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Role of Banks in Financing Social Business in Bangladesh

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Foreword

As part of the ongoing dissemination of BIBM research outputs, the present research paper contains the findings of the study titled *"Role of Banks in Financing Social Business in Bangladesh"*. The study was conducted in 2025 and the findings were presented and discussed in a roundtable dialogue with representatives from banks, regulatory authorities, and key stakeholders in the social business sector. The study was motivated by the growing recognition of social business as a mechanism to generate both social and financial returns, and the need to identify the role of banks in supporting the establishment, expansion, and sustainability of such enterprises in Bangladesh.

This research paper provides a comprehensive analysis of the theoretical underpinnings of social business, the organizations and policies involved in financing these enterprises, the financial models adopted internationally, and the current practices of banks in Bangladesh, including CSR activities and possible avenues for financing social business. The study also highlights practical insights generated through focus group discussions, survey responses from banking professionals, and cross-country evidence with a view to contributing to the policy and operational decision-making process.

It gives me great pleasure to publish and disseminate this research output to bankers, financial institutions, regulatory agencies, academics, and other interested readers. I hope this research paper will serve as a valuable resource for professionals, particularly within the banking sector, in understanding the opportunities and challenges of financing social businesses and in developing innovative financial solutions that balance social impact with financial sustainability.

Md. Mahbubul Haque
Director General, BIBM

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Finally, we would like to acknowledge all those who, directly or indirectly, contributed their time, expertise, and resources in completing our study titled "Role of Banks in Financing Social Business in Bangladesh".

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Abbreviations

BB	Bangladesh Bank
BIBM	Bangladesh Institute of Bank Management
BRAC	Bangladesh Rural Advancement Committee
CC	Carbon Copy
CSR	Corporate Social Responsibility
FGD	Focus Group Discussion
IFMR	Institute for Financial Management and Research
JFC	Japan Finance Corporation
JVPF	Japan Venture Philanthropy Fund
METI	Ministry of Economy, Trade and Industry
METI	Ministry of Economy, Trade and Industry
PMB	Profit-making Business
SB	Social Business
SDGs	Sustainable Development Goals
SIIF	Social Impact Investment Foundation
SIP	Social Investment Partners

Executive Summary

Social business in Bangladesh has emerged as a strategic vehicle to address critical societal challenges while achieving financial sustainability. Unlike conventional enterprises focused on profit maximization, social enterprises reinvest profits to expand access to healthcare, education, clean water, nutrition, renewable energy, and other essential services. Leading examples, including Grameen Group and BRAC, illustrate the operational viability and socio-economic impact of social businesses, offering a replicable model for inclusive development.

Financing remains a fundamental constraint. Reliance on government subsidies, charitable foundations, and high-net-worth individuals restricts scalability due to competitive, earmarked, and non-repayable funding. Banks can play a transformative role by providing loans, blended finance, and innovative instruments—such as social impact bonds and quasi-equity debt—allowing social enterprises to scale while generating sustainable financial returns.

This study employs a mixed-method approach, combining FGDs and questionnaires with 22 banks and secondary data from Bangladesh Bank, Grameen Trust, and BRAC. Findings reveal that, although substantial CSR funds exist, these are largely allocated to charitable initiatives rather than strategic financing of social enterprises. Key impediments include limited awareness among banks and entrepreneurs, lack of tailored financial products, and inadequate project appraisal mechanisms.

Policy recommendations emphasize Bangladesh Bank's role in issuing guidelines, offering low-interest refinance schemes, guaranteeing loans, and supporting capacity building. Corporate and private funds can complement these efforts. Priority sectors include healthcare, education, environment, sanitation, vocational training, and public infrastructure. Capacity building for both social entrepreneurs and bankers is critical to strengthen financial management, project appraisal, and understanding of social impact.

Formalizing a legal definition of social business, establishing a sectoral association, designing context-specific financing instruments, strategically utilizing CSR funds, and fostering multi-stakeholder collaboration are essential measures. Implementing these strategies can significantly expand bank-financed social enterprises, bridging financial viability and social impact, and advancing inclusive, sustainable development in Bangladesh.

Role of Banks in Financing Social Business in Bangladesh

1. Introduction

1.1. Background

The change in the world economic system has brought realization of entrepreneur to change the focus of business from maximization of profits for shareholders to generation of profit and social value for creating a better world. Traditional business may involve with the activities of corporate social responsibility (CSR) however, these efforts are always secondary to the prime objective of profit earning. Hence, emerging companies across the world focus on social business for generating both social and financial returns, making profit while solving social problems.

Factually, 'social business' gained popularity in the USA and Europe during the 1970s and 1980s (Defourny and Nyssens 2010). Afterwards, social enterprises have been widely recognized as a new form of business that uses market-based mechanisms to address social issues (Santos, Pache, and Birkholz 2015). The importance of social business is sensed to be more in an economy where maximum people live in low-income economic segment and they are suffering from inadequate accesses to food, housing, clean water, healthcare, nutrition, renewable energy and education. Also, social business gets special attention in the face of social challenges during the period of economic and financial crises. Altogether, social business contributes to the creation of a favorable business environment, active citizenship support, innovation and public solidarity, as well as conditions for more flexible and timelier crisis recovery (Akbulaev, Aliyev & Ahmadov, 2019).

Social business in Bangladesh is highly recognized across the world. A social business, as defined by Nobel laureate Professor Muhammad Yunus, is a distinct type of enterprise created and designed to address a social problem as its primary objective, while being financially self-sufficient and not paying dividends to its owners. He adds that when a social entrepreneur reaches full cost recovery or goes beyond it, they step into the business world, opening up endless opportunities. Grameen group has set an exceptional example by creating 30 social businesses aiming to benefit society rather than solely focusing on profit. BRAC is also in forefront in the field of social business with 18 production and service units. Apart from these, several local and international organizations, NGOs, foundations and donar agencies are involved in creation of similar business in Bangladesh. Hence, a thriving movement is going on towards creation of social enterprises across the country with manifestation of reinvesting profit to support social mission instead of channeling profits to owners.

A very crucial barrier to social business in its establishment and further expansion is access to finance. They are mostly depending on government subsidies, charitable foundations, and a handful of high-net-worth of individuals which have disadvantages like high competition in getting funds, targeted use of money, and no obligation to return, resulting in less compulsion to develop and generate enough profit for paying interest on loan or return. As social business faces one fundamental question about the capacity of generating enough revenue to repay, they face problem to access banks, equity investors, bond funds, venture capitalists, and so on for collecting funds.

An increasing number of social entrepreneurs, investors and lenders are now coming to realize that all types of social business can generate financial returns that will make them attractive to the right lenders and investors. This belief is achievable and will be more efficient, since it will inspire this kind of business to earn adequate profit with fixing decent price of the products and services with a view to repaying interest/return to fund providers. This

understanding will create fantastic scope for social business to access the huge amount of funds which is necessary for expansion of this noble business to address numerous social problems.

Bank lending can be an important tool for financing social enterprise. However, as social business is totally separate from traditional business, fund providers need to reshape their existing financial models with the combination of different risk and return trade-off. The development of new financial instruments for financing social enterprise will make this kind of business more competitive in providing high quality services with reduction of gap between financial and social return.

Bank lending can play a vital role in financing social enterprises. However, since social businesses differ significantly from traditional ventures, fund providers must adapt their financial models to reflect unique risk-return dynamics. Developing innovative financial instruments tailored for social enterprises can enhance their competitiveness by improving service quality and narrowing the gap between financial and social returns.

1.2. Scope of the Study

This study has been conducted by focusing on the role of banks in financing social business. Discussion points have been placed for dialogue depending on analysis conducted based on existing academic materials, responses received from the FGDs and questionnaires, and cross-country evidences.

1.3. Objectives

The primary objective of this paper is to examine the probable role of banks in financing social business. To attain the primary objective, this study aims to shed light on the following specific objectives:

1. To review the theoretical underpinning of social business and its financing.

2. To identify the organizations involved and policies available for financing social business in Bangladesh.
3. To examine the financial models and products utilized for financing social business in selective countries.
4. To analyze CSR activities of banks and its nature of implementation.
5. To explore the scope of banks to finance social business.

1.4. Data and Methodology

The overall methodology of the study is a mixed method using both primary and secondary sources covering qualitative as well as quantitative data.

1.4.1. Data: Primary and Secondary Sources

In collecting primary data, at first, a Focus Group Discussion (FGD) has been arranged where a total of 34 participants from different banks working either in credit or CSR departments were present. In FGD, an in-depth discussion was done on concept of social business, current position of finance to social business, and probable sources, modes and procedures of bank finance to social business. Afterwards, a semi-structured questionnaire was sent to all banks by keeping participants in FGD under CC (Carbon copy) for getting prudent replies from the respondents having knowledge on social business. In sending questionnaires, banks have been divided into two groups, namely banks with and without having separate foundation for dealing with CSR. Of which, a total of 22 banks have responded and sent back questionnaires by answering queries of the questionnaires. Apart from these, surveys like visiting Grameen Trust, discussion with the key persons in this area are also conducted to get complimentary information on the aforesaid issues. The secondary data have been collected from Bangladesh Bank, Grameen Trust, Brac, and so on.

1.4.2. Reliability and Validity Test

After collecting data from primary and secondary sources as well as focus group discussions and KII, necessary cleaning have been done to ensure the reliability and validity of data.

1.4.3. Analysis and Interpretation of the Data

Different statistical and accounting tools have been applied to analyze the collected information. Both tabular ad graphical approaches have been applied in presenting and analyzing data. The report has been finalized by addressing the issues raised by the designated discussants and learned participants of the roundtable discussion.

1.5. Organization of the Report

This report is organized as follows. In the introductory part, apart from introducing the issue, section 1 covers scope and objective of the study, data and methodology, and organization of the report, the second section shows theoretical underpinning covering differences among social business (SB), charity, and conventional business, and literature review. Section 3 outlines organizations involved and policies available for financing social business in Bangladesh. Section 4 reviews financial models utilized for financing social business in selective countries. Section 5 covers the analysis of banks' CSR funds, activities and nature of implementation, whereas section 6 analyzes social business, modes of financing, and necessary regulatory and policy support. Section 7 puts forward major observations and policy suggestions.

2. Theoretical Underpinning and Literature Review

This section aims to locate the differences among social business (SB), charity, and conventional business; and reviews the existing literature that explores the role of banks and other institutions in financing social businesses, particularly in Bangladesh and some developed and developing countries.

