

BARRIERS TO SUSTAINABLE FINANCE IN ISLAMIC BANKING: QUALITATIVE INSIGHTS FROM BANK SYARIAH INDONESIA

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Abstract : Sustainable reporting aims to promote transparency and accountability, yet a significant implementation gap persists within the Indonesian Islamic banking sector. This study investigates the systemic barriers hindering the growth of sustainable financing at Bank Syariah Indonesia (BSI), where documented proportions decline between 2021 to 2023. Employing a qualitative methodology, the research synthesizes BSI's annual reports with in-depth interviews from bank executives, entrepreneurs across various scales, sustainable financing expert, and the Financial Services Authority (OJK). The findings reveal three primary obstacles: first, a traditional credit framework within BSI that prioritize immediate profitability over ESG metrics. Second, an advisory regulatory stance by the OJK that lacks tangible fiscal incentives or infrastructure. Third, a misalignment between policy and practice that causes entrepreneurs to perceive sustainable practises as a financial and administrative burden rather than a strategic advantage. By exposing the disconnect between government regulation and practical application, this study offers novel qualitative insights into the industry's reality. It proposes targeted recommendations to harmonize the tripartite interest of the state, financial institutions, and the private sectors. Furthermore, the research advocates for integrating environmental protection (hifz al bi'ah) into Sharia compliance to transition sustainability from a voluntary formality into a strategic pillar of operational stability. Ultimately, these strategies aim to enhance regulatory frameworks and foster innovation, supporting a more responsible and inclusive financial ecosystem aligned with global environmental goals.

Keywords : **Islamic banking, sustainable finance, implementation gap, ESG integration, hifz al bi'ah.**

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1. INTRODUCTION

Global efforts to address environmental degradation and social inequality are anchored in the 17 Sustainable Developments Goals (SDGs) which require an estimated annual investment of 5 to 7 billion USD. Sustainable financing has emerged as a critical field of study to obtain a sustainable environment (Che et al., 2021). Shifting the financial focus from short-term profits to long term socio-enviromental preservation. This transition is deeply rooted in the principles of *Maqasid al-Sharia*, particularly the

protection of progeny (*nasl*) and property (*mal*), which mandate that financial activities must not only be profitable but also prevent harm to the environment and future generations. By utilizing mechanism like the SDG Finance Taxonomy and ESG (Environmental, Social and Governance) applications, financial institutions play a pivotal role in pushing ecological transformation. This global shift emphasizes the circulation of capital in ways that support renewable energy, reduce pollutions and align corporate decision-making with broader societal responsibilities.

Sustainable financing is a study field that offer new perspective to optimized profits by utilise every progress in preserving natural resources. The sole purpose of this is to shifting the focus from short-term benefit to supporting sustainability of the company, stakeholders, society as well as the environment. Sustainable financing scope is not limited to financial development as instrument to achieve sustainability, but would become a vital benchmark for company decision making or entrepreneur who prioritize socio-economy responsibilities rather than only cared about making profits.

It expected to improve the environment quality which has become the world's attention today. Sustainable financing hold substantial role to push ecology transformation development with two approach. First, enhancing entrepreneur to involve in more environmental friendly business process. Second, reducing pollution level, and shift high consumption energy equipment into low or renewable energy equipment.

Moreover, sustainable financing also help to eradicating poverty in terms create more public awareness towards green finance application through green products free of substance that might cause environment or ecosystem degradations. Green finance application would be effective if all sectors applied regulations in a national scale at the same time in all sectors of economy (Zheng et al., 2022). All economy sectors have each contribute to environmental degradation, so in order to obtain long-term result government support is vital to build awareness and legalize regulations related to economic sustainability.

