Encouraging Sustainability and Innovation: Green Banking Practices Growing in Indonesia

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ABSTRACT: This article examines developing green banking practices in Indonesia, intending to encourage sustainability and innovation in the banking sector. Green banking is an approach that integrates environmental and social factors in banking operations to reduce negative impacts on the environment and increase contribution to sustainable development. The method used is a library with a descriptive approach. The findings in this study indicate that green banking or environmentally friendly banking has a significant role in creating a clean and sustainable banking environment. By adopting green banking principles, banks can better manage environmental risks, increase environmentally friendly financing portfolios, and implement sustainable business practices. In addition to direct benefits such as reducing credit risk and improving asset quality, green banking can also potentially increase corporate value and bank reputation in the eyes of the public and investors. To encourage the implementation of green banking, banks in Indonesia need to comply with relevant regulations and continue to promote environmentally sound practices. Thus, green banking and green banking can become a potent symbol of ecological awareness worldwide.

Artikel ini membahas praktik green banking yang berkembang di Indonesia dengan tujuan mendorong keberlanjutan dan inovasi di sektor perbankan. Green banking merupakan pendekatan yang mengintegrasikan faktor lingkungan dan sosial dalam operasional perbankan guna mengurangi dampak negatif terhadap lingkungan dan meningkatkan kontribusi terhadap pembangunan berkelanjutan. Metode yang digunakan adalah pustaka dengan pendekatan deskriptif. Hasil temuan dalam penelitian ini menunjukkan bahwa green banking atau perbankan ramah lingkungan memiliki peran yang signifikan dalam menciptakan lingkungan perbankan yang bersih dan berkelanjutan. Dengan mengadopsi prinsip-prinsip green banking, bank-bank dapat mengelola risiko lingkungan dengan lebih baik, meningkatkan
portofolio pembiayaan yang ramah lingkungan, dan menerapkan praktik bisnis yang berkelanjutan. Selain manfaat langsung seperti pengurangan risiko kredit dan peningkatan kualitas aset, green banking juga memiliki potensi untuk meningkatkan nilai perusahaan dan reputasi bank di mata masyarakat dan investor. Untuk mendorong implementasi green banking, penting bagi bank-bank di Indonesia untuk mematuhi regulasi yang relevan dan terus mendorong praktik berwawasan lingkungan. Dengan demikian, green banking dan perbankan hijau dapat menjadi simbol kesadaran ekologis yang kuat di dunia.

**Keywords:** Mandatory Prosecution, Fair Trial, Rule of Law.

I. **INTRODUCTION**

The world’s biggest challenge today is managing the environment and reducing the damage to natural resources and the impact of global warming. Global warming, natural disasters and climate change result from a need for more public awareness of the importance of protecting the environment. Therefore, every individual and institution is responsible for participating in sustainable economic development and promoting environmentally friendly economic growth. In this case, the green economy is crucial in achieving this goal (UNEP, 2011); (Stern, 2007).

The banking industry has a crucial role in the Indonesian economy. As part of the financial system, banking is the main focus in efforts to achieve sustainable development goals (D. W. Sari & Nugroho, 2017). In this context, the role of banking institutions is crucial in supporting sustainable development efforts (Solimun & Pangaribuan, 2019).

Economic instruments run through banking financial institutions must adopt complementary approaches that mutually influence the environment (Abdullah & Alrazi, 2018). To achieve sustainable development goals, banks must be able to adapt to environmental changes and consider their overall impact (Islam et al., 2019).

Banking needs to integrate environmentally responsible business practices in its operational activities. For example, implementing policies that promote the efficient use of resources, reduce greenhouse gas emissions, and support sustainable projects (Azzone et al., 2009). In addition, banks can also provide financing that supports sectors that contribute to sustainable development, such as renewable energy, sustainable agriculture and environmental protection (Sary, 2019). Thus, banks need to actively encourage sustainable economic development in line with the SDGs goals. Collaboration between banking, government and society is essential in creating an ecosystem that supports sustainable economic growth in Indonesia.