2.1 Differences among Social Business, Charity, and Conventional Business

The concept of social business (SB) is similar to social enterprise; the charity or charitable organization is similar to a not-for-profit organization and corporate social responsibility; and the conventional or traditional business is similar to a profit-making business (PMB). Of these, the main objective of social business and charity is almost similar. These two ventures do not center on profit maximization; rather, they set targets for solving social and environmental problems. However, the implementation method of these ideas is different from each other. In the case of social business, profit or dividend earned by social enterprise is not distributed to the capital provider or shareholders; rather, the profit or dividend is reinvested for the development of the organization or public affairs. Therefore, the initial investment is a matter, and the capital provider need not to provide further from his own pocket. However, the activities of social entrepreneurs are keenly monitored by the investors here. In charitable organizations, there is no issue of investment and earning profit or dividend. Here the money or other facilities are directly provided by the charitable organization to the beneficiaries (usually poor people) for solving the social problems. The beneficiaries may use these facilities for direct consumption or further production. Usually, the donors or charitable organizations are not serious to monitor the use of charity by the beneficiaries. Regarding conventional business, profit maximization is the ultimate goal of entrepreneurs, and the profit or dividend is distributed to the capital owners or shareholders. The existing literature, particularly Akbulaev, Aliyev & Ahmadov (2019) and Tazuddin (2020), highlights the differences among social business, charity, and conventional business. On the basis of their descriptions, this report identifies the following basic differences among the social business, charity, and conventional business practices all over the world (Table-1).

Table 1: Differences among Social Business, Charity, and Conventional Business

Basis of Comparison	Social Business	Charity	Conventional Business
Objective	Solving the social and environmental problems	Solving the social and environmental problems	Maximizing the profit or dividend
Profit earning	Earned profit without compromising social benefit	No profit earning	Earned maximum profit
Profit distribution	Profit is not distributed to the investors, rather it is reinvested for the development of the business or public affairs	Not applicable	Profit is distributed to the investors
Financing	Only the starting fund is financed by external sources (capital provider or lender), which accumulates over time due to reinvestment of profits.	External financing by donors or charitable organizations, like grants and donations, is the only way to continue the activities.	Only the starting fund is financed by external sources (capital provider or lender), which may accumulate if the investors reinvest their profits.
Social responsibility	Responsible to fulfill social objectives like education, healthcare, poverty, etc.	Responsible to fulfill social objectives like education, healthcare, poverty, etc.	No responsibility to fulfill social objectives except some legally nonmandatory CSR.
Example	Grameen Danone, Grameen Veolia, Grameen Telecom and Grameen Phone, Grameen GC Eye Care Hospital, Aarong, Brac Dairy, Brac Seed and Agro, etc.	Kumudini Welfare Trust, Jaago Foundation, HOPE Foundation, UK Bangladesh Education Trust, Dutch-Bangla Bank Scholarship, Exim Bank Foundation, etc.	Square Textiles Ltd., Beximco Pharmaceutical Ltd., Bashundhara ReadyMix and Construction Industries Ltd., Pran Confectionary Ltd., etc.

Source: Authors' construction on basis of existing literature, particularly Akbulaev, Aliyev & Ahmadov (2019) and Tazuddin (2020)

2.2. Literature Review on Financing Social Business

In the case of Bangladesh, the role of banks in financing social business is very limited. However, the microfinance institutions, such as Grameen Bank and Brac, have significant contribution to social business in Bangladesh. Though the Grameen Bank is not a non-profit organization like an NGO, it started its business aiming to address social problem, like poverty, unemployment, etc. Thus, the seeds of social business were sown with the initiation of Grameen Bank project in 1976. However, the broader concept of social business was developed by Professor Dr. Muhammad Yunus, the founder of the Grameen Bank, in 2007 (Yunus Centre, 2020).

Professor Yunus states that social business is a revolutionary dimension to the free market economy. It does not interfere to the mechanism through which the normal profit-making business (PMB) works and prospers capitalization, expert business management, competitiveness, etc. But investors or equity owners do not receive any profit or dividend; rather, it is reinvested in other social businesses or PMBs. However, the investors can recover their investment if they want. The satisfaction gained through achieving the stated social goals is the only motive behind the investment, and the business is evaluated according to that standard. By this way, social business is a non-loss, non-dividend business aimed at social objectives like education, healthcare, environment, or whatever is needed to address the problems faced by the society (Yunus Centre, 2020).

Professor Yunus started the first social business in Bangladesh by opening Grameen Danone Company Limited in early 2007 which was financed through a joint venture between Grameen Bank and Danone (Yunus Centre, 2020). Grameen Danone is a collaboration with Danone, one of the world's leading healthy food companies, that offers an affordable and easily available dairy product produced to fulfill the nutritional needs of Bangladeshi children. The yoghurt is produced locally and distributed door-to-door by Grameen ladies (Yunus, Moingeon, & Lehman-Ortega, 2010).

Grameen Healthcare Services (a Grameen subsidiary for health and hygiene) jointly with Veolia Water AMI (Veolia Water's subsidiary for Africa, the Middle East and the Indian subcontinent) established and financed in another social business in Bangladesh in 2008 named Grameen Veolia Water Limited (Yunus Centre, 2009). Grameen Veolia created a process to use simplified surface water treatment systems to provide rural populations with affordable access to drinking water, distributed at village drinking fountains or via cans, using prepaid card systems (Yunus, Moingeon, & Lehman-Ortega, 2010). By this way, Grameen Bank, broadly the Grameen Group, has established 30 social businesses, aiming to alleviate poverty in Bangladesh (Yunus, Moingeon, & Lehman-Ortega, 2010). As like as Grameen Bank, another microfinance institution Brac also finances in 18 social businesses across various sectors like agriculture, livestock, fisheries, education, and retail (Brac, 2020).

Banks in Bangladesh have also been contributing to solving the social problems through their corporate social responsibility (CSR) activities. These CSR activities are not business rather charity in most of the cases. Ndiweni, Haque & Hassan (2018) try to illuminate the CSR activities of banks in Bangladesh in socio-economic, cultural and religious context. They find that banks' engagement in CSR activities is embedded in the social fabric of Bangladesh. They also note that Islamic banks focus their CSR activities on social justice, while other banks target education and other humanitarian issues.

Mohiuddin (2017) explores how Islamic social enterprises have been contributing to enhance the effectiveness of third sector economy. Drawing on lessons from different case studies, he suggests that government of Bangladesh should provide a separate legal and regulatory environment for Islamic social enterprises to grow their size and scale. In addition to that, he came up with three themes which could provide crucial guidelines for Bangladeshi Islamic social enterprise to improve operation and

effectiveness. These themes are: leveraging social capital, product and service innovation, and formation of apex institutional bodies.

Chowdhury et al. (2021) focus on the relationship between social business (SB), corporate social responsibility (CSR), and the emerging economy. They find that the SB model is the workflow having a hierarchy of five phases namely need identification, goal setting, solution-based business plan, business plan assessment, and business plan execution. Analyzing a range of social business activities in a developing country like Bangladesh through the lens of five key aspects, they conclude that social business is the most efficient way to sustainably maximize the social benefits and minimize specific social issues like poverty of the people affected.

The concept of social business is popular in many developed and developing countries, including Japan, the USA, and Europe. In Japan, the Ministry of Economy, Trade and Industry (METI) defines social businesses as organizations that primarily focus on addressing societal problems through business practices and adhere to three principles—social mission, feasibility, and innovation (Lewis, 2021). According to Lewis (2021), the Cabinet Office estimated that there were 2,05,000 social businesses in Japan in 2015, employing some 57,76,000 people and adding 16.0 trillion yen to the economy—the equivalent of 3.3% of GDP. He finds that the majority of social businesses are small-scale, and few are able to cover their expenses solely from earned revenues, with many relying on grants, subsidies, and donations to ensure long-term viability.

Both the United States and Europe have experienced a simultaneous expansion in social enterprise since the 1980s (Kerlin, 2006). The social enterprise has become an increasingly popular means of funding and supplying social initiatives in the two regions due to the use of nongovernmental and market-based approaches to address social issues. In the United States, at least initially, the financing for existing nonprofit social services depends on the activities of social enterprises. As a result, the

activities of social enterprises are usually supporting of social services. In Europe, the Enterprise Directorate-General of the European Commission has been supporting social economy enterprises such as cooperatives and mutuals[1] since 1989 (Kerlin, 2006).

The development and financing of social entrepreneurship is carried out by different international organizations and foundations such as: Western NIS Enterprise Fund (USA), Skoll Foundation (USA), The Social Enterprise Fund (Canada), UnLtd (United Kingdom), Ashoka (India), Renaissance (Ukraine), British Council (UK) and others. Among them, there are some organizations (Western NIS Enterprise Fund, Renaissance, British Council) those main goal is to support the activities of social entrepreneurship directly and the main goal of other organizations (Skoll Foundation, The Social Enterprise Fund, UnLtd, Ashoka) is to develop and spread the activities of social entrepreneurship (Bataeva, 2015).

3. Organizations Involved and Policies Available for Financing Social Business in Bangladesh.

As mentioned earlier, the role of banks in financing social business is very limited, though the microfinance institutions, particularly the Grameen Group and BRAC, have been playing a pivotal role in this context. However, banks have made a significant contribution in solving social problems through their corporate social responsibility. But the banks' CSR activities are mostly charity rather than business. Banks can contribute to financing social businesses through using their CSR fund for social business partly, or they can lend to the social enterprises at a concessional rate. In this circumstance, this study tries to discuss the existing policies of Grameen Group and BRAC in financing social business. It also tries to discuss the existing policies of banks' CSR activities and their possible ways to contribute to financing social business.

[1] Mutuals refers to mutual societies, which are private entities owned and governed by their members, primarily to meet their needs rather than to generate profit or return on capital.

3.1 Grameen Group

The Grameen Group, specifically the Grameen Bank, Grameen Fund, Grameen Trust, Grameen Telecom Trust, Grameen Sakhti, and so on, has been financing social businesses for a long period of time after the exploration of this idea by Professor Dr. Muhammad Yunus in 2007. The Grameen institutions follow some specific policies in financing social business, of which the Nobin Program is one of them. Three Grameen institutions, namely the Grameen Trust, Grameen Telecom Trust, and Grameen Shakti, have been operating the Nobin program since 2013 to create zero unemployment, one of the targets of the Three Zeros theory of Professor Dr. Muhammad Yunus (Khan, 2025).

The Nobin program is like a partnership business model where the venture capital firm invests in the business project and the entrepreneur runs the business. For the venture capitalist, it is a social business and for the entrepreneur, it is a traditional business. The venture capitalist does not receive any share of the profits of the business. However, the entrepreneur pays 10% of the investment amount per annum in exchange for receiving various types of technical assistance from the investing institution. The investing authority receives the invested money (principal amount) from the Nobin entrepreneurs gradually on an installment basis.

3.1.1. Policies to be a Nobin Entrepreneurs

3.1.1.1. Youths (between the ages of 18 and 35 years), who are the children of the members of Grameen Bank as well as honest, enterprising, hardworking, and eager to work with specific goals, are treated as Nobin Entrepreneurs. However, the youths who are not the children of the members of Grameen Bank are eligible in some cases. In addition, the age limit for women may be relaxed to encourage them to be entrepreneurs.

