

GREEN BANKING AS A MONEY LAUNDERING PREVENTION INSTRUMENT: IMPLICATIONS FOR THE FINANCIAL SECTOR AND THE ENVIRONMENT

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Abstract

Indonesia's financial sector is undergoing a transformative shift through the integration of green banking principles, marking a significant stride towards sustainable development and the bolstering of financial integrity. This paper explores the proactive measures taken by Indonesia, including the adoption and adaptation of international initiatives such as the Global Alliance for Banking on Values, Green Development Banks, the Network for Greening the Financial System (NGFS), the utilization of blockchain technology, and the implementation of Environmental, Social, and Governance (ESG) standards. These steps not only align with the global Sustainable Development Goals (SDGs) but are also tailored to meet Indonesia's unique environmental, socio-economic challenges. The commitment of Bank Indonesia and the Financial Services Authority (OJK) to mandate and nurture green banking practices is a testament to the country's dedication to a sustainable future, simultaneously enhancing the financial sector's resilience against crimes like money laundering. The emphasis on transparency and accountability through mandated sustainability reporting emerges as a key strategy in establishing trust and credibility amongst stakeholders. However, challenges in the consistent implementation of green banking practices and sustainability reporting underscore the need for clear, measurable standards and comprehensive education and training. The convergence of environmental sustainability with anti-money laundering efforts epitomizes a synergistic approach to strengthening the financial sector's stability and transparency. This paper concludes that green banking in Indonesia transcends regulatory compliance, embodying a strategic imperative that leverages environmental stewardship as a foundation for secure, transparent, and ethical banking. Indonesia's evolving green banking framework not only contributes to global sustainability efforts but also sets a benchmark for integrating economic growth with environmental conservation, paving the way for a sustainable and prosperous future. This study illuminates Indonesia's role as a pioneer in the fusion of sustainability and financial integrity within the banking sector.

Keywords: Green Banking, Money Laundering Prevention, Financial Sector, Environmental Sustainability, Anti-Money Laundering (AML), Regulatory Frameworks,

Sustainable Finance, Environmental Protection, Sustainable Development Goals (SDGs), Indonesia.

INTRODUCTION

The emergence of increasingly complex environmental issues has attracted the attention of various groups, including economic actors, who now face the challenge of adapting to new demands.(Zajmi, 2012) In the midst of intense business competition, companies are not only measured by their success in generating profits but also by how far they are able to contribute to the welfare of the environment and society.(Duanmu et al., 2018) This encourages companies to adopt a broader ethical behavior that is not solely focused on achieving profits but also on integrating environmental and social considerations into their business strategies. Thus, companies strive to find a balance between economic goals and social and environmental responsibilities in an effort to maintain long-term sustainability.(Carroll, 2008) This signifies a paradigm shift in the business world, where the success of an organization is now also measured by its contribution to the maintenance and protection of the environment, as well as by its ability to operate ethically in society.

The growing concept of a green economy encourages various sectors, including the banking sector, to adopt more sustainable and environmentally friendly practices. Green banking emerged as a response to this need, with the underlying principle emphasizing the importance of strengthening banks' risk management capabilities in relation to environmental issues. It is not just about reducing the negative impact of bank operations on the environment, but also about how banks can contribute positively through an increased financing portfolio that supports green initiatives.(Tara et al., 2015)

By focusing on financing projects that support renewable energy, organic farming, and other sustainable initiatives, green banking not only reflects the bank's commitment to environmental protection but also demonstrates how financial institutions can play a crucial role in supporting the transition to a green economy.(Mir & Bhat, 2022) Through green banking practices, banks are demonstrating that environmentally friendly operations and environmental responsibility and performance are no longer optional but have become an essential part of a socially and environmentally responsible business strategy. This marks a significant shift in the way financial institutions approach their operations, recognizing that long-term sustainability and economic success can be mutually supportive.(Park & Kim, 2020)

The basic principles of green banking focus on two main aspects: strengthening banks' risk management capabilities, especially with regard to environmental factors, and encouraging banking institutions to expand their financing portfolios in a more environmentally friendly direction. This includes financing for renewable energy projects, energy efficiency improvement efforts, organic farming, eco-tourism, more

environmentally friendly transportation, and eco-labeled products. Through green banking, banks seek not only to achieve financial returns but also to provide long-term benefits for community empowerment and environmental preservation. The concept of green banking emphasizes the importance of financial institutions adopting sustainable business practices, where sustainability is a top priority. The World Bank states that financial institutions that implement green banking will gain a number of benefits, including better corporate output, competitive advantage, and improved corporate identity and brand image, all of which will contribute to the achievement of predetermined corporate targets. Thus, green banking does not simply carry the slogan "Go Green," but rather represents the real commitment of banks to the integration of environmental considerations into their business decisions, indicating a paradigm shift towards more responsible and sustainable business practices.

