural government schools to enhance the educational opportunities and well-being of students (source: Personal and Corporate Banking | MSME and Agri Banking - IDBI Bank, 2021).

**In 2022-23, IDBI took the following initiatives:**

- The CSR initiatives may be implemented either by the Bank itself or through any of the established organizations/NGOs with suitable track records as decided by the Bank and permitted by the applicable guidelines.
- The Bank may also collaborate for projects with other organizations as eligible under the act and amendments thereof.
- The Bank will consider both short-duration (less than one year) and multi-year projects (not exceeding three years, excluding the financial year in which it was commenced).
- The CSR proposals should specifically define the purpose/activity, timeframe, financial requirement, outcome/expected results, and sustainable aspects, if any, of the intervention.
- The Bank may also make contributions to the funds specified in Schedule VII of the Companies Act 2013.
- The Bank would generally not consider extending financial assistance to the same organization in two consecutive financial years. However, for exceptional cases/ projects, the same may be taken up with the approval of CSRCB.

**Union Bank:**

The bank's primary emphasis lies in rural development, which is manifested through initiatives such as "village knowledge centers" and "farmers' clubs." They also conduct numerous programs aimed at promoting female education and empowerment, as well as enhancing overall community welfare in rural areas (source: CSR | Union Bank of India, 2020).

**In 2022-23, the Union took the following initiatives:**

- Bankers Institute for Rural & Entrepreneurship Development, Hyderabad - Rs. 26.80 lacs for revenue expense sharing.

- Swarna Bharat –Soma Institute of Technical Training, Venkatachalam - Rs. 39.73 lacs for revenue expense sharing.
- Corporation Bank Centenary Public Library, Mangalore - Rs. 25.00 lacs for meeting library revenue expenses.
- Supported District administration Udupi - Rs. 46.25 lacs for setting up an Oxygen plant at the district hospital for COVID-19 patients.
- Supported Mangalore Jesuit Education Society - Rs. 25.00 lacs for procuring educational research equipment for St. Aloysius College, Mangaluru.
- Supported King George Hospital, Visakhapatnam - Rs. 29.50 lacs for procuring a Doppler machine.
- Supported Akshaya Patra Foundation, Bangalore - Rs. 23,36,320/- for purchasing two custom-built food distribution vehicles for mid-day meal schemes.
- Saraswati Education & Welfare Trust, Meghalaya - Rs. 24.00 lacs for constructing three classrooms in Saraswati Vidya Mandir, Kongong.
- Union Bank of India expressed its commitment to corporate social responsibility and contributing to the betterment of local communities and society as a responsible corporate entity in other areas as well.

### **Punjab National Bank:**

All the CSR initiatives taken up by the bank are aligned to national priority schemes. The thematic alignment of programs caters to the most vulnerable communities. The bank's initiatives are for the greater good of the community and will help to address national issues progressively. Primary focus areas of PNB are Health, Initiatives, Education and Vocational Training, Disaster Relief and Rehabilitation activities, and Promotion of nationally recognized sports like Badminton.

### **In 2022-23, the PNB took the following initiatives:**

- **Corporate Volunteering:** Engaged staff and local communities in CSR activities.
- **Social Investments:** Contributed to society through initiatives like Farmers' Training Centers, RSETIs, Financial Literacy Centers, and more.
- **Farmers' Training Centres (FTCs):** Established 12 centers, trained 1.7 million individuals, and invested Rs. 326.54 Lakhs.
- **Rural Self Employment Training Institutes (RSETIs):** Operated 76 centers, trained 51,618 individuals, and spent Rs. 3,321.57 Lakhs.
- **PNB Vikas Yojana:** Adopted 305 villages for holistic development, spending Rs. 78.31 lakh.
- **Health:** Invested in healthcare services and provided ambulances.
- **Green Initiatives:** Promoted eco-friendly practices like rainwater harvesting and tree planting.
- **Education:** Supported education initiatives like 'Samagra Shiksha Abhiyan.'
- **Promotion of Sports:** Actively supported hockey development, spending 40.83 lakhs on the Senior Hockey Team.