3.1.1.2. The entrepreneur must have a clear idea, interest, skills, and management ability about the proposed business project. In addition, the

proposed business project must be socially acceptable and not harmful to the environment.

3.1.1.3. The proposed business project must have the potential to create employment for a large number of young people.

3.1.2. Responsibilities of Nobin Entrepreneurs

3.1.2.1. Opening a bank account at a local bank or agent banking or mobile banking and sending the account number to the investing authority.

3.1.2.2. Applying for funds from the investing authority by mentioning the detailed information, including present and permanent address, mobile number, and the detailed information of the nominee, and attaching the latest photographs of both the applicant and the nominee.

3.1.2.3. Starting a business by completing all necessary legal procedures, including obtaining a trade license.

3.1.2.4. Operating the business according to the plan approved by investors for the business project and devoting full time to the project work.

3.1.2.5. Maintaining the business accounts properly and sending the business information to the investing authority via SMS as per the rules.

3.1.2.6. Preserving the money receipts and passbooks as record of investment repayment.

3.1. 3. Responsibilities for Investing Authority

3.1. 3.1. Providing various types of support, including technical assistance, in addition to financing to the Nobin entrepreneurs as an investing authority.

3.1. 3.2. Monitoring the business projects of Nobin entrepreneurs through observing their accounts books regularly and providing advice and necessary guidelines accordingly.

3.1. 3.3. Completing transactions through bank accounts.

3.1. 3.4. Providing necessary training and support to entrepreneurs in maintaining daily accounting of business projects.

3.1.3.5. Reviewing monthly SMS of business projects and providing necessary guidance to entrepreneurs.

3.2 Bangladesh Rural Advancement Committee (BRAC)

3.2.1. Activities of BRAC for Social Enterprises

BRAC's financing policies for social enterprises are designed to be self-sustaining and impact-driven. A significant portion of their development programs are funded by profits generated from BRAC's social enterprises, like Aarong and BRAC Dairy, and microfinance operations. This approach reduces reliance on external donors and allows for reinvestment in both the enterprises themselves and broader development initiatives. The activities of BRAC for social enterprises are placed below.

3.2.1.1. Equipping artisans and producers with relevant skills,

3.2.1.2. Providing access to resources and inputs for increased productivity,

3.2.1.3. Ensuring fair prices for producers and suppliers, and

3.2.1.4. Preserving and distributing goods to large market.

3.2.2. Investment Networks that Help to Achieve its Goal

BRAC invests in socially responsible companies that assist to fulfill its mission of empowering people and communities in situations of poverty, illiteracy, disease, and social injustice. BRAC has seven following investment networks that help to achieve its goal of self-sustainability.

3.2.2.1. BRAC Bank: Tapping into the entrepreneurial initiatives of the SME sector.

3.2.2.2. Delta Brac Housing: Providing financial security to home owners through highly flexible loan schemes.

3.2.2.3. BRAC Net: Connecting the country through a nationwide wireless network, bringing affordable internet to everyone.

3.2.2.4. Guardian Life Insurance: Using innovation, proper risk management, and prudent investment mechanisms to ensure maximum financial benefits for clients.

3.2.2.5. IPDC Finance Limited: Playing a leading role in the development of the private sector in the country.

3.2.2.6. BRAC IT Services: Innovating end-to-end technology solutions.

3.2.2.7. BRAC Tea Estates: Improving the lives of workers with access to healthcare, education, sanitation and safe drinking water.

3.3 CSR Policies for Banks

Corporate social responsibility is an essential element in achieving the Sustainable Development Goals (SDGs) declared by the United Nations. It encourages businesses to fulfill their social responsibilities while managing their own operations. As a result, businesses are economically, socially, and environmentally responsible to their stakeholders. For this reason, CSR is known all over the world as the Triple Bottom Line Framework. In other words, CSR originated by prioritizing the three concepts of people, planet, and profit (Bangladesh Bank, Jul-Dec, 2024).

The main objective of CSR is to eliminate various adverse environmental impacts of business activities and at the same time fulfill social responsibility by contributing to the education, health, income-generating activities, infrastructure development, disaster management, and sports and cultural activities of the poorest, disadvantaged, and backward communities of the society.

In today's world, most large businesses are participating in various social development activities as part of CSR and allocating some portion of their shareholders' dividends to this. Accordingly, banks and finance companies

operating in Bangladesh are also making significant contributions to various social activities as part of their CSR. In the CSR activities, banks and finance companies follow certain specific policies which have been formulated by Bangladesh Bank as the regulatory authority. Bangladesh Bank first included the CSR as the mainstream activities of banks and finance companies on 1 June 2018, and provided guidelines for spending in this sector. However, the guidelines have been revised several times after its inception. The very important policies formulated by Bangladesh Bank at various times to accelerate CSR activities in banks and finance companies are highlighted below.

3.3.1. Banks and finance companies can spend a portion of their after-tax net profit on CSR. In this context, about 30% of CSR fund should be spent on education and 20% on health (GBCSRD Circular No. 7, dated 22 December 2014).

3.3.2. Banks and finance companies were advised to spend 10% of CSR funds on climate risk sectors (GBCSRD Circular No. 4, dated 9 July, 2015).

3.3.3. Instructions were given to spend CSR funds in a total of eight sectors including education, health, disaster management, environment, cultural development, infrastructure development in remote areas, and income generation activities for the deprived communities under social projects and community investment (GBCSRD Circular Letter 6/2015).

3.3.4. The banks and finance companies were directed to spend 30% of their total CSR fund on education, 30% on health, 20% on environment and climate change mitigation and adaptation, and 20% on other sectors (SFD Circular No. 1, dated 9 January, 2022)

3.3.5. The banks and finance companies were directed to contribute 5% of the amount allocated for CSR to the Prime Minister's Education Assistance Trust Fund (SFD Circular No. 6, dated 29 November, 2022).

3.3.6. Banks and finance companies are instructed to reserve and spend half of the money allocated for the environment and climate change mitigation and adaptation sectors (20% of the CSR budget) for the Climate Risk Fund (SFD Circular No. 5, dated 23 November, 2023).

3.3.7. Banks and finance companies were instructed to donate from the CSR Fund to the Chief Advisor's Relief and Welfare Fund to provide necessary financial assistance and relief materials to the flood-affected people (SFD Circular No. 2, dated 25 August, 2024).

It is clear from the above discussion that the CSR-related policies formulated by Bangladesh Bank for the banks and finance companies are assigned to charitable activities that contribute to mitigating the social problems. In this circumstance, this study suggests spending a part of the CSR fund of banks and finance companies on social businesses, which may be more effective for solving the social problems discussed above.

4. Financial Models and Products Utilized for Financing Social Business in Selective Regions

4.1. Financial Models for Social Business in Selective Regions

This section reviews financial models utilized for financing social business in different countries, including the USA, Europe, Japan, India, and Bangladesh. According to Akbulaev, Aliyev, & Ahmadov (2019), there are two main models of financing social enterprises, namely, the American model and the European model practiced by different countries in the world. However, the other models such as Japanese and Indian models are also important in this context.

4.1.1. American Model

In the American model, the main source of financing social business is profit from the activities of social enterprise, while the external sources of funding are additional (Akbulaev, Aliyev, & Ahmadov, 2019). In this model, the goal of profit distribution is enriching the owners of the

enterprise. Thus it is an opportunity for self financing offered to non-profit organization. The American model of social enterprise financing does not provide any special arrangement for the government's funding for social enterprise and the creation of special government authorities with competence to support social business. Nonetheless, the Department of Social Innovations in the USA provides financial support to social enterprises with an annual contribution of about USD $ 2 million (Borzaga, 2018). In addition, various charitable organizations, venture capitalists, business angels, and investors contribute to enhance the development of social entrepreneurship in the USA. Accordingly, the American model of social enterprise financing is more economical in terms of government budgets and it is more market-oriented (Akbulaev, Aliyev, & Ahmadov, 2019).

4.1.2. European Model

The idea of earning profit from social enterprise and funding it for the same business is irrelevant in the European model of social enterprise financing (Akbulaev, Aliyev, & Ahmadov, 2019). In this model, the main sources of financing social enterprise are grants, investor capital, and private donations, and its main goal is to run business for solving the social problems. However, the profit may create in the social business and it may be distributed for enriching the owners of the enterprise. With regard to government support, the Enterprise Directorate-General of the European Commission has been supporting social economy enterprises such as cooperatives and mutuals[2] since 1989, as mentioned earlier (Kerlin, 2006).

4.1.3. Japanese Model

In Japan, both public and private entities are involved in social business activities, and they follow a mix of traditional and innovative methods to strike a balance between social objectives and financial goals, sitting

[2] Mutuals refers to mutual societies, which are private entities owned and governed by their members, primarily to meet their needs rather than to generate profit or return on capital.

somewhere between profit-maximizing corporations and traditional charitable organizations. Among the government entities, Japan's Ministry of Economy, Trade and Industry (METI) defines social businesses as organizations that primarily focus on addressing societal problems through business practices, and it has three basic characteristics, namely, the social mission, feasibility, and innovation (Lewis, 2021). Regarding financing, METI provides subsidies and grants for social enterprises; Japan Finance Corporation (JFC) offers low-interest loans to startups and social enterprises, including women-led and regional ventures; and the local government provides region-specific funding and incubation support for social business. There are so many private organizations, including Japan Social Impact Investment Foundation (SIIF), Japan Venture Philanthropy Fund (JVPF), and Social Investment Partners (SIP), that provide funds for social businesses. In addition, there are crowdfunding platforms like Readyfor, Campfire, and Makuake that help to fund social businesses. Traditional banks (e.g., MUFG, SMBC), credit unions (Shinkin banks), and microfinance institutions also often support regional social ventures on a limited scale. Large Japanese corporations like Panasonic, Toyota, and MUFG have dedicated CSR funds, and they contribute to social enterprises. Big Japanese foundations like Nippon Foundation, Sasakawa Peace Foundation, and Benesse Foundation provide grants and support to social projects. In this way, the social business is very strong in Japan. According to the estimation of the Cabinet Office, there were 205,000 social businesses in Japan, employing some 5,776,000 people and adding 16.0 trillion yen to the economy (equivalent to 3.3% of GDP) in 2015, while the entire agriculture sector contributed 1.2% to GDP in 2018 (Lewis, 2021).

4.1.4. Indian Model

India's social entrepreneurship ecosystem is one of the sophisticated systems in the world that follows three types of models, namely for-profit, non-profit and hybrid models. This system provides multiple possibilities to connect with local partners and to pursue innovative solutions to India's

numerous social challenges in the fields of education, agriculture, healthcare, renewable energy, manufacturing, and skills development (Swissnex India, June 2015). Indian social entrepreneurship ecosystem consists of diverse impact investors who engage at different stages of social enterprises. These are:

- Seed stage fund: Unitus Seed Fund (the largest seed fund for social enterprises in India).
- Growth stage fund: Aavishkaar Fund, Indian Angel Network, Grassroots business fund, LGT Venture Philanthropy, and VenturEast.
- Scale stage fund: Acumen Fund, Elevar Equity, Aavishkaar Fund, Omnivore Partners, and Khosla Ventures.