In the Indonesia landscape, the drive toward sustainability is increasingly centered on the financial sector's ability to mitigate climate change. Following the merger of three major sharia entities namely Bank Syariah Mandiri, Bank BRI Syariah, and Bank BNI Syariah into one national sharia bank named Bank Syariah Indonesia (BSI) in 2021. Intended to established a powerful sharia financial service to improve capital capacity and service reach. However, it faces a significant hurdle: government commitment remains largely advisory. While the Financial Services Authority (OJK) provides guidance, there is a lack of mandatory compliance or fiscal incentives, leaving a "regulatory vacuum" where sustainable practices are encouraged but not enforced. This regulatory environment creates a scenario where the business sector must navigate sustainable certification independently, often without sufficient infrastructure or administrative support to align with national sustainability targets

Bank Syariah Indonesia (BSI) presents a critical organizational paradox that warrants immediate scrutiny. BSI is a global leader, ranking 3rd internationally among Islamic banks for ESG implementation (Sustainalystics, 2024), the biggest Islamic bank in Indonesia, 6th rank as the largest bank in Indonesia, and placed 14th in global sharia

bank rating (Hidayah, 2023). Apart from financial achievement excellence, BSI also obtain awards in sustainability from Katadata Corporate Sustainability as company that committed to implementing sustainable finance and banking (Rofiyandi, 2023). Based on all its achievements, BSI can be considered as role model of sustainable financing for Islamic banks in Indonesia. On the other hand, internal data reveals a troubling trend: while BSI's total financing distribution grew significantly, the actual percentage of sustainable financing has consistently declined, creates a sustainability irony as BSI grows more powerful and internationally recognized, its core contribution to green financing is actually shrinking in proportion to its total assets. This tension between high-level global accolades and a shrinking share of assets within its portfolio highlights a gap between public communication and operational reality.

BSI Sustainable Reports from 2021 to 2023 stated that in 2021 BSI record financing distribution of IDR 171.291 trillion and raised into IDR 207.7 trillion in 2022 and IDR 240.316 trillion in 2023 the financing detail are listed on table 1 below:

Tabel 1 BSI Portfolio Financing based on Economic Sector (in IDR billions)

No	Economic Sector	2021	2022	2023
1	Farming, Hunting & Forestry	9.024	13.396,17	17.124
2	Fishery	1.635	910,18	765
3	Mining & Quarrying	2.428	3.778,32	2.393
4	Processing Industry	9.823	10.810,09	11.806
5	Electricity, Gas and Water	4.180	4.034,09	4.768
6	Commodity and Retails	14.884	16.468,23	19.833
7	Construction	14.895	16.923,67	17.484
8	Provision of Accommodation and Food & Beverage	1.589	2.193,09	2.5758
9	Transportation, Warehousing and Communication	5.149	5.597,47	8.346
10	Financial Intermediary	4.855	5.089,74	5.870
11	Real Estate, Rental Business and Corporate Services	3.178	4.067,42	3.868
12	Government Administration, Defense and Compulsory Social Security	4	-	-
13	Education Service	3.623	3.902,82	4.499
14	Health Service and Social Activity	4.560	5.099,45	6.818
15	Community, Socio-Cultural, Entertainment and Other Individual Services	3.017	2.524,42	3.315
16	Personal Services Serving Households	241	188,44	160
17	Activities with Unclear Boundaries	-	-	4.499
18	Consumer Financing	-	-	-
19	Household	87.719	112.676,77	130.481
20	Other Business Fields	488	44,48	30
Total Amount		171.291	207.704,86	240.316

Source : BSI Sustainable Reports 2021-2023

In contrast with the growth number of portfolio, the percentage of sustainable financing continue to decline during the period 2021 to 2023. Based in the BSI Sustainability Report from 2021 to 2023, Table 2 shows the amount of sustainable financing portfolio in BSI. In 2021, the various sustainable sectors reached 26,95 percent. However in the following year, there was a decrease in the percentage of

sustainable financing to 24.70 percent and continued to decrease to 24.07 percent in 2023.

