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Green Banking Concept Implementation in Banking Credit Governance in Indonesia: Comparison Between Indonesia and China

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Abstract.
Environmental issues nowadays are becoming the world's attention. Banks are now transforming their business activities as well as minimizing them on the environment. This concept is called the green banking concept. However, in Indonesia, there is no adequate regulation yet on the implementation of green banking, especially in banking credit governance. On the other hand, China has a green credit policy which has now become a guideline to ensure that loan applications and investments are considering environmental management and protection. The objective of this policy issuance is to encourage green credit among financial institutions in China.

Keywords: green banking, sustainable finance, credit governance

1. INTRODUCTION

The impact of environmental contamination and pollution nowadays is increasingly dangerous. The global health crisis is also getting severe, referring to data from the World Health Organization (WHO) every year more than 7,000,000 (seven million) people die due to environmental contamination and pollution [1]. For that reason, environmental issues have now become crucial global issues along with the classic agenda in international politics, i.e., security and economic issues [2].

The world's attention is now directed to environmental issues. As the attention to environmental issues is increasing, banks nowadays are transforming their activities and their business conduct. A green economy concept, which essentially drives every economic activity to minimize its impact on the environment, has also been adopted by the banking sector [3]. The green economy movement in the banking sector is adopted through the green banking concept, which is defined as "the operational activities of a bank that are environmentally friendly, have responsibility and performance towards the environment and consider aspects of environmental protection in running businesses" [4]. By considering aspects of environmental protection in making business decisions, banks can minimize the adverse impact of their operational activities, which is beneficial to banks in their effort to pursue corporate social responsibility and achieve sustainability [4 p. 2]. Masukujjaman and Aktar further define green banking as "an eco-friendly or environmentally friendly bank, which avoids environmental damage so that the earth becomes a habitable place to live in by providing innovative green products to support the green banking initiative". Meanwhile, the United Nations Environment Programme (UNEP) defines green economy/green banking as "one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities" [1 p. 234].

Green banking is based on the principle of strengthening the capability in risk management, especially risks pertaining to the environment, and encouraging banks to increase their environmentally friendly financing portfolio [5]. Choudhury stated that "banks should implement 'going green' practices and play a proactive role in protecting the environment for functional improvement and changing the habits of bank customers in their transactions". The use of appropriate environmental technology and the implementation of good business management systems will not only benefit the environment, but they will also benefit the efficiency of banks [6].

In Indonesia, there is no adequate regulation yet on the implementation of green banking [7]. In Law No. 10 of 1998 on the Amendment to Law No. 7 of 1992 on Banking (Banking Law), there is not a single article that explicitly regulates the obligation for banks to include environmental management and protection in their operations. However, it is implicitly outlined in Article 4 of the Banking Law states that banks in Indonesia aim to perform national development to achieve national stability towards the improvement of the people's welfare [7 p. 132-133]. In addition, the Banking Law implicitly includes the obligation to implement green banking for banks in Indonesia, as elaborated in the Elucidation of Article 8 paragraph (1) point 5, which essentially states that "banks in extending credit or financing based on the sharia principles must consider to the results of an Environmental Impact Analysis (locally abbreviated as AMDAL) required to be conducted by large-scale and/or high-risk companies in order that the project being financed maintains environmental preservation" [8]. The Elucidation stated above is basically the origination of the application of green banking practices, especially in the credit or financing governance in banks in Indonesia. However, there is no provision on the rules on the extension of credits incorporating the green banking concept in banks in Indonesia.

In this matter, this paper aims to review the implementation of the concept of green banking in Indonesia, the implementation of the concept of green banking in the credit governance in banks in Indonesia, and the implementation of the green banking concept in the extension of credit governance in China.

2. METHODOLOGY

This research used the normative legal research method, in which the research is based on the analysis of principles or norms of the positive law. According to Bismar Nasution, normative legal research is research that refers to legal norms in laws and regulations and court decisions [9]. The approach used in this research is a statute approach. The data collection method used in this research is library research [10]. It is because this research is normative legal research that is suitable to use library research. The data analysis method used in this study is an analysis using the qualitative approach. For normative legal research, the qualitative approach is used to resolve the legal issues put forward. The result to be achieved is to provide a description of what should be. Therefore, this research analysis is prescriptive, because it studies the intrinsic characteristics of law, which is law as a value system and law as a social norm [11].

3. RESULTS AND DISCUSSIONS

Banks play a role that greatly influences a country's economic activity. So to speak, banks are the blood of a country's economy. The progress of a country can be measured by the progress of banks in such country. The greater banks' role in a country, the more developed the country. In other words, the banking sector's existence is more and more needed by the government and the general public [12].