The entrepreneurs in India are no longer only looking at funds or investors for capital or access to network but also for in-depth mentorship and capacity building support. Now the investors are not just looking at funding or guiding an entrepreneur, but at a deeper level of engagement and commitment to portfolio companies in helping them grow. Indian social sector is perhaps the second largest pool of concentrated investors after the technology sector (Swissnex India, June 2015).

4.2. Financial Products/ Services for Social Business in Selective Regions

A number of financial products/services are being utilized by different countries for financing social business. These are crowd funding, social impact bonds, impact investing, microfinance, blending between donation and debt, loan guarantee, quasi equity debt, and pooling.

4.2.1. Crowd Funding

Crowd funding is a process for raising money or funding a business by getting small amounts of capital from a large number of people. According to Akbulaev, Aliyev & Ahmadov (2019), it is an open call via the internet

to collect financial resources in the form of cash donations, sometimes in exchange for future products, services or rewards. Platforms like Crowdcube (a British investment crowdfunding platform), and Seedrs (an online equity crowdfunding company, headquartered in East London's Tech City), Kickstarter (an American public benefit corporation based in Brooklyn, New York, that maintains a global crowdfunding platform focused on creativity), GoFundMe *(an American for-profit crowdfunding platform),* etc., are the examples of crowdfunding used for early-stage support of social business.

4.2.2. Social Impact Bonds

A social impact bond is an approach aimed at raising funds from charitable organizations and the investors for financing preventive social programs that address and mitigate potential social problems (Akbulaev, Aliyev, & Ahmadov, 2019). According to Bugg-Levine, Kogut, & Kulatilaka (2012), the social impact bond is helpful for generating funds that are used by the government for mitigating social problems. It launched in the UK in 2010. This type of bond is sold to private investors who are paid a return only if the public project succeeds. From the U.S. to Australia, national and local governments have developed such type of bonds to fund interventions targeting homelessness, early childhood education, and other issues. The U.S. could even use this approach to support its finance-starved space program—for instance, issuing "space bonds" that would pay a return only if a manned mission were to reach Mars on schedule and under budget (Bugg-Levine, Kogut, & Kulatilaka, 2012).

4.2.3. Impact Investing

Impact investing refers to the deployment of funds into investments that generate a measurable and beneficial social or environmental impact, i.e., a positive impact on society and the environment, alongside a financial return on investment. An innovative way of boosting the private sector's contribution to sustainable development can be achieved with impact

investing (UNDP, n.d.). It focuses on making business profit with measurable social results, while solving the social problems of poor and marginalized populations (Khanna, 2018). The impact investment funds are offered by different organizations, including Acumen (which focuses on investing in for-profit businesses that address poverty), BlueOrchard (the largest commercial microfinance fund in the world), and GIIN (Global Impact Investing Network).

4.2.3. Microfinance

Microfinance (microcredit) is one of the aspects whereby a small amount of money is made available by banks or other organizations. In general, the basic idea of microfinance correlates with the idea of social entrepreneurship and consists in overcoming poverty, thereby ensuring the economic sustainability of socially unprotected segments of the population and supporting integration into the labor market through the development of small enterprises (National Guard and Reserve Entreprenuership Support Act, 2018). Microfinance institutions provide small loans to social entrepreneurs, especially women and marginalized groups (e.g., Grameen Bank in Bangladesh).

4.2.4. Blended Model

It is a process of blending donation and debt, i.e., raising a portion of the capital from donors/charitable organizations before borrowing money from banks who seek predictable returns (Bugg-Levine, Kogut, & Kulatilaka, 2012). For example, an African social enterprise requires an investment of $100,000 to build new health clinics and expects the clinics to earn a return of 7% on the investment. Unfortunately, 7% is too low to attract private sources of capital. Traditionally the enterprise would obtain $100,000 from a charitable foundation. But suppose the enterprise asked the donor for only $50,000. It could then offer a Bank a 14% return on the remaining $50,000. The donor would receive no repayment—but it would have $50,000 to give to another socially worthy enterprise. The donor does not expect to get its

money back; it expects its money to generate a social benefit. It considers the investment a failure only if that social benefit is not created.

4.2.5. Loan Guarantee

It is a process of issuing loan guarantees in place of giving direct funds to the social enterprises, recognizing that this is an efficient way to leverage its donations and provide organizations with more-certain funding (Bugg-Levine, Kogut, & Kulatilaka, 2012). For example, the Bill & Melinda Gates Foundation issued a loan repayment guarantee to a commercial bank for a charter school in Houston that encouraged the bank to provide a $67 million loan to the school at a low interest rate. This saves the school almost $10 million in interest payments.

4.2.5. Quasi-Equity Debt

Quasi-equity debt is a developed financial vehicle that combines the properties of equity and debt. It is useful for social enterprises that are legally structured as nonprofits and therefore cannot obtain equity capital. The security holder does not have a direct claim on the governance and ownership of the enterprise (Bugg-Levine, Kogut, & Kulatilaka, 2012). For example, consider the Bridges Social Entrepreneurs Fund—one of several social funds of the UK investment company Bridges Ventures. The fund has some £12 million to invest in social enterprises. It committed £1 million to a social loan to HCT (Hackney Community Transport), a company that uses surpluses from its commercial London buses, school buses, and Park & Ride services to provide community transportation for people unable to use conventional public transportation. This social loan has a quasi-equity feature: the fund takes a percentage of revenues, thereby sharing some of the business risk and gains. Because the loan is tied to the top revenue line, it provides HCT with strong incentives to manage the business efficiently. Covenants on such loans are often added to avoid mission drift from the social goals.

4.2.6. Pooling Model

Pooling refers to the strategic combination of resources, risks, or efforts from multiple individuals or organizations to achieve a common social or environmental goal. The techniques that involve in pooling funds open new financial doors to social enterprises, because the pooling institution can tailor its liabilities to the needs of different kinds of investors (Bugg-Levine, Kogut, & Kulatilaka, 2012). The Switzerland-based social capital investor BlueOrchard, for example, assembles portfolios from many microlenders and bundles them into three tranches. The bottom tranche is Blue Orchard's equity, which offers high returns but takes the first loss. The next tranche offers a lower expected return but has less risk. It takes the second loss, after equity is wiped out, and is analogous to a convertible bond. The top tranche promises a low but relatively safe return; it is purchased by conventional debt investors. The pooling model has spread globally, with innovators such as IFMR (Institute for Financial Management and Research) Trust, in Chennai, engaged in the securitization and structured finance of microfinance loan portfolios in which they retain an investment share.

4.2.7. Nobin Program

As discussed in section 3, the Nobin program is a social business model introduced by Professor Dr. Mohammad Yunus and applied by Grameen Group at home and abroad. It is like a partnership business model where the venture capital firm invests in the business project and the entrepreneur runs the business. For the venture capitalist, it is a social business and for the entrepreneur, it is a traditional business. The venture capitalist does not receive any share of the profits of the business. However, the entrepreneur pays 10% of the investment amount per annum in exchange for receiving various types of technical assistance from the investing institution. The investing authority receives the invested money (principal amount) from the Nobin entrepreneurs gradually on an installment basis.

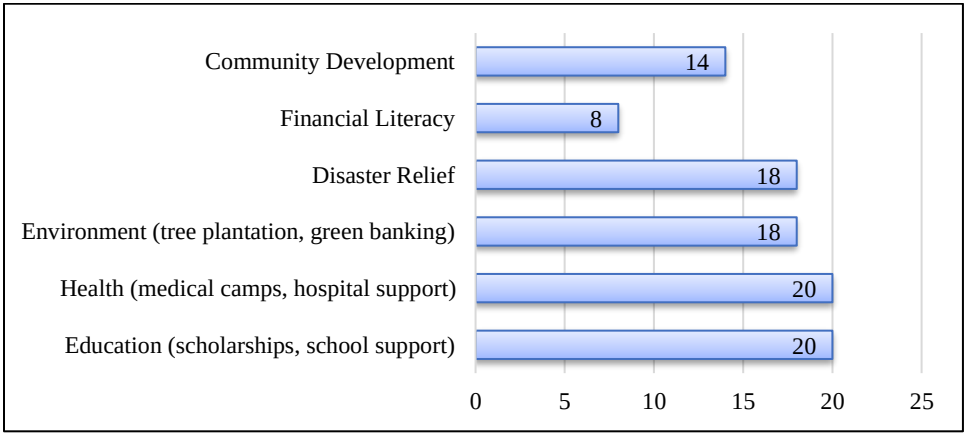
5. Banks' CSR Funds, Activities and Nature of Implementation

Banks and finance companies operating in Bangladesh are donating significant amount to various social activities through creating CSR Funds from their profit amount, which might be a good source of finance for social enterprises. In this perspective, an anatomy of CSR funds and activities have been conducted in this section.

5.1. CSR Activities of Banks

Primary Corporate Social Responsibility (CSR) activities undertaken by banks, as indicated by the number of engagements reported are graphically presented in Figure-5.1. Education (encompassing scholarships and school support) and health (including medical camps and hospital support) emerge as the most prevalent areas, with 20 mentions each. This is closely followed by Disaster Relief and Environmental initiatives (such as tree plantation and green banking), both cited by 18 banks, demonstrating a strong focus on immediate societal needs and ecological sustainability. Community Development is also a significant area (14 mentions), while financial literacy receives comparatively less attention (8 mentions).

Figure 5.1: CSR Activities Banks Primarily Engage in

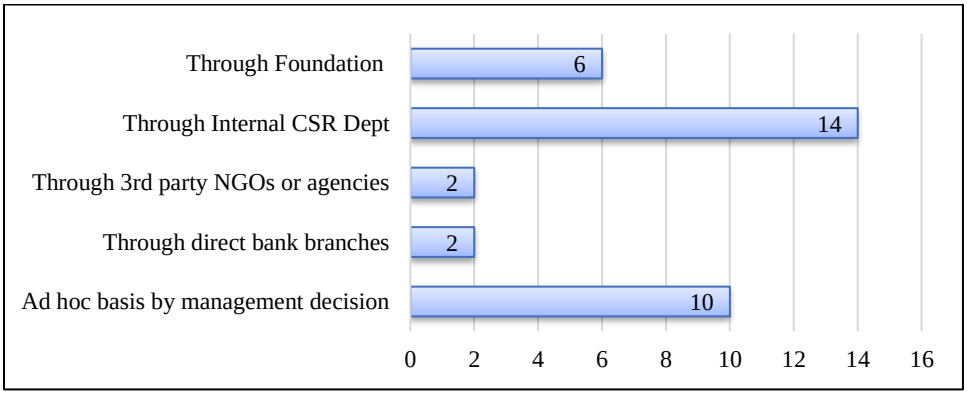


Source: Authors' calculation based on survey data.