Table 2 Sustainable Financing Portfolio Realization (in billion IDR)

Categories	2021	2022	2023
Green Financing	6.696,72	9.326,65	12.234,69
SMEs Activities	39.461,23	41.823,61	45.468,99
Total sustainable financing amount	46.157,95	51.150,26	57.703,68
Sustainable financing ratio of total financing portfolio	26,95%	24,70%	24,07%

Source: BSI Sustainability Report 2021-2023 and writer's calculation

Despite BSI status as a role model for Islamic banking, a significant research gap exist regarding the specific barriers that cause sustainable financing to stagnate amidst overall portfolio growth. Existing literature often focuses on broad theoretical frameworks, yet there is a lack of in-depth analysis to the synergy between BSI, government represented by OJK, and entrepreneurs in macro, middle and micro business level. Specifically, there is a gap in understanding how internal organizational delays contribute to the lag in sustainable portfolio growth despite high-level ESG reporting.

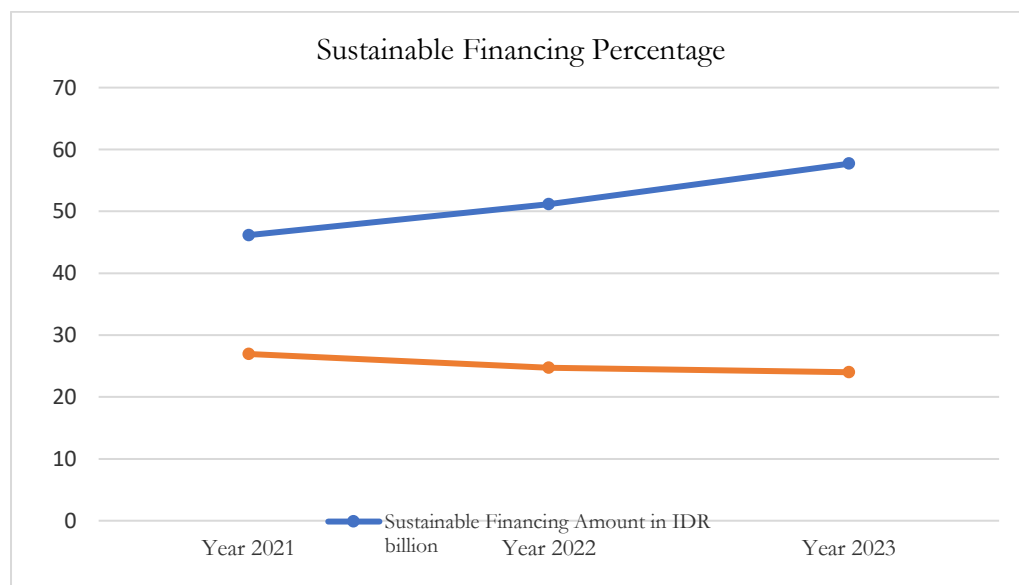


Figure 1: Comparison of Sustainable Financing Percentage and Amount (in IDR Billion) from 2021 to 2023

Source: BSI Sustainability Reports & writer's research (2021-2023)

This study aims to (1) investigate the strategic factors behind the decline in the percentage of BSI sustainable financing from 2021 to 2023. (2) Identify the operational and perceptual barriers that hinder sharia-compliant entrepreneurs from adopting green practices. (3) Evaluate the inefficacy of current regulatory frameworks and the lack of robust of government involvement in implementing supportive policies, this study assesses the resulting stagnation of sustainable financing.

This research contributes to the field by identifying specific stakeholder barriers, it offers practical insights for BSI to optimize its newly established ESG division and align its portfolio with its global reputation. Furthermore, it provides policy

recommendations for the Indonesian government to strengthen the regulatory framework. Ultimately, this study serves to increase environmental literacy and awareness across societal levels, fostering a mindset where sustainable practices are viewed not as a burden, but as a core tenet of modern Sharia-compliant financing.

