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The Role of Green Financing of Sharia Banks in Supporting the Sustainability of MSMEs in the Green Economy Era

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A R T I C L E I N F O

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A B S T R A C T

This study examines the role of green financing of Islamic banks in supporting the sustainability of Micro, Small, and Medium Enterprises (MSMEs) in Malang City in the green economy era. Using a descriptive qualitative approach with an exploratory case study design, primary data was obtained through in-depth interviews with six cross-sector MSME actors and two Islamic bank practitioners (PT Bank Syariah Indonesia Tbk and PT Bank Muamalat Indonesia Tbk), then analyzed using the interactive model of Miles, Huberman, and Saldaña. The results of the study showed that all MSME informants were not familiar with the term green financing even though they had a track record of financing from conventional banks, while the institutional readiness of Islamic banks varied between branches. This gap is caused by information asymmetry and the lack of translation of sustainable financing policies into applicative products at the micro level, not by the rejection of sustainability values. This study recommends the reformulation of contextual education strategies and integrated mentoring schemes based on the principles of sharia maqashid and the Triple Bottom Line so that the green transition of MSMEs can be accelerated in an inclusive manner.

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INTRODUCTION

Global climate change has become one of the most pressing development challenges of the 21st century, prompting Indonesia to set a commitment to reduce carbon emissions towards a green economy through various strategic regulations, including the Financial Services Authority's (OJK) Green Taxonomy which targets a reduction in greenhouse gas emissions of up to 29% by 2030 and net-zero emissions by 2060 (Rahmawati et al., 2025). The realization of national emission reductions has consistently exceeded the annual target, from 54.8 million tons of CO2 in 2019 to 147.61 million tons of CO2 in 2024, showing that Indonesia's green transition has been realized empirically, not just normatively (Rohmy & Nihayaty, 2023). This success cannot be separated from financing support, including for Micro, Small, and Medium Enterprises (MSMEs) as the foundation of the national economy that contributes a considerable amount of greenhouse gas emissions, namely 216 million tons of CO2 in 2023. Financial institutions, including Islamic banks, have a strategic position as a sustainable economic enabler through green financing schemes that are in line with sharia principles (Wahyu Ningsih et al., 2018).

Despite adequate regulations, green financing for MSMEs in Indonesia has not run optimally due to the prudent attitude of financial institutions, low understanding of MSME actors, and limited access to green financing products (Fitriani et al., 2025). A survey by the Financial Services Authority noted a gap between the level of financial inclusion (76%) and financial literacy (38%) of the Indonesian people, which also hinders the optimal use of financial products (Yazid, 2025; Supatmin, 2024). Islamic banks, with the principles of sharia maqashid that balance economic benefits and environmental conservation, have great potential to encourage the transition of MSMEs towards environmentally friendly business practices (Suhendar et al., 2026), as pioneered by Bank Syariah Indonesia through socialization, CSR collaboration, and EIA analysis in the financing approval process (Prihatanti et al., 2025). However, studies on sharia green banking have so far highlighted more the internal policies of banks than the real contribution felt by MSMEs, including in Malang City which has a significant MSME population but still faces capital, literacy, and institutional support constraints (Shobaruddin, 2020). Departing from the literature gap, this study aims to explore the roles, benefits, and supporting and inhibiting factors of green financing of Islamic banks for the sustainability of MSMEs in Malang City, as well as providing applicable policy recommendations for regulators, Islamic banks, and MSME actors.

THEORETICAL FRAMEWORK

The green economy is a development approach that can integrate economic growth with environmental sustainability and social justice through resource efficiency and emission reduction (Yanti & Suwar, 2024). The transition of MSMEs to a green economy requires green financing support, which is financial services designed to support businesses with a positive impact on the environment (Fitriani et al., 2025); however, its adoption among Indonesian MSMEs is still low, with around 48% of MSMEs not having enough capital for environmentally friendly practices and nearly 70% needing additional funds to

transition (Bank Indonesia, 2025). From a sharia perspective, the distribution of green financing reflects the principles of sharia maqashid, especially hifz al-mal (protection of property) through fair financing schemes and hifz al-bi'ah (environmental sustainability) as a form of responsibility of Islamic banks as caliphs fil ardh (Daris, 2025), although its implementation in the field is still conceptual and limited to internal policies (Prihatanti et al., 2025).

