

Green Banking A Perspective of Indonesian Sharia Banking: Between Regulation, Ethics, and Sustainability

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Abstrak

Krisis iklim menempatkan sektor perbankan pada posisi strategis sebagai pengendali alokasi modal yang berdampak langsung terhadap keberlanjutan lingkungan. Penelitian ini bertujuan menganalisis implementasi green banking dalam perbankan syariah Indonesia dengan menelaah relasi antara regulasi, etika Maqasid al-Shariah, dan kinerja keberlanjutan. Penelitian menggunakan pendekatan kualitatif-kritis dengan desain socio-legal dan analisis institusional terhadap regulasi, laporan keberlanjutan, serta praktik pembiayaan Bank Umum Syariah periode 2019–2024. Hasil penelitian menunjukkan bahwa *green banking* di perbankan syariah Indonesia masih bersifat simbolik dan berorientasi kepatuhan formal terhadap regulasi, tanpa transformasi substantif pada portofolio pembiayaan berisiko lingkungan. Etika Maqasid al-Shariah, khususnya prinsip Hifz al-Bi'ah, belum dioperasionalkan secara sistematis dalam pengambilan keputusan pembiayaan. Keberlanjutan diperlakukan sebagai eksternalitas, sementara keuangan sosial Islam terfragmentasi dari strategi green banking. Penelitian ini menegaskan perlunya reformulasi green banking berbasis tata kelola syariah yang mengikat, integrasi etika ekologis Islam, dan penguatan peran keuangan sosial Islam. Kontribusi penelitian ini terletak pada tawaran kerangka konseptual green banking syariah yang kontekstual, etis, dan berorientasi dampak.

Kata kunci: Green Banking, Perbankan Syariah, Maqasid al-Shariah, ESG, Keberlanjutan

Abstract

The climate crisis places the banking sector in a strategic position as a key allocator of capital with direct environmental consequences. This study examines the implementation of green banking in Indonesian Islamic banking by critically exploring the interaction between regulation, Maqasid al-Shariah ethics, and sustainability performance. The research employs a qualitative-critical approach with a socio-legal and institutional analysis of regulations, sustainability reports, and financing practices of Islamic commercial banks from 2019 to 2024. The findings reveal that green banking practices in Indonesian Islamic banks remain largely symbolic and compliance-driven, lacking substantive transformation in environmentally risky financing portfolios. Maqasid al-Shariah ethics, particularly the principle of Hifz al-Bi'ah (environmental protection), are

insufficiently operationalized in financing decisions. Sustainability is treated as an external obligation, while Islamic social finance instruments remain fragmented from green banking strategies. This study highlights the urgent need for a binding Shariah-based governance framework, the operationalization of Islamic ecological ethics, and the integration of Islamic social finance into green banking. The contribution of this research lies in proposing a contextual and impact-oriented conceptual framework for Shariah-based green banking in Indonesia.

Keywords: Green Banking, Islamic Banking, Maqasid al-Shariah, ESG, Sustainability

Pendahuluan

The global climate crisis has shifted from an ecological discourse to a systemic risk threatening national financial stability, with the banking sector in developing countries playing a significant role in accelerating or halting environmental degradation through financing policies (Islam et al., 2025). Indonesia ranks among the three most vulnerable countries to climate risk in Asia and remains the largest emitter in Southeast Asia due to intensive financing of extractive and carbon-based sectors (Yudaruddin & Che Yahya, 2025). In the past five years, national banking credit expansion has been dominated by the fossil fuel and emission-intensive agribusiness sectors, while the share of green financing has been below 10 percent of the total financing portfolio (Pratomo & Kurniawan, 2024). This phenomenon highlights the gap between banks' claimed sustainability commitments and the reality of financing practices that remain environmentally exploitative (Kharisma et al., 2026).

Indonesian Islamic banking is normatively built on the maqāsid al-sharī'ah (Islamic principles), which place benefit and prevention of harm as fundamental principles of economic activity (Nurbaidah & Hasan, 2026). The principle of environmental protection has strong theological legitimacy through the concept of *hifz al-bī'ah*, which should make Islamic banks the primary actors in sustainable financial transformation (Amiruddin et al., 2024). Data from the past five years actually shows that the contribution of green financing by Islamic banks still lags behind that of conventional banks, both in terms of volume, instrument complexity, and the courage to mitigate climate risks (Widiyanti & Hanifah, 2025). This disconnect indicates a crisis of ethical praxis in Islamic banking, which is trapped in religious symbolism without the structural courage to correct the direction of financing (Alkindi & Utami, 2025).

