

Green Banking and Islamic Banking: Building Sustainable Banking Based on Islam

A. Muammar Kafiul Huda¹, Dinda Fitriana Nur Azizah^{2*}, Amelia Purnama Putri³,
Chelsea Marchela Divani⁴, Amalia Nuril Hidayati⁵
^{1,2,3,4,5}UIN Sayyid Ali Rahmatullah Tulungagung

Submitted: 17-12-2005

Accepted: 02-02-2025

Published: 28-02-2026

Abstract

This study discusses the synergy between Green Banking and Islamic banking in developing a sustainable banking model based on Islamic values. Green banking and Islamic banking have great potential in creating a banking system that not only focuses on economic profits but also pays attention to social and environmental sustainability. Its application includes financing green projects, renewable energy, and sustainable infrastructure, in accordance with the Sustainable Development Goals (SDGs) and the principles of maqashid al-syariah. However, challenges such as low literacy, limited human resources, and regulatory harmonization still hinder implementation. This study uses a qualitative descriptive approach and literature review to analyze the potential and challenges of the synergy between green banking and Islamic banking. The results show that this synergy can encourage banks to play an active role in sustainable development and create positive social and ecological impacts.

Keywords: Green Banking, Islamic Banking, Sustainable Development, Islamic Values

***Corresponding author**

fdinda984@gmail.com

E-ISSN: 2986-2256

P-ISSN: 2986-5891

INTRODUCTION

Green banking is banking activities that pay special attention to environmental, social, and ecological factors in order to protect nature and natural resources. This concept incorporates sustainability principles into banking operations, with the aim of minimizing negative impacts on the environment and encouraging various initiatives oriented towards environmental preservation and sustainability. The basic principle of green banking is to strengthen banks' risk management capabilities related to the environment and encourage banks to increase their environmentally friendly financing portfolios. The application of green banking in the sharia system means directing financing and investment to sectors that are halal, ethical, and environmentally friendly. Green banking can also improve the operational efficiency of banks by reducing the use of paper, energy, and other resources. In addition, green banking also has the potential to attract customers who are increasingly concerned about environmental issues.

Islamic banking is a financial system that operates based on Islamic principles derived from the Qur'an and Hadith, and rejects the practices of usury, gharar, and maisir in financial transactions. The basic principle of Islamic banking is to ensure that financial transactions are conducted fairly and transparently, and do not harm either party. Islamic banking focuses on financing that benefits both parties, promoting productive and ethical investment, and encouraging sustainable socio-economic development. Islamic banks can develop products that support environmentally friendly projects, such as financing for renewable energy or sustainable infrastructure projects. Therefore, Islamic banking has a strategic role in supporting the sustainable development agenda by channeling funds to projects that benefit society and the environment.

METHOD

The method used in this study is a qualitative descriptive approach, where the main focus is to describe an event or phenomenon to gain a deeper understanding that seeks to explain the application of green banking and Islamic banking and the development of Islamic-based sustainable banking. All data generated and presented is in the form of descriptions, namely descriptions of the results of the study. The data collection techniques used included a study of journal and online and print articles, as well as literature related to this research.

LITERATURE REVIEW

The Concept of Green Banking

Green banking or environmentally friendly banking is banking activities that pay special attention to environmental, social and ecological factors with the aim of protecting nature and natural resources to save the environment (Rai, et al., 2019). Green banking is a concept that incorporates sustainability principles into banking operations, with the aim of minimizing negative impacts on the environment and encouraging various initiatives oriented towards environmental preservation and sustainability (Ardiansyah, 2025). The basic principle of green banking is to strengthen the bank's risk management capabilities, particularly in relation to the environment, and to encourage banks to increase their environmentally friendly financing portfolios, such as renewable energy, energy efficiency, organic farming, eco-tourism, environmentally friendly transportation, and various eco-labeled products. These efforts are a manifestation of banks' awareness of the risk of environmental problems in the projects they finance, which may have a negative impact in the form of a decline in the quality of financing and the reputation of the bank concerned.