5.2. Implementation of CSR Programs

In implementing CSR programs, banks are following different channels to distribute funds. Figure-5.2 shows various ways banks use, and the most common approach is through an internal CSR department (14 banks), followed by ad hoc management decisions (10 banks). Foundations (6 banks) are also utilized, while 3rd party NGOs/agencies and direct bank branches are less common (2 banks each).

Figure 5.2: How Banks Implement CSR Programs?

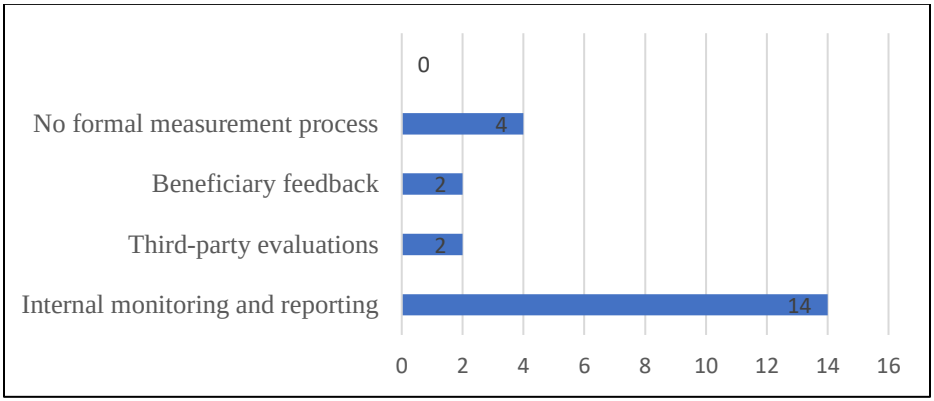


Source: Authors' calculation based on survey data.

5.3. Measurement of Impact of CSR Funds in Social Development

In ensuring achievement of Sustainable Development Goals (SDG), declared by the United Nations, through proper implementation of CSR funds, accuracy in measurement of impact of this Fund in Social Development is undoubtedly foremost important. Figure-5.3 indicates that banks primarily use internal monitoring and reporting (14) to measure CSR impact. Fewer rely on predefined KPIs, beneficiary feedback, or third-party evaluations, with a notable four banks lacking a formal measurement process. It indicates that proper measurement through utilization of third party evaluation is not commonly used by banks to evaluate its impact, revealing some sort of skepticism about the expected outcome of this initiative.

Figure 5.3: How Bank Measure Impact of CSR Initiatives in Social Development?

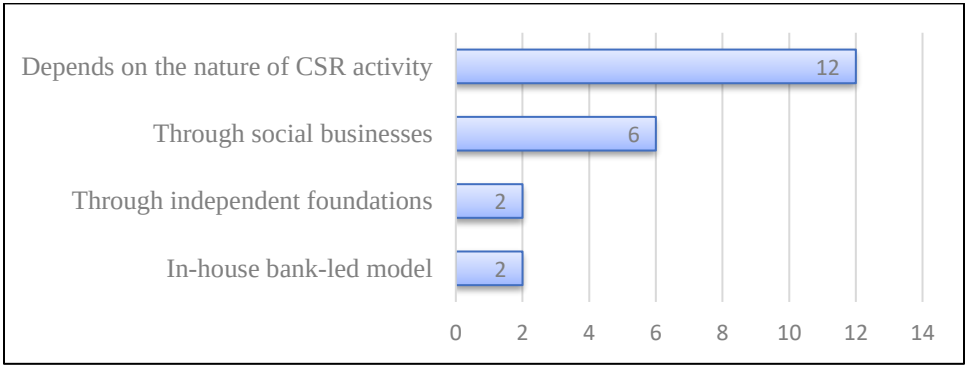


Source: Authors' calculation based on survey data.

5.4. Perceived Effective Model for CSR Implementing

In against of a question on effective model for CSR implementation, responses of bankers are pictorialized in Figure-5.4, which shows that the choice of effective CSR implementation model largely depends on the nature of the CSR activity (12) as opined by the respondents. Implementing CSR through social businesses (6) is considered effective by a moderate number, while independent foundations and in-house bank-led models (2 each) are seen as less effective.

Figure 5.4: Perceived Effective Model for CSR Implementation



Source: Authors' calculation based on survey data.

5.5. Managing CSR Funds with a Foundation and Reasons for Inclination to Create Foundation

As regards, managing CSR funds with opening a foundation, respondents, both having foundation and without having foundation, have expressed their overwhelming support in favor of foundation. Figure-5.5A indicates that 87% of respondents believe banks with foundations manage CSR more effectively. A smaller segment of 13% of respondents were "Not sure" on this matter, suggesting a strong general perception that a foundational structure enhances CSR management in banks. To validate the question yes or no, we further ask about the reasons of answering yes or no. The primary reason, as shown in Figure-5.5B, for believing banks with foundations manage CSR better is that "Foundations ensure better focus and expertise" (8 responses). Conversely, "Internal teams are more accountable" (6 responses), while "Cost of foundation operations is high" and "Scale and professionalism of foundation work" both received 4 responses.

Figure 5.5B: Reasons for the Answers shown in Figure A 5.5

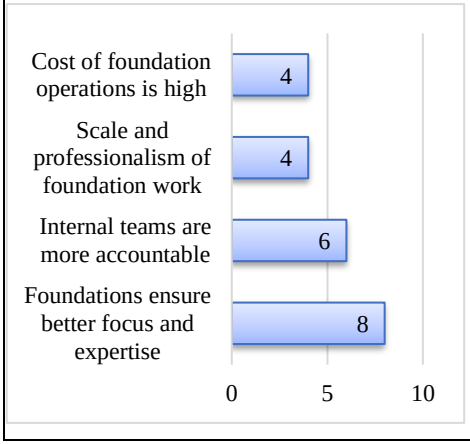
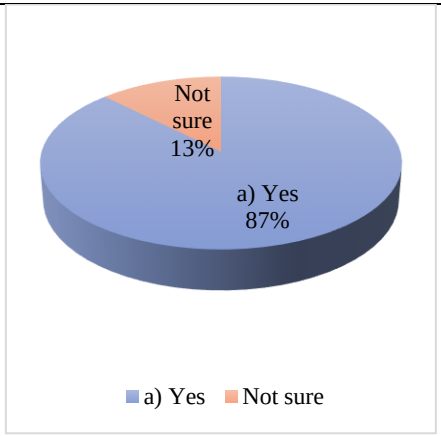


Figure 5.5A: Do you Think Banks with Foundations Manage CSR Better?

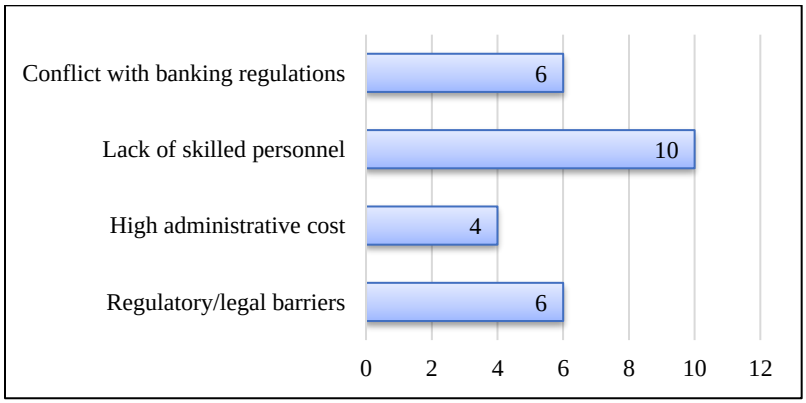


Source: Authors' calculation based on survey data.

5.6. Key Concerns in Creating a Foundation

Lack of skilled personnel (10) is the paramount concern in running a dedicated foundation for conducting CSR activities (Figure-5.6.) Regulatory/legal barriers and conflicts with banking regulations (6 each) are also significant, while high administrative costs (4) are a comparatively minor concern.

Figure 5.6: Key Concerns in Creating a Foundation



Source: Authors' calculation based on survey data.

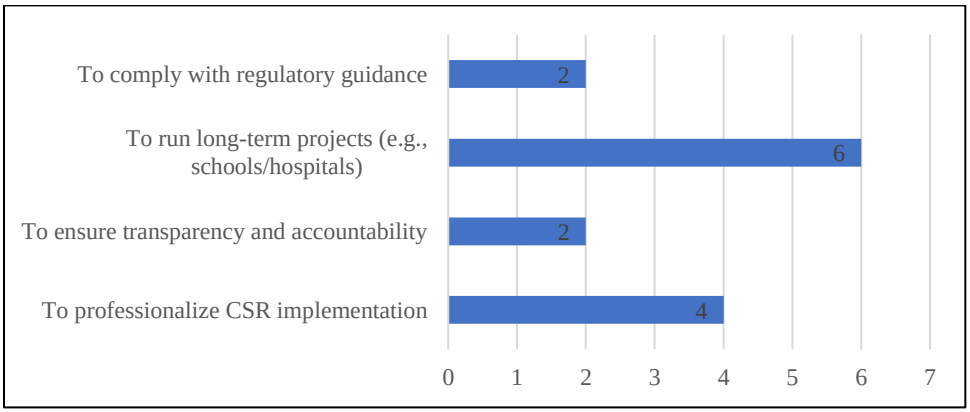
B. Responses from Banks Having a Foundation

A number of banks are implementing CSR activities through creating a Foundation, which motivates us to ask several questions to bankers with foundation in and around this model which are summarized below.

5.7. Reasons for Establishing Foundation by Banks

In case of figuring out the motivations behind creating foundations by banks, respondents mention that the primary reason is "To run long-term projects (e.g., schools/hospitals)" (6 banks) followed by to professionalize CSR implementation (4 banks). "To comply with regulatory guidance" and "To ensure transparency and accountability" are less frequent reasons, both cited by 2 banks (Figure-5.7).

Figure 5.7: Reasons for Establishing Foundation by Bank

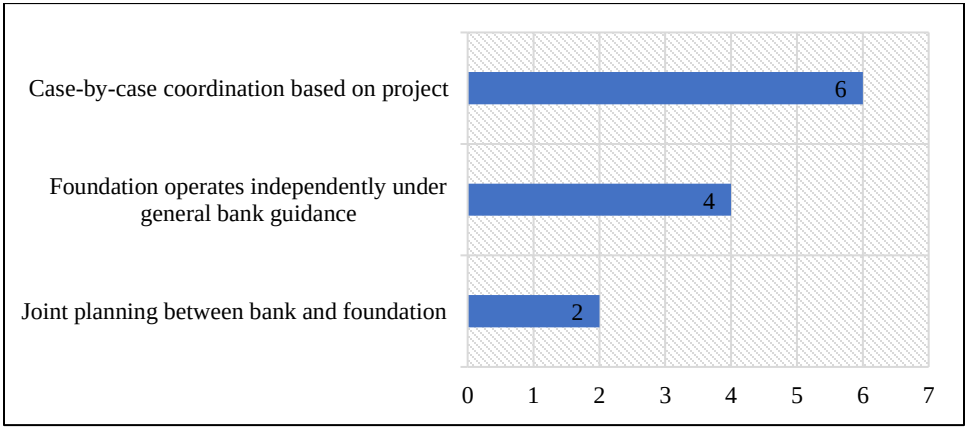


Source: Authors' calculation based on survey data.