The implementation of green banking principles plays a vital role in the prevention of money laundering by integrating environmental sustainability into the core strategies of financial institutions. These principles, which prioritize strong risk management of environmental factors and encourage the expansion of financing portfolios in a more environmentally friendly direction, not only contribute to the reduction of negative environmental impacts but also enhance integrity and transparency in banking operations. Through financing sustainable projects such as renewable energy, energy efficiency, and ecotourism, banks ensure that the funds they disburse are controlled and used for clear and sustainable purposes, which inherently reduces opportunities for money laundering. In addition, the application of advanced technology and innovative financial policies in green banking strengthens transaction monitoring and reporting, making the process of laundering money more difficult and risky for criminals.(Alivia Meyrizka Utami et al, 2022)

Faced with the urgency of integrating environmental sustainability into financial sector practices while tackling the global challenge of money laundering, the last decade has marked an increase in global awareness of the adverse effects of economic activity on nature. This has led to the birth of green banking, an innovation that not only supports green initiatives and sustainable development but also strengthens the financial system against illegal activities such as money laundering.(Tara et al., 2015) Money laundering, the process of concealing the origin of funds from criminal activities, threatens the stability and integrity of the global financial system, disrupts the economy, and supports other crimes such as terrorism and organized crime. On the other hand, the negative impact of the economy on the environment from climate change to habitat degradation requires urgent action to ensure the survival of our planet. In addressing these issues, green banking offers an approach that integrates money laundering prevention with sustainability through the use of cutting-edge technology, innovative financial policies, and supportive regulatory frameworks. The goal is to create a financial sector that is not only resilient

to money laundering risks but also proactive in supporting environmental conservation through funding projects that target emissions reductions, energy efficiency improvements, and sustainable resource use. This integrative approach highlights the need for holistic adaptation in the face of global challenges and promises to increase public confidence in the financial system, promote sustainable economic growth, and reduce negative environmental impacts for the long-term benefit of the financial sector and the global environment.

RESEARCH METHOD

The title "Green Banking as a Money Laundering Prevention Instrument: Implications for the Financial Sector and the Environment" leads to an in-depth study of how green banking practices not only play a role in protecting the environment but also as an effective tool in preventing money laundering. The research employs normative legal methods by adopting statutory, conceptual, comparative, and futuristic approaches, demonstrating a broad and in-depth approach to the subject.(Endriana et al., 2023) In the context of normative law, the statutory approach helps in understanding the applicable regulations and laws surrounding green banking and money laundering prevention, while the conceptual approach allows the researcher to define and explore key concepts related to green banking and money laundering prevention in a broader context. The comparative approach provides a perspective on how different jurisdictions implement green banking as a tool to prevent money laundering, allowing the research to assess the effectiveness of different strategies and practices. The futuristic approach paves the way for a future discussion on the potential development of green banking and its role in money laundering prevention, taking into account current trends and possible developments. This research is descriptive-prescriptive(Zico Junius Fernando et al, 2023), describing the phenomenon of green banking in the context of money laundering prevention and its impact on the financial sector and the environment, while also providing recommendations on optimizing green banking as a money laundering prevention tool. Using the content analysis method, researchers can interpret and make inferences from the text or data content related to green banking and money laundering prevention.(Effendi et al., 2023) Thus, this research aims to provide an in-depth understanding of the role of green banking in money laundering prevention, as well as its implications for the financial sector and the environment, using a comprehensive approach and systematic methods of analysis.