Sustainable finance regulations through POJK No. 51/2017 signal the government's recognition of the urgency of green banking. However, its implementation in Islamic banking remains administrative in nature and lacks coercive power (Silalahi et al., 2023). The absence of substantive sanctions and environmental performance-based incentive schemes has made Islamic banks' compliance more focused on reporting than on financing portfolio transformation (Abdullah & Haron, 2022). Empirical evaluations over the past five years have shown that Islamic banks' sustainability reports tend to be repetitive, normative, and not directly linked to reducing environmental risks from core financing activities (Adirestuty & Ratnasari, 2025). This situation opens up space for greenwashing practices, legitimized by lax regulations and fragmented oversight (Kharisma et al., 2026).

The adoption of global ESG standards such as the GRI and TCFD by Islamic banks presents an epistemic paradox because these frameworks are born from secular market rationality, which is not fully compatible with Islamic ethics (Abdullah & Haron, 2022). Recent studies have shown that Islamic banks have failed to integrate zakat, waqf, and Islamic social financing into

formal ESG metrics, resulting in fragmented social and ecological impacts (Sulistiyowati & Anam, 2025). High ESG compliance costs also encourage Islamic bank management to prioritize short-term profit stability over long-term ethical transformation (Islam et al., 2025). This tension highlights the latent conflict between capital rationality and the moral mandate of Sharia in green banking practices (Nasution & Harahap, 2022).

Empirical findings over the past five years have shown contradictory results regarding the relationship between green banking and the profitability of Islamic banks in Indonesia (Alkindi & Utami, 2025). Several studies note that green financing has not had a significant impact on ROA and ROE due to high risk perceptions and low green financial literacy among customers (Yudaruddin & Che Yahya, 2025). Islamic banks' financing portfolios also remain absent from non-CO₂ emission mitigation sectors such as waste management and low-methane agriculture, which are crucial for national climate targets (Pratomo & Kurniawan, 2024). This fact indicates that Islamic banks' green banking strategies are still superficial and have not yet addressed the underlying emission structure (Widiyanti & Hanifah, 2025).

Current literature is dominated by conceptual studies and partial analyses that separate regulation, sharia ethics, and sustainability performance without an integrative framework (Nurbaidah & Hasan, 2026). There is virtually no longitudinal research examining the relationship between sharia governance quality, regulatory compliance, and measurable environmental impact in Indonesian Islamic banking (Yuspin et al., 2025). The absence of operational and cross-country comparable Sharia ESG metrics creates ambiguity in Islamic banks' sustainability claims (Abdullah & Haron, 2022). The novelty of this research lies in its attempt to formulate a green banking framework based on *maqāṣid al-sharī'ah* (the principles of sharia) integrated with regulations and measurable sustainability indicators (Amiruddin et al., 2024).

This research has strategic urgency because the inconsistency between regulations, Islamic ethics, and green banking practices has the potential to undermine the moral legitimacy of Islamic banking amid the climate crisis (Islam et al., 2025). Without a robust integrative framework, Islamic banking risks being reduced to a replica of conventional banking with religious cosmetics (Nasution & Harahap, 2022). This study is expected to strengthen the position of Islamic banks as credible and accountable actors in ecological transformation within Indonesia's Net Zero Emission agenda (Widiyanti & Hanifah, 2025). This critical approach positions sustainability not as a business complement, but as an ethical test of the existence of Islamic banking itself (Nurbaidah & Hasan, 2026).

