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Implementation Analysis of Sustainable Finance-Rural Bank to Realize Environmental, Social, and Governance for Small Medium Enterprise

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ABSTRACT

The purpose of this study is to analyzed the implementation of sustainable finance- rural bank in Kudus Regency. The implementation of sustainable finance for Lembaga Jasa Keuangan (LJK) refers to POJK No 51/POJK.03/2017. This study used a qualitative descriptive approach and data collection is obtained from in-depth interview with rural bank management and documentation. Determination of the sample using purposive sampling and data analyzed used reducing data, presenting data, and making conclusions. The results showed that rural bank still does not understand the implementation of sustainable finance and still lacking in facilitating green finance. The preparation stage in the implementation of sustainable finance carried out by five BPRs in Kudus City is not ready to be carried out, there is only one BPR that is ready in the early stages of sustainable finance implementation. Its hoped that this study can help rural bank to improve the governance of implementation sustainable finance and hoped that decision-makers will provide assistance in implementation of sustainable finance for microfinance institutions, especially rural bank for realize ESG for SMEs.

Keywords : Sustainable Finance; Rural Bank; ESG; SMEs

I. INTRODUCTION

Sustainable finance is an ecosystem with comprehensive support in the form of policies, norms, regulations, standards, products, transactions, and financial services that align economic, environmental, and social interests in financing sustainable activities and financing the transition to sustainable economic growth (Badan Pengawas Keuangan, 2023). The implementation of sustainable finance in Indonesia still faces various challenges, including convincing business actors and the public that to generate profits it is necessary to take into account natural resources and social impacts on society (Otoritas Jasa Keuangan, 2016).

Companies are facing several complex problems, one of which is facing environmental issues that require great attention because they cause environmental damage. Companies are not only required to generate profits but also are required to pay attention to environmental problems that are increasingly worrying. In the Central Java Province, there are 34.5% of the economy supported by industry (Nurhadi Sucahyo, 2021). In fact, the industrial sector contributes the highest carbon emissions. Carbon emissions are the cause of climate change, the impact of which is felt by coastal residents in the Semarang Region, Central Java. In addition, climate change also affects weather patterns, planting seasons, agricultural productivity, and financial market stability. The Government of Indonesia has declared a target to reduce greenhouse gas emissions by targeting a reduction of 31.89% in 2030 with an international support target of 43.20% (OJK, 2021).

The non-profit organization Transformation for Justice Indonesia (TuK Indonesia) together with the Forests & Finance Coalition released a report on Banking on Biodiversity Collapse on funding data to drive deforestation, biodiversity loss, climate change and human rights violations in tropical forest areas. In its report, there are several banks that provide financing to industries that are at risk of environmental damage, including Bank Mandiri, BCA, BRI, and BNI. Based on market capitalization as of June 2023, these banks provide financing of around 30.5 billion US dollars from total loans for palm oil, pulp and paper, rubber, and timber companies operating in Indonesia (TuK Indonesia, 2024).

As one of the financial sectors, banking must be involved in environmental issues and improvements. The fact that banks are more stigmatized only focusing on financial profits without paying attention to environmental issues makes it necessary for banks to play an important role in allocating funds to support environmentally responsible initiatives. Banks can offer various programs to support the government in providing sustainable financing and investment, especially for SMEs, where the SMEs industry has a great contribution to the country's economy and sustainability (Valdiansyah & Widiyati, 2024).

In response to the development of national and international sustainable finance and responding to various challenges in handling and financing climate change, the implementation of the transition to Net Zero Emission (NZE) and efforts to achieve the Sustainable Development Goals (SDGs), OJK as the institution that regulates and supervises financial services issued the Taxonomy for Indonesia Sustainable Finance (TKBI) which is a transformation of Indonesia's Green Taxonomy. This TKBI is a guide to increase capital allocation and sustainable financing in supporting the achievement of Indonesia's NZE target in 2060. This TKBI makes it easier to understand the funding used in an environmentally friendly way. In addition, OJK also participates in supporting the implementation of the Sustainable Development Goals (SDGs) by issuing Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. BPR as a bank that runs its business in Indonesia is fully aware of the importance of providing support for programs run by the government related to sustainable development.