RESULT AND DISCUSSION

Analysis/Discussion

Green Banking in Indonesia: Revolutionizing Sustainability in Banking for Environmental Protection and Money Laundering Prevention

The world today faces a series of environmental challenges that pose serious risks to the sustainability of life on the planet. Accelerating climate change, worsening health problems, increasing mortality rates, reduction in habitable land area, declining food production, and increasing frequency and intensity of natural disasters are all negative consequences felt by humanity. Ironically, this situation is largely caused by human activities. Industrial activities, burning fossil fuels, deforestation, and unsustainable agricultural and development practices have contributed significantly to climate change and environmental degradation. These conditions force us to rethink the way we interact with the natural environment and consider adopting a more sustainable approach in all aspects of life to ensure that future generations can still enjoy the beauty and resources the earth has to offer.(Barua, 2020)

In January 2015, the United Nations launched the 2030 Sustainable Development Agenda, which formulates 17 sustainable development goals (SDGs) as a global framework to promote sustainable practices, including in the economic sector. The agenda emphasizes the importance of transforming the use of technology to be more efficient and environmentally friendly, as well as sustainable resource management to reduce emissions and positively influence climate change. This approach underscores the need to implement economic strategies that not only support growth but also take into account environmental sustainability and the reduction of negative climate impacts.(Mahardika & Fitanto, 2023)

Banking institutions play an important role in economic and social life, providing essential services such as financial transactions, international and domestic trade, investment and asset management, corporate fund raising, and life, health, and property insurance. Because of their crucial role, banks are in a unique position to influence how resources are used in society and the economy to promote growth and prosperity. In this context, business ethics become very important, not only in compliance with regulations but also because of the substantial influence that banks have on the environment and society. The implementation of the green banking concept is one way for banks to implement new business ethics, focusing on environmental and social risk management. Green banking refers to banking practices that aim to reduce carbon emissions, both external and internal, through various initiatives such as energy efficiency, reducing paper use, and investing in green buildings. Although banks are not directly perceived as environmental polluters, many of them have financed projects that generate large carbon footprints due to high energy consumption and other environmentally unfriendly practices. In relation to money laundering, the adoption of green banking by banking institutions can

positively contribute to the prevention of this illegal activity.(Bhardwaj & Malhotra, 2013) The application of green banking principles demands greater transparency and accountability in bank operations, including in the selection of projects and companies to finance. By applying strict ethical and environmental standards in financing activities, banks can reduce the risk of being involved in transactions that may be linked to money laundering, especially in financing unsustainable or environmentally and socially high-risk projects. This includes better monitoring of the origin of funds and their intended use, ensuring that there is no involvement in illegal or environmentally harmful activities. Thus, through green banking, banks not only contribute to environmental sustainability but also strengthen their efforts in the fight against money laundering, creating a cleaner and more sustainable financial ecosystem.

The implementation of the green banking concept has become imperative in the banking sector in Indonesia, especially after Bank Indonesia (BI) issued a regulation requiring all banks in the country to adopt green banking practices in their business activities. This move is rooted in the provisions of Law No. 32 of 2009 on Environmental Protection and Management, which requires all economic sectors, including banking, to operate in a manner that supports environmental sustainability. The law not only requires compliance with environmental norms but also provides a range of sanctions for violations, ranging from criminal sanctions to revocation of operational licenses. The implementation of green banking is expected to mitigate the legal, credit, and reputational risks that banks may face if they fail to comply with environmental regulations. Thus, in addition to contributing to environmental conservation, green banking also plays an important role in minimizing banks' financial and operational risks, ensuring that the banking sector not only grows economically but also operates within a sustainable and environmentally responsible framework.(Andarsari & Firdiansyah, 2020)

In Indonesia, regulatory measures to implement green banking practices began with the issuance of Bank Indonesia Regulation (PBI) Number 14/15/PBI/2012 on Asset Quality Assessment of Commercial Banks. This regulation requires banks in Indonesia to consider environmental factors in assessing their business prospects and the environmental impacts that may arise from their activities. This initiative marked the government's first step in integrating environmental sustainability into the banking sector, recognizing the important role of the financial sector in addressing environmental issues. This effort was later strengthened through the issuance of Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation further requires financial entities and corporations in Indonesia to allocate funds for sustainable development and climate change-related projects, demonstrating Indonesia's commitment to encourage the financial sector to

support sustainable economic development and be responsive to climate change challenges. These regulations collectively form a framework for financial institutions in Indonesia to adopt green banking practices, which not only aim to protect the environment but also ensure the long-term sustainability of the financial sector itself.

