

# Sustainable Finance: Implication of top-down policy in the banking sector

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## ABSTRACT

Indonesia has launched a regulation that requires public companies to implement social and environmental programs as part of their commitment to sustainable development. One of the regulations released by the financial service authority is POJK No. 51/ 2017, which requires all financial services organisations to implement sustainable finance. This study aims to analyse how the banking sector implements sustainable finance, as their commitment through social and environmental programs mostly known as corporate social responsibility (CSR). This research uses a qualitative method with a case study approach on one Indonesian bank (namely DAMO Bank), which has many branches and offices throughout Indonesia. Most data was collected from interviews with management and staff in the branch office. This study also uses the bank's sustainability report and some internal documents to enrich the data analysis. The result of this study shows that there is the implication of the policy taken by the head office bank regarding the sustainability program that creates low understanding and interest regarding sustainability finance in the branch office of DAMO Bank.

**Keywords:** Sustainable Finance, Sustainability, Financial Services, Banking

## 1. INTRODUCTION

The United Nations has encouraged all countries to be concerned about sustainability and raising the agenda of Sustainable Development Goals to be achieved by 2030. Therefore, the notion of sustainability become a hot topic discussed among the global community (Purvis et al, 2019) The issue of sustainability brings concerns on how recent consumption and way of life impact the future of the next generation. Rahman (2022) mentioned that 66.1% of investors are concerned about companies implementing ESG in business processes. Meanwhile, the survey done by the Indonesian Stock Exchange mentioned that 20% of Indonesian companies have published and reported information regarding sustainability. This shows that various industries in Indonesia are trying to support the government's 2023 Development Agenda, which not only focuses on environmental aspects but also involves social, economic, and corporate governance.

One of the boards of authority financial services (*OJK=Otoritas Jasa Keuangan*) mentioned that collaboration and commitment from various parties play the most crucial role in implementing sustainability in Indonesia. These parties include professionals from various sectors, regulators, and those from the financial services sector. As a regulator, the OJK has started its steps by issuing a Sustainable Finance Roadmap Phase 1 for 2015-2019 on December 5, 2014. In the first year, several guidebooks were published from a series of plans that were made for the financial services sector to implement sustainable finance. Also, a 2016 Environmental Analysis Training (TAL) program focusing on renewable energy and energy conversion was published to complement the regulation. POJK 51/POJK.03/2017 effectively runs on 18 July 2017, and the banking sector became the first role model to implement the responsibility towards sustainable development plans. OJK Regulation 51 Article 1 states that banks in the Financial Services Institution (LJK) category must prepare a sustainability report to show corporate responsibility to the community. The agenda of sustainable finance becomes an approach that all financial services institutions might use.

Sustainable finance is a commitment that companies such as the financial services sector can provide through efforts to align the three pillars of sustainability: social, economic, and environmental (OJK, 2014). This makes sustainable finance one of the aspects included in the sustainability report. Many Indonesian companies experience challenges when preparing sustainability reports. In addition, many companies are still not ready when regulations require them to publish these reports. (Djajadikerta & Trireksani, 2012) highlight that most of the sustainability reports issued by companies are

still superficial; therefore, the quality of reports is still low due to the many existing limitations. Even though regulations such as POJK 51 are expected to drive companies to publish sustainability reports, disclosure of sustainable finance in Indonesia is relatively low (Krisna Bayu & Novita, 2023). Discussions about sustainable finance in Indonesia are minimal and sound unfamiliar to the public. This is also because sustainable finance can be classified as a new study (Musta et al., 2017), so more research is needed to increase knowledge and complete existing research gaps.