(Bayu & Novita, 2023) conducted a study on the disclosure of sustainable finance and green financing in Indonesia and the results of the study show that banks in Indonesia in the disclosure of sustainable finance and green financing are still relatively low. Meanwhile, in a study conducted by (Reza, 2023) on two BPRs in the Sumedang, West Java, it shows that one BPR has understood green finance and is more ready to implement green finance activities, while the other BPR still needs an understanding of the concept and governance of sustainable finance. Research conducted by (Pambekti & Lestari, 2023), shows that the potential for environmentally friendly financing that has been implemented by BPR in the Sumatra region is not optimal and efficient, this is due to the lack of digitalization and financial literacy related to environmentally friendly financing. This study focuses on assessing the implementation of POJK Number 51/POJK.03/2017 that has been implemented by BPR in the Kudus Regency to realize environmental, social, and governance for SMEs.

In accordance with OJK Regulations, in the implementation of sustainable finance, banks must adopt and internalize 8 (eight) principles of Sustainable Finance into their vision, mission, strategic plan and work program. These eight principles consist of (1) the principle of responsible investment, (2) the principle of sustainable business strategy and practices, (3) the principle of social and environmental risk management, (4) the principle of governance, (5) the principle of informative communication, (6) the principle of inclusiveness, (7) the principle of development of priority leading sectors, and (8) the principle of coordination and collaboration (Peraturan Otoritas Jasa Keuangan, 2017). The application of these eight principles consists of several stages, namely the preparatory stage, the initial implementation stage, and the advanced implementation stage.

II. RESEARCH METHOD

This study uses descriptive qualitative research using statistical numbers, but uses descriptive presentations which are carried out by collecting data from the results of interviews, documentation, and other official documents. According to (Miles & Huberman, 2014) the qualitative research approach is an approach with descriptive explanations, namely describing an event, phenomenon, symptoms, and occurrence that occurs at the moment, then the researcher photographs the event and occurrence and later describes it as appropriate.

This study uses a purposive sampling technique by selecting samples based on judgement that is appropriate to the research field. The research was conducted on five BPRs in the Kudus Regency with BPR criteria that have core capital equivalent to BPRKU 1 or BPRKU 2. The research data source uses primary data and secondary data. Primary data was obtained through interviews with the BPR Board of Directors (Board of Directors, Board of Commissioners). Secondary data was obtained from the OJK website and print and online media. The data collection method is carried out by conducting interviews with related parties and documentation.

The data analysis technique is carried out by referring to the analysis model from (Miles & Huberman, 2014), namely reducing data, presenting data and drawing conclusions. Indicators in conducting analysis using POJK Number 51/POJK.03/2017 regarding efforts to implement sustainable finance principles, namely at the preparation stage and the beginning implementation stage. Indicators that are in accordance with OJK regulations will be given a value of 1 and indicators that are not in accordance with OJK regulations will be given a value of 0.

The conformity calculation is the number of suitable indicators compared to the total number of indicators multiplied by 100%. Conformity measurement was measured using the basis of the Ministry of Home Affairs No. 690.900.327 of 1996 with the criteria of very appropriate (90%-100%), appropriate (80%-90%), moderately appropriate (70%-80%), less appropriate (60%-70%), and not appropriate (<60%). The data testing technique is carried out using the validity test introduced by (Creswell, 2017), namely using source triangulation and techniques.

III. RESULTS AND DISCUSSION

The results of this study use indicators that refer to POJK Number 51/POJK.03/2017. This indicator is a reference in conducting interviews with the Board of Directors and the Board of Commissioners of BPR. The indicators used are:

1. **Preparation Stage**
   a. Administrators, managerial level employees, and employees with the addition of Sustainable Finance duties to existing units or special units that carry out Sustainable Finance programs
   b. Conducting socialization on the implementation of sustainable finance in the company environment
   c. Make changes in responsibilities, authorities and duties for existing units
   d. Develop new Standard Operating Procedures (SOP) for special units that carry out sustainable finance programs
   e. Preparing long-term and short-term RAKB
   f. Communicating with stakeholders on the preparation of long-term and short-term RAKB and obtaining approval from stakeholders
   g. Setting a vision and mission in supporting the implementation of sustainable finance
   h. Creating policy strategies, governance, SOP, and programs that are appropriate and in line with the 8 (eight) principles of sustainable finance
   i. Obtain approval from the bank management through review and assessment of the management on the adjustment of the vision and mission
   j. The vision and mission have been conveyed at RUPS
   k. Implementing sustainable finance implementation targets in the bank's strategic planning that is tailored to the financial condition, structure, and complexity of each bank.
2. **The Beginning Implementation Stage**
   a. Adjusting criteria in the recruitment process, training,