2. LITERATURE REVIEW & RESEARCH METHOD

2.1 Triple Bottom Line Theory (TBL)

In 1994 John Elkington introduced a new theoretical framework known as Triple Bottom Line Theory (TBL). This concept becomes relevant as it incorporates sustainability aspects into organisational business practices (Pereira & Martins, 2021). The distinctive feature of TBL theory is its integration of various elements within the environment. This theory examines various components of an organisation through a unified theoretical framework (Janjua et al., 2020). While TBL theory mandates the integrations of environmental, economic and social impacts (Rehman et al., 2019), the difficulty of quantifying these deferred values often leads to a decline in sustainable asset allocation during periods of short-term economic pressure (Gutiérrez-Ponce & Wibowo, 2023; Laida et al., 2025).

2.2 Sustainable Financing

Sustainable financing is categorized into seven primary areas including socially responsible, green, and impact investing stemming from ecological principles of regeneration and long-term productivity (Kemfert & Schmalz, 2019; Zhou et al., 2018). Moving beyond traditional financial metrics, this comprehensive approach prioritizes environmental and social factors to enhance risk management and institutional stability in competitive markets (Arunkumar & Kotreshwar, 2006; Parab & Patil, 2018). As a mainstream global policy, these practices allow banks to mitigate climate-related risks and build reputational capital while fostering stable green growth through the effective application of ESG (Environment, Social, and Governance) frameworks (Agustin et al., 2023; Claringbould et al., 2019).

In the Indonesian context, a robust national strategy requires financial institutions to be discerning in credit extension, ensuring client activities align with established sustainability criteria (Yakovlev & Nikulina, 2019; Dewantara & Agatha, 2019). Future banking success transcends profit maximization, as shifting societal values demand greater environmental responsibility and regulatory compliance. Consequently, integrating sustainability into core operations not only aligns with global goals but also secures economic resilience by attracting a conscientious consumer base and supporting the broader preservation of nature and human populations (Khan et al., 2022; Minh Sang, 2024).

Building on this framework, this investigation examines the sustainable financing performance of Bank Syariah Indonesia (BSI). It addresses a notable performance gap: while Bank Syariah Mandiri (a BSI predecessor) once reported a high of 29.65% sustainable financing, BSI's more recent figures from 2021 to 2023 have shown a decline (Nugroho et al., 2019).

By identifying proxy indicators that align with Islamic banking principles (Afif, 2023), this study moves beyond mere disclosure to investigate the practical barriers to

execution and explore possibilities for BSI to enhance its sustainable financing allocation.

2.3 Sharia Basis of Sustainable Financing

Sharia foundations in Islamic banking are vital, rooted in the principles of muamalah and guided by the Quran and Hadith. These foundations translate into operational principles for sharia banking which include: (1) Fairness, (2) Partnership, (3) Transparency, and (4) Universal. Therefore, it is important for sharia financial institutions to maintain trust and applied circumspection in its activities (Maimun & Tzahira, 2022 ; Antonio, 2001 ; Karnaen Anwar & Antonio, 1992 ; Al- Mushlih & Shalah, 2004 ; Supriadi & Ismawati, 2020). The Quran underscores humanity's responsibility to care for the earth, warning against excessive exploitation of natural resources (Azami & Kustanto, 2023). As said in Ar-Rum chapter 41 and Al-'Araf chapter 56, these foundations have fostered the emergence of *fiqh al bi'ah* (environmental jurisprudence) and the scholarly proposal to establish *hifz al-bi'ah* (protecting nature) as a vital sixth *maqasid sharia* alongside the protection of religion, life, intellect, lineage and property (Kodir, 2023 ; Utama et al., 2019) By integrating these values, sustainable financing transcends traditional banking to become a spiritual imperative, ensuring that economic activities align with the divine responsibility to preserve both the natural ecosystem and humanity (Ramadhan, 2019).

