

Corporate Social Responsibility in Pakistan's Banking Sector: A Critical Analysis, SDG Alignment and Way Forward

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Abstract

This case study is an exploratory study of the current CSR environment in the Banking Industry of Pakistan. The inclusive case studies that present the critique, way forward, and SDG alignment for the banking sector of developing economies are depicted as a literary gap. This creates a high call for case studies that could pave the way forward for an inclusive theoretical as well as empirical sense of the concerned problem. The observations, experience, insight, and pattern extraction from primary data that involved interviews as well as secondary data on the subject concerned in terms of the Pakistani Banking sector were the building blocks and method for the research case study. The findings are presented in the form of workable solutions. The value of this research endeavour is depicted through the implications that could be inferred from the workable solutions for steering the positive impact of CSR by the Banking sector towards the overall society.

Keywords: CSR; banking industry; Pakistan; SDG alignment; workable solutions.

JEL Classification: M14, M21, M30, M48

1. Introduction

Homeward bound in the evening, feeling relaxed owing to an entertaining game of cricket sponsored by a large local Bank, a different perspective simultaneously loomed over the subconscious of Faheem. Having a great national interest in the game, a large proportion of the Pakistani population always followed the game passionately. Consequently, large

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corporate entities have always competed with each other to win sponsorships at competitively favourable prices. This has been under the umbrella of corporate social responsibility, where the ensuing marketing mileage and rewards are substantial. However, thwarting the core of Corporate Social Responsibility (CSR), the corporate entities in Pakistan generally engage themselves in only those areas that carry visible marketing benefits in the short term and do not engage themselves in long term movements. With the broad spectrum that CSR offers, it was genuinely felt that there is a lot to be explored amidst the diverse palette of CSR Guidelines by the Securities & Exchange Commission of Pakistan (SECP, 2013).

Having served in the Banking Industry for over 30 years, Faheem observed that there is still enough room for the banking industry to be covered by its players in the sphere of CSR. However, a compelling institutional framework comprising key institutions like the State Bank of Pakistan, the Federal Board of Revenue, and of course, the SECP, is perhaps desirable, enabling the banking industry to yield the expected results in the CSR arena.

This case study therefore, aims to explore the current CSR environment in the Banking Industry in Pakistan and suggests workable solutions for greater impact on society.

2. CSR: What and Why for Banking

The holistic understanding of CSR is that it is a movement that recognizes that a company's impact on society extends beyond its financial performance. According to Crane and Matten (2007), it aims to promote sustainable development, integrate social advancement, protect the environment, encourage prudent resource management, and ensure robust and consistent rates of economic growth and employment. CSR is a business-oriented movement that recognizes that a company's impact on society extends beyond its financial performance. It aims to promote social progress, sustainable development, and the protection of the environment, encourage prudent resource management, and promote robust and stable economic growth and employment rates (Crane & Matten, 2007).

Regarding the term's existence and definition, as well as its breadth and usefulness in the contemporary political, legal, and socioeconomic context, the corporations, academics, professionals, social initiatives, and governments all hold differing opinions. Notably, there are differences of opinion on how it ought to be carried out, such as whether it needs a proper mandate or should be a voluntary activity. Therefore, to completely understand the scope of CSR and its importance to Pakistani society, we need to investigate its various elements and dimensions (Kramer & Porter, 2006).

According to Waheed (2005, p. 12), CSR "includes such fundamental values as paying taxes, openness, high labour ethics, and customer sensitivity." Therefore, the concerned may question the sincerity of such charitable goals by partnerships, and problems

with accountability and transparency at the implementation level (Mahapatra & Visalaksh, 2011).

According to Timms (2012), “the key for business. That corporate social responsibility is seen rather than public relations, as philanthropy, but as normal to the organization supported excluding by generosity but also good business ground.” Distinguishing CSR from gifts, generosity, and other philanthropic endeavours is the resilience-oriented attitude to stakeholders, both internal and external, for sustainable corporate performance.

Because it facilitates capital flow between lenders and borrowers through its financial brokerage function, the banking industry is seen as a potent driver of corporate performance (Shen & Lee 2006; Beck et al., 2010; Khan, 2010). In this regard, the banking industry is distinct from other industries in society. Its current responsibilities include developing new trends and tactics and offering customers the services they require in a way that lessens financial exclusion (Platonova et al., 2018).

