

Disclosure of the Proportion and Classification of Green Credit in the Indonesian Banking Sector

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Abstract—This study aims to look at the portion and classification of green lending based on the provisions of the Indonesian financial services authority regulations. This research was conducted on banks that have provided green credit since 2018. The classification of green credit financing consists of 11 classifications. The results of the analysis of the green credit portion of total credit show that BRI bank has the largest portion, namely 57.34% (2019) and 63.88% (2020). The results of further analysis show that the largest portion of green credit is in the classification of MSME activities. Meanwhile, the least green credit financing is financing for climate change adaptation and Land and Water Biodiversity Conservation. The test results show that the low portion of green credit outside of MSME activities indicates a tendency for low environmental-friendly business activities or there is a possibility that the credit requirements proposed by environmentally sound companies to banks are still appropriate. Further research is expected to add to the identification of profiles of environmentally sound companies in Indonesia so that two points of view can be found between banking and environmentally sound companies.

Keywords—greenn credit, sustainable finance, sustainable development goals

I. INTRODUCTION

Climate change in the form of global warming requires every country to adapt to it. Climate change and increasing financial resilience against climate change risks in a country require an important role for banks. The role of banks in financing the transition to a green economy is to open up private investment, bridge supply and demand while considering the entire spectrum of risks and to evaluate projects from an economic and environmental perspective [1].

One of the roles of banks in reducing the risk of climate change is to support activities that can reduce the impact of climate change through funding of green projects or so-called green credits. Although several banks around the world have started to fund and provide green credit, the results of the International Finance Corporation (IFC) research show that the green banking portfolio is still low. This can be seen from the total green lending and bank credit in developing countries to the private sector in 2016 to around USD 1.5 trillion, or about

7% of the total claims to the private sector in emerging markets [2,3].

Barriers for low green credit portfolio can include a lack of the necessary regulatory and supervisory framework and a failure to integrate environmental and climate change risks into bank risk management strategies and systems [4]. In addition, the current financial framework often makes it difficult to meet the required investments due to sectoral and institutional barriers [5].

In response to the lack of regulatory and supervisory frameworks, a growing number of central banks and regulators around the world are becoming aware of their potential role and mandate in addressing climate change and environmental risks faced by the banking and financial sector and taking action [6].

Indonesia as one of the developing countries that supports a green credit portfolio in 2017 has issued regulations regarding the gradual application of green credit in all banks in Indonesia through the Financial Services Authority regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies [7]. The regulation is a guide for banks in determining the green credit classification. In addition, the regulation clearly states that banks are required to distribute green credit with gradual implementation according to the type of banking based on the bank's core capital.

Based on the explanation above, this article is intended to analyse the application of green credit in Indonesia which has been started since 2017. Testing on the application of green credit is carried out by looking at the portion of green credit from each bank. The test results are expected to be an illustration of whether green credit rules have encouraged banks to provide green credit.

II. LITERATURE REVIEW

Some of the benefits that can be taken for banks when providing green credit are as follows [8]:

- Banking can play a role in protecting the environment

- Green banking focuses on safety and social security through changing negative impacts on society.
- Investments or loans will be made based on consideration of risk factors related to environmental conditions.
- Creating a suitable atmosphere inside and outside the bank.
- Reducing costs and energy by saving funds and increasing a country's GDP.

Thus, green credit is considered as part of the green economy. Through green credit, banks can indirectly protect the environment by creating perceptions from companies as lenders to increase their production efficiency towards environmental protection [9] as well as on environmental and social issues, to promote them to implement environmentally friendly projects [10].

III. RESEARCH METHODS

This research was conducted by analysing the portion of green credit listed in the banking sustainability report. Therefore, the sample in this study is banks that already have a green credit portion and are included in the banking sustainability report. The number of final samples obtained in this study were 16 samples with details of 8 banking samples in 2019 and 8 banking samples in 2020.

IV. RESULTS AND DISCUSSION

The results of the descriptive analysis in this study are shown in Table 1 below:

TABLE I. GREEN CREDIT DISTRIBUTION TO TOTAL CREDIT

Bank's	Year	
	2019	2020
Bank Rakyat Indonesia	57.34%	63.88%
Bank Mandiri	16.33%	21.90%
Bank Negara Indonesia	41.20%	41.20%
Bank Danamon Indonesia	0.71%	0.97%
Bank Central Asia	19.82%	22.10%
Bank CIMB Niaga	50.22%	28.68%
Bank OCBC NISP	23.79%	26.17%
Bank Mega	23.30%	26.20%

Source: Sustainability Report

The results of the analysis of the green credit portion of total credit show that BRI bank has the largest portion, namely 57.34% (2019) and 63.88% (2020). The results of further analysis show that the largest portion of green credit is in the classification of MSME activities. Meanwhile, the least green credit financing is financing for climate change adaptation and Land and Water Biodiversity Conservation. This can be explained in the table below:

TABLE II. NUMBER OF GREEN CREDIT BANKS BASED ON CRITERIA

Green Credit Classification	2019	2020
Renewable Energy	22,773.80	24,282.74
Energy Efficiency	1,946.30	5,038.88
Land and Water Biodiversity Conservation	64,715.14	100,447.36
Green Transportation	21,465.00	24,614.32
Water and Waste Treatment	3,311.00	20,020.18
Eco-Efficient Product	16,350.00	20,311.62
Green Building	7,394.85	7,027.45
Micro, Small, and Medium Enterprise	692,887.18	714,560.36
Other Business with Environmental Insights	13,589.29	560,163.77
Pollution Prevention	2,708.10	2,526.00
Corporation	42,649.00	48,810.00
Commercial	1,066.00	1,020.00
Toll road	2,945.00	2,915.00
Electricity	1,457.00	1,690.00
Train	1,096.00	1,955.00
Airport and Port	1,923.00	2,855.00
Drinking water and sanitation	1,014.00	1,014.00
Green Credit Total	899,290.66	1,539,251.68

Based on Table 2, it can also be seen that the number of green loans disbursed by banks for 2 consecutive years has increased from 899,290 billion in 2019 to 1.53 trillion in 2020. This has shown that banks that have implemented green credit already have good commitment to this increase.

V. CONCLUSIONS AND RECOMMENDATIONS

The test results show that the low portion of green credit outside of MSME activities indicates a low tendency for environmentally friendly business activities or there is a possibility that the credit requirements proposed by environmentally sound companies to banks are still appropriate. In addition, there is an additional cost to issue green financing, which is higher than ordinary financing because it requires auditors, certification, and others. Further research is expected to add to the identification of profiles of environmentally sound companies in Indonesia so that two perspectives can be found between banking and environmentally sound companies.

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