



Analysis of Islamic Bank Financing Strategies to Create Green Banking (Case Study of BPD DIY Syariah)

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ABSTRACT

The issue of environmental degradation and pollution has become the center of attention in world economic forums since it is considered a problem with enormous negative impacts. The banking industry promotes "green banking," or the growth of environmentally friendly banks. This study analyzes Islamic Bank's financing strategies for creating green banking. This study uses a qualitative and descriptive analysis approach, using direct interviews with the bank BPD DIY Syariah employees. Meanwhile, data analysis uses data reduction patterns, presentation, and conclusion. The results show that the bank BPD DIY Syariah applies green banking indicators, including carbon emissions, green building, reuse/recycle/refurbish, and paperwork or paperless to create green banking. In addition, the bank BPD DIY Syariah seeks to mitigate risks in the social and environmental risk aspects of its financing distribution by paying attention to the ecological management efforts of prospective debtors and debtors, which can be seen from the fulfillment of environmental documents.

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Introduction

The World Economic Forum in its 2023 report placed the economy and environment as the world's main risks (WEF, 2023). The two are interrelated and it is believed that environmental damage caused by unsustainable industrial governance hurts the global economy. This is what encourages the strengthening of efforts to reconstruct development policies where there is a balance between efforts to encourage economic growth, social equity, and environmental preservation, known as the Green Economy. Along with the strengthening of world attention to environmental issues, the

concept was also adopted by the banking world through the concept of Green Banking or Green Bank (Park & Kim, 2020).

The term green banking has a broader scope than just green or related to environmental development but also includes community empowerment towards a better social life (Widyaningrum, 2020).

The banking industry is promoting 'green banking', or the environmentally friendly growth of banks. Many sectors of the economy use paper for operations that hurt the environment. As the level of paper usage soars, it becomes increasingly necessary to implement environmentally friendly practices, such as developing a green banking system in the banking industry, which indirectly affects Indonesia's ecology (Amellia et al., 2023). Through the use of green banking also called green financing, Islamic banks provide environmental protection. Banks carry out green banking to improve environmental standards to balance economic growth and environmental protection (Istiowati, 2018).

To encourage business continuity and sustainable development, Bank Syariah Indonesia strives to innovate in creating environmentally friendly goods and services (A. L. Puspita 2021). The latest innovation is the use of electronic banking systems including ATMs, online banking, and mobile banking. In addition, in the current era of digital finance, the Islamic banking industry can take advantage of these opportunities to grow and become a valuable industry both at home and abroad. The Islamic banking industry can utilize various avenues by offering innovative goods that provide many options and increase public awareness (P. L. Putri 2023).

The banking sector's participation in supporting environmental management (green banking) is in line with the law and mandated in Article 8 of Law No. 7 of 1992 on Banking as amended by Law No. 10 of 1998. The regulation is supported by the issuance of Law No. 32 of 2009 on Environmental Protection and Management (hereinafter referred to as UUPPLH). Law No. 10 of 1998 on Banking has links to the concept of green banking through several aspects, although not specifically. The link can be seen in Article 8 paragraph (1), which explains that Banks in providing credit or financing based on Islamic principles must pay attention to Environmental Impact Analysis (AMDAL), for large or high-risk companies so that the projects financed continue to preserve the environment.

Green banking is translated as a banking effort to prioritize the fulfillment of sustainability in its operational activities. Banks, directly, are not classified as high contributors to environmental pollution, for example, excessive use of paper, so electronic services, can reduce the use of paper (paperless) to reduce paper waste. Internet-based services, customers do not need to visit the

service office effectively and efficiently, thus reducing air pollution because there is no need to drive which emits carbon monoxide, so there is no air pollution (Sulistiyowati 2018).

