

Evaluation of the Implementation of Green Banking in the Sharia Banking Environment in Indonesia

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Abstract. *Issues related to the environment, maintaining ecological balance and ecological sustainability have become topics of discussion throughout the world. Organizations and consumers have come to understand the importance of the environment for human survival, especially in the business community, which has an obligation to integrate environmental protection into its business operations. The banking industry today must consider environmental aspects in its behavior and operations, namely green banking. The aim of this research is to evaluate the implementation of Green Banking in the Indonesian Sharia Bank within the framework of a SWOT analysis (strengths), weaknesses, opportunities and threats. The research method is qualitative descriptive analysis using data secondary. The results of the study show that several Sharia banks in Indonesia have implemented several green banking programs, namely: application of green principles with green financing, use of water, paper, waste processing.*

Keywords; *green banking; environment; sharia banking*

1 Introduction

Many countries are currently facing the problem of decreasing or deteriorating energy resources, natural resources and environmental pollution. Exploitation of non-renewable natural resources is increasingly deteriorating environmental resources. This is because human behavior is not friendly to the environment. Apart from that, the threat of climate change and global warming is increasingly reducing the sustainability of the earth in meeting human needs and welfare (Widyaningrum, 2020).

Issues related to the environment, maintaining ecological balance and environmental sustainability have become topics of discussion throughout the world. Organizations and consumers understand the importance of the environment for human survival. The green movement has gained attention and is growing rapidly in developed countries, but over time, consumer acceptance of greening has also increased in the Indian subcontinent (Raghavan,

2009). Currently, green or environmental marketing has become a strategic marketing approach that currently focuses on business (Ottman, 1998). Now, due to political and social pressures, non-profit companies are also adopting green marketing strategies, and over time they use environmental aspects as a source of competitive advantage (Chen, 2010).

To explore these competitive advantages, clean and green technologies are finding their way into the functional areas of daily operations of various organizations today, including the banking sector (Tentama et al., 2020). Banks are considered the backbone of the economy and have direct and indirect effects on environmental sustainability and degradation. Although the banking industry has always been considered environmentally friendly, today energy consumption (lighting, air conditioning, computers) is quite high, small rooms, unplanned buildings and ignoring the greenness of homes significantly increase banks' carbon footprint. As a result, banks are encouraged to adopt green technologies, green products, processes and new strategies to minimize their carbon footprint and ensure a sustainable environment (Bhardwaj, 2013).

Apart from carrying out its function as an intermediary institution, the banking industry is also currently required to be involved in reducing environmental damage because it is deemed necessary to adapt interdependently to the environment. This term is called Green Banking. The United Nations Environmental Program (UNEP) states that green banking is a financial activity that can produce improvements in human welfare and social equality, as well as significantly reduce environmental risks and create ecological relationships (Rehman et al., 2021). Regarding this problem, there are several studies that are quite relevant to examine the application of the green banking concept. This includes research conducted by Siti Khodijah (2023). In the research entitled *Implementation of Green Banking in the Environment of Bank BJB Syariah Indonesia*, it is stated that bank BJB Syariah has implemented several green banking programs, namely: application of green principles with green financing, use of water, paper, waste processing.

In research entitled *Implementation of Green Banking in the Bank Muamalat Indonesia Environment* by Ria, et.al. (2023) stated that there are two main green banking programs implemented by Bank Muamalat Indonesia, namely the distribution of environmentally friendly financing and environmentally friendly operational activities. In research entitled *Implementation of Green Banking Practices in State-Owned Banks in Indonesia* by Andarsari (2020), it is stated that the trend in disclosing green banking practices of state-owned banks has

increased over the last 3 years. Indicators of green banking activities at state-owned banks can be grouped into reporting categories which include green products, green operations, green customers and green policy.

Then in research entitled *The Role of Implementing Green Banking in Indonesian Sharia Banks* by Lelawati (2023) it is stated that sharia banking in Indonesia has adopted environmentally friendly practices such as efficient use of paper and electricity, efficient use of water, management and reduction of waste, as well as efficiency of use and use. paper. In research entitled *Analysis of the Implementation of Green Banking in Sharia Commercial Banks: Study of Indonesian Sharia Banks* by Febiola (2023), it was revealed that in the environmentally friendly financing distribution program, BSI has terms and conditions by examining the results of environmental impact analysis (AMDAL). In its environmentally friendly operational activity program, BSI is able to create a paperless bank, minimize the risk of global warming, green building, and manage and reduce waste.