Research methods

This study uses a qualitative-critical approach with a socio-legal and institutional analysis design to examine green banking practices in Indonesian Islamic banking through the intersection of regulation, sharia ethics, and sustainability. This approach was chosen to explore how legal norms (POJK Sustainable Finance), the principles of *maqāṣid al-sharī'ah*, and global ESG standards are produced, adopted, and negotiated in the institutional practices of Islamic Commercial Banks. The analysis focuses on the tension between regulatory and ethical rationality that shapes green financing policies. Data sources consist of primary and secondary data. Primary data were obtained through in-depth semi-structured interviews with regulators (OJK), members of the Sharia Supervisory Board, risk management, and sustainability units of Islamic banks. Secondary data include Islamic bank sustainability reports for the 2019–2024 period, internal financing policies, DSN-MUI fatwas, and national and international regulatory documents. A purposive sampling technique was used to ensure informants have strategic

authority in sustainability decision-making. Data analysis was conducted through thematic content analysis using the *maqāṣid al-sharī'ah* framework and institutional isomorphism theory to identify patterns of symbolization, apparent compliance, and structural resistance in green banking implementation. Data validity was maintained through triangulation of sources and methods, while the research contribution is directed at formulating an integrative, operational, and contextual conceptual model of Sharia Green Banking for the sustainability agenda of Indonesian sharia banking.

Results and Discussion

Sharia Green Banking Regulation: Symbolic Compliance and Weak Transformational Power

The research confirms that sustainable finance regulations in Indonesia, particularly POJK No. 51/POJK.03/2017, serve more as a symbol of state commitment than as an instrument of structural change in Islamic banking. This regulation serves as a marker of institutional morality, but fails to drive a real shift in the financing allocation patterns of Islamic Commercial Banks that directly impact the environment. At the implementation level, Islamic banks' compliance with these regulations stops at procedural fulfillment through the preparation of sustainability reports. Reports are prepared routinely and neatly, but are not accompanied by financing portfolio restructuring that could reduce exposure to sectors with a high carbon footprint. Sustainability is treated as a reporting artifact, rather than a basis for business decision-making (Widiyanti & Hanifah, 2025).

This situation demonstrates that regulation is understood as an administrative obligation to be fulfilled for the sake of reputation and legitimacy, rather than as a mandate to transform a bank's business orientation. Green banking is reduced to a financially and politically secure, document-based practice, lacking the courage to bear the economic consequences of changes to the financing portfolio. The absence of firm sanctions and measurable environmental indicators further weaken the regulatory force. Regulators place sustainability within a voluntary framework, giving Islamic banks ample latitude to choose the cheapest, most minimal, and least risky form of compliance. This pattern opens up ample room for greenwashing practices, legitimized by the regulations themselves (Yudaruddin & Yahya, 2025).

As a result, the resulting green governance is more illusory than substantive. Banks appear green on paper, but continue to channel financing to sectors that structurally exacerbate environmental degradation. Regulation fails to address the core of the problem, namely the power relations between short-term profit interests and the long-term ecological crisis. This problem is exacerbated by the lack of integration of sustainable finance regulations with the Sharia supervisory system. The Sharia Supervisory Board is not given an explicit mandate to assess environmental risks in financing contracts, thus separating sustainability from Sharia compliance mechanisms. This fragmentation reflects the failure of regulatory design, which separates positive law from Islamic ethics, which should be the foundation of Sharia banking (Abdullah & Haron, 2022). These findings collectively reinforce the conclusion that green banking in Indonesian Sharia banking still operates within the logic of *compliance-driven sustainability*, not *impact-driven sustainability*. Regulations have not been able to force banks out of their comfort zone of conventional financing based on natural resource extraction. Green banking has ultimately evolved into a sterile, safe, and docile institutional narrative, failing to honestly confront the structural conflict between economic growth and the ecological crisis.

Maqasid al-Shariah Ethics: Between Normative Claims and Operational Emptiness

This research reveals a striking gap between the ethical claims of Maqasid al-Shariah and the actual practice of green banking in Indonesian Islamic banking. Normative principles that should serve as a moral foundation have stalled at the discourse level, while financing practices continue to follow market logic that is neutral toward environmental damage. This tension demonstrates that Sharia ethics has not yet functioned as a guiding force, but merely as an accompanying narrative within institutional policies. The principle of Hifz al-Bi'ah is routinely cited in policy documents, sustainability reports, and vision statements of Islamic banks. However, this principle has never been translated into clear and binding financing selection criteria. There is no mechanism to systematically screen projects based on their level of ecological risk. Environmental ethics exists as a convenient moral symbol, not as an instrument for determining the direction of capital allocation (Amiruddin et al., 2024).