The application of green banking and Islamic banking in developing sustainable banking based on Islamic values has a deeper dimension because it not only focuses on environmental aspects but also emphasizes ethical values, social justice, and moral responsibility. From a sharia perspective, every economic activity must be in line with the principles of maqashid al-sharia, namely protecting religion, life, intellect, lineage, and wealth (hifz al-din, al-nafs, al-'aql, al-nasl, and al-mal), which form the basis of balance between worldly and spiritual needs (Chapra, 2008). This principle encourages banking institutions to not only pursue financial profits, but also to consider the social and ecological impacts of each of their business decisions (Aliyu, et al., 2017).

In this context, the application of green banking in the sharia system means directing financing and investment to sectors that are halal, ethical, and environmentally friendly, such as renewable energy, sustainable agriculture, and green waste management (Widiyanti et al., 2025). In addition, the principles of justice ('adl) and benefit (maslahah), which form the basis of Islamic law, require that economic

activities do not cause damage (fasad) to the earth, including in the management of natural resources and business activities (Jan et al., 2021).

Green banking not only has an impact on the environment, but can also improve the operational efficiency of banks. Mills (2012) states that by implementing green technology, banks can reduce their use of paper, energy, and other resources, which in turn reduces operational costs and increases profitability. In addition, green banking also has the potential to attract customers who are increasingly concerned about environmental issues and who want to invest in financial institutions that are committed to creating a positive impact on the planet. Therefore, the implementation of green banking can be a profitable strategy from both an economic and environmental perspective.

The Concept of Islamic Banking

Sharia (Arabic for “the path to paradise”) is Islamic law, sanctified as the teachings conveyed by the Prophet Muhammad in the Quran and Sunnah (Hasan, 2014). Sharia banking is everything related to Sharia banks and Sharia business units, including institutions, business activities, and the methods and processes used to carry out their business activities (Ismail, 2011).

Islamic banking is a financial system that operates based on Islamic principles derived from the Qur'an and Hadith, and rejects the practices of usury, gharar (uncertainty), and maisir (speculation) in financial transactions.

The prohibition of usury in Islamic teachings is based on a solid and explicit foundation, as stated in the Qur'an and Sunnah of the Prophet. This principle serves as a key pillar in the development of the Islamic financial system. The following are several verses from the Qur'an that explicitly confirm the prohibition of usury.

Arguments from the Qur'an

QS. Al-Baqarah Verse 278

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ

Meaning: “O you who believe! Fear Allah and give up what remains of usury, if you are believers.”

QS. Al-Baqarah Verse 279

فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتِغُوا فَلَئِمَّ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ

Meaning: “If you do not do so, then declare war from Allah and His Messenger. But if you repent, then you are entitled to your principal. You have not wronged (caused harm) and you have not been wronged (caused harm).”

The basic principle of Islamic banking is to ensure that financial transactions are conducted fairly and transparently, and do not harm either party. Islamic banking focuses on financing that benefits both parties, by promoting productive and ethical investment, and encouraging sustainable socio-economic development.

On the other hand, Islamic banking also strives to support financial inclusion by providing products that are accessible to the wider community, including those who cannot access conventional banking services. Furthermore, (Aliyu, et al., 2017) emphasizes that Islamic banking is not only an

alternative to the conventional system, but also a financial paradigm based on Islamic moral and ethical values. This system plays an important role in creating economic stability because it encourages economic activities based on real assets and rejects speculative practices.

Oktaviani and Mochklas (2019) revealed that Islamic banking plays an important role in improving financial literacy, especially in countries with Muslim majorities, by offering products that are not only compliant with Islamic law but also have high social sustainability values. These products include profit-sharing financing such as mudharabah and musyarakah, which provide more inclusive investment opportunities for the community.

Chapra explains that the Islamic economic system, including Islamic banking, is based on maqashid al-syariah, which aims to maintain human welfare (maslahah) through the protection of religion, life, reason, lineage, and property. (Chapra, 2008). This principle provides direction for Islamic banking operations so that they not only prioritize economic efficiency, but also create social justice and environmental balance. In practice, Islamic banks apply various contracts such as mudharabah (profit sharing), musyarakah (capital cooperation), murabahah (sale and purchase with margin), and ijarah (operating lease) which are designed to ensure a fair distribution of profits between the bank and its customers (Aliyu, et al., 2017).