While regulations already require banks to adopt green banking practices, there is no universal agreement on specific indicators to measure the effectiveness of their implementation. As a way to demonstrate compliance with green banking regulations, banks are expected to publish sustainability reports. In accordance with Article 10 of POJK No. 51/2017, banks in Indonesia are required to prepare a sustainability report that covers aspects of economic, social, and environmental performance as a manifestation of their operational responsibility. However, the issuance of sustainability reports by banks in Indonesia is still not entirely consistent. There are fluctuations in the number of banks that release sustainability reports from year to year, with a peak in 2021 with 29 banks and a decline to only 16 banks in 2022 that released the report on time. The regulation requires large banks (Book 3 and book 4) and foreign banks to first publish their sustainability reports in the period January 1 to December 31, 2019, while banks in the book 1 and book 2 categories are required to start reporting in the period January 1 to December 31, 2020. Banks that fail to comply with this provision face administrative sanctions in the form of reprimands or written warnings, indicating a real effort from the regulator to improve banks' transparency and accountability with regards to their sustainability practices.

The link between the issuance of sustainability reports by banks and money laundering prevention efforts contains significant dimensions of transparency and accountability. Through the regulation-required Sustainability Report, as stipulated in POJK No. 51/2017, banks in Indonesia must publicly present their performance in economic, social, and environmental aspects. This practice indirectly contributes to the prevention of money laundering by encouraging a culture of transparency in bank operations. By disclosing in detail the policies and outcomes of their sustainability activities, banks provide assurance to regulators, investors, and the public that they are acting responsibly and ethically. Consistency and timeliness in releasing sustainability reports are important indicators that show how serious banks are about implementing green banking practices and complying with regulations. The fluctuations in the number of banks publishing this report from year to year indicate that there are still challenges in achieving consistency in sustainability implementation and transparency. Banks that fail to fulfill these reporting obligations not only face administrative sanctions but also potentially raise suspicions about their operational practices, including in terms of managing money laundering risks. In the context of money laundering prevention, banks that actively adopt and report on their sustainability practices demonstrate a commitment to transparent and trustworthy operations. This strengthens public and regulatory confidence in the bank and

enhances the bank's ability to detect and prevent suspicious transactions that may be related to money laundering. Conversely, a lack of transparency and inconsistencies in reporting can create loopholes for money laundering activities, where illicit funds may be more easily disguised in less closely monitored operations.

Green Banking Revolution: Bridging Sustainability and Anti-Money Laundering in the Financial Sector

The term "green banking" gained popularity following the Paris Climate Agreement in 2015, a pivotal moment in global efforts to combat climate change. In the wake of this international accord, financial institutions and banks began to advocate for investments in renewable energy, reforestation projects, and carbon offsetting initiatives. This shift signified a growing recognition within the banking sector of its responsibility to support sustainable development and to mitigate the adverse impacts of climate change. By redirecting capital towards environmentally beneficial projects, green banking plays a crucial role in promoting a more sustainable and eco-friendly economic growth model. Through these efforts, banks not only contribute to the global fight against climate change but also align their operations with the broader objectives of environmental conservation and sustainability. (Tim Kumparan, 2023)

Green banking that supports sustainable banking initiatives, both at a national and international level, has a significant impact on the effectiveness of financial institutions in preventing money laundering. (Khaer & Anwar, 2022) These regulations aim to advance sustainability goals and strengthen existing frameworks for combating financial crime. Here are some of the ways in which green banking regulations affect money laundering prevention:

1. **Establishing Higher Compliance Standards**

Green banking regulations at the international level have a significant impact on financial institutions' efforts to prevent money laundering, one of which is the establishment of higher compliance standards. These compliance standards not only cover traditional financial aspects but also extend their scope into sustainability and financial crime prevention dimensions. By emphasizing the importance of environmental aspects in banking operations, the regulation forces financial institutions to be more rigorous in selecting and managing their investments and customers. For example, banks may be required to conduct environmental risk assessments of the projects they finance, ensuring that the projects are not only financially beneficial but also sustainable and do not harm the environment. Technologies such as artificial intelligence and blockchain can be utilized to monitor transactions and identify suspicious patterns, which could be indicative of money laundering activities. In addition, these higher compliance standards encourage greater transparency in financial statements

and bank operations, making financial institutions more accountable for their actions. For example, the adoption of detailed sustainability reports allows stakeholders to see how banks invest in green projects and combat money laundering, providing concrete evidence of their commitment to sustainability and financial integrity. This indirectly reduces opportunities for money launderers to utilize bank services, as increased scrutiny and compliance make the process of laundering funds more difficult and risky.

