Check for updates

Sustainable Syariah Banking: BSI's Role in Supporting Renewable Energy Projects in Indonesia

Nasywa Asmawir

Hasanuddin University, Makassar, Indonesia

Asmawirn23a@student.unhas.ac.id

Abstract. This research delves into how Bank Syariah Indonesia (BSI) plays a role in backing energy projects as a part of its commitment to sustainable banking principles. Through the introduction of financial solutions BSI has made significant contributions to enhancing Indonesia's renewable energy industry by financing projects like solar power facilities and wind farms. The study investigates BSIs approaches in advancing finance while tackling the hurdles and prospects in Indonesia's Islamic banking domain. Challenges such as loopholes and limited public awareness stand out as barriers hindering the complete adoption of sustainable banking practices. The results underscore how Islamic banks can contribute to advancing environmental goals by working with policymakers and stakeholders, in Indonesia, to promote a sustainable future for the country.

Keywords: Awareness, Banking, Initiatives, Sustainability, Regulation.

1 Introduction

The issue of development has gained importance on a global scale with a focus on the banking sector playing a crucial role in endorsing eco-friendly practices. In Indonesia's landscape specifically lies the potential for banking growth, like Bank Syariah Indonesia to actively participate in advancing the nations sustainability initiatives [1]. This study addresses the gap in existing research regarding the role of Islamic banks, specifically Bank Syariah Indonesia (BSI), in promoting renewable energy projects in Indonesia. While prior studies have discussed the general adoption of sustainable banking, there is limited research on the specific contributions and challenges faced by Islamic banking institutions in this domain [1], [2]. This study contributes to the literature by exploring the strategies BSI employs to support sustainable energy initiatives, identifying barriers such as regulatory challenges and limited public awareness, and proposing solutions to enhance its role in advancing Indonesia's renewable energy sector.

By addressing these gaps, this research not only provides insights into the practical strategies of BSI in supporting renewable energy but also enhances the understanding of how Islamic banking can align with sustainability objectives within a complex regulatory environment. These findings have implications for policymakers, banking

© The Author(s) 2025
M. Nohong et al. (eds.), *Proceedings of the 9th International Conference on Accounting, Management, and Economics 2024 (ICAME 2024)*, Advances in Economics, Business and Management Research 331,
https://doi.org/10.2991/978-94-6463-758-8_238

practitioners, and scholars interested in the intersection of Islamic finance and sustainable development.

2 Literature Review

2.1 Sustainable Banking and Green Banking Initiatives in Indonesia

The concept of green banking has recently gained attention within the global banking sector, with nations like Bangladesh leading the charge in adopting green finance goals [1]. However, in Indonesia, the implementation of such banking practices remains in the early stages. Traditionally, the banking industry in Indonesia has focused primarily on financial accountability and prioritizing profitability for its investors.

Despite the slow pace of progress, there is a growing recognition within the banking industry, including Islamic banks, of the importance of incorporating sustainability into their operations. Recent studies highlight the potential for Islamic banks to play a pivotal role in promoting eco-friendly finance and supporting sustainable development in Indonesia. These studies suggest that Islamic banks have a unique advantage in embedding social and environmental considerations into their lending practices, as their principles are closely aligned with values and societal responsibilities.

2.2 Bank Syariah Indonesia's Initiatives in Supporting Renewable Energy Projects

Being a Shariah compliant bank in Indonesia means that Bank Syariah Indonesia is actively working towards supporting development objectives by introducing eco-friendly banking measures, like creating financial solutions tailored for renewable energy projects.

Bank Syariah Indonesia clearly demonstrates its dedication to supporting energy ventures by providing assistance for solar power wind energy projects and biofuel initiatives throughout Indonesia [1][2][3]. Moreover, the bank has collaborated closely with the Indonesian government and various partners to aid in the nation's shift towards energy resources.

Bank Syariah Indonesia recently supported the building of a 50 megawatt solar energy facility, in East Java to help enhance the region's energy infrastructure growth. The bank also played a role in funding a wind farm project in South Sulawesi to show its dedication to expanding Indonesia's energy sources and decreasing reliance on fuels.

Bank Syariah Indonesia has not provided support but has also initiated educational programs and awareness drives to advocate for sustainable banking habits, among both clients and the general public They aim to promote the adoption of eco-friendly borrowing and investment strategies with the goal of boosting the renewable energy industry in Indonesia in the long run.

2.3 Challenges and Opportunities in Sustainable Syariah Banking

Bank Syariah Indonesia's commendable initiatives to back energy projects are noteworthy; however, both the bank and the Islamic banking sector in Indonesia encounter hurdles in seamlessly incorporating sustainability into their operations.

