

## Sustainable Banking Performance in Indonesia: An Updated Conceptual Paper

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### ABSTRACT

This study explores sustainable banking performance in Indonesia, emphasizing the integration of environmental, social, and governance (ESG) principles within banking practices. Employing a mixed-method approach, the research combines a systematic literature review and a preliminary survey of 125 respondents. The literature review synthesized global and local studies, identifying key frameworks, challenges, and opportunities, with a particular focus on Indonesia's regulatory and socio-economic context. The survey revealed significant public awareness of sustainable finance, with respondents familiar with the concept. However, gaps were identified, particularly in the awareness of specific initiatives like interest subsidies for electric vehicle financing. These findings underscore the critical role of regulatory alignment, stakeholder engagement, and innovation in driving sustainability efforts. Additionally, the study highlights opportunities for Indonesian banks to align with global standards such as the Principles for Responsible Banking, while addressing barriers like organizational inertia and resource constraints. This research provides actionable insights for policymakers, practitioners, and scholars, contributing to the theoretical and practical advancement of sustainable banking in Indonesia.

## **INTRODUCTION**

### **Background**

#### **Overview of the Importance of Sustainability in the Banking Sector Amidst Global Challenges Like Climate Change, Social Inequality, and Economic Sustainability**

Sustainability in the banking industry is increasingly viewed as part of the solution to global challenges like climate change, social inequality, and economic sustainability. The financial sector therefore has the basic role of channeling investments toward sustainable practices that contribute to mitigating climate risks, ensuring economic growth, and social equity (Monasterolo, 2020; Shrivastava et al., 2020). Research shows that banks are restructuring governance structures and putting climate change and inclusive growth at the center of their attention, viewing banks as facilitators of socio-environmental transformation (Galletta et al., 2022). Moreover, green finance in banking policies reduces environmental degradation and income gaps for equitable economic development (Beerbaum & Ptaschunder, 2019; Nawaz et al., 2021). In a world with increasingly vulnerable and inequitable societies due to climate change, commitment to sustainability within the financial sector will make a difference in the creation of resilient economies and inclusive societies (Markkanen & Anger-Kraavi, 2019; Battiston et al., 2021). As such, it plays a dual role in driving sustainable investment and socio-economic stability, underlining the need for sustainability to be embedded as a core operational and strategic principle within the financial system.

#### **The Role of Sustainable Banking in Supporting Indonesia's Transition to a Green Economy**

Sustainable banking is pivotal for Indonesia's transition to a green economy, offering a pathway to balance environmental stewardship, economic growth, and social equity. As a country highly dependent on natural resources with significant climate challenges, Indonesia requires substantial financial mechanisms to fund its green initiatives (Setyowati, 2023a). The principles of sustainable finance allow investments to align with low-carbon and inclusive development goals, reducing environmental degradation while fostering economic resilience (Gunawan et al., 2022). Research has demonstrated that sustainable banking practices, such as corporate green sukuk, effectively mobilize capital for renewable energy and eco-friendly projects (Endri et al., 2022a). Furthermore, the Sustainable Finance Roadmap introduced by the Indonesian government has provided a foundation for integrating environmental, social, and governance (ESG) considerations into financial decision-making, strengthening the nation's commitment to a low-carbon future (Durrani et al., 2020). As the global economy shifts towards sustainability, Indonesia's banking sector plays a critical role in promoting green growth, addressing socio-economic disparities, and fostering long-term prosperity.

## **Current Trends and Challenges Faced by Indonesian Banks in Adopting Sustainability Practices**

Indonesian banks are among those at the forefront in adopting sustainability practices to meet environmental and social challenges while achieving economic progress. Yet, the transition is generally characterized by different trends with significant barriers. These include, among others, the development of green financing mechanisms such as green sukuk, the adoption of digital banking solutions to underpin sustainable operations (Gunawan et al., 2022; Jan et al., 2019). Moreover, good efforts toward complying with the Sustainable Finance Roadmap initiated by the OJK encouraged banks to integrate ESG concerns into their respective policies (Setyowati, 2023a). Even with all these improvements, some challenges are still present, such as the absence of standardized sustainability, a lack of experience in green project assessment, and financial problems among smaller banks (Amidjaya & Widagdo, 2020). The variance in the stages of sustainable practices across regions testifies to the need for large-scale capacity building and regulatory alignment (Wibowo, 2023). Addressing the challenges that were discussed would be important in making the financial system of Indonesia resilient and inclusive.