The scope of green banking products includes green mortgages (green loans). Finance cards, green accounts, green CDs Green money market, mobile banking, online banking. The green banking strategy developed is to engage with key stakeholders and create awareness of environmental issues and their impact on the economy, environment, and society. Explain the business and environmental values and the need to green the bank's processes, products, and services. Conduct energy audits and review equipment purchasing and disposal policies and practices. Assess the environmental impact and cost of IT and identify areas to be 'greened' (Handajani, Rifai, and Husnan 2016).

In Indonesia, environmentally sound financial institutions (green banking) are beginning to emerge, for example in implementing that Environmental Impact Assessment (AMDAL) is an important part of the analysis of providing financing and concerning loan documentation, this can be seen in one of the Bank Indonesia Regulations No.7/2/PBI/2005 concerning the assessment of the quality of assets of commercial banks and Bank Indonesia Circular Letter No. 7/3/DPNP dated 31 January 2005 concerning Assessment of the Quality of Assets of Commercial Banks which, among others, regulates the need for commercial banks to pay attention to the efforts made by debtors to preserve the environment (Sulistiyowati, 2018).

SDGs (Sustainable Development Goals), and green banking have a close relationship because both aim to achieve sustainable development. Green banking is a banking practice that prioritizes investments in environmentally friendly and sustainable projects, in line with several SDGs such as poverty reduction, environmental sustainability, and inclusive economic growth. By promoting green investments and banking practices, green banking supports the achievement of the sustainable development goals set out in the SDGs.

One expert who links the SDGs with green banking is Dr John W. McArthur. He argues that environmentally-focused banking practices, such as green banking, can be an important tool for achieving some of the SDGs. In his view, investments and financing that support projects that contribute to sustainable development will help advance the overall SDG's agenda. An Islamic Economics observer at the University of Indonesia's Faculty of Economics and Business, (Yuniarti 2022), claims that 'Islamic banking can be superior in terms of ESG values and SDGs because it has cheap sources of funds. Such as those from Islamic social funds such as zakat and waqf. Wadiah savings also offer a free source of funds, by developing the right products and collaborating with

other stakeholders in the Islamic economic and financial ecosystem, Islamic banking can have a very good impact on the economy' (Rohman et al., 2024).

Bank BPD DIY Syariah has the potential to have a direct impact on the local community and environment. It provides an opportunity to learn how sustainable banking practices can be applied in a local context and how they can influence regional sustainability.

Method

This research uses qualitative methods and will be outlined in the Descriptive Analysis research method. The data collection technique in this study used interviews with employees of Bank BPD DIY Syariah. As for data analysis using data reduction patterns, data presentation, and conclusion drawing.

Result and Discussion

Bank BPD DIY Syariah has made an initial initiation by implementing an environmentally friendly banking system through the implementation of various activities that support environmentally friendly banking practices by implementing the six green banking indicators:

Table 4. 1 Implementation of Green Banking at Bank BPD DIY Syariah

No.	Indikator Green Banking	Yes	No
1	Carbon Emission	✓	
2	Green Rewards		✓
3	Green Building	✓	
4	Reuse/Recycle/Refurbish	✓	
5	PaperWork/Paperless	✓	
6	Green Investment		✓

Source: Data Processed 2024

From the table above, it can be seen that the application of green banking indicators has been well implemented, such as Carbon emission, Green Building, Reuse/Recycle/Refurbish, and PaperWork/Paperless. Bank BPD DIY Syariah is committed to efficient use of fuel to prevent carbon emissions caused by the remaining combustion of fuel in the vehicle engine. This is done as a form of Bank BPD DIY Syariah's efforts in implementing the concept of green banking in its operational activities. Bank BPD DIY Syariah strives for digitalisation in the financing application process. For example, having a Bank BPD DIY KU (Kawan Usaha) product for customers who want to make loans at Bank BPD DIY Syariah, in addition to the application, Bank BPD DIY Syariah also uses their official

website so that prospective customers can access easily and collect data digitally. This is one of the efforts to reduce carbon emissions and can protect the environmental ecosystem from air pollution from vehicles.