Developments in banking pose a challenge due to the requirement for enhanced regulatory and policy frameworks to bolster such practices effectively [4]. While Indonesia has initiated efforts towards development promotion; a broader spectrum of regulations and incentives might be necessary to motivate banks to give emphasis to social considerations, in their lending and investment choices.

Furthermore, a lack of knowledge and comprehension, among the public about the significance of banking may impede the uptake of eco banking practices. To address this issue, Bank Syariah Indonesia and other Islamic banks in Indonesia should focus on implementing financial education initiatives and involving their clients to increase awareness and advocate for the advantages of banking.

2.4 The Role of Institutional and Stakeholder Theories in Sustainable Banking

Incorporating Institutional Theory, this study examines how external pressures and regulatory frameworks influence Bank Syariah Indonesia's involvement in renewable energy financing. According to this theory, organizations are shaped by social and regulatory norms, which drive them to adopt practices that align with societal expectations [3]. This perspective is particularly relevant in the context of BSI's efforts to navigate Indonesia's regulatory environment while advancing its renewable energy initiatives.

Additionally, the study draws on Stakeholder Theory, which emphasizes the importance of addressing the needs of various stakeholders, including government entities, customers, and the community, in implementing sustainable banking practices [4]. Stakeholder Theory suggests that BSI's strategic decisions must consider the expectations of these diverse groups, balancing profit objectives with societal responsibilities. These theories provide a framework for understanding how BSI aligns its strategies with both external pressures and internal motivations, offering insights into the underlying dynamics of its sustainable banking initiatives.

Despite the increasing interest in sustainable banking, there remains a lack of comprehensive studies focusing on the role of Islamic banks in supporting specific sectors like renewable energy. Existing literature has primarily addressed the challenges and benefits of green banking initiatives in a general sense but has not delved deeply into the unique dynamics faced by Islamic banks like BSI in the Indonesian context [3], [4]. Most notably, the interplay between Shariah compliance and the push for sustainability remains underexplored, creating a critical gap in understanding how Islamic banks navigate regulatory constraints while pursuing green finance objectives. This study addresses this gap by exploring how BSI's adherence to Shariah principles interacts with its sustainability objectives, offering insights into the operational and strategic challenges in promoting green finance.

3 Methodology

This study employs a qualitative approach, drawing on secondary data collected from a variety of sources, such as academic journals, industry reports, and government documents. The focus of this research is on analyzing the role of Bank Syariah Indonesia in advancing renewable energy projects within Indonesia, with an emphasis on the bank's initiatives, challenges, and opportunities in the context of sustainable Shariah banking.

The analysis is structured around the following research questions:

- What are the key initiatives and contributions of Bank Syariah Indonesia in supporting renewable energy projects in Indonesia?
- What challenges and opportunities do Bank Syariah Indonesia and the Islamic banking sector encounter in promoting sustainable banking practices in Indonesia?

This study utilizes a combination of secondary sources to offer a comprehensive understanding of the subject matter.

4 Findings and Discussion

Bank Syariah Indonesia has been instrumental in backing energy initiatives in Indonesia according to studies by [1][7][8]. The financial institution has provided funding for the establishment of power facilities and wind farms which have supported the growth of sustainable energy structures within the nation.

An illustrative instance involves the bank's participation in the development of a 50 megawatt solar power facility in East Java[2]. The initiative is funded via a Shariah financial arrangement and aims to deliver sustainable and eco-friendly energy to numerous households within the area.

Bank Syariah Indonesia has not provided financial support but has also introduced programs to advocate for sustainable banking practices within its customer base and the general public. These programs are designed to promote the adoption of eco lending and investment strategies that will help foster the development of the renewable energy industry in Indonesia[2].

Despite all the work put in far; the Islamic banking industry in Indonesia encounters several obstacles when it comes to fully embracing sustainability in its day to day operations. A key hurdle lies in the requirement for robust regulatory and policy structures to endorse sustainable banking methods[2].

While the Indonesian authorities have made efforts to support development initiatives, a broader range of regulations and incentives might be necessary to motivate banks to place greater emphasis on environmental and social considerations when making lending and investment choices.

One more hurdle is the knowledge and comprehension within the broader community regarding the significance of sustainable banking practices. To tackle this concern effectively in Indonesia at Bank Syariah Indonesia and other Islamic financial institutions entails allocating resources towards educational initiatives, on financial literacy and involving clients to enhance understanding while advocating for the advantages of sustainable banking principles.