## **Understanding Public Awareness and Perceptions of Sustainable Banking Practices in Indonesia**

A preliminary analysis of a survey conducted with 125 respondents highlights key thematic insights into the field of sustainable banking in Indonesia. The study reveals that approximately 67% of respondents are aware of the concept of "Sustainable Finance," indicating a reasonable level of knowledge about environmentally friendly banking practices. However, 33% of participants remain unaware, signalling a knowledge gap that may impede the broader adoption of sustainable practices. Positive perceptions dominate the responses regarding the integration of environmental principles into banking operations, with participants emphasizing the critical role banks play in driving sustainability through financial resource allocation and supporting a green economy transition. Furthermore, respondents consistently identified the government, businesses, and banks as essential stakeholders in sustainability efforts. Governments were seen as enforcers of regulations and providers of incentives, businesses as innovation drivers, and banks as enablers of long-term environmental stability. Interestingly, the survey revealed contrasting levels of awareness regarding subsidies for electric vehicle (EV) purchases. While 80% of respondents were aware of the tax subsidies provided by the government for EV purchases, only 46% were aware of the interest subsidies offered by banks under sustainable finance programs. This disparity suggests the need for enhanced strategic efforts from banks to raise awareness about their role in promoting green initiatives. Demographic insights reveal that the largest respondent groups were aged 20-25 years (40%) and had completed high school education (40%), with a higher proportion of female respondents (59%). This demographic distribution suggests the need for targeted awareness campaigns and tailored initiatives to address gaps in knowledge and engagement across different societal segments. These findings highlight opportunities for multi-stakeholder

collaboration and the importance of addressing barriers to advancing sustainable banking in Indonesia.

### **Problem Statement**

#### **How are Indonesian Banks Integrating Sustainability Principles Into Their Business Strategies?**

Indonesian banks are increasingly incorporating sustainability principles into their business strategies as a response to global calls for environmental and social responsibility. Regulatory frameworks, such as Indonesia's OJK policies, emphasize green banking initiatives and sustainable finance integration into the financial sector. Banks are adopting Environmental, Social, and Governance (ESG) strategies to align with the nation's sustainability goals, promoting transparency and investor confidence (Sidi & Wijayanti, 2024). Furthermore, some financial institutions are implementing frameworks such as the Green Banking Model, which incorporates ecological principles into corporate social responsibility efforts (Amiruddin et al., 2024). While these efforts have shown promise, challenges remain in achieving widespread adoption due to resource constraints and a need for more standardized guidelines (Iswibowo et al., 2024). The Indonesian banking sector's commitment to sustainable development is a crucial driver for achieving long-term economic and environmental stability.

#### **What Factors Influence Sustainable Bank Performance in Indonesia?**

The performance of sustainable banking in Indonesia is influenced by a complex interplay of factors, including regulatory frameworks, environmental governance, and internal management practices. Key determinants such as the integration of Environmental, Social, and Governance (ESG) criteria, the effectiveness of green financing initiatives, and the adoption of sustainability reporting standards play pivotal roles in shaping outcomes. Studies highlight the influence of intellectual capital and corporate governance structures on the financial and environmental performance of Indonesian banks (Aidah & Lestari, 2024). Additionally, macroeconomic conditions, such as inflation and exchange rates, also impact sustainable bank performance by influencing risk and return dynamics in the financial sector (Suprayitno et al., 2024). These findings underscore the importance of aligning corporate strategies with broader sustainability goals to foster resilience and growth.

### **Objectives**

#### **To Explore the Concept of Sustainable Banking Performance in the Indonesian Context**

Exploring sustainable banking performance in Indonesia reveals a growing integration of financial resilience with environmental and social objectives. The concept emphasizes aligning financial practices with Sustainable Development Goals (SDGs) through innovative approaches such as green banking, digital transformation, and ethical investment frameworks. For instance, initiatives in green financing and digitalization have demonstrated a positive impact on the sustainability and performance of Indonesian Islamic banks (Siswanti et al., 2024). Moreover, corporate governance and compliance mechanisms have emerged as critical drivers in achieving sustainable finance objectives (Indriani & Setiany, 2024). Despite significant progress, challenges

remain in optimizing profitability without compromising sustainability, reflecting the nuanced dynamics of integrating ethical and economic goals in Indonesia's banking sector (Kurniawan et al., 2024). These insights underscore the importance of policy coherence, innovation, and capacity-building in advancing sustainable banking practices.