Bank BPD DIY Syariah has pursued the concept of green banking in its operational activities with the application of green banking indicators that are quite good. In its application, BPD DIY Syariah Bank has made efficient use of energy with the appeal of stickers to save electricity and use water as needed and instructions for using LED lights. In addition, Bank BPD DIY Syariah also makes efficient use of paper again for internal office operations, by utilising electronic letters that can be sent via e-mail, Bank BPD DIY Syariah has implemented the concept of paper work or paperless well, although in its application it is still not optimal so this needs to be considered and immediately resolved by implementing a file management system to support automation and can facilitate digital banking document management.

Bank BPD DIY Syariah makes it easy for customers to conduct financing by utilising applications such as Bank BPD DIY KU (Kawan Usaha) to make loans at Bank BPD DIY Syariah. In addition, Bank BPD DIY Syariah makes it easy to access the official website of Bank BPD DIY. So that this can make it easier for customers who want to make loans, but Bank BPD DIY Syariah must also provide data security guarantees to customers so that this digitalisation transition process can run well and have a good impact on sustainability in Indonesia. Then utilising internet technology for customer transaction activities is evidenced by the use of mobile banking so that this can save operational costs for Bank BPD DIY Syariah. This is in line with research conducted by Cania (2022) which says that electronic transactions not only help towards sustainability but also provide convenience for customers and banks.

When the Bank implements green banking, there are 3 benefits: Firstly, with green banking, all transactions are done with online banking, making it more paperless. Secondly, it increases the awareness of businesses on 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). The banking sector plays a role in providing distribution or provision of financing to prospective debtors by contributing to pay attention to important aspects to maintain the environmental ecosystem. As a financial service institution, banks are responsible for assessing not only the fulfilment of documents but also the environmentally friendly practices carried out by the sector, so that banks become more selective in providing financing, especially to sectors that support environmentally friendly practices.

The banking sector's participation in supporting environmental management (green banking) is in line with the law and mandated in Article 8 of Law No. 7 of 1992 on Banking as

amended by Law No. 1 of 1998. The regulation is supported by the issuance of Law No. 32 of 2009 on Environmental Protection and Management (hereinafter referred to as UUPPLH). Law No. 10 of 1998 on Banking has links to the concept of green banking through several aspects, although not specifically. The link can be seen from Article 8 paragraph (1), which explains that banks in providing credit or financing based on sharia principles must pay attention to Environmental Impact Analysis (AMDAL), for large or high-risk companies so that the projects financed continue to preserve the environment.

To expand the customer base and also provide an understanding of sustainable finance to consumers or prospective customers, education is also needed regarding what sustainable finance is and how. Bank BPD DIY Syariah provides information that education to customers has not been carried out but only applies provisions in fulfilling documents such as the existence of AMDAL (Environmental Impact Analysis) and the existence of NIB (Business Identification Number) which are mandatory requirements in providing or distributing financing.

Fulfilment of documents such as AMDAL is important for decision making on a business or activity planned for the environment in accordance with Government Regulation No. 27 of 1999 concerning Environmental Impact Analysis. Then in addition to AMDAL there is NIB (Business Identification Number) which must be owned by business actors, this refers to Government Regulation No. 24 of 2018 concerning Electronically Integrated Business Licensing Services. In the distribution of financing if based on the concept of green banking, the importance of social and environmental aspects is considered and reviewed from regulations related to green banking that the requirements in the financing credit itself are also required to include an assessment of environmental management, this can be seen in the environmental documents issued by the relevant agencies.

Connected to the results of research at BPD DIY Syariah Bank, the concept of green banking itself can be said to be a banking effort to mitigate the risks that occur in the future from the banking activities it undertakes, one of which is from the distribution of financing. This is one of the applications of the principle of risk management in banking itself by using environmental impact analysis so that it can see in terms of activities carried out by customers whether they have a detrimental impact on social and the environment, where by fulfilling documents related to the environment from the business or industry.

