

# IMPLICATIONS OF GREEN BANKING IMPLEMENTATION FOR BANK IN INDONESIA

Yennie Agustin M.R<sup>1</sup>, Hamzah<sup>2</sup>, Sunaryo<sup>3</sup>, Kasmawati<sup>4</sup>

<sup>1,2,3,4</sup> Faculty of Law, University of Lampung, Bandar Lampung, Indonesia

**Abstract—Bank must now focus on environmental protection, known as Green Banking in accordance with the regulations of the Financial Services Authority Regulation Number 51/POJK.03/2017. The challenge is how to implement the law and its implementation towards the banking change towards the concept of Green Banking. The legal implications of Green Banking regulation require banks to pay attention to environmental sustainability aspects and contribute to other sectors with similar objectives, in line with the government's agenda. Banks should avoid lending to businesses that have the potential to harm the environment, social, and governance. Current credit policies already consider environmental and social aspects by demanding environmental impact analysis and Public Disclosure Program for Environmental Compliance (PROPER) assessments, as well as monitoring environmental certifications such as the Indonesian Sustainable Palm Oil (ISPO) or the Roundtable on Sustainable Palm Oil (RSPO) for palm oil companies.**

**Index Terms—Sustainable Development, Environmental Law, Green Banking**

## I. INTRODUCTION

Banks are one of the financial institutions that play an important role in the country's economy. Banks can be a means of intermediation between parties who have excess funds with parties who need funds. The Bank also plays a role in making it easier for the public as bank customers to carry out various transactions through banking service products such as savings, time deposits, etc., and other service products. In addition, banking also plays a role in meeting the needs of business actors as a support for national development in order to realize economic equality as mentioned in Article 4 of Law Number 10 of 1998 concerning amendments to Law Number 7 of 1992 concerning Banking. Along with current global developments, each country is required to consider environmental sustainability with global awareness of the importance of sustainable development. [1] Economic activities carried out between customers or business actors and banks have a direct impact on environmental sustainability. Financing made by banks to business actors often does not consider the environmental impact arising from business activities carried out by these business actors who get financing sources from banks. Banks often do not realize that business actors who can carry out business activities because of financing assistance from banks have a negative impact on the environment. Therefore, banks in Indonesia are starting to care about environmental issues through the concept of Green Banking, which means that every credit given to the business sector must first consider a number of environmental criteria. In the credit application process, Green Bank must go through a selection process in terms of risk management policies so that the bank will process all risk impacts and risk prevention so that the loans provided are of accurate sustainability value which means that Green Banking is a concept of financial institutions that prioritize sustainability in conducting their business activities.[2]

The term Sustainable Development was first introduced by the United Nations Environment Programme (UNEP) which is based on meeting current needs but not sacrificing the needs of future generations. [3] Based on the results of the United Nations General Assembly decision No. A/RES/70/1,4 known as Sustainable Development Goals (SDGs) which contains 17 goals and 169 targets to promote sustainable development.[4] In the document, the United Nations Environment Programme (UNEP) defines that the Green Economy aims to improve human welfare and social justice but significantly reduce environmental risks. 5] Indonesia is committed and strives to reduce Greenhouse Gas emissions because Indonesia ratified the Paris Agreement through Law Number 16 of 2016. The Financial Services Authority also supports the implementation of the Paris Agreement through sustainable finance development by issuing Sustainable Finance Roadmap Phase I (2015-2019) and Phase II (2021-2025) which formulate principles and targets to be achieved in the long term related to environmental sustainability and sustainable development that must be complied with by banks.[6] In order to ensure legal certainty and commitment of financial institutions to this matter, the Financial Services Authority issued a legal instrument, namely the Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Application of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. Through the issuance of Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Application of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies by the Financial Services Authority, it requires all Financial Services Sectors to apply sustainable finance principles by submitting a Sustainable Finance Action Plan and Sustainability Report) submitted to the Financial Services Authority and the Community. Based

on Article 7 paragraph (1) of the Financial Services Authority Regulation, there are 3 (three) priorities for the implementation of Sustainable Finance, namely the development of Financial Service Products, Adjustment of Financial Service Institutions and Capacity Building of Financial Service Institutions to be in line with the principles of Sustainable Finance implementation. [7]

Based on the background description of the problem described above, the problems in this writing are; (1) How does the regulation on Green Banking affect banking practices in Indonesia? (2) How is the implementation of the Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Application of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies on the Application of the Green Banking concept to banking practices in Indonesia?

## II. RESEARCH METHODS

The research method used is a normative research method, using a statute approach related to the Implications of Green Banking Implementation for Banks in Indonesia. The statute approach is to examine matters concerning legal principles, legal views and doctrines, and laws and regulations related to the Implications of Green Banking Implementation on Banks in Indonesia, and accurate and accountable data. In addition, an in-depth examination of the legal facts is also held to then seek solutions to the problems that arise in the symptoms concerned.