### **To Identify the Key Drivers and Barriers to Achieving Sustainability in the Banking Sector**

Understanding the key drivers and barriers to achieving sustainability in Indonesia's banking sector is critical for advancing green finance and sustainable development goals. On the one hand, drivers such as government regulations, public demand for ethical investment options, and the increasing adoption of digital financial services propel the integration of sustainable practices. On the other hand, barriers including limited financial literacy, the high costs of technology implementation, and a lack of standardization in sustainability metrics hinder progress (Sinurat, 2024). Additionally, cultural preferences and the nascent state of green financing infrastructure in the country pose significant challenges (Utami et al., 2024). These dynamics underscore the necessity of multi-stakeholder collaborations to overcome barriers while leveraging drivers for a more sustainable banking sector.

### **Significance of the Study**

#### **Providing Insights for Stakeholders in the Banking Industry to Adopt Sustainable Practices**

The significance of adopting sustainable practices in the banking industry lies in its potential to drive economic growth while fostering environmental stewardship and social well-being. Stakeholders, including financial institutions, policymakers, and investors, benefit from insights into sustainability initiatives, as these practices can mitigate risks, enhance financial performance, and improve brand reputation (Yavuz et al., 2024). Moreover, sustainability fosters resilience by promoting innovative financial solutions like green bonds and ESG-aligned investments (Abdulraheem & Isa, 2024). However, challenges such as high implementation costs and regulatory complexities often hinder broader adoption. Therefore, a focused effort to align corporate strategies with sustainability principles is critical for realizing long-term benefits for all stakeholders in the banking sector.

#### **Contributing to the Theoretical Framework of Sustainable Banking, Particularly in Emerging Economies Like Indonesia**

Theoretical frameworks for sustainable banking in emerging economies, such as Indonesia, provide a foundation for understanding how banks can balance economic growth with environmental and social responsibilities. These frameworks integrate principles like green finance, ESG (Environmental, Social, and Governance) metrics, and stakeholder engagement to drive sustainability. Research highlights the role of financial innovations and regulatory strategies in promoting sustainable banking models that align with global sustainability goals (Mandagie et al., 2024). Additionally, challenges like limited infrastructure, low public awareness, and a lack of standardization underscore the importance of tailoring theoretical frameworks to local contexts (Santoso & Samputra, 2024). By

contributing to the development of these frameworks, the study aims to enhance the resilience and sustainability of banking systems in Indonesia and other emerging economies.

## **LITERATURE REVIEW**

### **Concept of Sustainable Banking Performance**

#### **Definition and Scope of Sustainable Banking Performance (Aligned with Environmental, Social, and Governance/ESG Frameworks)**

Sustainable banking performance is defined as the integration of financial, environmental, social, and governance (ESG) objectives into banking operations and strategies to promote long-term economic and societal well-being. This concept aligns closely with frameworks like the United Nations Sustainable Development Goals (SDGs), emphasizing the role of banks in fostering green financing, ethical investments, and transparent governance. Núñez-Almonte et al., (2023) highlight that sustainable banking performance requires a triple-bottom-line approach, balancing profitability with environmental and social outcomes. Similarly, (Wielechowski & Krasuski, 2024) explore the challenges of aligning ESG metrics with industry-specific practices, emphasizing the importance of customized sustainability frameworks for effective implementation. Research also underscores the role of green bonds and ESG-compliant instruments in advancing sustainable finance (Endri et al., 2022b). While the adoption of these practices is expanding, barriers such as limited standardization and varying stakeholder expectations persist, underscoring the need for dynamic frameworks and multi-stakeholder collaborations (Al-Sartawi et al., 2024).

#### **Key Principles of Sustainable Banking, Including Responsible Investment and Risk Management Practices**

The key principles of sustainable banking revolve around responsible investment and robust risk management practices, aligning with Environmental, Social, and Governance (ESG) frameworks. Responsible investment emphasizes allocating financial resources to projects that yield positive social and environmental outcomes while ensuring profitability. (Gherghina (2024) highlights how socially responsible investments (SRI) and ethical finance models contribute to sustainable development goals. In parallel, effective risk management is vital for mitigating financial uncertainties in green investments, as demonstrated by (Raimi et al., 2024). Additionally, incorporating transparency and accountability in governance structures fosters trust and stability in sustainable banking operations (Saratian et al., 2024; Saratian & Arief, 2018). Research also points to the integration of Islamic finance principles, which blend ethical investing with risk-sharing mechanisms, as a viable model for achieving sustainability in diverse economies (Faizin et al., 2024; Saratian et al., 2024). These practices collectively underscore the multifaceted approach needed to embed sustainability in the financial sector.