sieving process, performance appraisal adjustments, and remuneration system

b. Develop employees in understanding the determination of projects or customers based on the category of sustainable business activities, development of sustainable finance products and/or services, adjustment of sustainable finance principles into current systems, determination of new systems that meet sustainable finance principles
c. Adjusting SOPs starting in special units related to sustainable finance
d. Adjusting information technology and reporting systems to help banks support the distribution of products or services related to sustainable finance, the preparation of reports related to sustainable finance, and the dissemination of information needed by banks
e. Issuing internal guidelines that support environmentally friendly practices in the bank's daily operations, such as green office practices
f. Adjusting the classification of bank business activities with the criteria and categories of sustainable business activities that have been determined by the Financial Services Authority
g. Designing, developing, and innovating sustainable financial products and/or services in accordance with market demand
h. Banks need to start introducing sustainable finance prototypes or sustainable finance products and/or services to people who have interest and potential in sustainable finance products and/or services
i. Improving existing customer understanding, as well as in the context of education and consumer protection related to sustainable finance, and providing internal education related to the concept and introduction of sustainable finance and sustainable finance products and or services

Based on the results of the research through interviews with BoD and BoC, and also documentation, information was obtained regarding the preparation stage for the implementation of sustainable finance in BPR A, BPR B, BPR C, BPR D, and BPR E is described in table 1.

Table 1. Preparation Stage of BPR A, BPR B, BPR C, BPR D, and BPR E in the implementation of Sustainable Finance

Indicator	Realization in BPR	Value
1.a	BPR A: There hasn't been a sustainable financial tupoxy addition. BPR B: There's been an increase in sustained financial tupoxy. BPR C: There hasn't been a sustainable financial tupoxy addition. BPR D: There hasn't been a sustainable financial tupoxy addition. BPR E: There's been an increase in sustained financial tupoxy.	BPR A: 0 BPR B: 1 BPR C: 0 BPR D: 0 BPR E: 1
1. b	BPR A: Have done socialization to the staff and also passed on to shareholders related financial sustainability BPR B: Have done socialization BPR C: Haven't done socialization yet BPR D: Haven't done socialization yet BPR E: It has conducted socialization related to the implementation of sustainable finance that will be carried out by the company	BPR A: 1 BPR B: 1 BPR C: 0 BPR D: 0 BPR E: 1
1.c	BPR A: There has been no change in the responsibilities and authorities and duties of the company BPR B: Still in the process of changing the duties and responsibilities of management	BPR A: 0 BPR B: 0 BPR C: 0 BPR D: 0 BPR E: 1

Indicator	Realization in BPR	Value
	BPR C: Using the old SOP BPR D: Using the old SOP BPR E: Changes related to the responsibilities, authority, and duties of existing units have been made by BPR	
1.d	BPR A: Not yet BPR B: Has been prepared for SOP related to sustainable finance BPR C: Not yet BPR D: Not yet BPR E: BPR has prepared an SOP to carry out sustainable finance programs	BPR A: 0 BPR B: 1 BPR C: 0 BPR D: 0 BPR E: 1
1.e	BPR A: BPR prepares long-term and short-term strategic plans for BPR, for RAKB has not yet prepared BPR B: The stage of preparation	BPR A: 0 BPR B: 0 BPR C: 0 BPR D: 0 BPR E: 0

Indicator	Realization in BPR	Value
	has not been approved BPR C: Has prepared a BPR strategic plan that covers both long-term and short-term plans. For the RAKB, it is still submitted orally to shareholders at RUPS BPR D: Preparation of long-term plans and short-term plans of BPR BPR E: Has prepared a RAKB but is still in discussion with the company's stakeholders	
1.f	BPR A: There has been no communication with stakeholders BPR B: The preparation of the RAKB has been communicated with stakeholders, it is only a matter of	BPR A: 0 BPR B: 1 BPR C: 0 BPR D: 0 BPR E: 1

Indicator	Realization in BPR	Value
	waiting for approval BPR C: Initial discussion for the preparation of the RAKB BPR D: Not yet BPR E: has been conveyed to shareholders and approved by shareholders	
1.g	BPR A: Still using the old vision and mission BPR B: Vision and mission to support sustainable finance have been created BPR C: Still using the old vision and mission BPR D: Not updated for new vision and mission. Still using the old vision and mission BPR E: Ready with vision and mission that includes the implementatio	BPR A: 0 BPR B: 1 BPR C: 0 BPR D: 0 BPR E: 1