2. Incorporating sustainability criteria into financial decision-making

The integration of sustainability criteria into financial decision-making compels banks to undertake more comprehensive due diligence processes. This requirement entails stricter background checks on customers and third parties, which indirectly aids in detecting and preventing money laundering activities. By incorporating sustainability factors into investment and credit decisions, financial institutions are not only assessing the financial viability of projects but also their environmental impact and sustainability credentials. This holistic approach ensures that the funds support projects that are both profitable and environmentally responsible in the long term. For example, when evaluating a new client or project, a bank may consider the environmental risks associated with the business activities, such as the potential for pollution or habitat destruction, as well as the company's adherence to environmental regulations and best practices. This level of scrutiny makes it more challenging for illicit funds or operations that disregard environmental sustainability to pass unnoticed. In essence, the requirement to integrate sustainability criteria adds an additional layer of due diligence that complements traditional financial screenings, enhancing the overall effectiveness of anti-money laundering (AML) efforts within the banking sector. This approach not only aligns with global sustainability goals but also reinforces the financial system's defenses against the risks associated with money laundering by promoting greater transparency and accountability in banking operations.

3. Use of Technology for Transparency and Tracking

The use of technology to improve transparency and traceability in transactions is now one of the main focuses of modern financial regulation. Technologies such as blockchain, with their characteristics of decentralization and immutability of transaction records, have become a key option in this effort. Existing regulations often encourage, even require, the use of such technologies to ensure that every transaction is clearly traceable, reducing the room for criminals such as money launderers to hide the origins of illicit funds. The uniqueness of blockchain, where each block of information is connected and secured using cryptography, makes it almost impossible to alter or delete, thus increasing the effectiveness of money laundering prevention and

detection. Thus, the integration of technologies such as blockchain in the financial system not only strengthens the regulatory framework but also adds a significant layer of security against illegal practices, opening up a new era in financial transparency and accountability.

4. International Cooperation and Information Exchange

Regulations supporting green banking often facilitate cross-border cooperation and information exchange between financial institutions and regulators. This is crucial in identifying and combating money laundering networks that operate globally, thereby strengthening the international financial system against financial crimes. By fostering an environment where data and insights are shared freely across borders, these regulations ensure that financial entities are not only compliant with their domestic laws but are also contributing to a broader effort to maintain integrity within the global financial landscape. Such collaborative efforts are essential in creating a unified front against the complex and adaptive nature of financial crimes, ensuring that the financial sector can contribute positively to sustainable development while safeguarding against illicit activities.

5. Raising Awareness and Education

Regulations can also encompass components that encourage or require financial institutions to implement educational programs for employees and customers regarding sustainability and anti-money laundering (AML) practices. These educational initiatives serve to heighten awareness and equip all relevant parties with the knowledge and skills needed to better identify and report suspicious activities. By fostering a deeper understanding of the importance of sustainability and the mechanisms of money laundering, these programs help to create a proactive culture within the financial sector. Educating stakeholders not only reinforces compliance with legal requirements but also promotes a more informed and vigilant approach to conducting financial transactions. By involving the entire organization and its customer base, efforts to combat money laundering and promote sustainability become a shared responsibility that permeates throughout.

6. Making Sustainability and Money Laundering Prevention Part of the Corporate Culture

Green banking regulations promote the integration of sustainability and anti-money laundering (AML) efforts into the corporate culture of financial institutions. This approach ensures that AML initiatives are not just seen as legal obligations but as essential elements of a bank's dedication to ethical and sustainable operations. Embedding these values into the corporate culture helps financial institutions go beyond compliance, fostering a sense of responsibility and ethical conduct among employees at all levels. By prioritizing

sustainability and AML as core aspects of their corporate identity, banks can demonstrate their dedication to responsible banking practices. This not only enhances their reputation and customer trust but also contributes to the broader goal of creating a more transparent, accountable, and sustainable financial system.

The Green Banking Regulation provides a robust and unified framework for financial institutions to enhance their efforts to combat money laundering while supporting environmental sustainability.(Barhate & Tamboli, 2016) By demanding increased compliance with higher standards, encouraging transparency in financial operations, facilitating international cooperation, and prioritizing education for employees and customers, the regulation equips the financial sector with the tools necessary to more effectively identify, prevent, and report suspicious activity. Moreover, the integration of sustainability into the operational framework of financial institutions not only strengthens the global financial system against the threat of financial crime but also supports the global goal of creating a greener and more responsible future. Through this approach, green banking plays an important role in ensuring that the financial sector can contribute significantly to sustainable development while maintaining the integrity and stability of the financial system.