Of course, in the distribution of financing based on the concept of green banking, there is a classification of what kind of business is included in the sustainable category, and what financing products are in accordance with the concept of green banking. Bank BPD DIY Syariah testified that there is no business classification included in green banking, but the obligation of Bank BPD DIY Syariah to carry out and report this to the OJK already exists, such as financing electric vehicles is

one of the efforts of Bank BPD DIY Syariah to implement green banking in providing or distributing financing.

From the description of the results of the analysis above, it can be seen that Bank BPD DIY Syariah in channeling financing has carried it out in accordance with the concept of green banking, namely its implementation is evidenced by mitigating risks to the distribution of funds by paying attention to the results of environmental management efforts such as environmental documents where the environmental management efforts of debtors or prospective debtors are things that need to be considered from the results of the AMDAL in the form of environmental documents and every business actor must have an NIB (Business Identification Number) besides that, Bank BPD DIY Syariah also conducts a prudential pattern in channeling its funds to debtors who do not support or care about social and environmental aspects with clear evidence that the financing process is cancelled.

If BPD DIY Syariah Bank continues the financing, of course, there are many risks it will receive, starting from financing risk, by continuing the financing, of course, it will cause problem financing because the debtor cannot return the funds he has borrowed because operations are stopped because it causes losses to several parties. Islamic banking should be at the forefront of implementing green banking and green economy policies today. Green banking in Islamic banks is based on the strategy of financing environmentally friendly and socially friendly projects or businesses where the target is the maintenance of environmental sustainability and social stability of society. The principles of Islamic banking in green banking are as follows (Nasution 2018):

a. Adalah

Putting something only in its place, giving something only to the right and treating something only according to its share. In its support for green economy regulations, namely giving restrictions to companies to manage their waste or Islamic banking does not support the company's production. This is in accordance with the content of the objectives of environmental protection in Law No. 32 of 2009 in part:

- 1) Protect the territory of the Unitary State of the Republic of Indonesia from pollution or environmental damage;
- 2) To ensure safety, health and human life;
- 3) Ensure the continuity of life of living beings and the preservation of ecosystems;
- 4) Control the wise use of natural resources.

The application of the Adalah Principle in Islamic bank financing involves the conformity of products and transactions with Sharia principles, such as the prohibition of usury (interest), speculation and investment in prohibited businesses. This includes ensuring that each

transaction is clear and fair, avoiding elements of uncertainty and balancing risks between the parties involved.

b. Tawazun

The balance of material and spiritual aspects, private and public aspects, financial sector and real sector, business and social, and the balance of utilisation and sustainability aspects. In its support for green economy regulations, companies are limited in producing so as not to exploit. This is in accordance with the contents of the environmental conservation objectives in Law No. 32 of 2009 in the section on achieving harmony, harmony, and environmental balance. The principle of tawazun, or balance, in Islamic bank financing covers various aspects, including the balance between profit and risk, as well as the balance between the interests of customers, banks, and society as a whole.

- 1) Balance of Profit and Risk: Islamic banks must ensure that the financing they provide provides a reasonable profit for them as the provider of funds, but also takes into account the risks that may arise, both in terms of failure to repay by the borrower and other risks associated with this type of financing.
- 2) Balancing customer and bank interests: Islamic banks must ensure that the financing they offer is not only profitable for the bank as a provider of funds, but also takes into account the interests and needs of customers. This includes offering products and services that are Shari'ah-compliant and ensuring that the financing terms are not onerous for customers.
- 3) Balance with society: Islamic banks must also consider the social and economic impact of their activities. This includes ensuring that the financing they provide is not only profitable for customers and banks, but also provides benefits to society as a whole, such as creating jobs, supporting local economic development and promoting social justice.