Sharia banks can develop products that support environmentally friendly projects, such as financing for renewable energy or sustainable infrastructure projects, which are in line with sharia principles regarding harmony between humans and nature. Therefore, sharia banking has a strategic role in supporting the sustainable development agenda through the distribution of funds for projects that benefit society and the environment. (Anggita Putri, et al., 2022)

Sustainable Banking Development

Sustainable banking is an approach in the banking sector that combines economic, environmental, and social considerations (triple bottom line) in all aspects of a bank's operations, from financing decisions to reporting and risk management. According to Agustina and Fasa (2021), green banking as a pillar of sustainable financial transformation in Indonesia integrates environmental sustainability into bank operations, services, and products in response to the challenges of climate change and environmental damage, as well as the need for economic development that does not neglect nature conservation (Agustina, N., & Fasa, 2021).

This concept is also regulated through POJK Number 51/POJK.03/2017, which requires financial service institutions to implement sustainable finance, including environmental, social, and governance (ESG) aspects in their operational activities (Naiborhu, 2024). In the context of Islamic banking, the implementation of sustainable banking includes financing selection based on environmental criteria, environmental and social risk management (ESRM), and the development of environmentally friendly and Sharia-compliant products. Therefore, this study aims to analyze how green banking and Islamic banking can be used to develop Islamic-based sustainable banking in Indonesia.

RESULTS AND DISCUSSION

Synergy between Green Banking and Islamic Banking in developing a sustainable banking model

The synergy between green banking and Islamic banking has great potential in shaping a banking model that not only focuses on economic profits, but also pays attention to social and environmental sustainability. Green banking acts as a banking system that applies environmentally friendly principles in

all of its operational activities, such as energy efficiency, green project financing, and the development of products that support sustainability (Agustina, N., & Fasa, 2021).

Meanwhile, Islamic banking is built on Islamic values that emphasize justice, benefit, and prohibition of destructive practices (*fasad*). This principle is in line with the objectives of green banking, which is oriented towards environmental sustainability and community welfare (Fitrianna, N., & Widyaningrum, 2023). Thus, the synergy between these two concepts can give rise to an Islamic-based sustainable banking model that comprehensively integrates ethical, environmental, and social aspects. The existence of Islamic banks is expected to contribute to community economic growth through the financing provided by Islamic banks (Rusby, 2017).

Amid growing public expectations regarding the role of companies in building a sustainable environment, Islamic banking faces challenges in terms of public support, as demand for this industry tends to be lower than for conventional banking. However, the development of environmentally friendly practices in the Islamic banking industry is seen as a solution to increase customer participation. Furthermore, by 2030, it is estimated that banks around the world will pay more attention to environmentally friendly practices, as environmentally friendly loans are expected to increase from US\$22 trillion to US\$445 trillion. This will encourage Islamic banking to increase its competitiveness through environmentally friendly practices (Karim, 2024).

In practice, this synergy can be realized through the allocation of funds to productive and environmentally friendly sectors, such as renewable energy financing, organic farming, and green infrastructure projects that are in line with the principles of *halal* and *tayyib*. In addition, the application of green financing in Islamic financial institutions can also strengthen banks' commitment to achieving the Sustainable Development Goals (SDGs) without abandoning the principles of *maqashid al-syariah*. With this approach, banking not only becomes an economic driver, but also an agent of change towards a balance between prosperity and environmental sustainability.

Islamic Values as the Basis for a Sustainable Banking Model

In Islam, values related to environmental preservation and social welfare are embedded in the basic teachings of Sharia law. The principle of *maqashid al-sharia* serves as the moral foundation for economic activities, including banking, which aims to preserve five key aspects of life: religion (*din*), life (*nafs*), intellect (*'aql*), lineage (*nasl*), and wealth (*mal*). The application of this concept requires that economic and financial activities do not cause corruption on earth (*fasad fi al-ardh*) as stated in the Qur'an, Surah Al-A'raf, ayat 56.

