

Evaluation of the Implementation of the Green Banking Concept at Bank XYZ

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ABSTRACT

Indonesia is committed to Undang-Undang Nomor 16 Tahun 2016 concerning the Paris Agreement on Climate Change. To support this commitment, the role of banking, including Bank XYZ, is crucial in financing clean energy projects and other business sectors. Although Bank XYZ has shown growth in green financing since 2016, there are notes regarding financing in the coal sector between October 2018 and October 2020, as well as a decline in the ranking in the 2022 Bank Ranking Report. Therefore, an evaluation of the concept of green banking at Bank XYZ is needed to maintain its growth and ensure the effectiveness of its implementation from 2017 to 2022. This research employs a qualitative approach to analyze the implementation of green banking at Bank XYZ. The evaluation is conducted through interviews with the Risk Management Division and an analysis of sustainability reports using the Green Banking Disclosure Index (GBDI). Bank XYZ has proven to implement the concept of green banking transparently, but there are shortcomings such as a lack of transparency in sustainability budgeting, attention to debtors, internal controls, sustainability campaigns, and the use of renewable technology. This research is expected to enhance the quality of green banking implementation at Bank XYZ, support environmental preservation, and address existing weaknesses.

KEYWORDS *Green Banking; Green Banking Disclosure Index; Legitimasi; Scope; Stakeholder*



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INTRODUCTION

The banking sector plays an indirect role in supporting activities and activities that have an impact on the environment through the loans or financing it provides which can have positive or negative impacts. Banks are also institutions that the government can rely on in financing clean energy projects or distributing credit to various business sectors. The International Finance Corporation (IFC), which is part

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of the World Bank, revealed that green banking is a concept where banks carrying out their business are based on the principle of sustainable development, especially in terms of lending and financing, where in business practice it will produce company output, good corporate identity, competitive advantage and a strong brand image, green banking itself is based on four elements, namely nature, prosperity, economy, and society.

Green banking can be translated into a bank's efforts to fulfill sustainability in lending and operational activities (Schultz, 2010 (Shaumya & Arulrajah, 2016). Banking cannot be separated from reducing the quality of the environment. By providing financing or loans to customers, banks can also be a trigger for activities that can affect the environment (Handajani et al., 2019). Based on an article from the Financial Services Authority entitled Indonesia First Movers On Sustainable Banking, eight banks in Indonesia are First Movers on Sustainable Banking, namely Bank Mandiri, Bank BRI, Bank BNI, Bank Syariah Indonesia, Bank Muamalat, Bank Central Asia, Bank Artha International, and Bank BJB. As one of the members of the First Mover on Sustainable Banking, Bank XYZ is also increasingly emphasizing the importance of green banking practices in its operations. This bank has carried out various initiatives to be able to reduce negative impacts on the environment, such as financing renewable energy and trying to reduce greenhouse gas emissions. Bank environmental risks in banking operations. Green banking is considered a solution where operational activities do not hurt the environment. Banking needs to consider and pay attention to the sustainability of the internal and external environment, implementing green banking shows efforts to strengthen bank risk management capabilities, especially those related to the environment, and encourage banks to increase their environmentally friendly financing portfolio, such as renewable energy and organic agriculture (Mir & Bhat, 2022).

The implementation of the green banking concept at Bank XYZ is based on the fact that evaluation needs to be carried out. Evaluation is carried out as one of the efforts needed to maintain the growth and effectiveness of green banking implementation. Evaluation of the implementation of green banking was previously carried out by Ullah (2020) in his research entitled Green Banking in The Way of Sustainable Development: An Overview of Practice and Progress in Bangladesh. The results obtained from this research were that the concept of green banking was the most important. according to bankers and this is in line with the Islamic banking concept which supports social responsibility and saving resources. In Indonesia itself, in 2016, Lilik Handajani, et al (2019) also conducted research in the form of a Study on the Initiation of Green Banking Practices in State-Owned Banks by looking at green banking disclosures reflected in the bank's sustainability reports, the results showed that there was an increase in the disclosure index in the implementation of green banking. Previous research conducted by (Bai, 2011; Bose et al., 2018) also examined green economic practices, using the Green Banking Disclosure Index (GBDI) this research shows that the behavior of a bank in carrying out environmentally friendly behavior runs well based on the regulations made by the government, apart from that, environmentally friendly behavior by banks will increase interest from institutional investors and long-term shareholders, as well as

regulations and guidelines made by the Bangladesh government creating changes for companies.

