

CHAPTER 1 INTRODUCTION

1.1 Background

The era of sustainable finance has entered a new phase with the issuance of the Financial Services Authority Regulation (POJK) Number 51/POJK/03/2017, which governs the implementation of sustainable finance for financial institutions, issuers, and public companies. This progress was further supported by OJK's release of the Technical Guidelines for Sustainable Finance in the Banking Sector in November 2018. These guidelines offer practical instructions to banks, including Commercial Banks, Rural Banks, and Sharia Rural Banks, to apply sustainable finance in line with the regulation.

This guide explains the practical meaning of sustainable finance principles, prioritizes the Sustainable Finance program, and describes the strategic steps for its implementation. It outlines the contents of the Sustainable Finance Action Plan and the Sustainability Report (SR), details criteria and categories for sustainable business activities, and discusses the allocation and use of Social and Environmental Responsibility funds to support sustainable finance initiatives.

The program aims to support Financial Services Institutions in Indonesia to enhance their social and environmental performance, aligning with international standards and best practices for a sustainable approach. Financial institutions will benefit by better protecting their bank loan portfolios against business risks. It will also help them identify new opportunities in the green economy. Under the Financial Services Authority Regulation (POJK) and the technical guidelines for the banking sector, Indonesian banks are now required to assess the effectiveness

of social and environmental risk management in their funded projects, and to assess how these projects contribute to a greener, more climate-friendly, and socially inclusive business environment.

Currently, investors prioritize profit maximization along with social and environmental welfare because a company's strong environmental performance can boost its value (Adyaksana & Pronosokodewo, 2020). Besides manufacturing organizations, banks and other financial institutions are also considered indirectly responsible for environmental pollution since they provide funding to large industries (Hossain et al., 2016; Dhar & Chowdhury, 2021). The current situation calls for environmental pollution control measures across all industries, including the financial sector (Redwanuzzaman, 2020). As a result, many banks are actively engaged in green banking activities in line with the Financial Services Authority Regulation (POJK) number 51/PJOK.03/17.

Answering the Research Hypothesis: 39 organizations' main goal (Mardiana & Wuryani, 2019). Firm value is defined as a shareholder's evaluation of a company's performance. current and future performance (Indrarini, 2019). The highest company value may indicate that the company's reputation is relatively good now and in the future, according to Utomo (2019). A company's value depends not only on its performance but also on its ability to meet the demands of various stakeholders, such as the environment, employees, and society (Sharma et al., 1999; Utomo et al., 2020). Increasing company value often requires addressing this through adequate environmental management (Mardiana et al., 2019).

Organizations' careless behavior toward the environment can negatively affect it, leading to issues like "Global warming, climate change, natural disasters, water, air, and soil pollution" (Utomo et al., 2020). As a result, the demand for corporate environmental information is growing worldwide as users become more aware. In the 2015 UN Agenda, world leaders committed to achieving the Sustainable Development Goals (SDGs) by 2030. To achieve sustainable development within a sustainable economy, banking plays a strategic role in implementing the Green banking concept (Dewi, 2017). Green banking is defined as the government's effort to shift from a system that focuses solely on profit (a greedy economy) to one that emphasizes profit, people, and the planet (a green economy) (Aldama et al., 2021).

One of the green banking activities involves strengthening bank risk management, especially regarding environmental factors, by encouraging the banking industry to extend credit to customers who prioritize environmental sustainability. These are commonly known as green loans or green credit, for example, in the organic farming and renewable energy sectors. The motivation for adopting green credit practices in Indonesia was the issuance of PBI (Bank Indonesia Regulation) number 14/15/PBI/2012, which promotes bank operations with an environmental perspective by requiring banks to analyze prospective debtors' environmental management when applying for loans.

The green financing program has become the main focus of banks in promoting sustainable development. Through this program, the banking sector also encourages all industries to participate in protecting future generations. The complexities and urgency of green financing, as reflected in banks' operations, are

evident in the performance of banks such as PT Bank Tabungan Pensiunan Nasional (BTPN) Tbk. BTPN Bank, which is dedicated to supporting sustainable lending through an environmental, social, and governance (ESG) approach, disbursed sustainable financing loans totaling Rp 12.04 trillion by the end of 2021. Head of Wholesale Banking, Nathan Christianto, said the Bank's active distribution of green financing credit is closely tied to its two main missions.

First, Bank BTPN, part of the Sumitomo Mitsui Banking Corporation (SMBC) Group, is dedicated to helping reduce the effects of climate change. This effort is included in the "Roadmap Addressing Climate Change" program. For context, this program demonstrates SMBC's commitment to the Net-Zero Banking Alliance. The alliance was formed to align loans and investments with greenhouse gas emission standards to reach zero emissions by 2050. In the Roadmap Addressing Climate Change, SMBC commits to achieving zero emissions across its group operations by 2030. Additionally, SMBC plans to allocate 30 trillion yen to sustainable financing and to reach zero emissions across its loan and investment portfolios by 2050.