## **Indicators of Sustainable Banking Performance**

### **Financial Indicators: Profitability, Efficiency, and Risk Mitigation**

Indicators of sustainable banking performance are pivotal for assessing how financial institutions balance profitability, efficiency, and risk mitigation. Profitability indicators, such as return on assets (ROA) and equity (ROE), highlight the financial health and ability of banks to generate returns from their resources (Pradnyani et al., 2024). Efficiency metrics, including cost-to-income ratios, underscore the effectiveness of resource utilization in achieving financial goals, while risk mitigation strategies evaluate the robustness of credit risk and operational risk frameworks (Malalu & Njoka, 2024). Studies (Khali, 2024; Saratian & Arief, 2018) show that sustainable banking practices, such as integrating ESG factors, enhance long-term financial stability by aligning profitability with responsible investment and governance. Furthermore, the adoption of green finance initiatives promotes operational efficiency and reduces financial risks associated with climate change and regulatory pressures (Makori & Aluoch, 2024). These indicators collectively enable banks to measure and manage their sustainability efforts while meeting stakeholder expectations.

### **Social Indicators: Financial Inclusion, Corporate Social Responsibility, and Community Engagement**

Social indicators of sustainable banking performance, including financial inclusion, corporate social responsibility (CSR), and community engagement, play a critical role in assessing how banks address societal and environmental challenges while fostering inclusive growth. Financial inclusion indicators measure the accessibility of financial services, which significantly contribute to reducing inequality and enhancing economic participation (Nizam et al., 2019). CSR initiatives in banking often focus on ethical investments, community projects, and green finance, which promote sustainability while addressing stakeholder expectations (Gallego-Sosa et al., 2021). Moreover, community engagement strategies foster trust and loyalty, ensuring that banking practices resonate with local developmental needs (Mhamid, 2024). These practices are increasingly integrated into global frameworks like the UN Sustainable Development Goals (SDGs) to align financial systems with long-term societal objectives (Singh et al., 2021). As banks evolve to meet these goals, standardized measurement frameworks and innovative approaches remain vital for realizing impactful social outcomes.

### **Environmental Indicators: Green Financing, Carbon Footprint Reduction, and Environmental Impact**

Environmental indicators such as green financing, carbon footprint reduction, and environmental impact are critical in assessing the sustainability of banking performance. Green financing, which includes investments in renewable energy and sustainable infrastructure, has emerged as a key driver for aligning financial goals with environmental objectives (Quaranta, 2024). Additionally, strategies to reduce carbon footprints in banking operations, such as adopting energy-efficient practices and transitioning to digital platforms, have been shown to significantly lower emissions (Hunjra et al., 2024). Environmental impact assessments, including eco-friendly supply chain evaluations, further ensure that banking activities contribute positively to sustainability goals (Sampene et al., 2024). However, challenges such as high initial costs and limited awareness of these practices remain prevalent, as noted in studies on the integration of environmental management accounting (Rahmawati & Amri, 2024). These indicators collectively underscore the importance of incorporating robust environmental criteria into banking frameworks to foster long-term sustainability.

### **Regulatory Framework and Practices in Indonesia**

#### **The role of Indonesia's Financial Services Authority (OJK) in Promoting Sustainability in the Banking Sector**

The Financial Services Authority of Indonesia (OJK) plays a pivotal role in promoting sustainability within the banking sector. OJK's Sustainable Finance Roadmap, introduced in 2014 and refined over the years, provides a strategic framework to encourage financial institutions to integrate Environmental, Social, and Governance (ESG) principles into their operations. Recent studies show that OJK's policies, including mandatory disclosures of sustainable practices, have significantly improved banks' commitment to ESG compliance (Citraningtyas et al., 2024). Furthermore, OJK's collaboration with Bank Indonesia has enhanced the implementation of green banking initiatives, fostering sustainable economic growth (Muflikh et al., 2024). The enforcement of regulations on green financing and the creation of incentives for sustainable investments have also been instrumental in driving innovation and resilience in the financial sector (Farihah et al., 2024). Despite these advancements, challenges such as compliance costs and resource limitations persist, necessitating ongoing support and refinement of regulatory measures (Soumena et al., 2024).