Literature review

Legal basis

Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies. The application of sustainable finance principles in the financial institution system in Indonesia is an application of Law No. 32 of 2009 concerning Environmental Protection and Management, in order to be able to develop and apply environmental economic instruments in the banking, capital markets and non-bank financial industry. Apart from that, Presidential Decree No. 98 of 2021 is aimed at both domestic and international markets, if carbon trading occurs domestically, then the calculation of GHG emission reductions obtained by Indonesia will still be counted as Indonesia's contribution. In this case, the Financial Services Authority supports reducing the greenhouse effect through Financial Services Authority Regulation Number 51/POJK.03/2017, in this case the entire financial industry is required to make a sustainability report.

Stakeholders

Stakeholder theory or Stakeholder theory is a theory that explains that someone has the right to obtain justice from a company, even though the Stakeholder has a role that is not directly relevant, but a company must still fulfill its responsibilities to Stakeholders to be maintained. (Deegan, 2011). Apart from that, it was also explained that Stakeholder theory not only prioritizes profits for shareholders but can also carry out relationship management with stakeholders, so it can be interpreted that Stakeholder theory has real social relationships. Apart from that, companies are required to be able to contribute to the environment, follow regulations, and be committed to improving company performance (Freeman, 1984 in Friedman and Miles, 2006).

Legitimacy

Legitimacy theory is a theory that explains that a company must have a social relationship with the surrounding environment, both natural and social (Arifin et al., 2012 in Mumlahanah and Septiani, 2017). In legitimacy theory, a sustainable organization has many ways to ensure its operational activities by carrying out activities in accordance with applicable boundaries and norms. In legitimacy theory, it will provide a framework for thinking about the importance of legitimacy for Stakeholders in the company. Legitimacy itself is a state of partiality by some people towards environmental phenomena, whether physical or non-physical, so that legitimacy also changes over time and conditions (Dowling, 1975 in Hadi, 2009)

Green Banking

Based on the IFC, the definition of green banking, if interpreted, is a concept where banking companies in carrying out their operations need to adhere to the principles of sustainable development, such as in lending and financing, so that in business practice it will produce a credible company, good corporate identity, competitive advantage, and a strong good name, and green banking itself is based on four elements, namely nature, prosperity, economy and society (Haryanto, 2014;

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Kulsum & Huda, 2018; Lako, 2015). Paying attention to environmental aspects when considering decisions, banks will be able to reduce negative impacts on the environment that impact bank operations and when carrying out financing (Nurmalia, 2021). According to the Financial Services Authority, a bank is a business entity that collects funds from the public and channels them back to the community in the form of credit and/or other forms in order to improve people's standard of living. Banks as companies cannot be separated from efforts to make their companies green companies. A green company is a company whose vision, mission, goals, strategic direction, management structure and business processes always synergize and integrate its economic interests with the interests of society and the environment, to create justice for the next generation. In that sense, companies are urged not to overexploit communities, natural resources and the environment. Companies are required to be able to run their business efficiently, effectively, and with social and ecological justice (eco-efficiency, eco-effectiveness, eco-justice) so as to create business sustainability and company profits in the long term (Lako, 2015).

Implementation of Green Banking

Understanding and how to implement green banking, Bank XYZ as the research object in this case has implemented the green banking concept, then Bank Concept of Scope which specifically looks at the emissions side. The results of this identification will be analyzed regarding the implementation of green banking at Bank XYZ. This evaluation will then describe how the implementation of the green banking concept of Bank XYZ is assessed and will be able to create criticism and suggestions for Bank Apart from that, the implementation of green banking can be carried out through a company greening strategy, namely the company needs to green its vision, mission, goals and targets to be more sensitive to social and environmental issues, providing strategic direction in green business (Nurmalia, 2021). In addition, adjustments to the management structure and functions, including the development of a new structure under the main director, will ensure the company's effectiveness in becoming environmentally friendly. Management processes must always consider social and environmental issues to create long-term balance. Corporate accountability and information transparency can be improved through social and environmental responsibility and the presentation of integrated accounting information (Uddin & Ahmmed, 2018).

Green Banking Disclosure Index

The Green Banking Disclosure Index (GBDI) is used to measure disclosures made by banks related to environmentally friendly activities and consists of 21 information items. (Bose et al; 2018). Using a content analysis method that is consistent with the disclosure literature which contains a list of components that make up the GBDI is based on disclosing environmentally friendly banking activities which ensures its validity (Yuniarti, 2013).