By paying attention to this tawazun principle in their financing, Islamic banks can achieve an optimal balance between the various interests involved and make a positive contribution to society and the economy as a whole.

c. Mashlahah

All forms of goodness that have worldly and ukhrowi dimensions, material and spiritual as well as individual and collective, and must fulfil 3 elements, namely

- 1) Sharia compliance (Halal)
- 2) Usefulness
- 3) Bring good (tayyib)

With this Shariah principle in place, it provides support for not funding companies that produce goods that are not halal, bring harm and are not useful. This is in line with the content of

the environmental protection objectives in Law No. 32 of 2009 in the section on achieving sustainable development and anticipating global environmental issues.

The principle of Maslahah in Islamic banking refers to efforts to maximise the benefits to society. It is implemented in various ways, such as

- 1) Financing projects that have a positive impact on the community, such as infrastructure, education, and health.
- 2) Establishing microfinance programmes to support the development of small and medium enterprises, so as to improve the economic welfare of the community.
- 3) Implementing a fair and transparent profit sharing mechanism, thus ensuring fairness in profit sharing between the bank and customers.
- 4) Providing financial services that meet the needs of the community, including housing, vehicle, and working capital financing, on terms that are in accordance with sharia principles and provide long-term benefits for the recipients of the financing.

By consistently applying the maslahah principle, Islamic banks can ensure that their operations provide maximum benefits to society and are in accordance with sharia principles.

d. Alamiyah

Something that can be done and accepted by, with, and for all interested parties (stakeholders), without distinguishing ethnicity, religion, race, and class, in accordance with the spirit of universal hospitality (*rahmatan lil alamin*). This is in accordance with the contents of the environmental conservation objectives in Law No. 32 of 2009 in the section on preserving environmental functions.

The principle of naturalness in Islamic bank financing refers to natural principles, such as justice, togetherness, and economic imbalances that are considered unhealthy. In its application, Islamic banks endeavour to avoid usury (interest), support the principle of fairness in risk and profit sharing between banks and customers, and encourage economic activities that are in accordance with sharia principles, such as trade, investment, and productive financing that provide benefits to society as a whole.

e. Zalim

The transaction creates injustice for the other party, meaning that in the contract, one party determines more of the rights of the party in a strong position and less of its obligations to the other party, while the contract regulates more of the obligations of the other party in a weak position and less of its rights to the other party. This is in accordance with the content of the objectives of environmental conservation in Law No. 32 of 2009 in the section that guarantees the fulfillment of

justice for present and future generations, ensuring the fulfilment and protection of the right to the environment as part of human rights.

The application of the principle of *zalim* in environmentally friendly financing at Islamic banks involves avoiding all forms of oppression or exploitation of the environment and society. This means that the bank must ensure that its products and services do not harm the environment, but rather support environmental sustainability and community welfare. This can be achieved by ensuring that investments and financing made do not harm the environment, but rather promote environmentally friendly practices such as renewable energy, good waste management, and sustainable agricultural practices. In addition, banks must also ensure that their products and services provide fair and balanced benefits to all parties involved, without oppressing or exploiting any one party.

Conclusion

In implementing the Green Banking concept, Bank BPD DIY Syariah has made several efforts through the application of green banking indicators, such as utilising information technology in bank operations to minimise carbon emissions caused by vehicles. In addition, Bank BPD DIY Syariah also makes efforts in the form of efficient use of paper, efficient use of energy by making appeals to use electricity and water as needed, although there are several aspects that have not been fulfilled, namely green rewards and green investment.

Bank BPD DIY Syariah strives for the concept of green banking in its implementation in the form of financing distribution that pays attention to the efforts of a company that is committed to sustainability and takes big steps in environmental management. Efforts that can be made by Bank BPD DIY Syariah can be seen from environmental documents such as the fulfilment of AMDAL (Environmental Impact Analysis) documents and every business owner must have an NIB (Business Identification Number) issued by a related agency so that, if the prospective debtor does not complete the requirements for fulfilling these documents, Bank BPD DIY Syariah will firmly cancel the financing process.

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