5 Results

Bank Syariah Indonesia has been actively involved in backing energy initiatives in Indonesia by providing financial support for the establishment of solar power facilities and wind farms to bolster the growth of sustainable energy infrastructure, within the nation[9].

Bank Syariah Indonesia has not just provided financing directly. Has also introduced programs to encourage sustainable banking practices among its customers and the community at large. These efforts focus on promoting friendly lending and investment strategies that support the development of renewable energy in Indonesia according to research [1][5]

Yet the Islamic banking industry in Indonesia encounters obstacles when it comes to incorporating sustainability into their operations completely; this includes the requirement for additional enhancement of regulatory and policy structures to promote sustainable banking practices and a lack of awareness and comprehension, among the public regarding the significance of sustainable banking.

6 Conclusion

Islamic banking institutions in Indonesia like Bank Syariah Indonesia have shown advancements in backing renewable energy initiatives and advocating for sustainable banking approaches. Their efforts through funding projects and sustainable banking schemes have played a role in enhancing the renewable energy framework, across the nation and fostering greater acceptance of eco-friendly lending and investment strategies.

The Islamic banking industry in Indonesia encounters various obstacles when it comes to fully embracing sustainability, in their practices. To address these hurdles effectively involves implementing an extensive set of regulations and specific policy initiatives alongside enhancing public awareness on the matter.

By engaging in sustainable banking practices and collaborating with various partners from both public and private sectors in Indonesia’s financial landscape, Bank Syariah Indonesia and other Islamic banks have the opportunity to significantly contribute to the nations efforts, towards a greener and more sustainable future [10][11]

7 References

R. Rahmayati, S. Mujiatun, and M. Sari, "Islamic Green Banking At Bank Pembangunan Daerah In Indonesia," *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)*, vol. 5, no. 1, pp. 74–93, Jan. 2022, doi: 10.31538/iijse.v5i1.1850.

U. Volz, J. Böhnke, V. Eidt, L. Knierim, K. Richert, and G.-M. Roeber, *Financing the Green Transformation*. London: Palgrave Macmillan UK, 2015. doi: 10.1057/9781137486127.

P. DiMaggio and W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review*, vol. 48, no. 2, p. 147-160, 1983.

R. E. Freeman, "Strategic Management: A Stakeholder Approach". Boston: Pitman, 1984.

F. Arinal, H. Herdis, and A. S. Putri, "Green Banking and Infrastructure Project Financing for Sustainable Development," *E3S Web of Conferences*, vol. 73, p. 10001, Dec. 2018, doi: 10.1051/e3sconf/20187310001.

A. Ahamat, "Is Islamic Banking and Finance Doing Enough? Shaping the Sustainable and Socially Responsible Investment Community," *Asian Soc Sci*, vol. 13, no. 3, pp. 170–170, Feb. 2017, doi: 10.5539/ass.v13n3p170.

Prisylia Putri, Iwan Fakhruddin, Suryo Budi Santos, and Nur Isna Inayati, "The Effect of Sharia Supervisiory Board Size and the Health Ratio of Bank Sharia to Profitability," *Indonesian Journal of Business Analytics*, vol. 3, no. 3, pp. 681–700, Jun. 2023, doi: 10.55927/ijba.v3i3.2426.

S. Anggraini and F. Muhammad Iqbal, "Analisis Pengaruh Green Banking Terhadap Profitabilitas Bank Umum Syariah Indonesia," *Journal of Business Management and Islamic Banking*, vol. 1, no. 1, pp. 73–88, Aug. 2022, doi: 10.14421/jbmib.2022.011-05.

U. Volz, J. Böhnke, V. Eidt, L. Knierim, K. Richert, and G.-M. Roeber, "Empirical Analysis of Supply of and Demand for Green Finance in Indonesia," in *Financing the Green Transformation*, London: Palgrave Macmillan UK, 2015, pp. 56–94. doi: 10.1057/9781137486127_4.

S. Aliyu, M. K. Hassan, R. Mohd Yusof, and N. Naiimi, "Islamic Banking Sustainability: A Review of Literature and Directions for Future Research," *Emerging Markets Finance and Trade*, pp. 1–31, Dec. 2016, doi: 10.1080/1540496X.2016.1262761.

I. Siswanti, A. Risman, F. Elmi, * M., and F. Cahaya, "THE ROLE OF THE SHARIA SUPERVISORY BOARD (SSB) IN MODERATING THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN INDONESIA," *The International Journal of Accounting and Business Society*, vol. 29, no. 1, pp. 35–56, Apr. 2021, doi: 10.21776/ub.ijabs.2021.29.1.3.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (http://creativecommons.org/licenses/by-nc/4.0/), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.