Behind the challenges in implementing sustainable finance, there are also perceived opportunities. This can be seen from the good response given by eight banks in Indonesia, which were the first movers in the formation of the Indonesian Sustainable Finance Initiative (IKBI). Indonesia has also become the First Mover for Sustainable Finance Initiatives for Emerging Countries, with POJK 51 for the banking sector. It is hoped that the presence of sustainable finance will make it easier for companies to manage opportunities and risks regarding social and environmental issues. The management carried out by the company will later be measured through Corporate Social Responsibility (CSR) as an indicator that is often used by companies and presented in the form of a Sustainability Report. This study will discuss more on the way a company implements sustainable finance. Therefore, the research questions are (1) How far is the company aware of sustainable finance? (2) How is sustainable finance implemented by the company?

## 2. RESEARCH METHODS

This study uses a qualitative approach and takes one company from the financial services sector as a case study. The case study uses one private bank, DAMO Bank, which has many branches throughout Indonesia. This study discusses one branch office of DAMO Bank in Surabaya. This qualitative study was conducted because it needs to understand how one company from the banking sector implements a sustainable finance agenda in their daily operations. The situation will later be separated and put back together with analysis so that meaning emerges and data is created (Harling, 2012). The case study is defined as a method that, in the research process, focuses on the elements of how the problem is faced (Yin, 2003).

This research aims to see how far sustainable finance is implemented in DAMO Bank through one of its branch offices. This research uses an interview data collection method, using online communication media and internal documents from the company as primary data sources. Also, document analysis was done using documents such as reports published by the company. The participants selected for interviews in this research were parties who had positions, had more information and knowledge regarding existing programs at the company, and were also involved in the company's sustainable finance program. There were 3 participants from management and staff that deal with sustainable finance programs. The interview method used in this research is semi-structured, where the researcher can develop questions based on the participants' answers. In all interview sessions, the researcher got permission to take a record. With the consent of participants, all data and information are allowed to be used for academic discussion through this study. Meanwhile, before the interview session was conducted, the researcher undertook document analysis to view the corporate profile and especially the social and environmental activities of DAMO's sustainable finance program. Data from sustainability reports become the initial information in this study as guidance to conduct the interview and to confirm the data between management and staff with the information provided in the report. The documents analysed by researchers include sustainability reports for 2019, 2020, 2021 and 2022. Apart from that, researchers also analysed POJK 51/2017 guidelines to determine the implementation of sustainable finance in Indonesia.

## 3. RESULT AND DISCUSSIONS

### 3.1. Result

The DAMO Bank was established in Indonesia more than six decades ago, and around the 1980s, the company was listed on the Jakarta Stock Exchange. Supported by the company's vision, namely "We Care in Indonesia and Help Millions of People Achieve Prosperity", currently DAMO Bank has more than 879 branch offices and service outlets, which are divided into conventional branches, financial credit units, insurance, and sharia units. DAMO Bank serves all customer segments with a comprehensive range of banking and financial products and services. As a modern bank, DAMO Bank provides conventional banking services and digital services that continue to be developed, such as SMS banking, internet banking and mobile banking. DAMO Bank is generally spread across 12 regions in Indonesia, and each region has a regional office, which is the representative office responsible for covering a certain area. This gives regional offices a broader scope of authority for decision-making. DAMO Bank seeks to show the company's commitment to implementing sustainable finance by forming a vision and mission for sustainability.

DAMO Bank recognises that sustainability aspects require shared awareness and responsibility. Therefore, DAMO Bank strives to contribute to reducing the negative impacts arising from company operations in environmental and social

aspects, which is stated in the sustainability vision and mission created by DAMO Bank. The vision statement is to create sustainable products and services that adapt the business to align with the sustainability expectations of stakeholders and identify the best solutions for their needs. The company's mission is to create value and sustainable growth for our customers, employees, and communities.