Second, BTPN Bank complies with the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, concerning the implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. To uphold SMBC's commitment, BTPN has undertaken various efforts, including reducing fuel consumption and energy use at its branches, digitizing operational and business processes, and promoting green financing. Note that Bank BTPN offers a special financing product that supports green initiatives through green

loans and sustainability-linked loans for corporate customers. Bank BTPN is committed to investing across multiple sectors and distributing green financing to various industries, including power generation, with a focus on new and renewable energy, according to Nathan, Head of Wholesale Banking at PT. BTPN Tbk., the New Renewable Energy (NRE) sector is crucial because it has a mature framework and is a key driver of the economy. Additionally, NRE plays a vital role in reaching the zero-emission goal. One example of Bank BTPN's green financing in this sector is funding the Hasang Hydroelectric Power Plant project in Toba Samosir, North Sumatra.

Green banking is also part of Corporate Social Responsibility (CSR). Many companies emphasize that corporate social responsibility requires attention because, in addition to being economically responsible to shareholders, they must also consider their social responsibility towards stakeholders in their local environment (Handoko, 2010). Social responsibility has been a concern for several years and is currently echoing at both the national and global levels. Addressing social and environmental issues arising from the company's activities is the company's responsibility. Therefore, Corporate Social Responsibility (CSR) programs also influence a company's value.

The development of CSR is closely linked to the numerous environmental problems arising from a company's operations. In this regard, companies are required to disclose their CSR efforts under Law No. 40 of 2007 concerning Limited Liability Companies. Banking operations generally do not leave a large environmental footprint since they are part of the service sector. The visible

impacts are typically limited to paper consumption, excessive electricity and water use, and waste generation. However, this sector is a primary source of financing for various industries, including paper, coal, chemicals, pulp, food, and beverages. Providing credit to fund production activities in these industries can have some impact on environmental quality degradation.

Based on the above description, the researcher is motivated to undertake this study because, first, although many studies have examined the impact of corporate social responsibility on firm value, research on the effect of green credit remains limited. Second, banks that do not implement corporate social responsibility (CSR) are likely to face public protests or demonstrations, which could lead to operational disruptions and financial losses. Conversely, banks that effectively engage in CSR may avoid such protests, allowing them to operate smoothly and potentially increase their overall profitability.

The rise in banking profits is clearly linked to higher profitability ratios such as Return On Assets (ROA), Return On Equity (ROE), and Return On Sales (ROS). Implementing Corporate Social Responsibility (CSR) can serve as a strategy to reduce risks and boost profitability. CSR offers various benefits, including lowering operational costs, increasing sales and market share, and attracting investors through a positive image. A bank's reputation is crucial for attracting potential investors and can influence perceptions of profitability; maintaining this reputation is vital for the bank's survival. By engaging in CSR activities, banks aim to achieve their primary goal: generating profit while considering stakeholder

interests and environmental sustainability—demonstrating responsibility for the impacts of banking operations.

1.2 Research questions

With regulations issued by the PJOK concerning sustainable finance implementation for financial institutions, along with many banks supporting green banking activities—such as BTPN Bank—researchers are keen to examine how green credit initiatives and corporate social responsibility (CSR) disclosures influence company value within the banking sector listed on the Indonesia Stock Exchange (IDX). Based on this context, the research problem is formulated as follows:

1. Does the implementation of green credit affect firm value in the banking industry listed on the Indonesia Stock Exchange (IDX)?
2. Does the disclosure of corporate social responsibility affect firms' value in the banking industry listed on the Indonesia Stock Exchange (IDX)?

1.3 Research objective

This study aims to empirically analyze the effect of green credit and CSR disclosure on the value of banking firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024.

1.4 Research contribution

The results of this study are expected to benefit readers and provide the following uses:

A. Theoretical Benefits

The results of this study are expected to enhance knowledge in the banking industry, particularly regarding how the implementation of green credit and

Corporate Social Responsibility (CSR) disclosure affects banks' firm value in Indonesia.

B. Practical Benefits

- Theoretical contribution

This study's findings are anticipated to serve as references and enhance understanding of how green credit and Corporate Social Responsibility (CSR) influence firm value in the banking sector, particularly considering the limited research on green credit in Indonesia.

- Practical contribution

This research aims to motivate companies to improve their green credit practices and disclose their Corporate Social Responsibility (CSR). Additionally, the findings are expected to provide investors with better information to consider green credit and CSR disclosures in their investment decisions.

- Regulator contribution

This study's findings are intended to reinforce the requirements of the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017. This regulation mandates that Financial Services Institutions, Issuers, and Public Companies implement sustainable finance practices.