### **Prospects and Challenges:**

The changing landscape of corporate responsibility in India's public sector banks offers promising prospects and challenges for CSR practices. These banks have an opportunity to make a significant social



and environmental impact but must navigate regulatory compliance and align CSR efforts with their core objectives effectively.

### **Prospects:**

The prospects of Corporate Social Responsibility (CSR) practices by Indian public sector banks are significant and hold several promising opportunities. Here are some key prospects and areas of opportunity for CSR practices by Indian public sector banks:

**Financial Inclusion:** Indian public sector banks have a unique opportunity to further financial inclusion through CSR initiatives. By supporting financial literacy programs, providing banking services to underbanked or unbanked regions, and promoting digital banking solutions, they can contribute to economic growth and reduce income disparities.

**Education and Skill Development:** Public sector banks can invest in education and skill development programs to empower individuals with the knowledge and skills necessary for meaningful employment. This can lead to a more skilled and employable workforce, which, in turn, can boost economic development.

**Healthcare Initiatives:** Supporting healthcare initiatives, especially in rural and underserved areas, can improve the overall health and well-being of communities. This can include funding for medical camps, building healthcare infrastructure, and supporting public health awareness campaigns.

**Environmental Sustainability:** Public sector banks can play a role in promoting environmental sustainability by funding initiatives related to renewable energy, afforestation, and pollution control. This aligns with the global and national focus on climate change mitigation and sustainability.

**Community Development:** Investing in community development projects, such as building schools, community centers, and infrastructure in remote areas, can enhance the quality of life for local communities and contribute to their overall development.

**Disaster Relief and Rehabilitation:** Public sector banks can allocate resources for disaster relief and rehabilitation efforts during natural disasters like floods, earthquakes, and cyclones. This provides immediate relief to affected communities and helps in rebuilding affected regions.

**Support for MSMEs:** Supporting Micro, Small, and Medium Enterprises (MSMEs) through financial assistance and capacity-building programs can stimulate economic growth and employment generation. Public sector banks can play a crucial role in nurturing entrepreneurship and small businesses.

**Promoting Digital Literacy:** As digital banking and financial services become more prevalent, public-sector banks can promote digital literacy and inclusion among marginalized communities. This can enhance financial access and inclusion.

**Transparency and Governance:** Public sector banks can enhance their CSR prospects by ensuring transparency in their CSR activities and adhering to strong governance practices. This will build trust among stakeholders and ensure the effective utilization of CSR funds.

**Measuring Impact:** To maximize the prospects of CSR practices, public sector banks should invest in robust impact assessment and reporting mechanisms. Demonstrating the tangible impact of CSR initiatives can attract more partnerships and support from stakeholders.

**Global Collaboration:** Public sector banks can collaborate with international organizations, foreign governments, and global corporations on CSR projects. This can lead to knowledge exchange and access to additional resources for larger-scale initiatives.

In conclusion, Indian public sector banks have a significant role to play in promoting CSR practices. By aligning their CSR initiatives with the pressing social and environmental needs of the country, they can contribute to India's sustainable development, strengthen their reputation, and fulfill their broader societal responsibilities.

### **Challenges in implementing:**

Financial institutions encounter particular obstacles when it comes to implementing their corporate social responsibility (CSR) initiatives. These are discussed below:

#### **Resource Allocation:** Balancing CSR Commitments with Financial Sustainability.

- ✓ Banks allocate resources for CSR activities, which often require diverting funds from their core banking operations.
- ✓ Overspending on CSR may affect profitability and shareholder returns.

#### **Measuring Impact:** Evaluating the Tangible Outcomes of CSR Initiatives.

- ✓ Assessing the true impact of CSR initiatives is complex. Determining how social or environmental changes can be directly attributed to specific CSR actions is often difficult.
- ✓ Measuring outcomes in terms of metrics like reduced carbon emissions or improved social well-being requires comprehensive data collection and analysis, which can be resource-intensive.