5.8. Process of Implementation of CSR Programs by Foundation

In against of a question as to how does foundation implement CSR program, respondents reveal three distinct approaches. Most banks (6) adopt case-by-case coordination based on individual projects, while four rely on independent foundation operations under general guidance. Joint planning is least used, cited by only two banks (Figure-5.8).

Figure 5.8: How Does Your Bank Implement Its CSR Programs Through the Foundation?

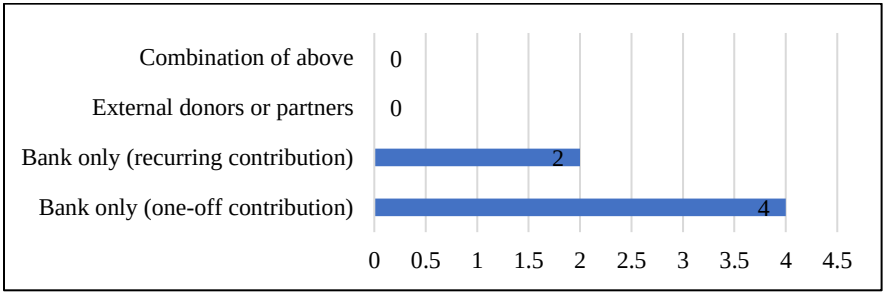


Source: Authors' calculation based on survey data.

5.9. Contribution of Funds to the Foundations

Respondents reply regarding the sources of funding for bank foundations are illustrated in Figure-5.9. The most common contribution method is "Bank only (one-off contribution)," reported by 4 entities. "Bank only (recurring contribution)" is less frequent, with 2 entities. Notably, "External donors or partners" and "Combination of above" both show zero contributions, indicating that these foundations are exclusively bank-funded.

Figure 5.9: Who Contributes to the Foundation's Funds?

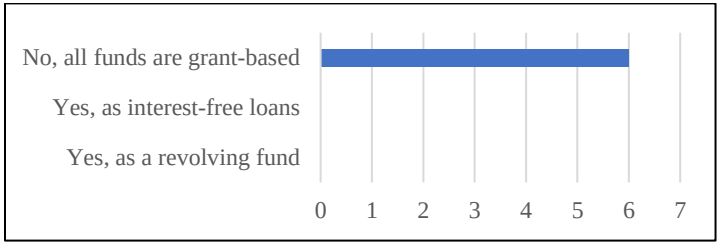


Source: Authors' calculation based on survey data.

5.10. Returning Funds to Parent Banks

Foundations do *not* return funds to their parent banks (Figure-5.10.). The sole stated reason is "No, all funds are grant-based", indicating that disbursed funds are philanthropic grants rather than repayable instruments like interest-free loans or revolving funds, which both show zero instances.

Figure 5.10: Does the Foundation Return Funds to the Bank?

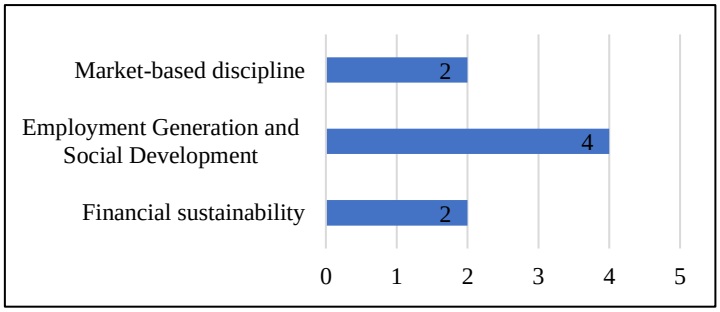


Source: Authors' calculation based on survey data.

5.11. Advantage of Social Business Model Over Foundation

Perceived benefits of the Social Business (SB) model compared to a traditional foundation, as opined by bankers, is depicted in Figure-5.11. The most cited advantage is "Employment Generation and Social Development", endorsed by 4 respondents. "Market-based discipline" and "Financial sustainability" are each identified as advantages by 2 respondents.

Figure 5.11: Perceived Advantages of SB Model over Foundation



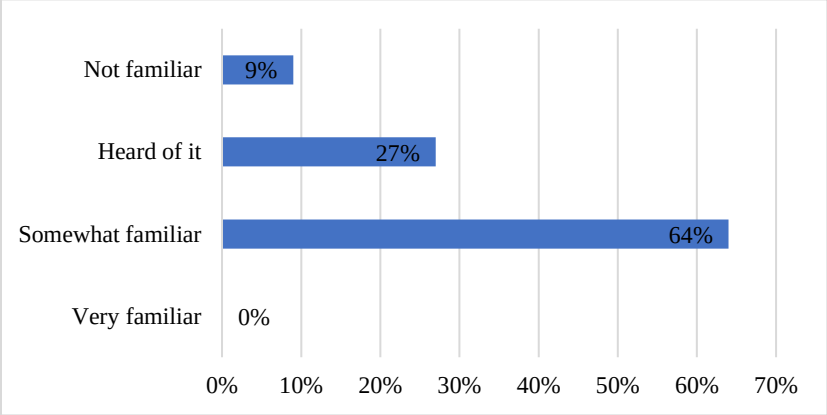
Source: Authors' calculation based on survey data.

Section 6: Social Business, Modes of Bank Financing, and Regulatory and Policy Support

6.1. Familiarity with the Concept of Social Business

The social business concept, currently attracting much attention from financiers across the world, seems not thoroughly acquainted with the bankers of Bangladesh. Figure-6.1 illustrates the varying degrees of familiarity among Bangladeshi bankers with the concept of Social Business (SB). A substantial majority, 64%, reported being "Somewhat Familiar" with SB, while 27% had merely "Heard of It". Notably, a small percentage (9%) were "Not Familiar" at all, and no respondents identified as "Very Familiar" with the concept, highlighting a gap in deep understanding within the banking sector.

Figure 6.1: Familiarity of the Respondent Bankers with the Concept of SB

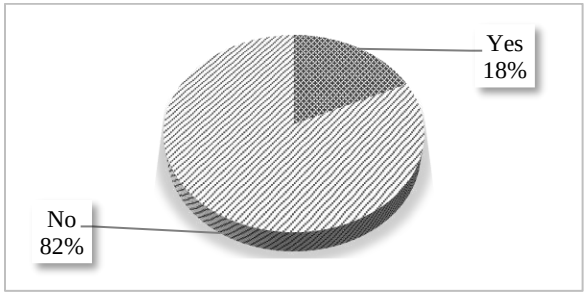


Source: Authors' calculation based on survey data.

6.2. Existence of Banks' Financing to Social Business

In the bank dominated financial system of Bangladesh, banks' finance to social business is narrowly exist. Figure-6.2 shows the prevalence of social business (SB) financing among banks in Bangladesh, revealing that a significant majority, 82%, do not currently offer such financing while only 18% of the surveyed banks reported having financial products or services specifically tailored for social businesses.

Figure 6.2: Percentage of Banks Having Financing to SB

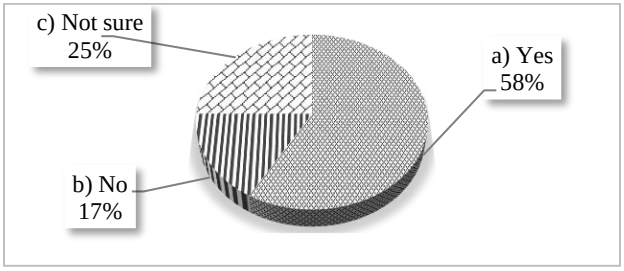


Source: Authors' calculation based on survey data.

6.3. Employing CSR Funds for Financing Social Business

CSR funds, created from the profit of a bank to fulfil its social responsibilities, could be a good source financing to Social Business, although at present it is narrowly utilised for SB. Figure-6.3 illustrates that a substantial majority (58%) of respondents believe CSR funds could be better utilized through an SB (Social Business) model, while a smaller proportion (17%) disagree, and 25% remain unsure. The data suggests a strong inclination among the surveyed population towards the potential efficacy of the SB model for optimizing CSR fund utilization.

Figure 6.3: Could CSR Funds be Better Utilized Through SB Model?

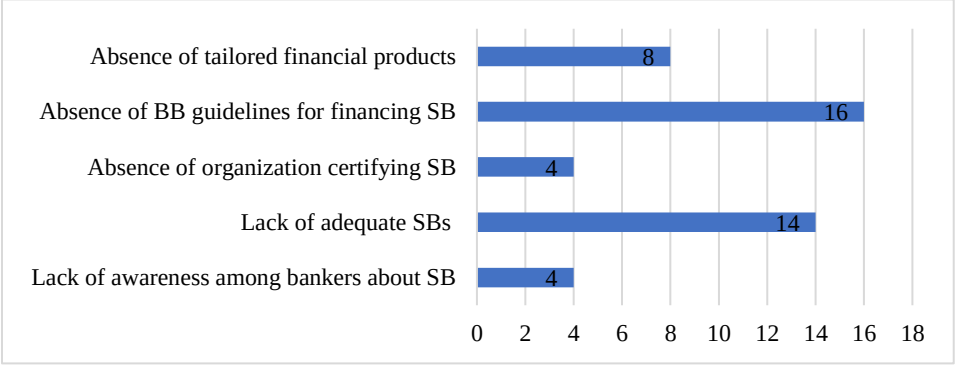


Source: Authors' calculation based on survey data.

6.4. Barriers Faced by Banks in Financing SB

A favorable culture of financing to social business did not happen in Bangladesh for the reasons like absence of guidelines, a smaller number of social business and lack of appropriate financial products, as mentioned by the respondents. Figure-6.4 delineates the primary impediments encountered by banks in Bangladesh when financing Social Businesses (SBs). The most significant barrier, cited by 16 banks, is the "Absence of BB guidelines for financing SB," underscoring a regulatory void. This is closely followed by a "Lack of adequate SBs" (14 banks), suggesting a limited pipeline of viable social business ventures, and the "Absence of tailored financial products" (8 banks), indicating a need for specialized financial instruments.