2.4 Research Method

This study utilizes a qualitative descriptive methodology to construct a factual and systematic analysis of the research phenomena. This approach is prioritize because it captures complex behaviors and perspectives that statistical measurements cannot reac, specifically addressing the reasons behind organizational decisions (Creswell & Creswell, 2018 ; Loureiro et al., 2020 ; Fadli, 2021). By exploring variables through descriptive clarification, the research maintains contextual depth while organizing data into a coherent narrative suitable for addressing social and institutional problems (Moleong, 2018 ; Sugiyono, 2019).

Data collection is conducted through a combination of in-depth interviews and literature studies (desk research). The in-depth interviews serve as flexible , targeted conversations designed to extract detailed meanings and chronologies from the informants' perspectives (Rutledge & Hogg, 2020). Simultaneously the literature study involves a secondary review of reports, transcripts, and meeting minutes to provide a broader evidence-based understanding (Kiely, 2024 ; Travis, 2016). This dual method approach ensures that the resulting conclusions are adequate to discover new findings and offer strategic input for the research problem (Mohajan, 2018).

Using purposive sampling, the study focuses on eight key informants selected for the quality of their specialized insights. Internal perspectives are provided by two BSI Executives (specifically the Head of ESG and Head of Corporate Financing), who offer a deep understanding of strategic decision-making and Islamic banking operations. To analyze implementation at the ground level, four Entrepreneurs representing corporate, medium and micro-scale businesses provide insights into the challenges of

green certification and bank-client dynamics. External validity is enriched by one Sustainable Financing Expert, offering a neutral strategic view and one OJK representative to evaluate the regulatory commitment to sustainable policies. Interview lasting 60 to 90 minutes, for five out of eight informants interview are conducted via direct interview for , two others via phone calls , and written correspondence for OJK representative, ensuring a comprehensive tripartite view of the sustainable financing ecosystem.

The following is a detailed list of informants who will be interviewed to collect data using purposive sampling.

Table 3 In-Depth Interview Sources List

Institution	Number of people and Authority Scale	Purpose of Interview
BSI	1 ESG Group Head	Exploring and understanding BSI challenges in increasing the percentage of sustainable financing
BSI	1 CFS Group Head	Understanding the decision-making process to fund a company and if company sustainability business processes are considered
Macro level business	1 Operational Director	Knowing the challenges and applications of sustainability in the business
Middle level business	1 Finance Director	Knowing the challenges and applications of sustainability in the business
Micro level business	1 Manager	Knowing the challenges and applications of sustainability in the business
Expert	1 Owner	Knowing the challenges and applications of sustainability in the business
	1 Researcher	Explaining the implementation of regulations and sustainable financing application by banks and the government from a third party perspective
OJK	1 Government representative	Understanding the role and commitment of the government to support sustainable financing applications

Source : Writer research (2024)

BSI Executive (Internal Strategy)

Representing the core of the financial institutions, these executives provide insights into the internal decision-making processes, operational challenges, and the strategic prioritization of green assets within the sharia framework.

Entrepreneurs (Real Sector Implementation)

As the primary user of financing, these informants clarify the operational hurdles and the cost-benefit reality of adopting sustainable practices. Their perspectives is vital to understanding the demand-side barriers to green halal initiatives

Sustainable Financing Expert (Neutral Perspective)

To mitigate internal bias, an expert with international and domestic experience provides a benchmark for Indonesia's progress against global sharia-sustainable standards.

OJK (Indonesia's Financial Authority Service)

As the governing body, the OJK provides the necessary data on the legal framework, national targets, and the current advisory state of Indonesia sustainable finance policy.

Qualitative conclusions provide a robust framework for addressing the research problem, yielding unique insights that facilitate practical strategic recommendations. Rather than focusing on statistical breadth, the study prioritizes the depth and quality of information through purposive sampling. By synthesizing perspectives from a tripartite range of stakeholders the research ensures a comprehensive, multi-dimensional analysis. This diversity of informants is critical to enriching the data and uncovering the specific systemic barriers within the sustainable financing ecosystem.