In research conducted by Dewi (2023) entitled *Analysis of the Effect of Green Banking Implementation on Financial Performance and Banking Environmental Performance*, it was stated that partially the green banking implementation variable does not have a significant influence on the financial performance variable (ROA), but the green banking implementation variable has an influence. significant positive impact on environmental performance (SUSBA). From the results of this research, it can be seen that environmental performance (SUSBA) in banking companies that are members of IKBI (Sustainable Finance Initiative in Indonesia) is influenced by, among other things, the implementation of green banking carried out.

And in research conducted by Salsabila (2022) entitled *Green Banking Trends as Productive Financing in Realizing Sustainable Development*, it was revealed that the implementation of green banking activities in sharia banking operations is still less than optimal, where government attention and policies governing the implementation of green banking are very necessary to optimize banking contribution to efforts to protect and manage the environment. The government also needs to continue to push to make green growth the main driver of urban change from economic policies to people's lifestyles. By achieving optimal implementation of the green economy, it will have the potential to create new economic growth, create new jobs and reduce poverty.

Based on several previous studies, it is important to carry out further research to evaluate the application of the green banking concept in banking practices, especially in Sharia banks.

With a SWOT analysis approach (strengths), weaknesses, opportunities and threats, all possibilities for the future of the existence of Sharia banks are known. So this research puts forward the title Evaluation of the Implementation of Green Banking in Sharia Banking Environment in Indonesia.

2 Literature Review

Sustainability practices as outlined in the Sustainable Development Goals (SDGs) are an issue of global concern. The implementation of SDGs is expected to touch all aspects of life, including business aspects in various sectors. In the financial sector, one manifestation of sustainability commitment is the concept of green finance (Rahmi et al., 2020). The aim is to encourage environmentally friendly business financing and the use of clean energy. Banking, with its broad stakeholders, can act as an agent of change in the transition towards a green economy. A total of 110 foreign banks that are members of the Net-Zero Banking Alliance have targeted achieving net zero carbon emissions by 2050. The World Bank has also prepared guidelines regarding policy tools that can be used to "green" the financial services sector. (Sources : <https://katadata.co.id/green-finance-di-indonesia>) The following is a green finance system initiated by the World Bank (2021).



Sources : Toolkits for Policymakers to Green The Financial System

The Green Economy concept, which basically encourages every economic activity to minimize its impact on the environment, has also been adopted by the banking world. One of them is through the Green Banking concept. Green banking is a banking initiative that prioritizes sustainability in the distribution of financing or operational activities. Banks do not immediately fall into the category of high contributors to environmental pollution. Banking activities actually do not use as much energy, water or other natural resources as industries such as mining and processing. However, the increasing issue of environmental degradation cannot be separated from banking. The concept of sustainability is summarized in the concept of sustainable development goals (SDGs) as follows :



Sources: <https://ekonomi.republika.co.id/>

Green banking is a banking concept that is environmentally friendly. This concept is widespread in several developed and developing countries. Green banking is closely related to the term green business. According to Glen Croston, green business is a viable business concept because it can generate sufficient profits and economies of scale, so it is very beneficial for overall business continuity (Handajani, 2018). Green banking is a bank that operates in an environmentally friendly, environmentally conscious and efficient manner and considers environmental aspects in its business activities. Considering environmental aspects during business decision making can reduce the negative impacts of financial institutions' operations, enabling them to support corporate social responsibility and achieve sustainability.

When banks implement green banking, there are 3 benefits: First, with green banking, all transactions are carried out using online banking, so they are more paperless. Second, increase business people's awareness of the importance of environmentally friendly business practices. Third, banks develop environmentally friendly lending policies and indirectly encourage entrepreneurs to direct their businesses in a more environmentally friendly direction (Ragupathi, 2015).