In implementing the Social and Environmental Responsibility (TJSL) program, DAMO Bank considers the three fundamental pillars of sustainability: the economic, environmental, and social. The following are details of the programs DAMO Bank has implemented through the company's major program, namely DAMO Bank Peduli. Financial Health Literacy, Emergency Hospital Construction and 11,000 PPE Movement, 11,000 Insurance Movement for Covid-19 Volunteers, Public and Employee Vaccination Activities, Basic Food for the Community, Donations for Students, and Archipelago Water and Sanitation

### **3.2. Discussion**

This study found that employees of the DAMO Bank branch show minimum spirit in participating and contributing to some sustainable programs. This is because DAMO Bank is still focusing its sustainable activities at the regional office level, and the number of employees involved is still limited. This indirectly makes employees in branch offices unaware of sustainability and do not have the initiative to follow developments in existing programs. DAMO Bank tends to have minimum stakeholder engagement in each program that addresses sustainability issues. However, the minimum involvement of both internal and external stakeholders in supporting sustainability efforts was reported in the sustainability report as a form of stakeholder engagement. Employees are important stakeholders to which the company needs to pay attention. This is because employees are the ones who can carry out more intimate outreach regarding sustainability with the community through the customers they serve. A relationship or involvement with stakeholders will consist of an 'interactive relationship, where each party will be mutually involved and responsive to form the context in running a modern business and create a basis for transparency and accountability, according to (Andriof et al., 2002) in journal (Chaerunisa & Siregar, 2023) In managing stakeholder involvement, communication is important to meet stakeholder needs and expectations (Chaerunisa & Siregar, 2023). Based on data obtained from interviews, communication carried out by the centre to branches is poorly performed. The submission of information is only distributed clearly to regional offices, and the continuation of information to branches under the auspices of regional offices is still considered inadequate. This is because employees in KC tend to only take part in social or environmental activities as an obligation.

Based on the information outlined, DAMO Bank has implemented several initiatives at the branch level to support sustainability, which includes three main pillars: economic, social, and environmental. In the economic pillar, DAMO Bank organises financial education programs to increase domestic and international awareness regarding sustainable finance. On the social pillar, there is the Grebek Pasar program, which focuses on cleaning and beautifying markets and building sports facilities in green spaces. In the environmental pillar, DAMO Bank involves employees in the mangrove planting program to contribute positively to reducing carbon emissions. In addition, practical measures such as saving paper through double-sided printing have also been implemented. However, there is some support for sustainable development programs at the industrial level, such as using solar panels, replacing cars with electric cars, and replacing lamps with LED lights. However, the implementation declaration has not received a clear follow-up or follow-up. Looking at strategic aspects and sustainable financial policies, DAMO Bank at the central level has prepared and started implementing sustainable credit guidelines in 2021, such as environmental and social risk analysis (ESRA) guidelines. However, understanding at the institutional level is still lacking, especially regarding ESRA requirements in the credit lending process. Lack of information and understanding at the institutional level can hinder the effective implementation of sustainable finance. In terms of governance, DAMO Bank has formed a special sustainability team and sustainability subcommittee at the central level, but implementation is more centralised and uneven across all branches. More decentralised implementation and branch involvement in decision-making can increase the effectiveness of sustainability initiatives. Overall conclusions regarding the results of the analysis of the implementation of sustainable finance at DAMO Bank Branch Offices are shown in Table 1.

The implementation of sustainable finance at DAMO Bank Indonesia tends to be centralised, and information is not properly distributed across all branches. This practice has created a knowledge gap between the head and branch offices. DAMO Bank also shows minimum effort in encouraging employees to participate in stakeholder engagement. This causes employees who work at the branch level to not be aware of what sustainable finance is and its implementation. Indirectly, DAMO Bank's goals cannot be fully achieved because only a few parties in the company structure are truly aware and aware of the importance of implementing sustainable finance in company operations. The implementation of sustainable finance needs to consider the challenges and potential solutions to increase the effectiveness of this implementation throughout the organisational structure, including its branch.

Even though the data in the sustainability report prepared by DAMO Bank has shown a lot of socialisation and training for employees, the lack of proactive activities means that employees only learn theory without any practice, which means that employees will increasingly forget about the socialisation provided.