This study utilizes methodological triangulation to enhance the trustworthiness of the findings by synthesizing qualitative interview data with a longitudinal analysis of BSI's sustainability disclosures. This approach ensures that the identified organizational paradox is substantiated by both internal narratives and objective performance metrics.

Grounded Theory is a systematic qualitative method where conceptual frameworks and inductive theory are derived through the rigorous analysis of gathered data. Rather than being a mere discovery, it is a constructive process where the researcher generates theory by interpreting data through their own specific analytical lens (Tie et al, 2019).

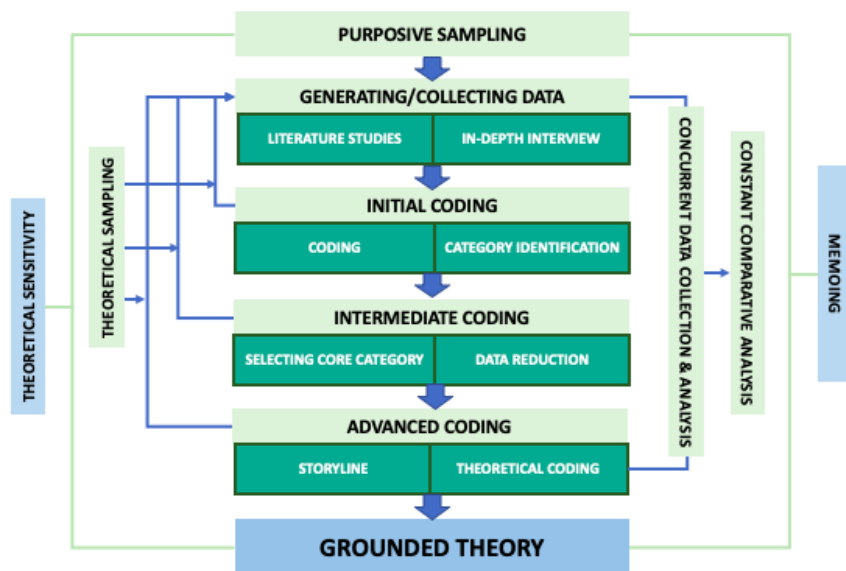


Figure 2: Grounded Theory Method Framework

3. RESULT AND DISCUSSION

3.1 Research Finding

The result of in-depth interview with several informants will help to elaborate the problems of the research. The research findings reveal a significant misalignment between the conceptual framework of sustainable financing and its practical execution

within the Indonesian Islamic banking ecosystem. Primary data from Bank Syariah Indonesia (BSI) indicates that the institution's initial years post-merger were dominated by organizational harmonization, prioritizing the integration of diverse corporate cultures and workflows over the development of specialized ESG metrics. According to BSI executives, the operational philosophy remains rooted in a "profitable mindset," where maximizing profit is viewed as the primary vehicle for social empowerment through increased zakat contributions. While a dedicated ESG division was established in June 2024 to transition from voluntary to structured implementation, the current credit assessment framework remains largely traditional. The Corporate Financial Solution (CFS) Group Head confirmed that while sustainable certifications are viewed favorably as a reputation enhancer, they do not currently influence creditworthiness or financing terms, as the bank remains focused on the fundamental risk of repayment.

This institutional caution is echoed by external experts who highlight a systemic "top-down" approach in Indonesia that contrasts sharply with the grassroots-driven sustainability models of the European Union or Scandinavia. In Indonesia, the business mentality often prioritizes immediate gains and infrastructure needs over long-term environmental preservation, frequently resulting in sustainable initiatives devolving into mere social funds. Although the Financial Services Authority (OJK) has established a Sustainable Finance Task Force to facilitate a cohesive ecosystem through international forums and multi-sector discussions, there remains a palpable gap between regulatory ambition and the lived experience of market players. Expert testimony suggests that without legislative intervention to provide tangible incentives, the current framework risks becoming a mere formality motivated exclusively by business interests rather than genuine ecological impact.