A bank is basically defined as a business entity that takes in funds from people in the form of savings and lends them to the people to improve their standard of living [13]. The main function of banks in an economy is to mobilize public funds and to channel these funds appropriately and quickly for efficient and effective use or investment. The function can be said to be the "blood flow" for economic development and improvement of the standard of living [14]. This is in line with Article 4 of the Banking law which states that a bank aims to support the national development for the improvement of equity, economic growth, and national stability towards increasing the welfare of the people [15].

For such reason, it is necessary to make efforts to ensure that changes in the environment do not disturb the balance in the relationship between the environment and humans. Recognizing the need to manage and protect the environment to create a balanced and harmonious environment to support sustainable development, Indonesia should develop and preserve the environment to continue to be a source of support for the Indonesian nation and people as well as other living things [8 p. 104].

To preserve the environment, the green economy concept continues to be promoted. In the banking sector, there is also a term called green banking. Essentially, the green banking concept is more than just carrying out "going green" activities. According to the World Bank, a green bank is a financial institution that provides "sustainability" as a priority in its business practices and a bank that implements green banking will generate corporate outputs, competitive advantage, good corporate identity, and a strong branding image in achieving the company targets [5 p. 141-142].

In the digital era, banks in Indonesia have adopted the green banking concept by introducing the paperless concept and IT-based bank services to their customers in almost every part of their administration. The introduction of the paperless concept and IT-based bank services is one of the efforts of banks in Indonesia to embody the green banking concept and promote the role of the bank as a company responsible for achieving sustainable development [4 p. 2].

Not only that, in November 2015, the Indonesian Financial Services Authority (OJK) conducted a pilot project program "the First Movers on Sustainable Banking" [16]. 8 (eight) large banks in Indonesia committed to be the first movers in sustainable banking. This commitment was manifested in a pilot project called "the first step to becoming a sustainable bank". The 8 (eight) banks were Bank Mandiri, BNI, BRI, BCA, BRI Syariah, Bank Muamalat, BJB, and Bank Artha Graha Internasional. The purpose of the pilot project program was to encourage banks in Indonesia to prepare their competency to achieve the objectives in the Sustainable Finance Roadmap Phase I in Indonesia carried out in 2015-2019. The competency was the bank's ability to align environmental, social, and governance (ESG) aspects in its business decisions [17].

For 18 (eighteen) months from January 2016, all banks participating in the pilot project program were assisted by the OJK and the World Wide Fund for Nature Indonesia (WWF Indonesia) in applying sustainable banking practices, that involved the development of a policy framework on the environmental, social and governance (ESG) integration as follows: [17]

1. The identification of the current ESG integration;
2. The determination of targets of ESG integration;
3. The development and integration of a sustainable banking policy framework at the corporate level;
4. The formation of a policy on those persons responsible for the loans in the palm oil sector.

With regard to the implementation of the pilot project, OJK issued a regulation on sustainable finance. The regulation is OJK Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (OJK Regulation No. 51/2017). The background of the regulation was to increase the competitiveness and resilience of financial service institutions, issuers, and public companies in managing better social and environmental risks [16].

Sustainable finance is comprehensive support from financial service institutions to create sustainable economic growth by harmonizing economic, social, and environmental interests. The implementation of sustainable finance has its challenges, including how to convince the financial service actors and the general public that the efforts to generate profits will be better if they consider the natural resources and social impacts on the people [18]. The banking industry that is aware of environmental management and sustainability will generate higher profits, because nowadays people are increasingly aware of the importance of preserving the environment and it influences their decisions in investing [19]. Hence, this initiative will alter the financial service actors' mindset from chasing short-term profits to long-term prosperity [18 p. 14].

Phase I of the Sustainable Finance Roadmap has generated some initiatives which have become the foundation for altering the financial service businesses' mindset. First, OJK introduces 8 (eight) principles of sustainable finance, which are the main considerations among financial service actors in developing their business activities. Second, OJK obliges financial service businesses to prepare a report on the application of ESG principles in business plans and the obligation to submit a report to the public on the application of these ESG principles. Third, OJK has developed a category of sustainable business activities which later become a reference for grouping the green sector in the financial industry to increase the service portfolio in the development of sustainable finance [18 p. 15].

One of the banks that has implemented the sustainable finance concept is BRI Syariah. The business development of BRI Syariah is performed by referring to the sustainable finance concept applied by BRI, its parent company. The principles of sustainable finance implemented by BRI Syariah are as follows: [20]

1. Having a policy that emphasizes that credit will only be extended to business sectors that are environmentally friendly and certified in the management of their environmental impact analysis;
2. Not extending/providing credit/financing to businesses that damage the environment;
3. Managing the company's operations efficiently and in a manner that is environmentally friendly and not damaging the environment.