**Table 1.** Analysis Conclusion

Styles	
Understanding of Sustainable Finance	The understanding that both Branch Heads and staff in Branch Offices (KC) have is considered lacking and limited. This is because the outreach provided by the centre is one-way in nature, so it attracts the attention of company employees regarding Sustainable Finance. Communication is limited to regional offices only because they are head office representatives in certain regions. Due to a lack of understanding, employee sustainability awareness also tends to be low.
Stakeholder Engagement	Even though communication has been carried out through e-mail blasts and the provision of programs in the company, one-way communication means employee involvement is limited. Branch offices do not have an important role or cannot participate in providing suggestions or input due to the nature of the company, which tends to be top-down, so all decisions rest with the Head Office. Besides that, branch offices are still considered less involved in implementing the program, where employees at regional offices are often used as representatives at events.
Lack of follow-up on the potential for implementing sustainable finance in the Branch Office	Several potentials can support the implementation of sustainable finance owned by companies. However, due to insufficient follow-up from the head office, many sustainability programs or activities are still hampered at branch offices.

Communication strategy is an important thing that companies must pay attention to when conveying information. The approach used by DAMO Bank can be considered less effective because there are still a lot of one-way communication and other communication strategies that the company can use to increase the effectiveness of conveying information to branch offices. The central level will only provide information to regional offices, which will be forwarded to the offices without any feedback that can be given from regional offices or branch offices. Because the branch office cannot provide an opinion, over time, KC has become passive when getting information about sustainable finance implemented by DAMO Bank. This indirectly also makes employees lazy to understand sustainable finance and choose to consider this as an obligation given by the head office, which employees must follow.

With many weaknesses in communication at the central level, the information received by branch offices becomes less effective. It causes stagnation in the knowledge of employees in branch offices. This means that the statements made by DAMO Bank in the Sustainability Report do not correspond to reality, where within the company's internal scope, the meaning of implementing several policies and programs cannot be adequately conveyed. The eight principles of sustainable finance are not described in detail in the company report.

#### 4. CONCLUSION

Sustainable finance at DAMO Bank has been widely implemented, starting from the economic, social and environmental pillars. The social responsibility movement implemented by the company varies. This study shows that DAMO Bank undertook social responsibility actions based on sustainability issues currently trending in the community.

Researchers conducted research by observing the challenges of implementing sustainable finance at DAMO Bank branches, focusing on understanding programs and handling internal challenges. In conclusion, researchers found several key findings, including (i) a low understanding of sustainable finance, (ii) the implementation of sustainable finance at the branch considered as instruction from the central head level, (iii) minimum follow-up action from the head office.

The first is about a low understanding of sustainable finance, which shows that branch heads show a limited understanding of the concept of sustainable finance, indicating that knowledge about sustainability is still shallow at the branch level. This is because stakeholder engagement is still lacking at the branch level; even though there have been a lot of training and sharing sessions, proactive involvement from employees at the branch level is still considered lacking. This research highlights that the sustainable finance program has been implemented at the branch level of all DAMO Bank. Most programs undertaken at the branch level were similar, and not as many as implemented at the central level of DAMO Bank. This research highlights that the sustainability programs at the branch level of DAMO Bank are undertaken as an obligation that must be practised by the branch as instructed by the headquarters. The low awareness of sustainability among people at the branch level might trigger a lack of understanding regarding sustainability. Lastly, this study notes that the branch level of DAMO Bank holds the potential to undertake some programs at each branch of

DAMO Bank. Ideas such as implementing solar panels, reducing carbon emissions through renewable operational cars and others are executable by the branch office. However, as the bank applies a top-down policy regarding the sustainability program, it has shown that there is minimum support from the head office on each branch's sustainability idea to undertake the sustainability program based on the branch's concern.

This research also highlights the importance of stakeholder engagement for the company to implement sustainable finance. The fact shown from the case study taken in one branch office of DAMO Bank showed that management, staff and employees of the branch office had minimum involvement in the program of sustainable finance as it was considered as an instruction from the top. Also, the centre office limited the number of those who contributed.

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