The tendency of Islamic banks to technocratically adopt global ESG standards exacerbates this situation. These standards are imported as a ready-made framework without epistemological critique of the underlying philosophical assumptions. The dimensions of distributive justice and intergenerational responsibility, which are core to Islamic ethics, are marginalized in sustainability reporting and performance assessment practices. ESG is transformed into an administrative tool, not an ethical arena. As a result, ESG practices in Islamic banking lose their Islamic identity. There is no differentiation of values that distinguish Islamic banks from conventional banks in responding to the environmental crisis. Islamic ethics is reduced to an adjunct to the global sustainability narrative, rather than an autonomous source of values critical to mainstream economic logic (Nasution & Harahap, 2022).

The absence of operational ethics instruments reveals a more fundamental failure. There are no standard guidelines linking the type of Sharia contract to the level of environmental risk of the project being financed. Murabahah, musharakah, and mudharabah are treated as if they are ecologically neutral, as if environmental impacts are not part of the moral risk inherent in financial transactions. Reducing Sharia ethics to contractual compliance removes the ecological responsibility dimension from banking practices. Compliance with contracts is treated as the ultimate goal, while the social and environmental consequences of financing are left outside the radar of ethical scrutiny. Ethics loses its corrective power and becomes trapped in legal formalities. This finding confirms that Maqasid al-Shariah has not yet functioned as a *counter-hegemonic ethics* capable of challenging the logic of exploitative financial capitalism. Islamic banks have failed to leverage their normative advantages to correct environmentally damaging economic practices. Ethics have become a politically safe, easily claimed, yet transformatively dull institutional trappings.

Sustainability and Performance of Islamic Banks: The Paradox of Profit and Environmental Risk

Green banking has yet to emerge as a driving force for short-term profitability for Islamic banks. Green financing practices are still positioned as an additional cost burden, rather than a source of strategic economic value. This orientation indicates that sustainability is not yet understood as part of business logic, but rather as a normative obligation that stands outside the core financial interests of Islamic banking. Green financing is perceived as high-risk because returns are considered imminent and difficult to predict. This perception demonstrates a bank management perspective that remains trapped in short-term calculations. Low green financial literacy among customers and the absence of strong fiscal support reinforce Islamic banks' defensive stance toward sustainable financing innovation (Islam et al., 2025).

The paradox is evident when Islamic banks maintain their financial stability without significant changes to their financing structures. Banks are able to record relatively stable financial performance while continuing to channel funds to sectors with high ecological impacts. This financial success actually blunts internal incentives to correct the direction of ecologically sound financing. Financing portfolios remain concentrated in extractive and emission-intensive sectors, while green projects are positioned as a complement to sustainability policies. Green financing serves as a symbol of commitment, not a central axis of business strategy. Sustainability is treated as an additional attribute that does not disrupt the existing economic structure (Alkindi & Utami, 2025).

Climate risk has not been treated as an integral part of Islamic bank financing risk management. The threat of flooding, land degradation, and extreme weather are not included in project feasibility assessment variables. This absence of a climate perspective demonstrates banks' failure to understand the changing financial risk landscape, which is increasingly influenced by environmental factors (Yudaruddin & Yahya, 2025). Ignoring climate risk creates the illusion of financial health. Financial statements appear stable, but conceal the potential for long-term, systemic shocks. Uninterrupted environmental risks today have the potential to escalate into financial crises in the future, especially when ecological damage begins to massively impact the real sector. The sustainability mindset in Islamic banking remains short-term and defensive. The climate crisis is not yet understood as an existential threat to the financial stability and moral legitimacy of Islamic banks. Until this paradigm shifts, green banking will remain on the fringes of policymaking and fail to function as a core strategy in transforming Islamic banking toward a just and sustainable financial system.