Banking organizations are thought to play a key role in the economy’s growth. According to Jones and Day (2009), “Banks are institutions making decisions affecting much of society and as such would be expected to fulfil the widest CSR agenda.” Given the funding provided, technological innovation is aided when banking institutions carry out their duties effectively since they assist business owners who successfully launch novel goods and procedures (Wu & Shen ,2013). In this regard, a strong financial system is essential to a nation’s long-term success, according to King and Levine (1993).

When banks are poorly run, they have the potential to seriously disrupt society. The detrimental impacts of US financial institutions during the 2007 and 2008 loan crises serve as an illustration of this. Because of this, there is a growing demand for financial institutions to consider the interests of their stakeholders and investors more broadly, which is where CSR is crucial (Jizi et al., 2014).

3. CSR environment for the banking corporations in Pakistan

Historically, the Indus Valley Culture, one of the oldest civilizations in the world, flourished in what is now Pakistan, a federal democratic republic, about 5,000 years ago. With a population of about 241.5 million and a land area of 796,095 sq. km. According to the 2023-24 Economic Survey of Pakistan (Finance Division, 2023), Pakistan is the sixth most populous nation around the globe. Pakistan’s closeness to Central Asia, China, the Middle East, South India, and other Asian superpowers provides it a competitive edge in the world economy (Arif et al., 2017). The CSR practices of the banking industry in this region can have a profound impact.

Talking about the impact of the banking sector in Pakistan regarding the CSR initiatives, five banks in Pakistan have reflected that CSR has raised their reputation in the market (Khan et al., 2015). In terms of Islamic Banks, the CSR initiatives at Bank Al Meezan Limited, Bank Al Baraka Limited, Bank Islami Limited, and Dubai Islamic Bank Limited have been projected to have a significant link with financial performance (Ur Rehman et al., 2020)

Reference to the paradigm set through the aforementioned argumentation and Pakistani banking sector examples, it asserts that CSR in Pakistan has been entirely voluntary since there are no laws or policies that are particular to it that ensure ethical compliance (Khan et al., 2012). In response to this request, the Securities and Exchange Commission of Pakistan (SECP) released an optional CSR guideline in 2013 (SECP, 2013). These are “voluntary” rather than mandatory.

The concept of corporate social responsibility, or CSR, has developed and proliferated over the last thirty years. The concept remained mostly unchanged for the majority of the twentieth century (Bantekas, 2004). Businesses have consistently denied any moral responsibility for their deeds. But during the 20th century, this conventional knowledge was largely ignored. Businesses’ approaches to corporate social responsibility (CSR) have changed significantly during the past 20 years. Public pressure on companies to promote environmental and social justice policy changes as a result of protection (Cochran, 2007).

Now that they know how CSR can help them prosper and strengthen their business plan, those companies are taking it more seriously. Initially, the public demanded that companies and governments give justifications for the environmental and social damage that they had created. The inaugural Earth Day was observed. in the 1960s in the United States, while Friends of Earth was founded at the same time (Waheed, 2005).

The foundational work, environmental, commercial, and consumer assurance laws of the nation, SECP recommendations, and norms and guidelines compiled in agreements and endorsements form the basis of Pakistan’s legal CSR framework.

The nation’s Constitution serves as a primary source of fundamental CSR principles. The idea of outlawing slavery in the nation is discussed in a number of its articles. The State is required by Article 37e of the Constitution to make sure that women and children are given fair working conditions. Furthermore, the ability to form groupings is protected by Article 17 of the Constitution. These provisions of the Constitution are meant to preserve and advance the fundamentals of CSR.

Article 11 of the Pakistani constitution guarantees the freedom to form groups. Article 17 of Pakistan’s constitution forbids sexual discrimination against its people. Pakistan’s

assurance of security through the constitution's Article 25(2) addresses working conditions. Social Security, welfare, retirement benefits, and environmental and consumer protection. Article 37(e) of the Pakistani Constitution guarantees rights. Article 9A of the Constitution of Pakistan (National Assembly of Pakistan, 2018).