Concept of Scope

Based on the book The Greenhouse Gas Protocol published by the World Business Council, to manage emissions, comprehensive operational limits are needed in relation to direct and indirect emissions which will help companies better manage existing emissions risks and opportunities. In this case, Scope is used to

help differentiate direct and indirect emission sources, can increase transparency and provide benefits for various organizations as well as various types of climate policies and business objectives.

RESEARCH METHOD

Data Collection

The data used in this research is primary data sourced from interviews and secondary data sourced from sustainability reports and Bank XYZ policies, with a research period from 2017-2022. These two data collection methods were carried out to identify and collect information related to the indicators in the Green Banking Disclosure Index. The Green Banking Disclosure Index is used to evaluate implementation based on disclosures made by banks related to environmentally friendly activities and consists of 21 items of information. The population in this research is Bank XYZ a financial institution that implements the green banking concept. The sample used is secondary data contained in Bank XYZ, such as sustainability reports and Bank XYZ policies with a research period from 2017-2022. Meanwhile, the sample used in this research used data collection methods to identify and collect information related to the indicators in the Green Banking Disclosure Index (Moleong, 2017).

Green Banking Disclosure Index

The Green Banking Disclosure Index (GBDI) here is used as an initial basis to determine the extent to which Bank XYZ implements green banking based on information related to the implementation of the green banking concept in the sustainability report and policies of Bank Based on the disclosures that have been analyzed, a score of 1 will be given if the information contained in each indicator in the GBDI is disclosed, otherwise a score of 0 will be given.

Interview

Interviews are used to strengthen or increase the knowledge required in this research, as well as obtain results that can add to the analysis process in this research. This interview was obtained from 1 participant in the Bank's Risk Management Division who was selected based on authority in implementing and controlling the implementation of the green banking concept. The questions in the interview were created and developed based on 21 GBDI items and the interview was conducted using a Zoom call on October 19, 2023.

This research explains the meaning and how to implement green banking, Bank XYZ as the research object in this case has implemented the green banking concept, and then Bank strengthened through the Concept of Scope which specifically looks at the emissions side. The results of this identification will be analyzed regarding the implementation of green banking at Bank XYZ. This evaluation will then describe how the implementation of the green banking concept of Bank XYZ is assessed and will be able to create criticism and suggestions for Bank

Data analysis method

This research is a qualitative analysis research, using primary data and secondary data. Researchers will identify the implementation of the green banking concept that has been carried out by the Bank After this information has been collected, Evaluation of the Implementation of the Green Banking Concept at Bank XYZ

the researcher will carry out an analysis of the evaluation achievements carried out by the Bank

Scope 1: These are direct emissions that occur based on sources owned or controlled by the company.

Scope 2: View emissions based on electricity consumption used by the company, as well as other services used by the company.

Scope 3: This is an optional category originating from external sources of the company which is a consequence of activities but not from things owned by the company or controlled by the company.

The final analysis was carried out to formulate conclusions and suggestions in this research.

RESULT AND DISCUSSION

Table 1. Emission-Related GBDI

GBDI	Definition	Classification
3	Reduction of paper waste by encouraging internal communication via email, use of double-sided printing, and recycled paper	Scope 3
6	Information relating to energy conservation in carrying out business operations such as saving electricity through the application of energy-saving lamps	Scope 1 & Scope 2
7	Information regarding steps to reduce climate change and reduce emissions	Scope 1 & Scope 3

Table 1 provides an overview of Emission-Related Global Business Data Indicator (GBDI), outlining definitions and classifications for each indicator. GBDI 3 focuses on the reduction of paper waste by promoting internal communication through email, advocating for double-sided printing, and incorporating recycled paper. This falls under Scope 3 emissions. GBDI 6 pertains to information related to energy conservation in business operations, emphasizing electricity savings through the use of energy-efficient lamps. This indicator is classified under both Scope 1 and Scope 2 emissions. Lastly, GBDI 7 provides information on initiatives aimed at reducing climate change impact and lowering emissions, falling within both Scope 1 and Scope 3 emissions classifications. The table serves as a concise reference for understanding the definitions and classifications associated with these emission-related GBDis.

DISCUSSION

Identify Sustainability Reports and Other Policies

Identification of sustainability reports and other policies is carried out to see the progress of implementing the Green Banking concept carried out by Bank XYZ. The bank will be given a score of 1 if it has implemented the green banking concept as seen from the disclosure of information contained in each indicator in GBDI, if

not it will be given a score of 0, then the total score is expressed as a ratio of total disclosures measured from the maximum possible disclosures. , and the results will be shown in percentage form. The GBDI value will later show the level of environmentally friendly activities carried out by banks.