## **Key Policies and Initiatives, Such as the *Sustainable Finance Roadmap* and *Green Taxonomy***

Indonesia's Sustainable Finance Roadmap and the Green Taxonomy represent key initiatives in advancing sustainability within the country's financial sector. The Sustainable Finance Roadmap, initiated by the Financial Services Authority (OJK), provides a strategic framework to integrate Environmental, Social, and Governance (ESG) principles into banking operations, aligning financial activities with long-term sustainability goals. Complementing this, the Green Taxonomy establishes clear guidelines for categorizing economic activities based on their environmental impact, enabling banks to prioritize green investments (Rohmah et al., 2024). These policies have been instrumental in promoting green bonds, ethical lending, and eco-friendly business practices, enhancing the sector's resilience to climate-related risks (Citraningtyas et al., 2024). However, challenges such as limited stakeholder awareness and resource constraints highlight the need for continuous capacity-building and regulatory refinement (Farihah et al., 2024). Collectively, these initiatives underscore Indonesia's commitment to fostering sustainable finance as a catalyst for economic transformation.

### **Existing Research**

#### **Review of Global and Local Studies on Sustainable Banking Performance**

Research on sustainable banking performance encompasses global and local perspectives, highlighting the importance of integrating financial, environmental, and social considerations into banking practices. Globally, studies emphasize the role of green finance and ESG (Environmental, Social, and Governance) criteria in enhancing financial performance and mitigating risks, as evidenced by Liu et al., (2023), who discuss how green finance reforms shape corporate ESG practices. Regionally, in developing economies like Indonesia, sustainable banking is gaining traction through policies such as green financing frameworks and stakeholder engagement, aligning with global sustainability goals (Soesetio et al., 2024). Local studies also underscore the challenges of limited resources and regulatory gaps in implementing sustainability initiatives effectively (Dwiputrianti et al., 2024). This diverse body of literature highlights both the opportunities and constraints in operationalizing sustainable banking practices, offering valuable insights for policy refinement and industry collaboration.

#### **Gaps in the Literature Regarding Sustainable Banking in Indonesia's Unique Context**

The existing literature on sustainable banking in Indonesia highlights significant gaps that require attention to fully understand the unique challenges and opportunities within this context. While global studies emphasize the adoption of Environmental, Social, and Governance (ESG) frameworks and green finance, research specific to Indonesia often lacks comprehensive insights into the interplay between local regulatory environments and operational practices (Siswanti et al., 2024). Additionally, there is limited exploration of the effectiveness of initiatives like green sukuk and the Sustainable Finance Roadmap in driving financial performance (Fithria & Darma, 2024). Studies also

suggest that the integration of Islamic financial principles into sustainability practices remains underexplored, leaving a critical gap in addressing the needs of a predominantly Muslim population (Lestari, 2024). Furthermore, the lack of empirical data on stakeholder engagement and public awareness of sustainable banking practices points to another area that warrants further research (Rohim & Jasmine, 2024). Addressing these gaps can provide a more nuanced understanding of sustainable banking in Indonesia, enhancing both policy development and academic discourse.

## **METHODOLOGY**

The research employed a comprehensive mixed-method approach, integrating a systematic literature review and a preliminary survey conducted with 125 respondents. The systematic literature review served as the foundational methodology, synthesizing existing research on sustainable banking with a particular focus on the Indonesian context. Studies by Mansour & Bujosa, (2024) explored how systematic reviews reveal critical insights into the implementation of ESG (Environmental, Social, and Governance) principles in financial institutions in Indonesia. Similarly, (Jasmine & Rohim, 2024) utilized this methodology to assess the intersection of regulatory frameworks and green finance innovations in Indonesia's banking sector. This review identified key themes, frameworks, and gaps in current knowledge, including the role of Environmental, Social, and Governance (ESG) principles, regulatory challenges, and stakeholder collaboration. By drawing insights from global and local studies, the literature review provided a robust theoretical framework to contextualize sustainable banking practices within Indonesia's unique socio-economic and regulatory environment. Complementing the literature review, the preliminary survey aimed to gather empirical insights into public awareness, perceptions, and attitudes toward sustainable finance. Conducted among a diverse demographic, the survey included questions designed to assess respondents' understanding of sustainable banking concepts, such as green financing and the integration of environmental principles into financial operations. Additionally, the survey explored perceptions of stakeholder roles, including the responsibilities of banks, governments, and businesses in advancing sustainability goals.