The disconnect is most visible in the perspectives of entrepreneurs across various business scales, who view sustainable practices as a burden rather than a benefit. At the corporate and macro levels, businesses report that sustainable certifications yield no fiscal advantages or relief in loan applications, serving instead as an administrative formality amidst ambiguous and shifting government regulations. Medium-sized enterprises expressed profound concern regarding the mismatch between sustainability policies and their immediate survival; without attractive incentives, these businesses are reluctant to adopt greener processes while already struggling with daily operational costs. For these entities, the bank offers little support, as financial reports remain the sole determinant of credit access regardless of environmental commitments.

Ultimately, the findings emphasize that the barriers to sustainable financing are more complex than a simple lack of awareness. For micro-business owners, the reality is even more stark, as banks rarely inquire about or reward green business processes during the financing proposal stage, focusing strictly on the health of the financial statement. This collective feedback underscores a critical need for a strategic solution that harmonizes the interests of all parties. To move beyond the current stagnation, Indonesia must foster a more efficient collaboration where government bodies provide

the necessary infrastructure and fiscal incentives, allowing financial institutions to move beyond profit-centric models and entrepreneurs to view sustainability as a viable path to long-term operational stability.

3.2 Discussion

3.2.1 The Sustainable Financing Implementation Gap

Studies on sustainable financing have already been addressed by international scholars. The pressing need for application and attention to sustainable financing has led to its emergence as a mainstream policy in numerous countries. (Claringbould et al., 2019 ; Dhesinta, 2019 ; Kemfert & Schmalz, 2019 ; Mohajan, 2018 ; Popescu & Popescu, 2019 ; Raihan, 2019 ; Ridho, 2020 ; La Torre et al., 2019 ; Urban & Wójcik, 2019 ; Županović, 2014).

Rising sustainable finance trends in Germany and Singapore highlight the critical synergy between government policy, the financial sector, and non-profit networks, further bolstered by high levels of financial literacy (Fadhillah & Agung, 2024 : Khun, 2022). Nevertheless, recent research identifies critical impediments to the integration of sustainable finance policies, specifically citing regulatory ambiguity, the absence of standardized metrics, and insufficient data availability as primary obstacles (Dev et al, 2025).

Regulatory ambiguity often creates a "gray area" for compliance, where vague legal frameworks leave financial institutions without clear definitions of what constitutes a sustainable asset. This uncertainty is exacerbated by the absence of standardized metrics, which prevents objective cross-institutional benchmarking and leads to fragmented reporting that can obscure a bank's actual environmental impact. Furthermore, insufficient data availability remains a significant hurdle without reliable information from corporate clients, banks struggle to perform rigorous sustainability risk assessments or accurately integrate ESG factors into their traditional credit-risk modeling. These combined factors often relegate sustainable financing to a secondary concern, especially when financial institutions face the immediate pressure of maintaining short-term profitability.

While Indonesian financial institutions largely comply with the national roadmap, tangible outcomes remain elusive due to limited regulatory oversight. To bridge this gap, disclosure standards and risk management frameworks must be strengthened alongside performance-based incentives. Furthermore, proactive intervention from the central bank is essential to implement green macroprudential regulations that actively redirect capital away from carbon-intensive sectors toward sustainable growth (Setyowati, 2023).

Despite formal compliance with the national roadmap, Indonesia's sustainable finance goals face a "implementation gap" driven by misaligned stakeholder priorities and systemic bottlenecks. While the government targets a 29% emission reduction by 2030, the "Indonesia Hijau 2030" vision remains hampered by trial-phase taxonomies and weak environmental law enforcement that fails to deter regulatory breaches (Kurniawan et al., 2023). Entrepreneurs are further discouraged by an intricate bureaucracy, a culture of local official appeasement, and a lack of clear communication regarding frequently shifting regulations. Consequently, sustainable certification often

feels like a burdensome administrative formality rather than a gateway to fiscal benefits, leaving businesses to prioritize daily survival over ecological transitions.