Islamic banks distribute financing to MSMEs, mainly through murabahah and musyarakah contracts, the relationship of which can be explained through stakeholder theory, namely business continuity is determined by trust and accountability between parties (Anggraini et al., 2022; Gurusinga et al., 2025). Business sustainability is explained through the concept of the Triple Bottom Line which emphasizes the balance of profit, people, and planet, with the profit dimension often being the weakest for MSMEs due to limited capital and market access (Dari, 2024). Previous research by Fitriani et al. (2025) found that green financing has not had a significant effect on the sustainability of MSMEs because policies have not been downgraded to applicable products, while Putro (2025) shows that BSI's green financing strategy still faces obstacles to implementation; Both studies focus on only one side, while this study qualitatively traces the experience of MSMEs and Islamic banks at the same time. Based on the study, this study compiles tracing indicators that include the awareness and pressure of the MSME transition, the scheme and socialization of Islamic bank products, access and utilization by MSMEs, sustainable business practices (planet and people dimension), and business sustainability (profit dimension), adapted from the concepts of Green Coin Rating (Hanif et al., 2020) and Triple Bottom Line (Dari, 2024).

Gambar 1. Kerangka Berpikir Penelitian

Figure 1. Research Thinking Framework

This frame of thinking flows from the need for MSMEs to transition to a green economy, responded to through green financing of Islamic banks based on the principles of hifz al-mal and hifz al-bi'ah (Daris, 2025), then accessed and utilized by MSMEs, until it is realized in sustainable business practices that lead to the sustainability of MSMEs (Dari, 2024).

METHODS

This study uses a descriptive qualitative approach with an exploratory case study design to explore stakeholders' understandings, perceptions, and experiences regarding the role of green financing of Islamic banks for the sustainability of MSMEs, without examining the statistical relationship between variables. The research was conducted in Malang City, East Java, with six focus areas: MSMEs' understanding of green financing and sharia principles, experience of access to financing, interest in environmentally friendly schemes, availability and socialization of Islamic bank products, obstacles and opportunities to accelerate green financing, and its potential contribution to the Triple Bottom Line indicator. The subjects of the study were determined by purposive sampling, consisting of six cross-sector MSME actors (handicrafts, fresh food, culinary, organic retail, and processed food) in Malang City as well as two Islamic bank practitioners from PT Bank Syariah Indonesia Tbk (BSI) and PT Bank Muamalat Indonesia Tbk, in order to facilitate the triangulation of perspectives between distributors and recipients of financing.

Primary data was collected through in-depth interviews based on semi-structured guidelines, supplemented with secondary data in the form of regulations, annual reports of financial institutions, and scientific literature, as well as limited field observations as supporting contexts. Data analysis applied the interactive model of Miles, Huberman, and Saldaña (2014) which included data reduction, data presentation, and conclusions/verification, with validity tested through triangulation of sources and methods, namely comparing the narrative of MSMEs with official explanations of Islamic banks, as well as the protection of informant privacy through anonymous code numbering. This study has limited generalization because the sample is limited to the context of Malang City and there are no MSME informants who are formally customers of green financing products, so the analysis is focused on the perception and readiness of adoption, not the evaluation of quantitative causal impact.

RESULTS

The field research collected data from six MSME actors with diverse business characteristics, namely keychain handicrafts, strawberry trading, grilled corn culinary, oil-free egg rolls, organic cosmetic eco stores, and processed vegetable chips, which implicitly have an ecological interaction dimension on raw material efficiency, production processes, and waste management. All MSME informants (100%) stated that they had never heard or understood the term green financing, so none of them used environmentally friendly criteria as a consideration for choosing financing products. A paradoxical pattern was also found: all informants had a track record of financing working capital, but all were absorbed from conventional banks, driven by the perception of procedural ease and process speed, not margin calculations or types of contracts. After being given an explanation of the concept and purpose of green financing, all informants responded positively and expressed interest in accessing the product (potential demand), with the main prerequisites in the form of ease of

procedures, clarity of contract information, and operational assistance from the bank.