In 2018, BRI Syariah also prepared the implementation of sustainable financing as outlined in OJK Regulation No. 51/2017, carried out through a sustainable financing implementation roadmap based on the following principles: [20 p. 67]

1. Responsible investment principle;
2. Sustainable business strategies and practices principle;
3. Management of social and environmental risks principle;
4. Governance principle;
5. Informative communication principle;
6. Inclusiveness principle;
7. Development of priority leading sectors principle;
8. Coordination and collaboration principle.

The concept of sustainable finance implemented by BRI Syariah is BRI's initiative to embody the green banking concept in its banking credit governance. In reality, Indonesia does not have specific regulations on the governance of credit for banks to apply the values of green banking. On the other hand, China has a green credit policy. One of the programs of the green credit policy orders banks in China to restrict loans to industries that produce heavy pollution. Banks in China also offer diverse interest rates to lenders depending on their environmental performance. If any environmental damage occurs, then banks in China are allowed to withdraw the loan that has been given to the lenders [21]. One of the banks that has already implemented this program is the Industrial and Commercial Bank of China (ICBC). ICBC provides loans with management measures and with different categories. For example, a lender who damages the environment will face his loan being downgraded to the category of rectification. If that event occurs, the lender then requires to resolve the environmental damage issue as early as possible or the lender requires to comply with an early loan repayment request [22].

This green credit policy was issued in 2007. Such policy was formulated by the Ministry of Environmental Protection, the China Banking Regulatory Commission, and the People's Bank of China. The objective of the green credit policy issuance was to ensure banks in China divert loans to companies that are environmentally friendly and reduce emissions, instead of companies that contribute high pollution. This policy became the base for the formulation of sustainable banking in China. Moreover, the policy became the basis for the issuance of 2012 green credit guidelines in China. The guidelines applied to almost all banks in China. In 2014, such green credit guidelines then were improved with an evaluation and monitoring system establishment for green credit. As set forth in the document of policy, the guidelines were formulated and developed based on the Banking Industry Regulation and Administration Law of China and the Commercial Banking Law of China. The goal of the guidelines is to encourage green credit among financial institutions in China. Since 2007, banks in China are pushed to assess environmental risks in loan applications. To enable it, the guidelines were issued in 2012. Based on the guidelines, banks in China should integrate sustainability into their banking credit practices. The final step, in the 2014 guidelines, banks in China obliges to provide loan report in 12 green sectors based on international sustainability standards [21 p. 6].

In Indonesia, only the Elucidation of Article 8 paragraph (1) point 5 of the Banking Law reflects the embodiment of the green banking concept on bank credit governance. The absence of other regulations shows that law reform is required in banking credit governance in Indonesia. In line with the theory of law reform, law reform is essentially a reform of basic thoughts – often also understood as a reform of basic concepts or ideas – not merely changing the textual formulation of provisions. Even though the textual presentation cannot be ignored, the basic value behind the text is the priority. In other words, in law reform, it is the reform of values that takes precedence, since the substance of law is the value. Law is actually a description of a value system. It is not a series of dead and empty words. Therefore, no matter how eloquent and good the textual presentation is, law cannot be given the quality of law, if it does not contain and does not embody a value system [23]. In this case, a law that is created as the result of the law reform process can be used as the standard of conduct for the general public [24].

With the issuance of this new regulation, it is expected that the regulation will become the guidelines for banks in Indonesia in carrying out their banking credit governance by considering the aspects of environmental management and protection so that banks in Indonesia can actualize the green banking concept in banking credit governance in the future.

4. CONCLUSION AND RECOMMENDATION

Banks in Indonesia have adopted the green banking concept by introducing the paperless concept and IT-based bank services in almost every part of their administration. Not only that, banks in Indonesia have also implemented the pilot project which is conducted by OJK. By implementing such pilot project, banks in Indonesia require to apply ESG principles in their businesses. However, Indonesia has no adequate regulation yet on the implementation of green banking, especially in banking credit governance. Only the Elucidation of Article 8 paragraph (1) point 5 of the Banking Law reflects the embodiment of the green banking concept on bank credit governance.

The absence of other regulations shows that law reform is required in banking credit governance in Indonesia. In this instance, Indonesia shall issue a new regulation in banking credit governance that consider the ESG principles. With the new regulation, it is expected that the regulation will become the guidelines for banks in Indonesia in carrying out their banking credit governance by considering the aspects of environmental management and protection so that banks in Indonesia can actualize the green banking concept in banking credit governance in the future.

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