This mixed-method approach enabled the study to bridge theoretical and practical perspectives, offering a well-rounded understanding of sustainable banking performance. For instance, Morrison et al., (2024) highlight the effectiveness of mixed methods in examining the interplay between governance frameworks and practical applications in sustainable banking systems. Similarly, Khan & Manurung (2024) employed this approach to analyze sustainable business models in emerging markets, integrating empirical findings with theoretical insights. The literature review provided depth by synthesizing scholarly insights, while the survey offered breadth by capturing the lived experiences and perceptions of individuals within Indonesia. Together, these methodologies highlighted critical opportunities for enhancing sustainable banking through regulatory alignment, innovation, and targeted awareness

campaigns. The findings underscore the importance of a multi-stakeholder approach, combining academic research, public engagement, and policy interventions to advance sustainable finance in Indonesia effectively. This methodological combination ensures a nuanced and actionable contribution to the field of sustainable banking research.

## **RESULTS AND DISCUSSION**

### **Summary of Key Insights**

#### **Insights Into the Theoretical Understanding of Sustainable Banking Performance**

The theoretical understanding of sustainable banking performance has evolved to emphasize the integration of Environmental, Social, and Governance (ESG) frameworks within financial institutions. This approach focuses on aligning profitability with broader sustainability goals, as highlighted by Cui (2024), who discusses the application of stakeholder and institutional theories in driving ESG performance. Additionally, (Zhang & Ding, 2024) emphasize the role of green finance and innovation in shaping sustainable practices, underscoring the importance of policy support and corporate accountability. The incorporation of resource-based and stakeholder theories further elucidates how banks can leverage internal capabilities and stakeholder engagement to achieve sustainability (Lubinza et al., 2024). Empirical studies, such as those by Sun et al., (2024), reveal the impact of environmental audits on corporate sustainability efforts, reinforcing the significance of regulatory oversight. Lastly, Oladapo (2024) demonstrates how management support and environmental innovation foster sustainable performance, particularly in Islamic banking contexts. These insights collectively contribute to a robust conceptual framework for understanding and enhancing sustainable banking.

#### **Highlighting Factors that Drive or Hinder Sustainability Efforts in Indonesia's Banking Sector**

Key factors driving or hindering sustainability efforts in Indonesia's banking sector have been well-documented, but significant gaps remain in achieving comprehensive and actionable solutions. On the positive side, drivers such as regulatory support through the Sustainable Finance Roadmap and growing market demand for green financial products are facilitating progress (Effendi et al., 2024). However, gaps in implementation, including limited stakeholder engagement and insufficient resources for green innovation, continue to hinder progress (Hendratmi et al., 2024). Socio-economic factors, such as income inequality and limited financial literacy, further complicate the landscape, impeding access to sustainable financial instruments for underserved communities (Mulyani et al., 2024). Addressing these challenges requires a multi-stakeholder approach that leverages both regulatory frameworks and market mechanisms to drive systemic change (Riswandi & Zulfikri, 2024).

## **Implications for Practice and Policy**

### **Recommendations for Banks to Improve Sustainability Performance through Innovation, Stakeholder Collaboration, and Compliance**

To enhance sustainability performance, banks must adopt a multi-faceted approach emphasizing innovation, stakeholder collaboration, and regulatory compliance. Innovations such as green financial products and digital platforms can drive operational efficiency while addressing environmental concerns (Wamahiu, 2024). Collaborative frameworks with stakeholders, including customers, regulators, and community organizations, are critical to ensuring shared accountability and sustainable impact (Effendi et al., 2024). Compliance with global standards such as the Equator Principles and Principles for Responsible Banking also plays a pivotal role in aligning institutional goals with environmental, social, and governance (ESG) benchmarks (Jasmine & Rohim, 2024). Furthermore, integrating feedback mechanisms into decision-making processes ensures that sustainability strategies are responsive to emerging challenges (Hamidah & Dewantara, 2023). These measures collectively position banks to lead in sustainability while fulfilling stakeholder expectations.