On the supply side, the results of the interviews showed the heterogeneous readiness of institutions between Islamic banks. PT Bank Syariah Indonesia Tbk has integrated sustainable financing into its business plan through structured education and mentoring for MSME customers, while at the PT Bank Muamalat Indonesia Tbk branch studied, financing allocation still focuses on general sharia products without a specific category for green portfolios. Triangulation of demand and supply data confirms that the main constraints on green financing have not been absorbed stemming from asymmetric information and product translation gaps: Islamic banks' marketing communications have not touched micro-operational needs, while risk mitigation schemes still treat all MSMEs uniformly without special incentives for environmentally oriented businesses. A summary of key findings is presented in Table 1.

Table 1. Summary of Demand Side and Supply-Side Gaps of Green Financing

Aspects of the Findings	Summary of Results
Green Financing Literacy (MSMEs)	100% of informants are not familiar with the term green financing
Financing Track Record	All informants have received financing, but all of them from conventional banks
Sharia Bank Readiness	BSI: sustainable products and mentoring available; Bank Muamalat (branch studied): no special green product variants yet

The synthesis of field data maps four main categories of obstacles to the implementation of green financing: cognitive literacy (100% of MSMEs do not know the term green financing so that products are not included in the financing decision scheme), product availability (the absence of green product variants in certain branches), information asymmetry (there is no micro-sector-based socialization so that potential demand is not absorbed), and administrative capacity (MSMEs' concerns about the complexity of environmental verification that encourage business actors to return to conventional financing).

DISCUSSION

These findings confirm the fundamental gap between the demand and supply sides, where the lack of absorption of green financing is due to the lack of cognitive literacy of MSMEs and the lack of uniformity in product translation by Islamic banks, not by the rejection of sustainability values. The high potential demand that is hampered by information asymmetry is in line with the Inclusion-Literacy Gap theory, which emphasizes that the decision to adopt Islamic financial instruments by micro enterprises is largely determined by the proximity of access and applicable communication language. The heterogeneity of Islamic bank readiness at the branch level also confirms the view of Institutional Isomorphism, where sustainability commitments at the central level have not been fully internalized into inclusive green products at the site operational level.

The novelty of this study shows that the integration of the principles of Maqashid Syariah and the Triple Bottom Line framework in the MSME sector can only be realized if the distribution of green funds is balanced with an integrated assistance scheme and simplification of administrative criteria. The practical and policy implications of this finding require Islamic banks and regulators (OJK) to reformulate contextual education-oriented marketing strategies and design sustainability indicators that are in accordance with the capacity of micro businesses, instead of relying on conceptual-technical approaches that have not touched the daily needs of MSMEs.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that the lack of absorption of green financing by Islamic banks in the MSME sector in Malang City is not due to the rejection or low concern of business actors for sustainability values, but rather to the lack of cognitive literacy on the MSME side and the lack of uniformity in the translation and availability of green products at the operational level of Islamic bank branches. There is a high potential demand, marked by a positive response and interest in the adoption of all informants after the concept of green financing is explained simply. The integration of Maqashid Sharia principles and the Triple Bottom Line framework in the micro sector can only be accelerated if the distribution of environmentally friendly funds is balanced with simplification of administrative procedures and integrated assistance schemes. This study recommends that Islamic banks and regulators (OJK) reformulate marketing communication strategies into contextual education that is close to the daily needs of MSMEs, such as energy efficiency, waste reduction, and environmentally friendly supply chain improvement, as well as designing inclusive sustainability indicators so that the green transition does not create new accessibility barriers for micro businesses.

FURTHER STUDY

This research has methodological limitations in the qualitative-exploratory context in Malang City without quantitative causal impact measurement. Future research is recommended to conduct longitudinal studies and quantitative-based impact assessments to measure changes in financial, social, and ecological performance in MSMEs receiving green financing in a measurable manner, as well as expand the scope of the area and the number of Islamic bank informants.

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