Arguments from the Qur'an

QS. Al-A'raf Verse 56

وَلَا تُفْسِدُوا فِي الْأَرْضِ بَعْدَ إِصْلَاحِهَا وَادْعُوهُ خَوْفًا وَطَمَعًا إِنَّ رَحْمَتَ اللَّهِ قَرِيبٌ مِّنَ الْمُحْسِنِينَ

Meaning: "Do not cause corruption on earth after it has been set in order. Pray to Him with fear and hope. Verily, Allah's mercy is very close to those who do good."

In the context of green banking, Islamic values encourage moral responsibility to protect natural resources as creations of Allah SWT. Economic activities carried out by Islamic financial institutions must be in line with the principles of justice (*'adl*), responsibility (*mas'uliyah*), and benefit (*maslahah*) for

all creatures. Therefore, Islamic banks need to develop financing models that not only provide profits but also consider social and ecological impacts.

Response to Environmental Crises

Global environmental crises, such as climate change, deforestation, and industrial pollution, require the banking world to play an active role in sustainability solutions. In this context, green banking has emerged as an innovation that encourages financial institutions to contribute to mitigating environmental impacts through selective and green financing policies.

Sharia banking, with its principles prohibiting excessive exploitation and requiring the preservation of natural balance, has the potential to become a pioneer in environmentally conscious economic practices. The concept of *khalifah fil-ardh* (humans as guardians of the earth) provides a theological basis that economic activities should benefit the earth, not destroy it. Therefore, Islamic banks can play a role in supporting green projects through financing renewable energy, water efficiency, and environmentally friendly technologies.

In its implementation, this synergy also requires innovation in banking policies and products, such as eco-microfinance and carbon credit financing. All of these instruments not only help address the environmental crisis, but also support the transition to a green economy that is fair and inclusive in accordance with Islamic values.

Challenges in Building Synergy Between Green Banking and Islamic Banking

Although the synergy between green banking and Islamic banking has great potential, its implementation still faces various structural and practical challenges. The main challenges include low literacy about sustainable finance among the public and industry players, limited human resources who understand both environmental and Islamic aspects, and a lack of innovation in Islamic-based green financial products (Naiborhu, 2024).

In addition, from a regulatory perspective, despite the existence of policies such as POJK No. 51/POJK.03/2017, its implementation in Islamic financial institutions still requires harmonization with the fatwa of the National Sharia Council (DSN-MUI). Islamic banks also face a dilemma between maintaining profitability and ensuring environmentally friendly financing, as green projects often carry long-term risks and lower rates of return.

Another challenge is the need for synergy between financial authorities, educational institutions, and the community in strengthening awareness of the importance of Islamic-based sustainable banking. Without cross-sector support, the implementation of green banking in Islamic banking will be difficult to achieve optimal impact.

Implication for Sustainable Development

The synergy between green banking and Islamic banking has strategic implications for sustainable development, particularly in supporting the achievement of Sustainable Development Goals (SDGs) in Indonesia. The integration of these two concepts can encourage banks to play an active role in financing priority sectors, such as clean energy, green infrastructure, waste management, and poverty alleviation based on the Islamic economy.

From an Islamic perspective, this implementation is in line with the principle of rahmatan lil 'alamin, which emphasizes the importance of balance between economic progress and environmental preservation. Sharia banks that apply green banking principles not only contribute to economic stability, but also create positive social and ecological impacts. Thus, the synergy between the two is not merely a financial innovation, but also a tangible manifestation of social worship and moral responsibility for the sustainability of life on earth.

Environmentally friendly banking refers to banking practices that integrate environmental conservation principles and take responsibility for the environmental impact of their operations. Banks that consider environmental aspects in their business decision-making may face challenges that could affect the smooth operation of financial institutions. However, this also plays a positive role in supporting corporate social responsibility to preserve nature through various initiatives. Some steps that can be taken to implement environmentally friendly banking services include the use of internet banking, the provision of environmentally-based checking accounts, the provision of green loans, mobile banking services, electronic banking transactions, and energy-saving efforts that support environmental sustainability programs.