### **Suggestions for Policymakers to Create Enabling Environments for Sustainable Banking**

To create an enabling environment for sustainable banking, policymakers must prioritize regulatory clarity, financial incentives, and stakeholder inclusivity. Policies that mandate clear guidelines for ESG (Environmental, Social, and Governance) compliance can enhance accountability and transparency among financial institutions (Adelusola, 2024). Additionally, financial incentives such as tax breaks for green investments or subsidies for technological upgrades encourage banks to integrate sustainable practices (Nyangarika, 2024). Establishing partnerships with private and public entities also plays a critical role in fostering innovation and sharing best practices, as highlighted by (Kumar, 2024). Furthermore, capacity-building initiatives and awareness campaigns can empower smaller banks and underserved regions to adopt green finance strategies effectively (George, 2024). Creating a supportive framework not only aligns with global sustainability goals but also enhances the resilience and competitiveness of the financial sector (Mhlanga, 2024).

## CONCLUSION AND RECOMMENDATION

### Development of a Conceptual Model for Assessing Sustainable Banking Performance in Indonesia

The development of a conceptual model for assessing sustainable banking performance in Indonesia requires a multi-dimensional approach that incorporates financial, social, and environmental aspects. A robust model should align with global frameworks like ESG (Environmental, Social, and Governance) while accounting for local economic, regulatory, and cultural contexts. Fauzan & Jaroenwanit (2024) emphasize the significance of integrating customer value co-creation into sustainable banking practices, highlighting the role of corporate social responsibility in fostering green consumer loyalty. Similarly, (Harsanto et al., 2024) propose that digital technology, research and development, and regulatory compliance are critical antecedents for sustainable value chain performance in the banking sector. Moreover, Mansour & Bujosa (2024) advocate for adapting Islamic finance principles into sustainability models, addressing the unique market dynamics in Indonesia. These frameworks collectively underscore the need for a localized yet globally informed model that evaluates financial stability, social impact, and environmental performance in a cohesive manner.

### Identification of key Components: Regulatory Compliance, Stakeholder Engagement, and Operational Alignment with ESG Principles

The conceptual framework for assessing sustainable banking performance in Indonesia requires identifying key components such as regulatory compliance, stakeholder engagement, and alignment with ESG (Environmental, Social, and Governance) principles. Regulatory compliance ensures adherence to legal and ethical standards, which serve as the foundation for sustainable practices (Sternberg & Nylander, 2024). Stakeholder engagement, including customers, employees, and investors, is crucial for building trust and fostering long-term relationships that support sustainability goals (박정현 & Hyun, 2024). Additionally, operational alignment with ESG principles promotes responsible investments and green financing while enhancing transparency and risk management (Olgić Draženović & Gržeta, 2024). These components collectively create a cohesive framework that balances financial performance with environmental and social responsibilities, as highlighted in studies on ESG integration in banking practices.

### Challenges and Opportunities in Indonesia

#### Internal Challenges: Lack of Awareness, Limited Resources, and Organizational Inertia

Internal challenges such as a lack of awareness, limited resources, and organizational inertia significantly hinder the progress of sustainable banking in Indonesia. Many financial institutions are still in the early stages of understanding the value of integrating Environmental, Social, and Governance (ESG) principles, leading to low prioritization of sustainability in banking strategies (Juliana et al., 2024). The absence of widespread education and awareness campaigns further exacerbates this issue, leaving both employees and stakeholders under-informed about the long-term benefits of sustainable practices (Utomo et al., 2023). Additionally, the limited availability of financial

and technological resources creates substantial barriers, particularly for smaller institutions that lack the capital to invest in green technologies or sustainability training programs (Esamah et al., 2023). Organizational inertia, characterized by resistance to change and reliance on traditional business models, also plays a significant role in slowing the transition to sustainable banking. Without targeted interventions to address these structural and cultural challenges, the sector risks lagging behind in global sustainability trends (Masdar et al., 2022; Volz, 2015).

**External Challenges: Regulatory Gaps, Market Demands, and Socio-Economic Factors**

External challenges in achieving sustainable banking in Indonesia include regulatory gaps, market demands, and socio-economic factors that complicate the implementation of sustainable financial practices. Regulatory gaps hinder the enforcement of green financing policies and ESG (Environmental, Social, and Governance) criteria, as noted by (Setyowati, 2023b), who highlights inconsistencies in policy alignment across sectors. Market demands further challenge banks, as many stakeholders lack awareness of sustainable products, limiting the adoption of green financial instruments (Maheswari & Rudito, 2023). Socio-economic factors, such as income disparities and uneven access to banking services, exacerbate these challenges by constraining the potential for inclusive financial practices (Saifurrahman & Kassim, 2024). Additionally, the dependence on traditional financial models often conflicts with the need for innovative, sustainability-focused solutions (Samosir et al., 2024). Addressing these issues requires collaborative efforts among policymakers, industry leaders, and communities to bridge gaps and foster market readiness.