## III. RESULTS AND DISCUSSION

### 1. The Effect of Green Banking Regulation on Banking Practices in Indonesia

Economic development policies that promote "growth first, environmental recovery later" can ultimately lead to higher costs in the future. This would undermine the principle of public interest. Business actors as part of development focus on the benefits that can be obtained in accordance with the characteristics of business entities. According to Roscoe Pound, individual interests are claims, demands, or desires that are directly involved in an individual's life and are expressed as rights from life itself. From this perspective, the interests of business actors are a collection of individual interests of shareholders who aim to achieve profits. [8] Currently, the need for business actors to obtain credit from banks does not only depend on achieving profits, but must also have a positive impact on society, especially the environment in which these business activities take place. The Bank is currently promoting this through its operations, and to support this banking policies and regulations are needed that support sustainable environmental conservation efforts. Bank Indonesia as the banking regulator has begun to mobilize awareness on this matter, encouraging banks to move towards an environmentally friendly direction in line with the Environmental Protection and Management Law. This law requires all sectors of the economy to contribute to maintaining environmental sustainability, with criminal sanctions or revocation of environmental permits for violators. Therefore, banks' lack of attention to this has the potential to increase credit, legal, and reputational risks. Banking support is needed in financing the energy sector and food security to achieve energy and food independence, and help reduce the impact of greenhouse gases. This can be extended to the service sector, transportation, industry, housing, creative economy products, or other strategic sectors that prioritize the principle of environmental sustainability. [9]

Based on Article 3 of Government Regulation Number 46 of 2017 concerning Environmental Economic Instruments, it indicates that these instruments include development planning and economic activities, environmental funding, and incentives or disincentives. Meanwhile, Article 42 in this regulation explains efforts to develop an environmentally friendly Financial Services Institution system, which includes aspects of financing that considers the environment, promotes legal compliance, and supports environmentally friendly investments. Green Banking practices were first adopted in Bank Indonesia Regulation Number 14/15/PBI/2012 concerning Asset Quality Assessment of Commercial Banks, which stipulates environmental assessment requirements by borrowers as part of credit criteria with the application of environmental impact analysis. After the establishment of the Financial Services Authority, Financial Services Authority Regulation Number 51/POJK.03 of 2017 concerning the Application of Sustainable Finance for Financial Service Institutions, Issuers and Public Companies was issued. The amendment from Bank Indonesia Regulation Number 14/15/PBI of 2012 to Financial Services Authority Regulation Number 51/POJK.03 of 2017 presents legal implications for Financial Service Institutions, both banking and non-banking, in implementing sustainable finance in their operations. Financial products or services offered must cover economic, social, and environmental aspects, in accordance with the information in Article 1 paragraph (11) of this regulation. This regulation affirms the obligation for banking institutions to apply the principles of sustainable development not only limited to lending, but also in all daily banking activities. This is reflected in Article 1 paragraph (8) which explains that sustainable finance is holistic support from the service sector to encourage sustainable economic growth by aligning economic, social, and environmental interests. [10]

The Financial Services Authority has issued Financial Services Authority Regulation Number 60/POJK.04/2017 concerning Environmentally Friendly Debt Securities (Green Bond) and KDK Number 24/KDK.01/2018 concerning Incentives for Reducing Levy Fees by 25% of the Registration Fee and Green Bond Registration Statement. This regulation also impacts the Bank's role in supporting and facilitating the issuance of green and sharia bonds directed at green infrastructure development and sustainable development in all sectors, which in turn will strengthen the capital market sector with a more environmentally friendly and sustainable approach. Data from the National Development Planning Agency shows that Indonesia needs investment of around Rp 67,803 trillion in the sustainable sector until 2030. This is an opportunity for the financial services industry to engage in sustainable finance, benefiting from global changes in investment as more investors become interested in green products. This regulation has resulted in green bonds worth USD 3.72 billion.

## **2. Implementation of Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Application of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies on the Application of Green Banking Concept in Banking Practices in Indonesia**