Adopting green banking practices presents several challenges for banks. One significant challenge is the issue of diversification. Green banks limit their business transactions to entities that meet specific criteria aligned with green banking principles, leading to a smaller customer base and, consequently, a more limited foundation to support their activities. Additionally, many banks transitioning to green business practices are relatively new and in the early stages of development. Typically, it can take a bank 3 to 4 years to become profitable, making green banking strategies less beneficial during economic recessions. High operational costs also pose a significant challenge, as green banking requires skilled and experienced staff to deliver appropriate services to customers, and recruiting such employees incurs high costs. Other obstacles include the lack of government support, limited enthusiasm from within the banking sector, and the absence of formal and independent authorities, all of which hinder the growth and development of green banking initiatives.

Green Banking: Pioneering Sustainability in the Financial Sector and Beyond

Green banking's contribution to financial sector sustainability and the environment is a promising paradigmatic shift in integrating economic and ecological responsibility. By basing operations and investment decisions on sustainability principles, green banking not only minimizes environmental risks but also directs fund flows to projects that support the transition to a low-carbon economy, such as renewable energy, energy efficiency, and green infrastructure.(Pillai & Raj, 2017) This

directly contributes to climate change mitigation and biodiversity preservation, while also opening up new economic opportunities and creating jobs.

From a financial perspective, green banking practices strengthen financial sector stability by mitigating climate-related risks that could impair asset values and investment performance. Financial institutions that adopt green banking tend to be more resilient to economic shocks due to their broader portfolio diversification and more prudent approach to risk management. In addition, with increasing awareness and demand from consumers and investors for sustainable practices, green banking helps meet these expectations while strengthening banks' reputation and competitive advantage.

A close analysis of these contributions reveals that green banking is not just about avoiding risks but also about capitalizing on opportunities. The integration of green finance into the mainstream financial system can accelerate the financing of climate and sustainability solutions, paving the way for new innovations and technologies that can reduce carbon footprints and improve social welfare. However, the industry still needs to widely and consistently adopt these practices and address the lack of data and standards that can hinder accurate assessment and reporting of the environmental and social impacts of banking activities. In conclusion, green banking plays a crucial role in navigating the global economy towards greater sustainability. Through innovative and proactive approaches, the financial sector can be an important catalyst for addressing environmental challenges while ensuring inclusive and sustainable economic growth.

The application of green banking principles plays a crucial role in supporting the achievement of sustainability goals, reducing negative environmental impacts, and enhancing the integrity and stability of the financial sector by avoiding risks related to money laundering. Through the adoption of green banking practices, financial institutions proactively allocate funds to projects and initiatives that support energy efficiency, renewable energy, and other sustainable development, directly contributing to climate change mitigation and the preservation of natural resources. This not only helps in minimizing the ecological footprint but also promotes more sustainable use of resources. Moreover, by prioritizing transparency and accountability through sustainability reporting and environmental, social, and governance (ESG) risk assessment, green banking raises awareness about the environmental impact of financial activities and encourages responsible corporate behavior. This approach simultaneously strengthens the integrity and stability of the financial sector by reducing exposure to environment-related risks that can affect asset values and the institution's reputation, while avoiding money laundering risks through improved compliance and internal controls. By adopting advanced technologies such as AI and blockchain for transaction monitoring and risk management, green banking not only addresses sustainability concerns but also

strengthens money laundering prevention efforts by ensuring compliance with existing financial and anti-money laundering (AML) regulations. This creates a more transparent and trustworthy financial environment where funds are directed towards truly positive impacts on the environment and society while safeguarding the financial system from exploitation by illegal activities. As such, green banking not only facilitates the transition to a greener and more inclusive economy but also increases confidence and stability in the financial sector by reducing financial and operational risks. It creates synergies between environmental sustainability goals and the need to maintain a healthy and resilient financial system, demonstrating that sustainability and financial security can and should go hand in hand.