Simply put, green banking is resource-efficient, low-carbon and socially inclusive. Green banking is banking that applies green principles in all banking operations and prioritizes its investment in green businesses and projects and/or reduces the environmental impact of other existing businesses (Ireen Akhter, 2021).

Green banking has also been broadcast in the form of an MOU between Bank Indonesia (BI) and the Ministry of the Environment (KLH) in 2011-2013 through environmental analyst training activities to assess the feasibility of distributing credit to debtors such as AMDAL.

The latest regulation that is relevant to green banking practices is the issuance Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies. Through this regulation, Financial Services Institutions, issuers and public companies are encouraged to provide funding sources for development (OJK, 2017).

The concept of green banking is closely related to the term green finance. The meaning of green finance itself is loans from financial institutions to debtors that do not have an impact on reducing environmental quality or social conditions in society. However, green banking does not only focus on the world of finance, but also on other programs that protect the environment. Providing sharia banking financing can cause problems if the financing is used for businesses or activities that ultimately cause or result in environmental pollution or damage.

Sustainable finance has become a new paradigm in the world of banking and other financial institutions that supports the implementation of long-term development based on 3 aspects of orientation, namely profit, people and planet. At OJK, sustainable finance has 5 measures, namely achieving social and economic industrial excellence in the context of reducing the threat of global warming and preventing competitive environmental cases, promoting environmentally friendly investment in various business or economic zones, as well as contributing to the application of the principles Indonesia's 4P development principles (pro-growth, pro-jobs, pro-poor, and pro-environment).

The following is a roadmap for implementing Sustainable Finance in Indonesia :



Sources : Roadmap Keuangan Berkelanjutan Tahap II, OJK (2021)

The implementation of green banking is an effort to change the old paradigm of national development from a greedy economy to a green economy, where the greedy economy is seen from the Gross Domestic Product (GDP) value which results in the exploitation of natural resources. Meanwhile, green economy is economic growth that still pays attention to the 3Ps (people, profit and planet) as well as efforts in sustainable development (Andarsari, 2020).

3. Research Method

This activity is research with a qualitative approach so there is no determination of population or sampling (Suharsimi Arikunto, 2010: 28). It is called qualitative research because the data collected and the analysis is more qualitative in nature (Sugiyono, 2014: 8). Qualitative research is a research or investigation process to gain an in-depth understanding with a clear methodology which is usually used to explore or explore social and humanitarian issues.

Qualitative research is a process of inquiry into understanding based on different methodological traditions of inquiry that explore social or human issues. Researchers build

complex and holistic images, analyze words, report detailed views of information, and conduct research in a natural setting (John W. Creswell, 1997: 15)

With this approach, researchers go directly to the research location to produce descriptive data (Moleong, 2011: 3). Furthermore, the method used is descriptive evaluative. Where the data used is secondary data and was obtained through literature study. Furthermore, analysis of the findings was carried out based on the theory built in this research, namely based on SWOT analysis and based on the sustainability context as summarized in the concept of sustainable development goals (SDGs).

4. Result and Discussion

A. Strength

One of the strengths that Sharia banks have in implementing the green banking concept is the increasing intensity of sharia financial products in implementing green finance, one of which is green retail sukuk issued by the Ministry of Finance. The proceeds from this sukuk are used for environmentally friendly projects funded by the APBN. It was recorded that the ST-008 retail green sukuk series received 14,337 investors (44.1% of the millennial generation). Based on Climate Bonds Initiative data, the total collection of Indonesian Retail Green Sukuk funds carried out by the Ministry of Finance until the end of 2021 reached IDR 11.8 trillion (Source: <https://katadata.co.id/green-finance-di-indonesia>)

Furthermore, from an Islamic perspective, green banking activities have become a real rule before the concept of green banking existed, Islamic banks should have been at the forefront of implementing green banking. Especially in terms of financing, Islamic banks are quite selective in providing financing so that it is targeted and of course does not damage the environment. In sharia bank financing policies and operational procedures, the financing and investment screening mechanism determines the negative list of haram businesses such as alcohol, weapons, gambling, businesses that have an impact on threatening environmental sustainability (Febiola, 2023: 145)