An analysis of the Sustainable Finance Report from 15 banks covering the period from 2017-2020 shows that the disclosure of Sustainable Finance & Green Finance is still relatively low, despite an increase following since the issuance of POJK No. 51/pojk.03/2017 regarding the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (Bayu & Novita, 2023). From the banking perspective, particularly within Islamic finance, there is a cautious optimism that the Triple Bottom Line (balancing people, profit, and the planet) can be achieved if the right external incentives are established.

3.2.2 Integrating Internal Initiatives and Multi-Stakeholder Support

For Bank Syariah Indonesia, enhancing its sustainable financing proportion requires a dual-track strategy: internally, the bank must refine its Sustainable Financial Action Plan (RAKB) to move beyond voluntary social funds toward structured ESG metrics.

At the grassroots level, initiatives such as Micro and Medium Green Projects (e.g., biogas waste-to-energy) and Circular Economy programs offer high social value and waste reduction with manageable risk. For corporate clients, BSI can offer specialized financing for Sustainable and Green Building Certifications, helping organizations offset the high initial costs of compliance while benefiting from lower long-term operating expenses and property risks (Leskinen et al., 2020; Parekke et al., 2024). Furthermore, large-scale Renewable Energy Syndication utilizing parent-company guarantees and Green Business Incubators can capture the growing consumer demand for eco-friendly products and facilitate Indonesia's transition toward a net-zero economy (Khanna, 2020; Mi, 2023).

Externally, success depends on proactive collaboration with the government and MUI to create a macroprudential framework that actively redirects capital through tangible incentives, ensuring that sustainable practices become a primary driver of creditworthiness rather than a secondary reputational enhancement.

Regulatory bodies like OJK should implement Progressive Sustainable Financing Policies and performance-based incentives to encourage competitive excellence among financial institutions (Jin et al., 2022). Crucially, integrating *hifz al-bi'ah* (environmental protection) into Sharia compliance frameworks overseen by the DSN-MUI would provide a mandatory theological basis for sustainability. By establishing these minimal performance benchmarks and measurable indicators, the banking sector can move beyond administrative formalities toward a cohesive ecosystem that aligns Islamic law with global environmental goals (Harris et al., 2024; Prabowo, 2023).

4. CONCLUSION

This research concludes that a profound implementation gap persists within the Indonesian Islamic banking ecosystem, characterized by a significant disconnect between the conceptual framework of sustainable finance and its practical execution. The findings highlight that institutional priorities, particularly within Bank Syariah Indonesia (BSI), remain anchored in traditional profit-centric models where ESG initiatives are often relegated to secondary reputational enhancers rather than core

determinants of creditworthiness. This systemic stagnation is exacerbated by regulatory ambiguity, a lack of standardized metrics, and a "top-down" approach that fails to provide tangible fiscal incentives for entrepreneurs, who subsequently view green transitions as an administrative burden rather than an operational advantage.

To bridge this divide, the study underscores the necessity of a dual-track strategy: internally, financial institutions must evolve beyond voluntary social funds to integrate structured ESG metrics into their core credit-risk modeling. Externally, a robust tripartite synergy between government bodies, the Financial Services Authority (OJK), and the National Sharia Board (DSN-MUI) must be established to provide the necessary infrastructure and fiscal relief. Ultimately, transforming sustainable finance from a voluntary formality into a strategic driver of long-term stability requires the formal integration of environmental protection (*hifz al-bi'ah*) into Sharia compliance frameworks, supported by green macroprudential regulations that align economic survival with ecological preservation.

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