Unquestionably more relevant than the aforementioned portions are the CSR rules that the SECP established in 2013 (SECP, 2013). The National Voluntary Guidelines for Business Ethics and Conduct were established to promote moral business practices that benefit society at large and to guarantee that companies are open and accountable to the public and their stakeholders. Additionally, according to the Guidelines, the company must allocate 1% to 2% of its profits to corporate social responsibility. The guidelines end with a request that companies develop a transparency and reporting plan detailing their CSR activities and the yearly budgetary amounts allocated to them.

The Supreme Court's decision modelled legal remedies for social responsibility infractions by organizations covered under Article 184 of the Pakistani constitution. The applicant may file a lawsuit if a business violates the conditions of the agreement. These have been divided into three categories concerning the availability of legal remedies in the event of violations a) The public at large, b) Governmental organizations, and c) Corporate staff. In the former case, citizens can use Article 184(3) of the Pakistani Constitution to hold businesses accountable for their misconduct and compel them to make amends. Employees of the Corporation also retain the right to sue their management in a workplace court if they are made to work against state labour laws. If companies operating in Pakistan violate the guidelines outlined in the laws that gave them authority to do so, their licenses may be cancelled. Both the federal and provincial governments are affected by this.

4. The Role of the State Bank of Pakistan

Contractual covenants and government-business agreements contain clauses about corporate social responsibility. The agreement's provisions require companies to uphold these standards in the areas and communities in which they conduct business. SBP Regulations by the State Bank of Pakistan (SBP) put in place several reasonable regulations on January 31, 2009. These regulations focus on social responsibility in Pakistan's banking industry. The Prudential Regulations for Corporate/Commercial Banks, Regulation G3, gives financial institutions advice on matters about charity, education, and public welfare (Ahmed & Ahmad, 2011). These guidelines must be followed by the boards of directors and management.

5. UN & NGO perspective

One important step towards the wider application of CSR is the United Nations Global Compact. The ten guiding principles of the UN Global Compact were established

in 2000, and all of them have been embraced by member states. businesses. Workers' rights, environmental preservation, and human rights are only a few of the numerous topics covered by the Global Compact. According to the principles, Companies must uphold and advance human rights, end child labour and forced labour, and put policies in place to stop environmental harm. Given the massive inflow of capital into Pakistan, it is necessary to comprehend and evaluate the applicability of the CSR principles holistically and in a true sense, particularly with regard to foreign investment. The status of CSR in Pakistan connected to foreign investments is elevated by the recent high ratio of foreign direct investment (FDI) to the country's annual budget, as well as the fact that CSR is still a fairly novel idea in Pakistan (Yu et al., 2019).

The NGO Guidelines were created by non-governmental organizations (NGOs) to assist local companies in being good neighbours. Because there are hundreds of NGOs worldwide, it is nearly impossible to determine how many of these regulations there are. ISO 26000 is a leading example of how NGOs ought to organize their CSR policies. Meaning, the development of CSR initiatives and their identification are covered in ISO 26000, the International Organization for Standardization's set of recommendations for Social Responsibility (Nemoto Rechden, 2013). Seven fundamental CSR issues are covered by ISO 26000, such as human rights, sustainable development, community involvement, and equitable conditions of employment.

6. CSR Guidelines and UN-SDG Alignment

The CSR Guidelines, 2013, from SECP broadly cover the following areas:

“a) Community investment (skill development, livelihood, health, education, infrastructure, social enterprise development, safe drinking water, poverty alleviation, youth development, and environment conservation) b) Governance (human rights, transparency, anti-corruption, business practices, stakeholder relations, responsible marketing) c) Product responsibility d) Work-life balance e) Safety (risk management, disaster management) f) Climate Change.” (SECP, 2013)

The workable solutions developed by the researchers are discussed in the succeeding section, generally align with all the 17 UN SDGs in some way or the other. However, more specifically, the alignment is coincident with UN SDGs: 1, 2, 3, 4, 6, 8, 9, 11, 13, 16 & 17.

7. Critique and Way Forward: Workable Solutions

1. The CSR Guidelines of SECP are titled “Corporate Social Responsibility Voluntary Guidelines”. The banking industry remains generally non-cognizant of the scope of its responsibilities towards society. Owing to the importance of the subject, these should be titled “Minimum” guidelines to enhance the impact of these guidelines. Most

recent studies are reflecting a high call for not taking CSR as a buzzword only and integrating it in the organisational system through technological interventions (Veveve et al., 2025).