Concrete examples of the application of green banking principles that support financial sector sustainability and stability while reducing money laundering risks can be seen in several global initiatives:

1. The Global Alliance for Banking on Values (GABV)

A clear example of the application of green banking principles that support financial sector sustainability and stability while reducing the risk of money laundering can be seen through the Global Alliance for Banking on Values (GABV) initiative. GABV is a global network of banks and financial institutions dedicated to sustainable banking principles. (Kaur, 2011) GABV members, such as Triodos Bank in the Netherlands and GLS Bank in Germany, operate with a focus on full transparency, environmental sustainability, and support for development that is oriented towards social, ecological, and economic benefits. Through this approach, these banks offer a range of products and services specifically designed to reduce negative environmental impacts, such as financing renewable energy projects, credit for sustainability-focused small and medium-sized enterprises, and deposit products that support ecological initiatives. This not only demonstrates their commitment to environmental sustainability but also significantly reduces opportunities for money laundering activities through increased transparency and strict financing criteria, which in turn supports the overall stability and integrity of the financial sector.

2. Green Development Banks

Green Development Banks are a key element in promoting sustainability in the global financial sector. Prominent examples of these initiatives include the UK's Green Investment Group and China's Green Finance Committee, both of which play an active role in facilitating and accelerating investment into environmentally friendly projects. They target important areas such as renewable energy, energy efficiency, and sustainable infrastructure development, all of which contribute to the transition to a low-carbon economy. (Choubey & Sharma, 2021) By providing the necessary funding and resources, these green development banks support projects that not only

reduce negative environmental impacts but also offer long-term solutions to sustainability challenges. This approach helps reduce carbon emissions, increase the use of renewable energy, and strengthen resilience to climate change. Moreover, by focusing on green financing, these banks also strengthen transparency and accountability in the allocation of funds, which in turn helps reduce the risk of money laundering. This is because investments in sustainable projects often require rigorous due diligence and greater scrutiny, ensuring that funds are effectively and efficiently directed to initiatives that truly support sustainability goals. Through these efforts, the Green Development Bank significantly contributes to the creation of a cleaner, greener, and more transparent financial ecosystem.

3. Sustainable Finance Initiatives by Central Banks and Financial Supervisors

Central banks and financial supervisors from around the world have taken significant strides in incorporating sustainability into the financial system. An exemplary initiative in this realm is the Network for Greening the Financial System (NGFS), a coalition of central banks and supervisors aimed at enhancing the global financial system's resilience to climate-related risks. Through the provision of guidelines and best practices, the NGFS encourages financial institutions to adopt more sustainable approaches in their operations. This collaborative effort underscores the critical role that the financial sector plays in transitioning towards a more sustainable economy. By promoting the integration of environmental, social, and governance (ESG) criteria into financial practices and decision-making, the NGFS facilitates a broader shift towards green finance. This not only aids in mitigating the impact of climate change but also ensures the long-term stability and sustainability of the global financial system. Through such initiatives, central banks and financial supervisors are pivotal in steering the financial sector towards a pathway that is both environmentally responsible and economically viable, marking a significant step forward in the pursuit of sustainable development.

4. Blockchain Technology for Transparency and Efficiency

Several banks and financial institutions have begun harnessing blockchain technology to enhance transparency and efficiency in financial transactions, which also aids in the prevention of money laundering. A tangible example of such an initiative is the blockchain-based payment platform developed by Ripple, utilized by numerous banks for faster, cheaper, and more transparent cross-border transactions.(Vernekar et al., 2022) This innovation represents a significant shift away from traditional banking systems, which are often bogged down by lengthy processing times and a lack of transparency, making them susceptible to financial crimes, including money laundering. By leveraging blockchain's decentralized ledger technology, every transaction is recorded in a

tamper-proof manner, ensuring a high level of security and traceability. This not only streamlines the process of international payments but also provides a robust mechanism for monitoring and detecting suspicious activities in real-time. Furthermore, the inherent transparency and efficiency of blockchain-based systems foster a more reliable and trustworthy financial environment. Through initiatives like Ripple's payment platform, blockchain technology is proving to be a powerful tool in redefining financial transactions, making them more secure, efficient, and transparent, thereby significantly contributing to efforts in combating money laundering and enhancing the integrity of the global financial system.