Figure 6.4: Perceived Barriers Faced by Banks in Financing SB

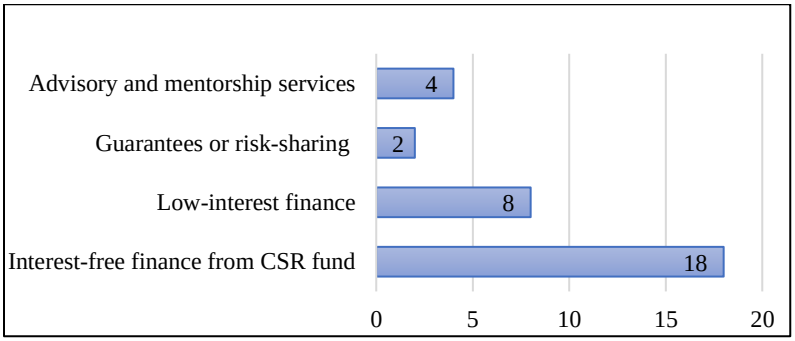


Source: Authors' calculation based on survey data.

6.5. Probable Financial Services to Be Offered by Banks

As social business is having dual objects, making profit and addressing social problems, banks need to design appropriate financial service to finance. Figure-6.5 depicts the financial services that Bangladeshi bankers believe can be offered to Social Businesses (SBs). The most frequently suggested service, by 18 respondents, is "Interest-free finance from CSR fund," highlighting a potential avenue for non-traditional funding. Additionally, "Low-Interest Finance" was recommended by 8 bankers, while "Advisory and Mentorship Services" and "Guarantees or Risk-Sharing" received fewer mentions, by 4 and 2 bankers respectively.

Figure 6.5: Financial Services That can be Offered to SB

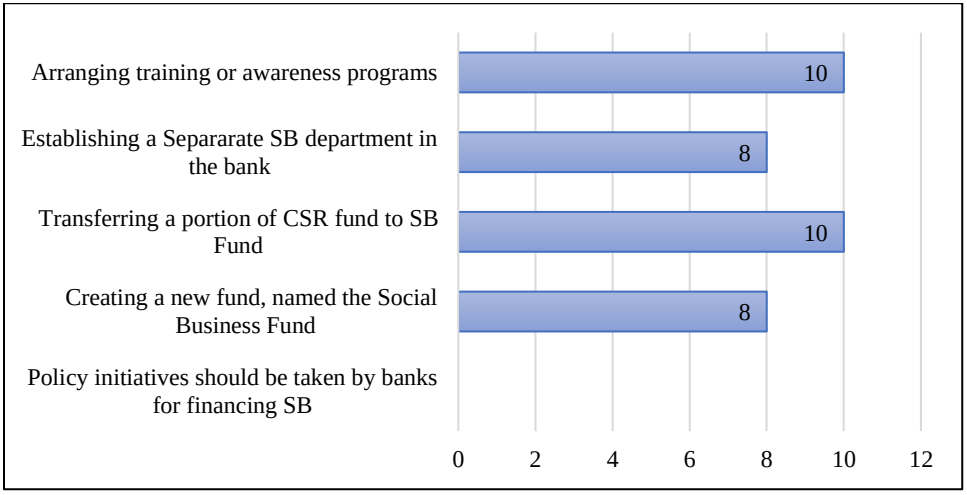


Source: Authors' calculation based on survey data.

6.6. Policy Initiatives for Financing Social Business

Policy support is highly important to nurse any nascent business idea like social business. Figure-6.6 illustrates the policy initiatives that Bangladeshi bankers advocate for promoting Social Business (SB) financing. Equal numbers of banks (10 each) suggested "Arranging training or awareness programs" and "Transferring a portion of CSR fund to SB fund," highlighting the dual need for capacity building and dedicated financial resources. Additionally, 8 banks each recommended "Establishing a separate SB department in the bank" and "creating a new fund, named the social business fund," underscoring the desire for specialized institutional structures to support SB.

Figure 6.6: Perceived Policy Initiatives should be Taken by Banks for Financing SB



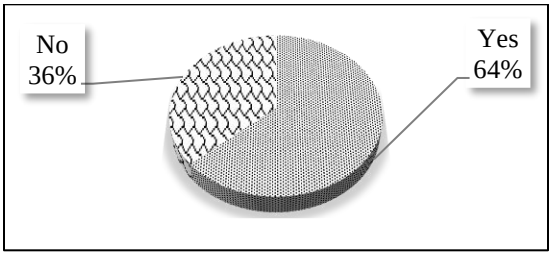
Source: Authors' calculation based on survey data.

6.7. Collaboration between Banks and Other Organizations

In raising capital from donors/charitable organizations before borrowing money from banks with a collaborative initiative is a common financing model across the world. Figure-6.7 illustrates the perceived potential for collaboration between banks and other organizations, such as NGOs and

government entities, in Bangladesh. A substantial majority of respondents (64%) indicated "Yes," perceiving significant potential for such partnerships. Conversely, 36% of respondents believed there was "No" potential for collaboration, highlighting a notable divergence in perspectives regarding inter-organizational synergies for financial development. This suggests a strong, albeit not universal, recognition within the banking sector of the benefits of multi-stakeholder engagement.

Figure 6.7: Perceived Collaboration of Banks with Other Organizations, e.g., NGOs

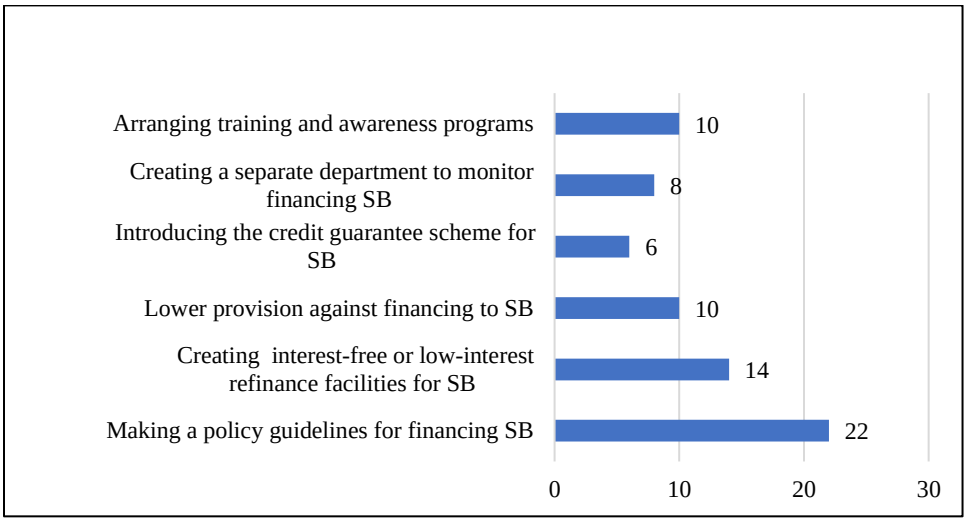


Source: Authors' calculation based on survey data.

6.8. Role of Bangladesh Bank to Support SB

The perceived crucial roles of Bangladesh Bank (BB) in fostering Social Business (SB) in Bangladesh is shown in Figure-6.8, as identified by surveyed bankers. The most frequently cited imperative (22 respondents) is "Making policy guidelines for financing SB," underscoring the urgent need for a clear regulatory framework. This is followed by "Creating interest-free or low-interest refinance facilities for SB" (14 respondents), indicating a strong demand for supportive financial mechanisms from the central bank.

Figure 6.8: Perceived Role of BB to Support SB

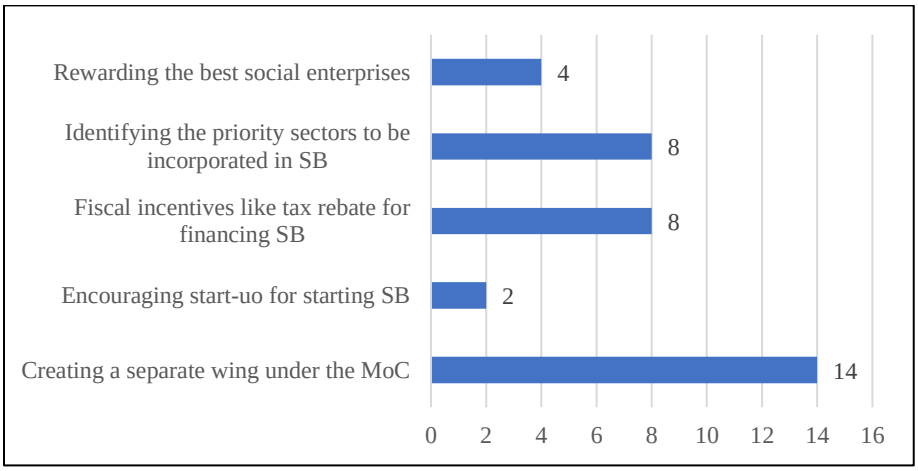


Source: Authors' calculation based on survey data.

6.9. Role of Government in Supporting SB

Government needs to think and work differently to nurse social business, as social business is being set up to address the overwhelming Government concerns. Figure-6.9 outlines the perceived pivotal roles of the Government in supporting Social Businesses (SB) in Bangladesh, as identified by the respondents. The most prominent suggestion, by 14 respondents, is creating a separate wing under the Ministry of Commerce indicating a strong desire for a dedicated governmental body for SB. This is followed by equally emphasized roles of "Identifying the priority sectors to be incorporated in SB" and offering "Fiscal incentives like tax rebate for financing SB" (8 respondents each), highlighting the demand for strategic guidance and financial stimuli.

Figure 6.9: Perceived Role of Govt to Support SB

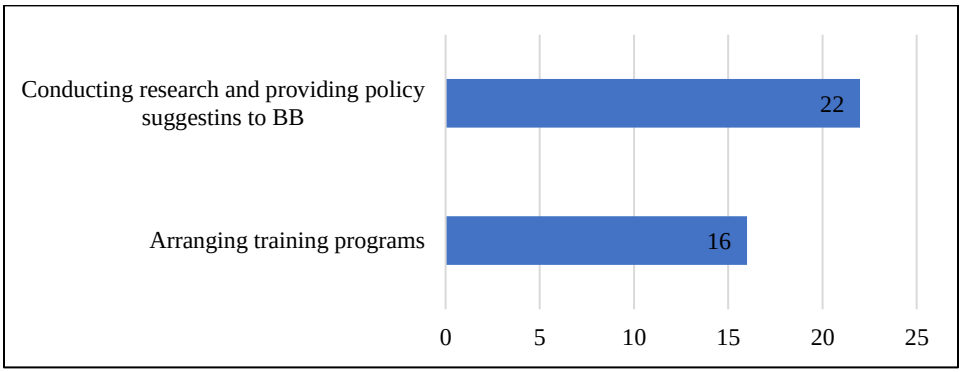


Source: Authors' calculation based on survey data.

6.10. Role of BIBM to Motive Banks to Finance SB

The perceived roles of the Bangladesh Institute of Bank Management (BIBM), premier training and academic Institution in Bangladesh, in encouraging banks' financing to Social Businesses (SB) is depicted in Figure-6.10. The most significant role identified by respondents (22) is "Conducting research and providing policy suggestions to BB," emphasizing BIBM's potential as a knowledge hub and policy influencer. Additionally, 16 respondents highlighted the importance of BIBM "Arranging training programs," underscoring its role in capacity building and awareness dissemination within the banking sector.

