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PROCEDURES FOR SUSTAINABLE CREDIT DISBURSEMENT IN THE BANKING SECTOR IN REALIZING JUSTICE

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ABSTRACT

This research explores sustainable lending procedures in the Indonesian banking sector, which is the key to fair and sustainable economic development. Based on Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking, as well as Law No. 21 of 2011 amended by Law No. 4 of 2023 concerning Development and Strengthening of the Financial Sector, this study explores the implementation of Financial Services Authority Regulation No. 51/POJK.03/2017. Using a qualitative approach, researchers inventory and analyze relevant legal materials to assess the effectiveness of sustainable lending. The research findings show that despite progress, improvements in supervision and risk management are still needed to ensure sustainable financial practices. This research proposes a credit distribution model that takes into account the principles of justice and sustainability, through strategic coordination between financial institutions, government, and other stakeholders to achieve appropriate economic development goals based on the 1954 Constitution.

Keywords: *procedures, credit disbursement, continuity, fairness*

INTRODUCTION

In Indonesia, banks play an important role in economic development through lending that not only aims at economic growth, but also must pay attention to aspects of justice and sustainability (Fahrial, 2018). Law No. 10 of 1998, an amendment of Law No. 7 of 1992 on Banking, has provided a legal framework for banking operations in Indonesia, but sustainable lending practices still require more specific guidance to ensure fairness and sustainability.

In the past decade, Indonesia's banking sector has faced challenges to channel credit that not only generates economic benefits but also has a positive social and environmental impact. Equitable and sustainable economic growth is high on the agenda, along with increasing awareness of environmental sustainability (Sudirman et al., 2023). Law No. 10 of 1998 and amendments followed by Law No. 4 of 2023 have laid the legal foundation for banks to support sustainable development through lending. However, there is still a gap between regulation and its implementation in the field that demands deeper study.

In practice, banks are faced with a dilemma between financial gain and environmental social responsibility (Usman & Amran, 2015). This is compounded by the lack of effective supervision and comprehensive risk management, as revealed in various related studies. Existing policies, including Financial Services Authority Regulation No. 51/POJK.03/2017, do not fully reflect the principles of fairness and sustainability in lending. Therefore, there is a need to review and develop a better lending model.

Furthermore, the studies conducted have not been comprehensive in incorporating justice perspectives in the framework of credit distribution (Gudi-Mindermann et al., 2023). Although several initiatives have been initiated, there has been no research that specifically examines the application of fairness principles in lending by banks in Indonesia. This research seeks to fill the gap by providing an in-depth analysis of current conditions and proposing an ideal model that can be adopted.

Looking at previous research, many studies have identified factors that affect the effectiveness of sustainable lending. Some emphasize the importance of integrating banking policies with sustainability principles, while others focus on aspects of risk management and mitigation (Sutrisno, Asir, & Muhammad Yusuf, 2023). However, there are still shortcomings in terms of practical application of the proposed models, which often do not reach the realities of day-to-day banking operations.

Previous research has shown that sustainable lending can support inclusive and environmentally friendly economic development (Udeagha & Ngepah, 2023). However, there are challenges in actual implementation, including shortcomings in supervision, unsupportive policies, and inadequate risk management. This shows a gap between existing policies and practices on the ground, which requires further research to identify and analyze Possible solutions. This research aims to identify ways in which the banking sector can be more effective in carrying out sustainable lending, which supports economic growth and social justice. With reference to the Financial Services Authority Regulation No. 51/POJK.03/2017 concerning the Application of Sustainable Finance and the latest amendments to the Law on the Development and Strengthening of the Financial Sector. This study aims to find a model of sustainable lending procedures that can integrate aspects of economic benefits with social and environmental responsibility, in accordance with the existing regulatory framework. Deepen understanding of how banks can fulfil their role in sustainable development, while addressing operational challenges and emerging risks. The novelty of this research is the use of Justice Theory as an analytical lens in examining credit distribution policies and practices (Wenner & Campbell, 2017). This is a relatively new approach in the sustainable banking and finance literature. The proposed model is expected to be a reference for banks in Indonesia to implement lending practices that not only comply with regulations but also promote fairness and sustainability. The research also provides a framework for evaluation and continuous improvement in future lending practices.