Although banks are not directly involved in activities that directly impact the environment, the external influence of their actions on customers is significant. Banks are not included in the group of substantial contributors to environmental pollution. Using energy, water, and other natural resources in banking operations is less intensive than in sectors such as mining and the processing industry (Shrestha & Chalise, 2020). However, banks still have responsibilities related to increasing environmental degradation. This is because through providing loans or financing to customers, banks can motivate activities that can potentially hurt the environment (Arora & Puranik, 2018).
Therefore, banks need to raise awareness of the environmental impact of their activities. They must consider ecological aspects in the decision-making process regarding lending and financing. In this case, banks can implement policies that ensure that customers who receive loans or financing have environmentally friendly and sustainable business practices (Shafik & Sinha, 2020).

In addition, banks can also play a role in supporting initiatives that contribute to environmental protection and sustainable economic development. For example, they can provide special financing for projects that promote renewable energy, energy efficiency, or sustainable agriculture. Thus, banks can help boost business practices that are more environmentally responsible (Ahmad & Hassan, 2019).

In conclusion, although banks do not directly impact the environment, the external influence of their activities on customers is quite substantial. Therefore, banks must be aware of their responsibilities and take steps to minimize negative impacts on the environment and support sustainable development.

A study conducted by (Handajani et al., 2019) found that banks in Indonesia have adopted Green Banking practices in various aspects, such as providing environmentally friendly credit, energy management, reducing emissions, and participating in sustainable projects. However, further efforts are still needed to increase the awareness and commitment of banks towards Green Banking practices. Green Banking practices positively impact the sustainability performance of banks in Indonesia. Banks that adopt Green Banking practices tend to achieve better environmental, social and economic results. Green Banking practices can be a competitive advantage for these banks (Sukmana, 2018). (Y. Prasetyo, 2019) his research identified the factors that encourage and hinder Green Banking practices in Indonesia. The main driving factor is regulatory demands and compliance with international standards related to the environment. Meanwhile, the main obstacles include more awareness and understanding, technical constraints, and concerns about the financial risks associated with Green Banking practices.

Research (Arafat & Alzoubi, 2020) evaluates Green Banking practices and performance at Islamic banks in Indonesia. The results show that Islamic banks have adopted Green Banking practices, including providing sustainable financing and managing environmental risks. However, there is still a need to increase information disclosure regarding Islamic banks' environmental and social performance. Finally, the authors found a positive relationship between Green Banking practices and the sustainability performance of banks in Indonesia. Green Banking practices which consist of aspects of environmental, social and good governance management, contribute to improving these banks' financial performance and reputation. Green Banking practices can also encourage innovation and sustainable economic growth in Indonesia (Setyaningsih & Alamsyah, 2021).

Several banks have declared themselves green banks (green banking), but so far, the issues of implementing green banking have varied in practice and reporting. Thus, researchers need to analyze the application of green banking practices regarding the involvement and constraints faced by Islamic banks and their solutions in implementing green banking practices.
II. METHOD

The research method used in this research is a literature review. The approach used is descriptive, focusing on analyzing and describing information found in the literature relevant to the research topic (Jesson et al., 2011). The data in this study were obtained from secondary sources, such as articles, research papers, annual reports, sustainability reports, official company websites and other related literature. This data source will be used to obtain relevant information regarding green banking practices, involvement of Islamic banks, obstacles encountered, and solutions in implementing green banking practices (Cooper, 2017).

The data collection technique used was a literature search related to the core of the research subject, namely through access to relevant scientific journals, conferences and digital repositories. The investigation was carried out using keywords about green banking, the involvement of Islamic banks, constraints and solutions in implementing green banking practices. The data analysis technique used in this research is descriptive analysis. Data collected from the literature will be detailed and analyzed to extract relevant information. Furthermore, conclusions and findings will be drawn based on the research carried out to provide a comprehensive understanding of the involvement of Islamic banks in overcoming environmental problems through green banking practices (Ikhwan, 2021).

III. RESULT AND DISCUSSION

Green Banking concept

Green banking is a banking concept that benefits the environment, in which banks aim to improve environmental performance in their operations. Traditional banks are transforming into green banks by directing their core activities towards ecological protection and restoration. The banking sector is vital as an intermediary between economic development and environmental protection by promoting environmentally friendly and socially responsible investments (Andi et al., 2021).