The close linkage between the banking sector and industry and other sectors is inseparable due to the need for financing in the form of credit aimed at advancing business activities and the economy as a whole. However, the industrial sector has the potential to cause negative impacts on the environment. This impact can arise due to the need for land or industrial raw materials which often results in damage to protected forest areas, excessive misuse of natural resources, and the use of non-renewable fossil energy. In addition, environmental pollution can also occur as a result of the production process that produces waste without proper management. Indonesia is one of the countries with the highest deforestation rates contributing greatly to carbon dioxide emissions and global climate change. Although efforts to stop deforestation are underway, it remains a challenge that is difficult to overcome so that the function of forests as a major component of ecosystems and biodiversity in the world is threatened. [11] Current banking policies must prioritize sustainability. Marcel Jeucken stated that a bank can be considered a Sustainable Bank if it sets certain qualitative standards as a guideline for all its activities to apply sustainability principles. In the context of offensive banking, sustainable activities may occur by chance or without specific targets, but in sustainable banking, all bank activities are directed deliberately towards the level of "sustainability". At this stage, internally, the bank meets environmentally friendly operational standards, while externally, it focuses on efforts to encourage and provide a boost for "sustainability" to customers and society at large. Before meeting sustainability operational standards, credit is given to parties who can enter into receivable debt agreements between lenders and loan recipients. [12]

In providing credit, there is a precautionary principle that must be followed, where this principle confirms that in carrying out their business functions and activities, banks must act prudently to protect the funds entrusted to them by the public. [13] According to Article 2 of the Banking Law, banks carry out their activities on the basis of economic democracy, apply prudential banking principles, and apply The Five C's of Credit Analysis (5C Principles) as described in Article 8 of the Banking Law. One of the evaluations in Green Banking credit analysis involves ensuring environmental preservation in accordance with the Environmental Protection and Management Law. This requires compliance with several requirements, including the obligation of every business activity to have an Environmental Impact Analysis and Environmental Management Efforts, as well as the acquisition of Environmental Permits. In addition, compliance with environmental quality standards and environmental damage criteria that have been determined is important. The obligation to have a permit for waste disposal into the environment, special treatment of waste resulting from business activities such as wastewater and hazardous and toxic waste, as well as proper management of hazardous materials are important parts. Also, if a business actor has plans to change his business activities, it is important to make changes in his Environmental Permit. [14] In the Banking Law, the general explanatory section contains the following statement: "The precautionary principle must be held closely, and aspects of banking activities need to be improved, especially in terms of disbursement of funds, including increasing the role of Environmental Impact Assessment for large or high-risk companies." Furthermore, in the general explanation in number 5 in Article 8 paragraph (1), it is stated: "In addition, banks in providing credit or financing in accordance with sharia principles must also consider the results of the Environmental Impact Assessment for large or high-risk companies, in order to ensure that the projects financed maintain environmental sustainability." [15]

One example in banking practices in Indonesia In order to achieve sustainable development goals, Bank Mandiri implements a Sustainable Finance Action Plan in accordance with the Financial Services Authority Regulation No. 51/POJK.03/2017. The Bank is active in sustainable financing activities that pay attention to Environmental, Social and Governance aspects by implementing policies related to Land Surface Temperature in every process. During 2021, Bank Mandiri has taken several concrete steps:[16]

- a. Conduct socialization and coordination with debtors to gradually meet environmental requirements.
- b. Require that the debtor submit an action plan and schedule for fulfillment of requirements.
- c. Monitoring with direct visits to the debtor's business location.

Bank Mandiri also encourages debtors to obtain certifications such as the Indonesian Sustainable Palm Oil (ISPO) or the Roundtable on Sustainable Palm Oil (RSPO). In 2021, 88% of debtors in the palm oil and Crude Palm Oil (CPO) plantation sector have obtained or are in the process of Sustainable Palm Oil (ISPO) certification, and all debtors (100%) have met the requirements of the Environmental Impact Assessment. A number of debtors also won the title of Public Disclosure Program for Environmental Compliance (PROPER) blue, green, or gold that year. The audit was conducted on 38 debtors in commercial segments such as coal mining, palm oil plantations, pulp and paper industry, and chemical industry. The results show that the debtor has complied with the requirements of the Environmental Impact Assessment, and the implementation of the Public Disclosure Program for Environmental Compliance (PROPER) has also been completed in 2021.

#### IV. CONCLUSION

Green Banking regulation has legal implications where banks are required to meet sustainable environmental aspects and apply sustainable development principles in lending, daily banking activities, and collaboration with other sectors that have similar objectives. This is part of an effort to support the government's vision related to sustainable development and environmental improvement in the future, as mandated by the Financial Services Authority Regulation Number 51/POJK.03 of 2017 concerning the Application of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. The implementation of the Financial Services Authority Regulation Number 51/POJK.03/2017 on the Green Banking concept adopted by Indonesian banks focuses on avoiding lending to businesses that have the potential to harm the environment, social, and governance. The bank's current credit policy covers environmental and social aspects by requiring an Environmental Impact Assessment and other environmental documents, as well as an evaluation of the results of the Public Disclosure Program for Environmental Compliance (PROPER). The Bank also actively monitors the process of obtaining environmental certifications such as the Indonesian Sustainable Palm Oil (ISPO) or the Roundtable on Sustainable Palm Oil (RSPO) for palm oil companies.

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