CONCLUSION

The conclusion of this study shows that the synergy between green banking and Islamic banking is a strategic step in developing a sustainable banking model based on Islamic values. Both have similar principles in maintaining a balance between economic profit, social responsibility, and environmental preservation. Through the application of maqashid al-syariah principles such as justice ('adl), benefit (maslahah), and prohibition of corruption (fasad), Islamic banking can be a driving force in supporting ethical and equitable green finance. The implementation of green banking in the sharia system not only contributes to mitigating environmental crises, but also strengthens the role of banking as an agent of sustainable development. Although it still faces challenges such as low green financial literacy and regulatory limitations, collaboration between the government, financial institutions, and the community can accelerate this transformation. The integration of green banking and Islamic banking is not only a financial innovation, but also a tangible manifestation of moral and spiritual responsibility in realizing sustainable development in line with Islamic values and the principle of rahmatan lil 'alamin. This study has limitations because it only uses a literature study approach without being supported by direct empirical data from banking institutions, so that the generalization of the findings is limited.

REFERENCES

- Agustina, N., & Fasa, M. I. (2021). Perbankan Hijau sebagai Pilar Transformasi Keuangan Berkelanjutan di Indonesia. *Lentera Bisnis Manajemen*, 3(3).
- Aliyu, S., Hassan, M. K., Yusof, R. M., & Naiimi, N. (2017). Islamic banking sustainability: A review of literature and directions for future research. *Emerging Markets Finance and Trade*, 53(2), 440–470., 53(2).
- Anggita Putri, C., Iqbal Fasa, M., Fachri, A., F., & R. I. (2022). Ekonomi dan Bisnis Islam. *Mutanaqishah: Journal of Islamic Banking Inovasi*.
- Chapra, M. U. (2008). The Islamic vision of development in the light of Maqasid al-Shariah. Jeddah: Islamic Research and Training Institute. *Emerging Markets Finance and Trade*, 53(2).
- Fitrianna, N., & Widyaningrum, R. A. (2023). Analisis Penerapan Green Banking pada BRI Syariah Kantor Cabang Madiun. *Activa: Jurnal Ekonomi Syariah*.

- Hasan, N. I. (2014). *Perbankan Syariah (Sebuah Pengantar)*. GP Press Group.
- Ismail. (2011). *Perbankan Syariah*. Prenada Media Group.
- Jan, A., Mata, M. N., Albinsson, P. A., Martins, J. M., Hassan, R. B., & Mata, P. N. (2021). Alignment of Islamic banking sustainability indicators with Sustainable Development Goals (SDGs): Policy recommendations for addressing the COVID-19 pandemic. *Sustainability*, 13(5).
- Karim, W. R. dan A. (2024). *Bank Hijau*. Universitas Semarang Press.
- Mills, E. (2012). *The greening of insurance*. *Science*, 338(6113), 1424–1425. doi:10.1126/science.1229351.
- Naiborhu, R. (2024). Implikasi Yuridis Konsep Green Banking terhadap Perbankan di Indonesia. *Bina Hukum Lingkungan*, 7(3).
- Rai, R., Kharel, S., Devkota, N., & Paudel, U. R. (2019). Customers Perception on Green Banking Practices : A Desk Review. *The Journal of Economic Concerns*, 10(1), 82–95.
- Rusby, Z. (2017). *Manajemen Perbankan Syariah*. Pusat Kajian Pendidikan Islam UIR.
- Sari, N. S. (2023). Inovasi Green Banking Pada Layanan Bank Syariah: Studi Kasus Bank Syariah Indonesia. *Jurnal Media Akademik (JMA)*, 2(1).
- Sulistiyowati. (2016). *Green Banking*.
- Widiyanti, D. R., Hanifah, S. H., & Supriani, I. (2025). Exploring green banking performance of Islamic banks in Indonesia. *International Journal of Islamic Economics and Finance (IJIEF)*, 8(1).