The concept of green banking was first developed in Western countries and was officially introduced in 2003 to protect and improve the environment. One such initiative, the Equator Principles (EPs), was launched and initially adopted by several leading global banks such as Citigroup Inc, The Royal Bank of Scotland, and Westpac Banking Corporation. These principles set guidelines and frameworks for managing environmental and social risks in financing large projects (A. Prasetyo, 2016).

The development of green banking in various countries has led to adopting practices and policies that focus on reducing carbon emissions, managing environmental risks, financing sustainable projects, and using financial tools that support sustainable economic growth. The concept of green banking continues to develop and provides opportunities and challenges in the future to achieve sustainable development goals (Dewi & Arumsari, 2020).

After introducing the Green Banking concept, the initial decision was to reduce paper use in banking operations. This is done because paper production requires felling trees as a
raw material, which hurts the environment, such as reduced oxygen and increasing carbon dioxide emissions. There are two ways of practice in green banking. First, internal green banking practices involve creating a clean and hygienic work environment, using green buildings, greening, online banking, waste management, installing solar panels on bank roofs, using high-efficiency vehicles, reducing noise pollution, and using technology. Such as webcams for remote meetings, sending documents via e-mail, and online statements (Kumalasari & Hidayati, 2017).

The second practice is green project financing, such as biogas plants, solar/renewable energy power plants, biofertilizer factories, wastewater treatment plants, and other projects that focus on the environment. Banks undertake voluntary and proactive activities to protect the environment and address the challenge of climate change by supporting the use of renewable human and natural resources and efficiently managing non-renewable resources.

Through these practices, green banking seeks to contribute to preserving the environment and addressing the impacts of climate change while still providing financing and financial services to its customers. With awareness and real action in implementing green banking practices, banks create a positive impact on the environment and encourage the responsible use of resources.

Green banking, or eco-friendly banking, is a banking practice that pays special attention to environmental, social and ecological factors to protect nature and natural resources to preserve the environment. The concept of green banking indicates that banking institutions not only focus on financial responsibility to generate maximum profits for shareholders but also take responsibility for efforts to preserve the environment and the universe and improve the social welfare of society (people). The integration of these three pillars is known as the triple bottom line of banking accountability (D. Sari et al., 2018).

In this context, green banking seeks to integrate economic, social and environmental principles in every aspect of its operations. Banking not only considers financial factors but also pays attention to their activities' social and ecological impacts. This includes responsible use of resources, reduced greenhouse gas emissions, efficient waste management, and support for sustainable projects such as renewable energy and green infrastructure.

By implementing the triple bottom line of banking accountability, green banking seeks better balance of financial returns, environmental sustainability and social welfare. Within the scope of green banking, sustainability is the main focus, in which banking activities generate sustainable profits and provide positive benefits for the environment and society.

The basic principle of green banking is to strengthen banking risk management capabilities, especially related to environmental issues, and encourage banks to increase their environmentally friendly financing portfolios. This includes financing for the renewable energy sector, energy efficiency, organic farming, eco-tourism, eco-friendly transportation, and ecologically labelled products. This step aims to increase banking awareness of the risks that may arise from projects being funded, which can negatively
impact the quality of financing and the bank's reputation (Kartikasari & Yulisetiarini, 2014).

The green banking approach also has a broader and longer-term impact on fiscal and monetary policy. Bank Indonesia hopes that green banking practices will positively contribute to efforts to strengthen this policy. For example, with the increasing supply of renewable energy, energy efficiency, and organic farming, there is expected to be a decrease in dependence on imported oil and agricultural products. This will positively impact the country's economy and a more sustainable import policy.

Through the application of green banking principles, banks have the opportunity to preserve the environment, reduce risks to projects that have the potential to harm the environment and contribute to sustainable economic development. With a higher awareness of social and environmental responsibility, banking can become a driving force in transforming towards a greener and more sustainable economy.

**Green Banking Practices in the Banking Sector**

Green banking involves improving technology and operations and changing customer habits in the banking sector. It aims to encourage environmentally friendly practices and reduce the carbon impact of banking operations. This approach is an innovative and proactive way of thinking with a vision of sustainability for the future.