2. Compliance with these guidelines must be made mandatory for all industry sectors, including Banking. Non-compliance may be subject to the imposition of financial penalties, albeit on a reasonable scale as an initial step. Similarly, good compliance by Banks must also be recognized in some visible manner.
3. The Environmental Protection Act (PECA) of 1997 is the main environmental law. Thus, it is correct to state that Pakistan does not have a complete CSR law. However, a few statutes refer to CSR in some capacity. This is of paramount importance given the CSR focus for a developing country like Pakistan.
4. Pakistan is among the countries with no explicit CSR laws; nonetheless, there are certain laws about CSR under the constitution, labour laws, contract laws, company laws, tax laws, and other areas. To ensure the effectiveness of CSR in the banking industry, relevant provisions may be incorporated in the Banking Companies Ordinance, 1962.
5. In Pakistan, spending on account of CSR is entirely up to the business entities, who are in complete control of how much money they choose to spend. No strict guidelines (being voluntary) or a cap on the amount of money allocated to CSR initiatives have been established. Only listed firms are subject to the Securities and Exchange Commission of Pakistan's (SECP) reporting requirements. Additionally, Pakistan does not have a visibility platform. The SECP guidelines suggest that only 1-2% of profit should be allocated to CSR activities. To yield meaningful results from CSR activities in the banking sector, it is recommended that at least 5% of Pre-Tax Profits should be allocated to recognizable CSR activities. Needless to say, these should be subject to tax benefits.
6. Pakistan lacks a national strategy for CSR, and there are no legal or regulatory requirements for mandatory reporting. CSR is optional and based on the individual beliefs of the company. CSR reporting may therefore be made an integral part of the annual reports both under the Banking Companies Ordinance, 1962, as well as the SECP Guidelines.
7. There is no financial support for sustainable initiatives in Pakistan. To support and materialize CSR efforts for optimum results, CSR activities may be institutionalized in an organized manner. Following the UK example, in addition to implementing a comprehensive "CSR strategy," the UK also makes a sizeable financial contribution

to the Ethical Trading Initiative (ETI), which aims to eradicate poverty, establish guidelines for environmental reporting, and promote sustainable manufacture and consumption. It is possible to identify sustainable practices in Pakistan through paperwork; also, these should be implemented in the same way as in the UK.

8. Compliance and implementation of section 184 of the Pakistan Constitution regarding legal remedies for social responsibility infractions by organizations should be made possible through the incorporation of necessary clauses in the Banking Companies Ordinance, 1962.
9. NGOs, civil societies, and the media are not advancing to the level that is necessary for the twenty-first century, and corporate social responsibility (CSR) is a little-known phenomenon in the nation. The media is not doing its fair share in this area, and even individuals are still unfamiliar with the term corporate social responsibility. NGOs or civil societies are not socially audited in Pakistan; they are playing their role as a lap-dog or attack-dog but not as a watchdog. Their projection is not progressive and long-sighted. Therefore, Pakistan's civil societies and media channels should play their due role for the sake of awareness across all segments of society.
10. Business studies, communications, environmental sciences, accounting, health sciences, engineering, law, and social sciences are among the programs in Pakistan that provide random chapters on corporate social responsibility (CSR); however, there are no postgraduate programs that specialize in CSR at the master's level. Following the example of educational institutions in developed nations, master's programs at the university level focusing on CSR specializations should be designed and implemented to instil the necessary sense of responsibility among the young generations of Pakistan.

8. Limitations

This study has been one of the first in terms of chalking out an overall picture of banking sector regarding the critical analysis, SDG alignment and way forward. There is a need to study the banks deeply so that each bank can have a better idea about their status and strategic fit. The in-depth analysis of the Islamic banking sector and conventional banking sector for connection to financial performance for each SDG is another important piece of the puzzle that needs to be focused.

9. Future research

Future research should be steered towards working on each goal separately. The contrast of conventional and Islamic banks can be another way forward. Working on a policy framework for making CSR a part of the business strategy is another lucrative future endeavour.

10. Managerial implications

The management of conventional and Islamic banks is provided with an overall bigger picture that can serve as a yardstick for mapping their CSR initiatives and related strategies.

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Disclaimer:

This case study is solely an academic endeavour and for educational purposes and does not intend to reflect the performance of any institution(s).

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