5. Implementation of ESG (Environmental, Social and Governance) Standards
Global financial institutions like BlackRock have underscored the importance of environmental, social, and governance (ESG) criteria in investment decisions, acknowledging that sustainability factors have a direct impact on investment risk and return. By integrating ESG standards, these institutions advocate for companies and projects that are socially and environmentally responsible while simultaneously mitigating associated reputational and legal risks, including the risk of money laundering. (Vasiu Diana Elena et al, 2022) This approach reflects a growing recognition within the financial industry that long-term investment value is closely linked to sustainable practices. Companies that adhere to high ESG standards are often viewed as less risky because they are more likely to be compliant with regulations, more resilient to changes in environmental policies, and less susceptible to social controversies. Moreover, by prioritizing investments in entities that meet ESG criteria, financial institutions contribute to the promotion of a more sustainable and equitable global economy. This strategic focus not only enhances the attractiveness of these institutions to investors who are increasingly conscious of sustainability issues but also helps in safeguarding the financial system against exploitation by illicit activities, thereby reinforcing the stability and integrity of global financial markets.

These examples show how Green Banking principles have been adopted and applied around the world, demonstrating their potential in promoting environmental and financial sustainability, and in reducing money laundering risks in the global financial system.

Indonesia can adopt various green banking principles and initiatives that have been successfully implemented around the world to support financial sector sustainability and stability and reduce money laundering risks. To begin, the establishment and strengthening of a green financial institution, similar to the existing Green Development Bank in other countries, could be a significant step. This institution could focus on financing environmentally friendly and sustainable projects,

such as renewable energy and green infrastructure, which are in line with Indonesia's national priorities in reducing carbon emissions and supporting sustainable development. Furthermore, Bank Indonesia and the Financial Services Authority (OJK) could take inspiration from initiatives such as the Network for Greening the Financial System (NGFS) to develop a regulatory framework that encourages the integration of sustainability into the financial system. This could include guidelines for environmental, social, and governance (ESG) risk assessment in financial and investment decision-making processes. The adoption of advanced technologies, such as blockchain, to increase transparency and efficiency in financial transactions could also be highly beneficial. This will not only strengthen money laundering prevention efforts but also increase access to financial services for traditionally unreached populations. Finally, the development and promotion of ESG standards, as well as related education and training for financial institutions, companies, and investors, could strengthen Indonesia's position in a global economy that increasingly emphasizes sustainability. Through the adoption and adaptation of these green banking principles and practices, Indonesia will not only contribute to global sustainability goals but also enhance the integrity and resilience of its own financial system.

CONCLUSION

The integration of green banking principles within Indonesia's financial sector represents a forward-thinking approach to addressing both environmental sustainability and the prevention of financial crimes, including money laundering. By adopting and adapting global initiatives such as the Global Alliance for Banking on Values, Green Development Banks, the Network for Greening the Financial System (NGFS), blockchain technology for enhanced transparency, and the implementation of Environmental, Social, and Governance (ESG) standards, Indonesia is positioning itself as a leader in the fusion of financial integrity and environmental stewardship. These measures not only align with the global push towards achieving the Sustainable Development Goals (SDGs) but also cater to the unique environmental, social, and economic needs of Indonesia. The proactive stance of Bank Indonesia and the Financial Services Authority (OJK) in mandating and fostering green banking practices underscores the country's commitment to a sustainable future while also fortifying its financial sector against the vulnerabilities associated with money laundering. Furthermore, the emphasis on transparency and accountability, as demonstrated through the requirement for sustainability reporting, serves as a crucial step in building trust and credibility among stakeholders, including investors, customers, and regulatory bodies. These reports not only highlight the banks' commitment to green initiatives but also their adherence to stringent anti-money laundering protocols. However, the fluctuating consistency in sustainability reporting and the

implementation of green banking practices reveal challenges in standardization and compliance. Addressing these challenges requires a concerted effort from all stakeholders to establish clear, measurable standards and indicators for green banking, along with continuous education and training to ensure these principles are deeply ingrained within the corporate culture of financial institutions. The synergistic approach of combining environmental sustainability with anti-money laundering efforts through green banking can significantly enhance the resilience and stability of Indonesia's financial sector. This not only contributes to the global efforts against climate change but also ensures a robust, transparent, and accountable financial system capable of thwarting financial crimes. In conclusion, green banking in Indonesia is more than a regulatory requirement; it's a strategic imperative that leverages environmental sustainability as a cornerstone for secure, transparent, and responsible banking. As Indonesia continues to evolve its green banking framework, it sets a precedent for integrating economic development with ecological preservation, thereby ensuring a sustainable and prosperous future for all its citizens. This comprehensive and holistic approach to green banking demonstrates Indonesia's commitment to not just adapting global best practices but also leading by example in the convergence of sustainability and financial integrity.

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