Figure 6.10: Perceived Role of BIBM for Encouraging Banks' Finance to SB

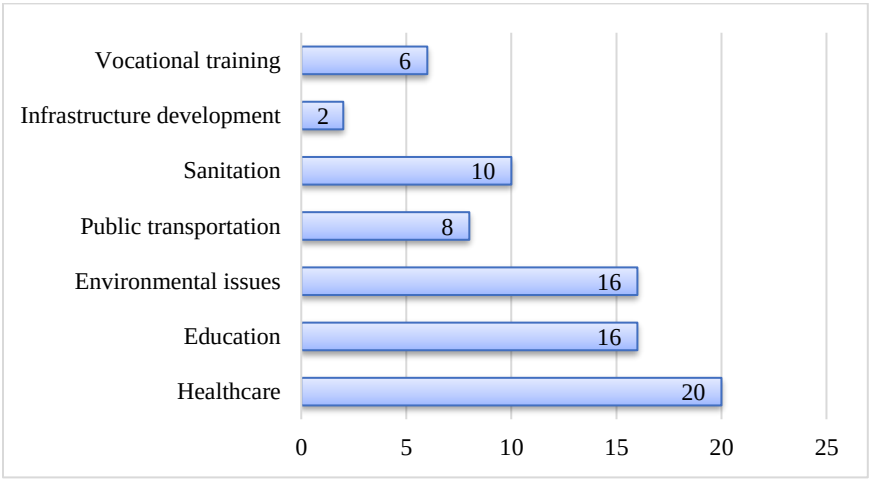


Source: Authors' calculation based on survey data.

6.11. Priority Sectors for Social Business

Social business is being considered as the greatest blessing in an economy where maximum people live in low-income economic segment and they are suffering from inadequate accesses to food, housing, clean water, healthcare, nutrition, renewable energy and education. Figure-6.11 illustrates the perceived priority sectors for Social Business (SB) initiatives in Bangladesh as identified by respondents. Healthcare emerged as the most critical sector, with 20 mentions, followed by Environmental Issues and Education, each with 16 mentions, highlighting significant societal needs for SB intervention. Sanitation (10 mentions) and Public Transportation (8 mentions) also feature as important areas, while Vocational Training (6 mentions) and Infrastructure Development (2 mentions) received comparatively less emphasis.

Figure 6.11: Perceived Priority Sectors for SB

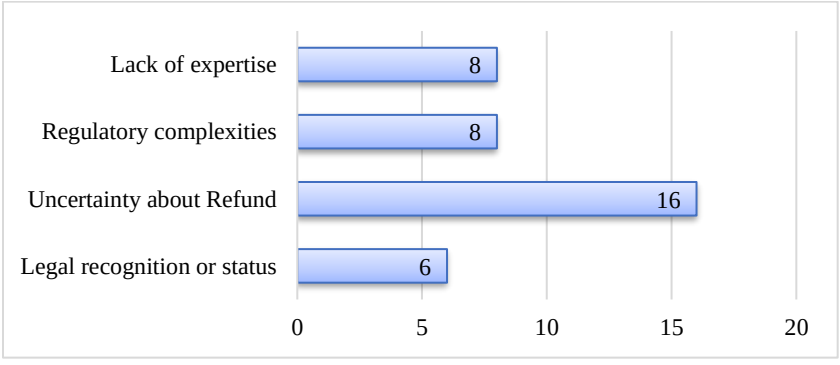


Source: Authors' calculation based on survey data.

6.12. Key Concern in Financing Social Business

In financing Social Business, bankers are perceiving a number of bottlenecks, these are summarized in Figure-6.12. According to this Figure, uncertainty about refunds (16) is the most significant concern. Lack of expertise and regulatory complexities are equally notable concerns (8 each), while legal recognition or status is a relatively minor issue.

Figure 6.12: Key Concerns in Financing SB



Source: Authors' calculation based on survey data.

7. Observations and Policy Suggestions

A number of issues were generated from the analysis of existing academic materials, responses received from the FGDs and questionnaires, cross-country evidences, finally from the roundtable discussion where draft version of the paper was presented. The following policy suggestions are being offered based on the inputs generated from the aforesaid initiatives.

7.1. Definition of Social Business

A comprehensive definition of social business covering its nature of works, reinvestment percentage of profit, social and environmental mission, etc. are required to be specified in the context of Bangladesh. A proper definition will facilitate this type of business to be registered as a social enterprise and, in turn, banks can precisely locate social businesses for the purpose of financing. At present, many businesses are claiming social business but actually these are charity or NGOs or regular type business. A social business association could also be established to create a voice for the sector and bring stakeholders together, as well as raise awareness, and discuss on policy matters.

7.2. Priority Sectors for Social Business

Social business is being considered as the greatest blessing for the low-income economic segment of all countries, who are suffering from inadequate accesses to food, housing, clean water, healthcare, nutrition, renewable energy and education. Hence, a country like Bangladesh where a large number of people are still struggling for fulfilling their basic needs, many sectors can easily be brought under SB. However, sectors like healthcare, environment, education, sanitation, public transportation, vocational training, infrastructure development, and so on can be prioritize for the social business.

7.3. Role of Government

Government needs to think and work differently to nurse social business, as social business is being set up to address the overwhelming social problems, which are supposed to be addressed by the Government. Government may focus on creation of a separate wing under the Ministry of Commerce or Ministry of Industry, which will manifest a strong desire of governmental body to facilitate SB. Apart from this, defining Social Business as organizations that will primarily focus on addressing societal problems, enactment of a law for SB, arranging guarantee for bank or other financing, offering incentives like tax rebate for financing SB, subsidies, grants, etc. might be considered as immediate measures by the Government to facilitate SB in Bangladesh.

7.4. Role of Bangladesh Bank

As the guardian of the financial sector of Bangladesh, Bangladesh Bank may now focus on financing social businesses on priority basis like earlier exemplary initiatives undertaken by BB for financing CMSMEs, sustainable financing and financing women entrepreneur. The crucial roles of Bangladesh Bank in fostering Social Business (SB) can be making policy guidelines for financing SB, creating interest-free or low-interest refinance facilities, providing special treatment in loan classification and provisioning, arranging guarantee to commercial banks for securing their finance, and ensuring in-depth mentorship and capacity building support.

7.5. Role of the Corporate Sector

Large corporate houses can come forward for fostering social business in two ways: 1) Beside their traditional businesses, they can establish social enterprises with three basic features namely social mission, feasibility, and innovation, 2) they can also contribute to funds created for financing social businesses by banks, NGOs, crowdfunding platforms, etc. For example, Japanese corporations like Panasonic, Toyota, and MUFG donate CSR

money to funds created by recognized organizations or platform to finance social business.

7.6. Impact of CSR Funds in Social Development

The main objective of CSR is to fulfill social responsibility by contributing to the education, health, income-generating activities, environment and disaster management, and sports and cultural activities of the poorest communities of the society. Since formalization of financing CSR activities way back in 2014, a substantial amount of funds has been spent by banks in the name of welfare activities either opening a separate foundation or not. However, possibly no formal study has been conducted by the Government or regulator or banks with appointing a recognized third party to evaluate its impact in fulfilling aforesaid objectives, reveling some sort of skepticism in proper utilization of funds. A study can, therefore, be undertaken to find out the impact of this funds in social development in Bangladesh, which may assist authority to take appropriate future actions to ensure proper and productive utilization of CSR funds.

7.7. Banks and Private Funds

Banks can provide finance to social business primality from the CSR funds which are at present mostly used for the charity purpose. Financing Social business from CSR funds is being contemplated more effective in eliminating various adversities of the society rather than charity as SB operates based on market -based discipline. Additionally, bank can finance SB in collaboration with the private funds, which are commonly created with local or international donations and charity. This kind of fund might be formed by organizations like Grameen, Brac, Asha, and so on with a view to finance specific local priorities. Banks may consider to alliance with such kinds of organizations to develop, support and finally, finance social enterprises through mixing grants and loans. For example, in Canada, an organization named Community Ownership Solutions jointly with banks identifies opportunities for new social enterprise development, conducts the

pre-feasibility and feasibility studies, prepares the business plan, hires management, provides the start-up funds (Equity and Debt) and works closely with the management team for an extended period of time.

7.8. Process of Bank Finance

Although social business is highly effective to address hardships of the society, no doubt this kind of business is a high-risk venture for banks. Hence, in financing, banks may consider following issues.

7.8.1. There is a considerable variation among banks in their vision and goals. Further banks' willingness to finance social business and their awareness about this kind of business is not same. In this perspective, banks could have been intrigued to finance, if loan guarantee schemes were available either from the Bangladesh Bank or Government or Multilateral Development Agencies.

7.8.2. Banks need to have a separate division that must be specialized in products and services offered by social business. In this perspective, executives employed in this department have to be well versed about the objectives of SBs, and probable impact of social enterprises in resolving the problems of the unprivileged people of the society.

7.8.3. In appraising the project, banks should look at the overall business viability first rather than traditional way of appraising projects, examining net worth and credit rating of the borrower. However, investigating business plan, projecting cash flow of the projects and repayment capacity of the business cannot be overlooked at all.

7.9. Designing Appropriate Financial Services

A very crucial problem for establishing social enterprises, and thereafter continuing the business is access to finance. Designing appropriate financing instruments for social enterprises will only enable them in providing the highest quality services, leading improvement of the standard of living. In this perspective, financial products like crowd funding, quasi

-equity debt, pooling and blended mode of financing can be utilized for financing SB in Bangladesh, of course, after restructuring these as per the ground reality of Bangladesh. SB can also issue 'Social Impact Bond' for sourcing its initial funds.

7.10. Training to Entrepreneur and Bankers

7.10.1. Social business requires a clear and viable business plan showing thrust for earning rational amount of profit. This type of business, however, usually lacks strong financial management capacity, including weakness in providing timely and useful cash flow statements. Further, management of SB must adhere to the best practices in the areas of reporting, accounting, leadership and human resources. As a whole, solid business skills and capacity are prerequisites to see the success of a social enterprise. Imparting training to the manpower of SB is, therefore, sine qua non to build aforesaid capacities of human resources of this kind of business. Relevant ministries, chambers of commerce, etc. might take initiatives to offer trainings.

7.10.2. In contrast, banks need to have a viable social project with necessary information to examine the feasibility of the project. In this context, capacity of understanding operating model of the social business, including sources of equity and cost of capital, sharing of profit, taxation policy and other policy supports are required to be achieved thoroughly. This entails that bankers to be involved with the financing of social business are also required to be trained up deeply on social business. Apart from this, creation of awareness is also a challenge. BIBM might be assigned to takeover aforesaid responsibilities.

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