Indicator	Realization in BPR	Value
	n of sustainable finance	
1.h	BPR A: Not yet BPR B: Still in Preparation BPR C: Not yet BPR D: Not yet BPR E: Already exists	BPR A: 0 BPR B: 0 BPR C: 0 BPR D: 0 BPR E: 1
1.i	BPR A: Not yet BPR B: Not yet BPR C: Not yet BPR D: Not yet BPR E: Reviewed by the management	BPR A: 0 BPR B: 0 BPR C: 0 BPR D: 0 BPR E: 1
1.j	BPR A: The company has not yet conveyed at RUPS BPR B: The company has not yet conveyed at RUPS BPR C: The company has not yet conveyed at RUPS BPR D: The company has not yet	BPR A: 0 BPR B: 0 BPR C: 0 BPR D: 0 BPR E: 1

Indicator	Realization in BPR	Value
	conveyed at RUPS BPR E: Has been conveyed to the participants of the RUPS in May 2024	
1.k	BPR A: Not yet BPR B: Contained in the bank's strategic planning BPR C: Not yet BPR D: Not yet BPR E: Contained in the bank's strategic planning	BPR A: 0 BPR B: 1 BPR C: 0 BPR D: 0 BPR E: 1

Source: Data processed by researchers, 2024

Based on table 1, BPR A obtained a score of 1 with a percentage of 9%, BPR B obtained a score of 7 with a percentage of 64%, BPR C and BPR D obtained a value of 0 with a percentage of 0%, and BPR E obtained a score of 10 with a percentage of 91%. The preparation stage in the implementation of sustainable finance in BPR A, BPR C and BPR D is included in the "non-compliant" category. BPR B is in the "not suitable" category, while BPR E is in the "suitable" category. The preparation stage in the implementation of sustainable finance to support ESG for MSMEs still needs to be the concern of the four BPRs who are not ready to implement sustainable finance.

The regulations in POJK Number 51/POJK.03/2017, have not been fully implemented by the four BPRs that are in the category of "not conform" and "not conforming". From the results of the research in the preparation stage, the researcher then continued the research at the initial implementation stage carried out by BPR E. The results of the initial implementation of sustainable finance in BPR E can be seen in table 2.

Table 2. Initial implementation of Sustainable Finance at BPR E

Indicator	Realization in BPR E	Value
2.a	BPR has sent several employees to participate in training and conduct performance assessments every year and has implemented a remuneration system	1
2.b	Employees have understood several categories of sustainable business activities and products tailored to	1

Indicator	Realization in BPR E	Value
	sustainable finance	
2.c	The new SOP has been created by adjusting policies that support the implementation of sustainable finance	1
2.d	The information technology system still uses the old one, there is no change because the system supports the distribution of products related to sustainable finance	1
2.e	BPR has issued internal guidelines that support environmentally friendly activities, namely not allowing employees to use plastic bottles, restricting the use of electricity, water and paper	1
2.f	BPR has adjusted the category of sustainable business activities in accordance with OJK regulations	1
2.g	Adjusting market demand by adding innovations in financing or credit products related to pollution prevention and control in the agricultural sector	1
2.h	It has not introduced a sustainable financial portfolio because it is still in the early stages of implementation	0
2.i	BPR has provided education to customers who apply for financing for their business. BPR educates customers related to sustainable finance implemented in the company	1
Total value		8
Percentage		88,9%

Source: Data processed by researchers, 2024

Based on table 2, a percentage of 88.9% was obtained and showed that the initial stage of sustainable finance implementation implemented by BPR E was included in the 'appropriate' category. The indicators in the initial implementation have been fully implemented. Furthermore, BPR E can start to think about the initiation of sustainable finance prototypes or sustainable finance products and/or services to people who have interest and potential in sustainable finance products and/or services.

3. CONCLUSION

Based on the results of the analysis carried out, it can be concluded that the preparation stage in the implementation of sustainable finance carried out by five BPRs in Kudus City is not ready to be carried out, there is only one BPR that is ready in the early stages of sustainable finance implementation. There are many components that need to be prepared by BPR A, BPR B, BPR C, and BPR D in implementing sustainable finance in supporting the realization of ESG for SMEs.

BPR E which is ready to implement the implementation of Sustainable Finance, also needs to pay attention to the initiation of financial portfolios. Broadly speaking, BPRs still lack understanding the implementation of sustainable finance and are still lacking in facilitating green finance. It is hoped that this research can help BPR in improving the governance of the implementation of sustainable finance and it is hoped that decision-makers will provide assistance in the implementation of sustainable finance for microfinance institutions, especially BPRs, so that they can participate in realizing ESG.

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