Even though banking activities are not physically connected to the environment, the external impact of their customers' activities is very significant. Therefore, banks need to promote products, processes and technologies that substantially reduce the carbon footprint on the environment. Green banking is about corporate social responsibility (CSR) activities and creating a livable society without significant damage. This involves efforts to build a comfortable and sustainable environment for the community. In this context, banking is vital as an agent of change in achieving this goal. By adopting green banking principles, banking can make a real contribution to creating a better future for future generations (Wulandari, 2018).

Integrating social and environmental strategies into a bank's development goals is essential for achieving effective environmental management. Banks adopting socially and environmentally responsible lending and investment strategies have transformed their bond underwriting, investment banking, and corporate lending processes. These banks can enjoy competitive advantages because people are increasingly aware of environmental issues (Hamid et al., 2016).

However, the author also emphasizes the need for banks to adopt green lending principles wisely so that the customer base is not affected. The author explains that credibility comes from having high standards. Still, if those standards are set too slowly, they can hamper the ability of some banks to provide loans and severely impact companies that need capital.

In this context, banks need to find the right balance between adopting socially and environmentally responsible green practices and maintaining their ability to provide financial support to companies. Banks can play a significant role in driving sustainable economic development with a mature and strategic approach without compromising their business needs or credibility in society.
Environmental management has become an increasingly important aspect of the banking sector, as it directly impacts risk management, asset quality and corporate value. Banks that can integrate environmental principles into their business practices have an advantage in reducing the credit risk associated with projects or businesses that hurt the environment.

By implementing risk management that focuses on environmental aspects, banks can minimize risks arising from environmental damage or violations of regulations related to the environment. By conducting an in-depth evaluation of a project or business submitted for financing, banks can identify potential ecological risks and take appropriate preventive steps to reduce these risks (Aminah & Wicaksono, 2019).

In addition, effective environmental management also positively impacts the quality of bank assets. Banks that invest in environmentally friendly projects have more significant opportunities to acquire high-quality assets with sustainable growth prospects. Banks can strengthen their portfolio of assets that have long-term sustainability potential by prioritizing financing projects that support renewable energy, energy efficiency, organic farming, or other environmentally friendly sectors.

In addition to the direct benefits of risk management and asset quality, sound environmental management can also increase company value. Banks recognized as environmentally concerned and socially responsible financial institutions attract interest from customers increasingly worried about environmental issues. In an era where environmental awareness is increasing, banks that can show their commitment to sustainable business practices have a better reputation in the eyes of the public and investors. This can bring long-term benefits to banks regarding business growth, customer confidence, and the ability to attract sustainable investment (Sulistyowati & Sulistyaningsih, 2020).

Overall, environmental management in the banking sector is not only about fulfilling social and environmental responsibilities but also has significant implications for managing risk, improving asset quality, and increasing corporate value. By adopting a proactive and sustainable approach to green banking practices, banks can achieve a competitive advantage, maintain business continuity, and contribute to environmental protection.

IV. CONCLUSION

In efforts to create a clean and sustainable banking environment, Green Banking or environmentally friendly banking plays a vital role in protecting nature and natural resources. By adopting green banking principles, banks can strengthen environmental risk management, increase environmentally friendly financing portfolios, and implement sustainable business practices. Besides providing direct benefits such as reducing credit risk and improving asset quality, green banking can also increase corporate value and bank reputation in the eyes of the public and investors.

The successful implementation of green banking requires concrete steps such as creating a clean and hygienic banking environment, adopting green buildings, greening, efficient...
waste management, installing solar energy, using environmentally friendly vehicles, and using technology such as webcams for virtual meetings. Bank Indonesia also hopes that green banking can positively contribute to efforts to strengthen fiscal and monetary policies, including reducing dependence on imported oil and agricultural products through increasing supply in the green banking sector. To encourage the implementation of green banking, banks in Indonesia need to comply with relevant regulations and continue to promote environmentally sound practices. Thus, green banking and green banking will become a potent symbols of ecological awareness worldwide. With collective efforts, banks can play an essential role in protecting the environment, achieving business sustainability and creating a long-term positive impact on society and the universe.

V. REFERENCES