**Opportunities: Alignment with Global Sustainability Goals and Access to Green Financing**

The transition towards sustainable banking in Indonesia offers significant opportunities, particularly in aligning with global sustainability goals and accessing green financing mechanisms. The global emphasis on the UN Sustainable Development Goals (SDGs) provides a framework for Indonesian banks to adopt and promote sustainable financial practices, thereby enhancing their competitiveness on the international stage (Masruroh et al., 2024). Green financing, encompassing tools like green bonds and loans, serves as a critical avenue for funding environmentally friendly projects, allowing banks to participate in carbon reduction and energy transition efforts (Abidin et al., 2024). Furthermore, government-backed initiatives and partnerships with international organizations have created pathways for increased investment in renewable energy and eco-friendly infrastructure (Saxena et al., 2024). These opportunities also align with evolving market expectations, as consumers and investors increasingly prioritize sustainability in financial services (Taqwa & Yunus, 2023). By leveraging these dynamics, Indonesian banks can play a pivotal role in driving the country's economic transformation towards sustainability.

## **Comparison with International Standards**

### **Analysis of How Indonesian Banks Align with Global Sustainable Banking Standards (e.g., Equator Principles, Principles for Responsible Banking)**

The alignment of Indonesian banks with global sustainable banking standards, such as the Equator Principles and the Principles for Responsible Banking (PRB), is an emerging area of focus. These frameworks emphasize responsible financing, risk management, and sustainability integration. Indonesian banks have made strides by incorporating ESG (Environmental, Social, and Governance) considerations, yet they face challenges in fully adopting these global standards due to regulatory gaps and differing market dynamics (Farihah et al., 2024). The implementation of the Sustainable Finance Roadmap by OJK (Financial Services Authority) has facilitated progress, although further alignment with the Equator Principles in managing environmental risks remains limited (Oyegunle & Weber, 2015). Studies highlight the potential for banks to enhance their alignment through collaborative initiatives and capacity-building programs, fostering stronger adherence to international norms (Simamora, 2023). Additionally, the integration of Islamic finance principles offers a unique opportunity for Indonesia to innovate within the global sustainability framework (Hamidah & Dewantara, 2023).

## **FURTHER STUDY**

### **Future Research Directions**

#### **Suggestions for Empirical Studies to Validate the Proposed Conceptual Framework**

Future research should focus on empirically validating the proposed conceptual framework for sustainable banking performance, incorporating diverse methodologies and cross-sectional analyses. Empirical studies are essential to assess the practical application of Environmental, Social, and Governance (ESG) principles and their impact on financial outcomes (Mohd Zain et al., 2024). For example, testing the relationship between green financing initiatives and bank profitability can provide valuable insights into the economic benefits of sustainability (Tran et al., 2024). Comparative studies between conventional and Islamic banks in integrating sustainability measures also hold promise for identifying unique challenges and opportunities in diverse banking systems (Cui, 2024). Longitudinal research exploring the evolution of sustainability practices over time can offer insights into the efficacy of regulatory frameworks and policy changes (Sun et al., 2024). Finally, stakeholder-focused research, particularly involving underserved communities, can refine the framework to ensure inclusivity and broader applicability (Oladapo, 2024).

### **Exploration of Sector-Specific Sustainability Challenges Within Indonesia**

Future research into sector-specific sustainability challenges in Indonesia should address the unique dynamics and constraints faced by various industries. For instance, the agricultural sector grapples with balancing productivity and environmental sustainability, often limited by insufficient technological adoption and resource access (Apriana & Sukmana, 2024). Similarly, small and medium enterprises (SMEs) encounter hurdles in integrating sustainable practices due to limited financial and human resources, as well as regulatory ambiguities (Faisal et al., 2024). The energy sector also presents challenges in transitioning from fossil fuels to renewable energy sources, compounded by socio-economic dependencies and policy inconsistencies (Rochmansjah & Saputra, 2024). Exploring these issues through empirical studies can provide actionable insights into tailored policy interventions and innovation strategies for each sector. Additionally, analyzing the role of local governments in shaping sustainability practices within regional contexts can further enhance the relevance and impact of such research (Saratian et al., 2024).

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