#### **Regulatory Compliance:** Meeting Stringent Regulatory Requirements and Reporting Standards.

- ✓ Indian regulations mandate that a certain percentage of profits be allocated to CSR activities. Ensuring compliance with these laws while adhering to specific guidelines for project selection and implementation can be a bureaucratic challenge.
- ✓ Public banks need to maintain rigorous documentation and reporting standards, which can lead to administrative complexities.

#### **Stakeholder Expectations:** Aligning CSR Initiatives with Diverse Stakeholder Expectations.

- ✓ Stakeholders, including customers, employees, shareholders, and the community, may have varying expectations regarding CSR initiatives.
- ✓ Meeting the diverse demands of these stakeholders while maintaining a coherent CSR strategy can be difficult. Public banks need to engage in effective stakeholder communication and manage expectations.

#### **Long-Term Sustainability:** Ensuring Lasting, Meaningful Impacts and Avoiding Tokenism.

- ✓ Sustaining CSR efforts over time and preventing them from becoming mere token gestures is a significant challenge.
- ✓ Public banks must develop and execute CSR initiatives that create lasting and meaningful impacts on society and the environment rather than one-off, short-term projects.

### **Conclusion:**

Corporate Social Responsibility (CSR) is indeed a commendable concept, but its effective implementation can face various challenges, including:

**Consensus:** Achieving consensus among stakeholders on CSR initiatives can be challenging, as different parties may have conflicting interests and priorities.

**Public Participation:** Engaging the public in CSR activities can be difficult, as it requires active involvement and commitment from community members.



**Stakeholder Capacity:** The capacity of stakeholders at various levels to participate in and support CSR initiatives can vary. Some stakeholders may lack the resources or knowledge needed to contribute effectively.

**Transparency:** Maintaining transparency in CSR activities, including fund allocation and project outcomes, is crucial but can be challenging, especially when there is a lack of transparency in local implementing authorities.

**Corporate Dominance:** There is a concern that corporations may exert undue influence over stakeholders, such as pressuring suppliers to lower prices, offering subpar wages and working conditions, engaging in tax avoidance, and lobbying governments to resist social and environmental regulations. Addressing these challenges is crucial for banks to contribute positively to society while maintaining their financial stability and integrity.

In the context of India, where CSR activities were mandated in 2014, it is important to evaluate the impact of these legal provisions on CSR practices over time. Monitoring and refining these provisions can help address the challenges and ensure that CSR initiatives genuinely benefit society and the environment while avoiding potential pitfalls.

### **Suggestions:**

In India, where CSR became mandatory in 2014, it's important to give time for assessing the impact of legal provisions. Promoting CSR awareness among the public, setting long-term goals, diversifying CSR issues, pooling resources with NGOs, assisting the underprivileged, and government incentives can improve CSR effectiveness. Following are the suggestions for public sector banks in India:

**Define Roles and Responsibilities:** Clearly outline responsibilities for planning, execution, and reporting of CSR activities.

**Robust Reporting:** Implement comprehensive reporting mechanisms, including financial disclosures and impact assessments.

**Align with Values:** Ensure CSR aligns with the bank's core values and prevents conflicts of interest.

**Impact Assessment:** Regularly assess CSR impact and share results transparently.

**Stakeholder Engagement:** Involve communities, NGOs, and customers in CSR decision-making and feedback.

**Governance Structures:** Communicate clear CSR governance structures.

**Dedicated Teams:** Establish CSR teams for project management.

**Policies and Guidelines:** Create comprehensive CSR policies and guidelines.

**Early Stakeholder Engagement:** Involve stakeholders in planning.

**Review and Reporting:** Continuously review and transparently report outcomes.

Addressing core competencies and value chains requires strategic alignment, integration into the value chain, cross-functional collaboration, continuous improvement, impact measurement, and partnerships. This approach maximizes CSR's social and business value for stakeholders.

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