Integration of Islamic Social Finance and Green Banking: A Huge Neglected Potential

Islamic social finance, in the form of zakat, waqf, and alms, is still treated as a separate domain from Islamic banks' green banking strategies. This practice positions these social instruments as merely symbolic philanthropic activities that stand outside the core business and financing logic. Islamic banks choose the safe path by limiting the role of social finance to incidental social programs that carry minimal institutional risk. This orientation reflects a failure to understand Islamic social finance as a strategic resource for green financing. As a result, Islamic banks' contributions to community-based climate resilience are not systematically developed. This pattern demonstrates that green banking is still understood narrowly and technocratically (Sulistyowati & Anam, 2025). The disconnect between Islamic social finance and green banking has a direct impact on the weak sustainability of Islamic banks' environmental programs. Community-based climate adaptation projects operate sporadically without long-term funding continuity. Islamic banks have failed to build a financing ecosystem capable of supporting green economic transformation at the grassroots level. Climate resilience is treated as an additional issue, rather than an ethical mandate inherent in the Islamic banking identity. This position narrows the role of Islamic banks in addressing the structural climate crisis. This failure erodes the moral claims of Islamic banking as a just institution (Sulistyowati & Anam, 2025).

In fact, Islamic social finance has significant potential to become an inclusive and equitable green financing instrument. Zakat and waqf can be directed to support sustainable agriculture, small-scale renewable energy, and green MSMEs that struggle to access commercial financing. These instruments offer social flexibility that purely profit-based financing lacks. When this potential is ignored, Islamic banks miss a strategic opportunity to build a differentiated advantage. This failure demonstrates a disconnect between the Islamic vision of social justice and institutional practice. Sustainability orientation ceases at the level of

institutional rhetoric (Adirestuty & Ratnasari, 2025). This lack of integration reflects the weak ability of Islamic banks to recognize structural opportunities within the green transition agenda. Islamic social finance is treated as an additional moral burden unrelated to business performance. This perspective demonstrates the dominance of conventional financial rationality within Islamic banking. The principles of justice and sustainability are not used as sources of institutional innovation. Islamic banks, instead, avoid the risks of transformation by maintaining a conservative business model. This attitude demonstrates a strategic failure of both epistemic and institutional nature (Adirestuty & Ratnasari, 2025).

Integration issues are also triggered by the strict separation between business and social units within the organizational structure of Islamic banks. Zakat and waqf units are managed administratively without any linkage to green financing strategies. This separation creates policy fragmentation that weakens social and ecological impacts. Business decisions are made without considering the corrective potential of Islamic social finance. This practice demonstrates the absence of holistic Islamic governance. The institutional structure of Islamic banks fails to facilitate transformative sustainability (Bimantara et al., 2025). This institutional fragmentation results in the loss of the emancipatory character of Islamic green banking. Social finance is not mobilized to correct the ecological inequalities created by market-based financing. Islamic banks lose their role as actors of social and environmental change. Sustainability is reduced to a reputational complement, rather than a tool for structural liberation. This orientation weakens the position of Islamic banks in the global sustainable finance discourse. Sharia identity is reduced to a normative label without critical power (Bimantara et al., 2025).

Without integrating Islamic social finance into green banking, Islamic banking risks becoming a green version of the exploitative conventional financial system. Financing practices continue to follow the logic of capital accumulation with a cosmetic touch of sustainability. Social inequality and ecological damage are not addressed at their root. Islamic banks lose their ethical legitimacy as institutions that promote the common good. Green banking becomes a strategy of symbolic adaptation, not structural transformation. This situation demands a fundamental overhaul of how Islamic banks interpret social finance and sustainability.

Conclusion

Indonesian Islamic banking has not yet successfully positioned green banking as a structural transformation agenda, instead limiting it to regulatory compliance and ethical symbolism. Sustainable finance regulations are weak because they lack coercive power and are not integrated with the sharia governance system. The Maqasid al-Shariah ethics exist as normative claims that are not translated into operational financing mechanisms, while global ESG standards are adopted technocratically without value critique. Sustainability is reduced to reporting activities and internal efficiency, rather than as an economic decision-making framework that challenges exploitative and ecologically risky financing practices. This research confirms that the future of Islamic green banking depends on its ability to move beyond the logic of imitating the conventional financial system. The integration of Islamic environmental ethics, the reformulation of binding regulations, and the utilization of Islamic social finance as a sustainability instrument are essential requirements for Islamic banking to play a substantive role in the national green transition agenda. Without this paradigm shift, Islamic banking will remain marginalized in the climate crisis, missing a historic opportunity to establish Islamic finance as a relevant and transformative ethical force in Indonesia's sustainable development.

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Fawaid: Journal of Islamic Studies, FJIS

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