METHOD

This research adopts the normative method, which focuses on literature research by reviewing laws and regulations and other relevant official documents (Muhaimin, 2020). This approach was chosen to ensure an in-depth analysis of the legal framework governing sustainable lending in Indonesia's banking sector. Normative research allows researchers to evaluate and interpret existing legal provisions, as well as provide a critical view of the implementation and effectiveness of these laws in practice.

Sources of legal materials in this study include primary legal materials such as Laws, Government Regulations, and Financial Services Authority Regulations, as well as secondary legal materials in the form of books, legal journal articles, and other related documentation. The legal material is collected through documentation studies, by accessing credible national and international legal databases, as well as official websites of government and banking institutions. This approach was chosen to ensure that the analysis is carried out based on authoritative and up-to-date sources.

Data analysis is carried out through qualitative descriptive techniques, by interpreting the data that has been collected to build arguments and draw conclusions (Kusumastuti & Khoiron, 2019). The focus of the analysis is on the compatibility between existing regulations and the principles of economic justice and sustainability.

RESULTS AND DISCUSSION

Regulation on sustainable lending is needed in the banking sector.

Furthermore, regulations on sustainability within the banking sector should include clear provisions on governance and stricter supervision (Chortareas, Girardone, & Ventouri, 2012). According to the Financial Services Authority Regulation No. 51/POJK.03/2017, banks are required to apply sustainable finance principles. However, the study reveals that implementation of the principle is often inconsistent and ineffectively controlled, signaling the need for improvement in oversight mechanisms.

Compared to previous studies that focused more on the financial aspects of lending, this study provides a new perspective by emphasizing the importance of social and environmental aspects. This research shows that existing provisions are not sufficient to support the achievement of the *Sustainable Development Goals (SDGs)* adopted by Indonesia through Law No. 32 of 2009 concerning Environmental Protection and Management.

The regulation on sustainable lending in the banking sector is a response to the need for integration between economic development and environmental sustainability (Naiborhu, 2023). This research found that, although Law No. 10 of 1998 has changed the legal framework of banking, these changes have not fully accommodated aspects of sustainability. Based on scientific findings, this study states the need to revise and add more specific provisions in the law to include clauses on environmental sustainability explicitly.

The research also highlights the important role of a Presidential Regulation that may be required to support the implementation of sustainable finance. Although there is no specific presidential regulation governing sustainable lending, the findings suggest that this can be an effective measure to strengthen supervision and ensure compliance with sustainability principles (Ardella, 2023).

In the framework of this study, it is also stated that harmonization between various sectoral and national regulations is needed. Currently, there is a gap between Law No. 21 of 2011 concerning the Financial Services Authority and banking practices in implementing sustainability. This research suggests a deeper integration of financial regulation with environmental and social regulation.

Overall, the study enriches the literature by offering a more focused analysis on aspects of justice and sustainability, distinct from previous studies that were more general. By highlighting shortcomings in existing laws and regulations, the study proposes a more comprehensive framework for sustainable lending arrangements, which not only support economic growth but also promote social welfare and environmental preservation.

Implementation of Sustainable Credit Distribution in the Banking Sector Today.

The current application of sustainable lending in the Indonesian banking sector can be explained through the lens of existing regulations. Law No. 10 of 1998 and its amendments, including Law No. 4 of 2023, provide a framework that states banks' obligations to support economic development. However, in practice, the application of the concept of sustainability is still in an evolving stage. In terms of regulation, this study observes the Financial Services Authority Regulation No. 51/POJK.03/2017 as the main basis for the implementation of sustainable lending. This regulation requires financial service institutions to pay attention to sustainability principles in their operations, including in lending. However, the study found that there is still a gap between policy and practice. Many banks still need to improve their systems and procedures to meet established sustainability standards (Gumantiny, 2022).