Green Banking Disclosure Index and Interviews

The Green Banking Disclosure Index (GBDI) is used as an initial basis to determine the extent to which Bank XYZ has implemented green banking. This is known based on information related to the implementation of the green banking concept in the sustainability report and policies of the Bank.

Interviews are used to strengthen or increase the knowledge required in this research, as well as obtain results that can add to the analysis process in this research. The interview was conducted with 1 participant in the Bank's Risk Management Division who was selected based on authority to implement and control the implementation of the green banking concept. The questions in the interview were created and developed based on 21 GBDI items, and the interview was conducted using a Zoom call on October 19, 2023.

From these two methods, researchers divided the 21 items in the GBDI into several categories, namely Management, Governance, Products, People, Technology, and Awards so that the discussion of the findings of this research will be more focused according to the categories. Bank XYZ has implemented the Green Banking concept through its policies vision and mission, covering financing and operational aspects. The vision of "Being the Best Financial Institution in Sustainable Service and Performance" is realized through strategic objectives, including carrying out business operations by combining economic, social, and environmental protection aspects. In achieving this goal, Bank XYZ established an ESG Department which is under the ERM Division, responsible for the ESG framework and programs.

In the financing aspect, Bank XYZ applies Risk Acceptance Criteria (RAC) by considering ESG aspects in assessing debtors. Programs such as Sustainable Linked Loans (SLL) provide incentives to debtors who care about the environment. Bank XYZ also created a savings product with waste, where the waste saved becomes a financial deposit for customers. In operational policy, Bank XYZ uses technology to reduce paper use through an e-office system and tries renewable energy such as PLTS. Efforts to save water and reduce official cars are also being implemented. Employees are encouraged to reduce the use of plastic bottled drinking water. Bank XYZ has carried out CSR activities, including tree planting and environmental awareness seminars. Disclosure of information related to Green Banking in sustainability reports tends to be stagnant, although there has been a certain increase in 2018 and 2022. Some information, such as budgets, rewards to debtors, and green branch arrangements, has not been fully disclosed.

However, Bank XYZ needs to increase transparency by being more open regarding the actual amount spent on Green Banking activities and climate change funds. Information about awards to debtors should also be disclosed in the Evaluation of the Implementation of the Green Banking Concept at Bank XYZ

sustainability report to provide a more complete picture to stakeholders. Emphasis on disclosure trends which have tended to be stagnant over the last 6 years can be a concern for improving the quality and depth of information presented in sustainability reports.

Furthermore, to see the direct and indirect relationship between emissions management carried out by Bank XYZ is based on the scope concept published by the World Business Council, so researchers will divide GBDI items related to emissions into 3 scopes. The result it can be seen that not all items in the GBDI can be grouped into scope, this is because the scope only explains emissions. Emissions released by financial institutions are not very large, for example, the use of motorized vehicles during business trips or debtor visits, the use of electricity company services, and the processing of waste paper using the services of other companies. From its implementation, Bank Until the time this research was conducted, XYZ had not yet reported emissions using the scope concept approach as a method for reporting emissions produced based on activities carried out by Bank XYZ.

CONCLUSION

Based on the analysis that has been carried out previously, it can be seen that in general the information on the implementation of green banking from Bank XYZ has been carried out transparently so that every stakeholder can know every activity carried out by the Bank - regulations that have been set by the government in implementing the green banking concept and contributing to the government's target of achieving net zero, which is in line with legitimacy theory and stakeholder theory. Based on information obtained from the interview session with the Enterprise Risk Management Division, it was found that Bank life, initiatives from Bank XYZ in waste processing, as well as awards obtained by Bank XYZ. However, it can also be seen that there are shortcomings mentioned in carrying out sustainability activities, such as environmentally friendly campaigns which are still only available in large buildings, of which there are only 3 buildings in Indonesia, the lack of use of ATMs as a sustainability promotion tool because they are only used for products. commercial products from the Bank - whether the branch office is in effect or not and the branch office has not implemented optimal use of technology such as e-sign in the process of signing letters and decisions because regional and branch offices still often use paper in making letters and decisions. Based on the analysis of the scope concept, it was found that the Bank as a financial institution, currently has not yet carried out measurements related to emissions resulting from all operational activities using a scope approach.

Further research can be carried out at other financial institutions to measure how the green banking concept is implemented or perhaps more than one research object can be used. Future research can look for other indicators that can be used to obtain maximum research results. Further research can also use more regulations or rules that have been developed by the government, such as the Green Taxonomy, which at the time of this research was still in the development process.

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