Based on this study, it can be seen that the application of the green banking concept in sharia banks has sufficient strength to be applied over a long period of time in a sustainable context as conceptualized in the sustainable development goals (SDGs). Apart from that, the application of the green banking concept is very in accordance with the sharia economic

concept. So that normatively, the application of the green banking concept can be accounted for. Not only in the context of life in this world, but also in life in the afterlife. And Muslims also don't need to worry. with this concept because it is very in accordance with Islamic teachings

B. Weakness (Kelemahan)

The implementation of green banking is closely related to the development of environmentally friendly financing, especially in Indonesia. There are several weaknesses faced to date. Environmentally friendly banking practices have several weaknesses. One of the biggest challenges is the reluctance of banks to finance innovations aimed at reducing polluting activities, because this risks lowering the value of their position in the eyes of existing customers. Another disadvantage is the lack of clarity and understanding among banking customers regarding the impact of green banking practices on the bank itself. and potential increased costs.

Additionally, implementing green banking practices may require large investments and infrastructure changes, which could be detrimental to banks. Additionally, the transition to green banking can pose a dilemma for banks, as they must choose between supporting innovative and environmentally friendly companies in polluting industries or maintaining their relationships with existing customers (Sources: <https://typeset.io/questions/what-are-the-disadvantages-of-green-banking>)

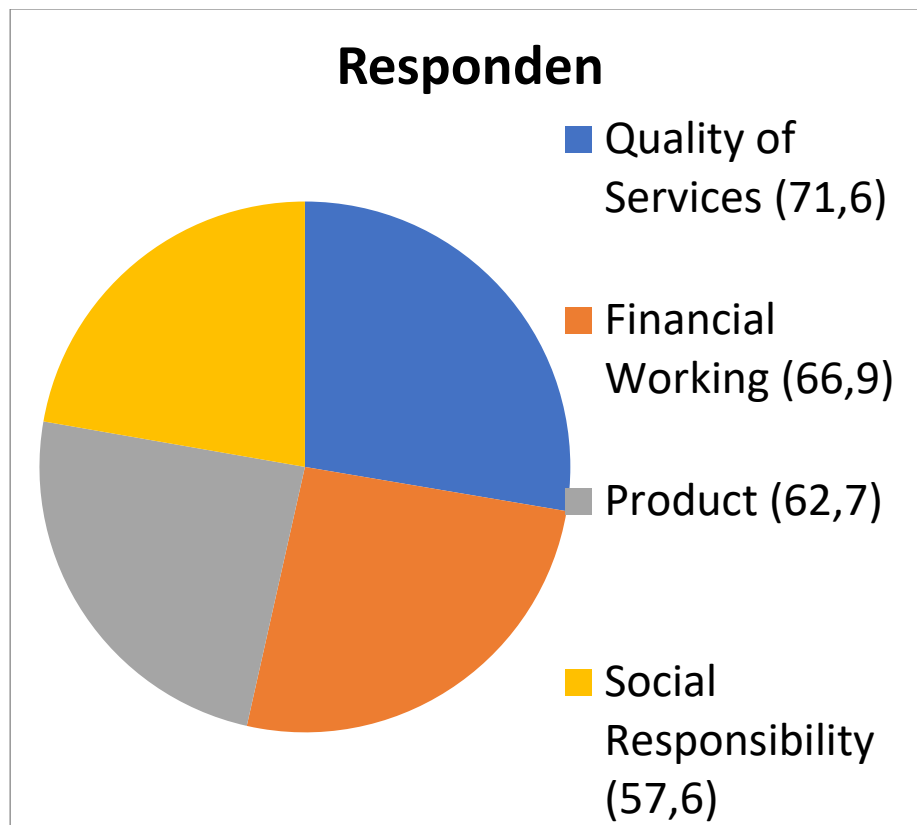
The next weakness is the general and fundamental weakness of sharia banks. Namely the problem of community socialization and literacy. People still have a tendency to equate Sharia banks with conventional banks. This is of course food for thought for sharia banks to popularize their existence. Apart from that, strategic steps are also needed to popularize the concept of green banking, which of course requires a lot of capital, because it must be supported by a digital system, the costs of which are still relatively expensive in the Indonesian context.