Based on the analysis conducted, there are significant differences between the findings of this study and previous publications that tend to emphasize regulatory compliance without evaluating the effectiveness of its application in depth. These findings show that although regulatory compliance has improved, the quality of sustainability implementation in lending still varies and is often inconsistent.

Furthermore, the study identifies that regulatory frameworks such as the Financial Services Authority's Sustainable Finance Roadmap still need to be translated into concrete bank strategies and operations. This includes the development of sustainable credit products, training for bank employees on sustainability, and a risk assessment system that takes environmental and social factors into account.

The research also highlights the need for stronger oversight and more effective enforcement mechanisms. Although a number of presidential regulations and ministerial decrees have been issued to support sustainability in the financial sector, such as Presidential Regulation of the Republic of Indonesia No. 59 of 2017 concerning the Implementation of the Achievement of Sustainable Development Goals, their implementation still requires greater commitment from the banking sector.

What kind of sustainable credit distribution model should be applied to realize justice

The ideal sustainable lending model is one that ensures a balance between financial gain and social justice (Yip, 2018). This model should be based on a framework integrated with the Financial Services Authority Regulation No. 51/POJK.03/2017, which emphasizes sustainability and fairness as part of the bank's business strategy. In line with this POJK, the model should include extensive risk assessment criteria, not only in terms of financial but also social and environmental impacts of the project being financed. Such a model will enable banks to not only comply with Law No. 32 of 2009 on Environmental Protection and Management but also be proactive in supporting justice goals.

In addition, credit distribution must be guided by the principles mentioned in Law No. 21 of 2011 concerning the Financial Services Authority, which was amended by Law No. 4 of 2023. The principles of prudence, transparency, and responsibility should be an integral part of the assessment and lending process. Banks must conduct thorough due diligence to ensure that the projects they finance are in line with sustainable development goals and will not cause harm to people or the environment (Cahya, Kasih, & Sutama, 2018).

Research findings show that the existing credit distribution model still does not fully cover aspects of justice. Unlike previous studies that focused more on financial effectiveness, this study emphasizes the need to integrate the principle of fairness in lending. This includes the implementation of inclusive principles, whereby banks must ensure that all groups of society, including the disadvantaged, can access credit for sustainable development.

In practice, banks should develop credit products and services that support priority sustainable economic sectors, as stipulated in the Sustainable Finance Roadmap Phase II (2021-2025). This includes funding for the renewable energy sector, sustainable agriculture, green infrastructure, and MSMEs operating on sustainability principles. This approach not only supports economic growth but also promotes social development and environmental preservation.

This model framework must also take into account cooperation and partnership, in accordance with the principles of capacity building and collaborative partnership mandated by POJK No. 51/POJK.03/2017. This requires closer cooperation between banks, governments, international institutions, and other stakeholders to ensure that the funds channeled actually create a sustainable and fair impact.

CONCLUSION

The main conclusion of the study is that banks in Indonesia need a more integrative and comprehensive regulatory framework, which not only protects financial interests but also supports fairness and sustainability. This conclusion answers the purpose of the study by suggesting revisions and additions to provisions in existing laws to include explicitly clauses on environmental and social sustainability.

The need to regulate sustainable lending in the Indonesian banking sector as an important instrument to achieve balanced economic development with environmental sustainability and social justice. The research findings show that although there are regulations governing sustainable finance, such as Law No. 10 of 1998, Financial Services Authority Regulation No. 51/POJK.03/2017, and Law No. 32 of 2009, there is a need for improvement in terms of supervision and more consistent implementation of sustainability principles.

The findings of this study underscore that there is progress in the implementation of sustainable lending, but more systematic and integrated efforts are still needed. The difference with previous research lies in explicitly revealing existing implementation gaps and the need for improvement in various aspects, from regulation to day-to-day banking practices.

That a sustainable lending model and realizing fairness should be a priority for the banking sector. This model requires a more comprehensive and integrative framework that supports environmental, social, and economic sustainability goals. The difference between these findings and previous research lies in its strong focus on fairness as a core part of sustainable lending.

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