C. Oportunity (Peluang)

Based on a Katadata Insight Center (KIC) survey, it shows that the general public already has the initiative in using environmentally friendly products. An opinion poll conducted in the period 28 March - 4 April 2022 among 3105 respondents throughout Indonesia showed that the

public is trying to find information, choose, and have an understanding of the environmental impact of the products they use.

A total of 33.9 respondents admitted to considering a bank's reputation in the environmental sector. This figure is quite encouraging, although more people pay attention to service quality (71.6%), financial performance (66.9%), products (62.7%) and social responsibility (57.6%). In fact, the majority of respondents stated that green finance principles were important for them in choosing a bank, with an average score of 8 out of 10 regarding the level of importance of green finance principles (Sources : <https://katadata.co.id/green-finance-di-indonesia>)



Sources : (<https://katadata.co.id/green-finance-di-indonesia>)

This, of course, is an opportunity for sharia banks to implement the green banking concept. This is an opportunity for sharia banks to develop financial businesses that are oriented towards sustainable concepts. This concept is also in accordance with the guidance of Islamic teachings.

Especially in Indonesia, where the majority of the population is Muslim, there is also quite a big opportunity in implementing and developing green banking

D. Treath (Tantangan)

The implementation of green banking is closely related to the development of environmentally friendly financing, especially in Indonesia. There are several challenges faced to date. According to the Chairman of the Board of Commissioners of the Financial Services Authority (OJK), Muliaman D Hadad, there are at least five challenges faced in developing environmentally friendly financing. Some of these challenges include the following:

1. One, lack of capacity in financial institutions to identify social and environmental risks. In the end, financial institutions will have less awareness of these risks, as a consequence the risk mitigation process will be lacking.
2. Second, lack of awareness of financial institutions caused by high risks and lack of government incentives for environmentally friendly projects. Apart from that, there is no stakeholder consensus on the concepts of "green" and "non-green".
3. Third, there is a mismatch in the tempo of financing because environmentally friendly projects are usually long-term projects. While loans from banks are usually short-term loans.
4. Fourth, lack of information about environmentally friendly projects. The number of environmentally friendly projects is usually still insufficient and is only one phase of the business.
5. Fifth, the banking sector lacks capacity to support environmentally friendly projects due to the lack of popularity of these issues. According to him, Indonesia has realized the importance of green financing for the nation's welfare

(Sources : <https://infobanknews.com/ini-tantangan-pembiayaan-hijau-menurut-ojk/>)

Of these five challenges, it is homework for Sharia banks to improve and create special strategies so that the green banking concept can be implemented by Sharia banks in Indonesia. Considering that Sayari'ah bank also has the strength and opportunity to develop and implement this green banking concept. Because in the future, banking practices must consider the concept of sustainability as conceptualized in the sustainable development goals (SGDs) framework.

5 Conclusion

Based on the discussion above, regarding the application of the Green Banking concept to the Sharia Banking environment in Indonesia, the conclusions are as follows:

Sharia Banks have the strength to implement the Green Banking concept through sharia financial products which are increasingly aggressive in implementing green finance, such as green retail sukuk issued by the Ministry of Finance. Even though the implementation of Green Banking activities in sharia banking operations is still less than optimal, government attention and policies governing the implementation of Green Banking are very necessary to optimize banking contributions to efforts to protect and manage the environment. Sharia banks should be at the forefront of implementing Green Banking, especially in terms of selective financing so as not to damage the environment. The financing and investment screening mechanism determines a negative list of illicit businesses such as alcohol, weapons, gambling, and businesses that have an impact on environmental sustainability. The application of the Green Banking concept in Sharia Banks has sufficient strength to be applied over a long period of time in a sustainable context as conceptualized in the Sustainable Development Goals (SDGs) .

Thus, this evaluation shows that Sharia Banks in Indonesia have great potential to continue to develop and improve the application of the Green Banking concept to support efforts to protect the environment and sustainable development. Currently, green or environmental marketing has become a strategic marketing approach that is currently focused on in business (Ottman, 1998). Now, due to political and social pressures, non-profit companies are also adopting green marketing strategies, and over time they use environmental aspects as a source of competitive advantage (Chen, 2010).

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