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The Role of ESG in Credit Decision-Making: A Case Study of Bank Negara Indonesia (BNI) Based on Sustainability Reports 2021–2024

Audilia Christy[1], Ananda Marshall Abhinaiya[2], Kanisa Alexandra Ramadhanti[3], Adiva Putri Saskia[4], Widyaningrum[5], Ayisha Nur Safina[6], Evy Steelyana W[7]
[1,2,3,4,5,6,7] School of Accounting, BINUS University, Indonesia

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ABSTRACT

This study aims to analyze the implementation of Environmental, Social, and Governance (ESG) principles as a basis for credit decision-making at Bank Negara Indonesia (BNI), based on its Sustainability Reports for the 2021–2024 period. The research is motivated by the growing demand for banks to integrate sustainability considerations into lending decisions, driven by strengthened sustainable finance regulations and increasing environmental, social, and governance risks. This study adopts a descriptive qualitative approach using a literature review and case study method. The data are derived from BNI's Sustainability Reports (2021–2024), relevant international academic journals on ESG and banking, and regulatory documents issued by the Financial Services Authority (OJK). Data analysis is conducted through content and comparative analysis to assess the alignment between BNI's ESG practices and empirical findings in the literature. The results indicate that ESG implementation at BNI has evolved progressively, from a credit risk mitigation instrument in 2021, to a debtor selection and incentive mechanism in 2022, further integrated into Risk Acceptance Criteria and climate risk stress testing in 2023, and ultimately embedded as part of a sustainable credit strategy in 2024. These findings suggest that ESG has functioned as a strategic governance instrument influencing credit allocation and portfolio quality. This study concludes that the integration of ESG as a basis for credit decisions contributes to portfolio stability, institutional reputation, and BNI's alignment with sustainable development objectives.

Corresponding Author:

Name: Evy Steelyana W
Institution: School of Accounting, BINUS University, Indonesia
Emai: Evi.steelyana@binus.ac.id

1. INTRODUCTION

The banking sector plays a strategic role in promoting sustainable development through its intermediation function and the allocation of financing to the real sector. In the global context, increasing climate change risks, social inequality, and growing demands for governance transparency have encouraged financial institutions to integrate *Environmental, Social, and Governance* (ESG) considerations into business decision-making, particularly in credit allocation processes [1].

In Indonesia, the commitment to sustainable finance has been strengthened through regulations issued by the Financial Services Authority (Otoritas Jasa Keuangan –

OJK), which require banks to internalize environmental, social, and governance risks in their financing activities. Since the implementation of sustainable finance policies, national banks—including Bank Negara Indonesia (BNI)—have been increasingly required to incorporate ESG as an integral part of risk management and long-term business strategy [2], [3]. This commitment is formally reinforced by Financial Services Authority Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Institutions, Issuers, and Public Companies, which mandates the integration of environmental, social, and governance aspects into banking policies, risk management systems, and credit decision-making processes [4]. The regulation was further operationalized through the *Sustainable Finance Roadmap Phase II (2021–2025)*, which emphasizes climate risk management, green financing, and enhanced ESG transparency in the banking sector [5].

This study aims to provide an in-depth evaluation of the influence of ESG activities and governance characteristics on credit allocation practices and banking sustainability, with a specific focus on the implementation of ESG policies at Bank Negara Indonesia (BNI) during the 2021–2024 period. Prior studies have reported inconsistent findings regarding the relationship between ESG performance and financial outcomes, suggesting that the contribution of ESG to firm value and performance is non-linear and highly dependent on the effectiveness of corporate governance mechanisms [1], [6]. Addressing this research gap, the present study analyzes how ESG is applied as a basis for credit decision-making at BNI and how these policies have evolved over time. This focus is particularly important given that the literature highlights the role of banks not only as providers of capital but also as agents capable of influencing borrowers' sustainability behavior through credit selection, monitoring, and incentive mechanisms [7].

2. LITERATURE REVIEW

2.1 *Environmental, Social, and Governance (ESG) in the Banking Sector*

Environmental, Social, and Governance (ESG) refers to a set of non-financial criteria used to assess the extent to which firms conduct their business activities responsibly and sustainably. The environmental dimension includes climate change issues, carbon emissions, and resource efficiency; the social dimension covers human rights, labor practices, and social impacts; while the governance dimension focuses on transparency, business ethics, and the structure and quality of corporate decision-making [6]. In the banking sector, ESG is increasingly viewed as a complement to traditional financial indicators in assessing long-term risk exposure. Poor ESG performance may increase credit risk, reputational risk, and regulatory risk, ultimately affecting the stability and sustainability of banks [1]. Consequently, ESG is no longer regarded merely as an ethical concern but has become an integral component of banking risk management frameworks.

2.2 *ESG and Bank Lending Decisions*

The literature indicates that banks are no longer neutral with respect to ESG issues in lending relationships. [1] find that banks tend to establish financing relationships with firms whose ESG profiles are aligned with banks' internal policies. Moreover, banks actively influence borrowers' sustainability behavior after loan disbursement through monitoring mechanisms and loan covenants. These findings challenge the traditional view that lending decisions are based solely on financial considerations. Instead, ESG has become a strategic factor in credit allocation, as firms with poor ESG performance may expose banks to reputational damage and heightened regulatory scrutiny [7]. In this context, ESG functions as an instrument to balance profitability objectives with long-term sustainability goals.

2.3 *ESG Risk Assessment and Creditworthiness*

ESG is increasingly treated as a distinct risk category within the banking sector, commonly referred to as ESG risk. [6] emphasize that ESG risk is closely linked to credit risk, operational risk, and reputational risk. Information on borrowers' ESG performance can significantly influence banks' assessments of creditworthiness and the long-term viability of borrowers' business operations. However, the literature also highlights methodological challenges in ESG implementation, particularly regarding the lack of standardized and verifiable ESG data. Variations in assessment frameworks and ESG scores across rating agencies may introduce subjectivity into ESG-based credit decision-making [7]. This suggests that while ESG is increasingly relevant, its practical application in banking still requires further refinement.

2.4 *ESG in the Indonesian Banking Context and at BNI*

In Indonesia, the implementation of ESG in the banking sector is reinforced by sustainable finance policies issued by OJK, which encourage banks to integrate environmental, social, and governance considerations into financing policies and risk management systems. As a state-owned bank, BNI plays a strategic role in balancing commercial objectives with national sustainable development mandates [2], [8]. The literature suggests that ESG integration in developing countries often faces a trade-off between strengthening sustainability standards and maintaining financial inclusion. Strict ESG requirements may limit access to financing for certain sectors, particularly small and medium-sized enterprises (SMEs) and transition industries [6]. Therefore, it is essential to analyze how BNI manages these tensions in its lending practices during the 2021–2024 period.

3. RESEARCH METHODOLOGY

This study adopts a qualitative descriptive approach using literature review and case study methods. This approach is selected because the research does not aim to statistically test hypotheses, but rather to examine the alignment between empirical findings in the academic literature and sustainability practices implemented by Bank BNI.

The study relies on secondary data, consisting of:

1. Bank BNI Sustainability Reports for the 2021–2024 period as the primary source of information on ESG implementation.
2. Three international peer-reviewed academic journals analyzing the relationship between ESG, banking performance, corporate governance, and the role of banks in sustainable finance.
3. Supporting literature, including OJK regulations on sustainable finance and theoretical studies on ESG in banking.

Data collection was conducted through systematic document review of official corporate publications, credible academic journals, and relevant regulatory sources. The review focused on ESG indicators that could be compared with empirical findings reported in the literature.

Data analysis was carried out using content analysis and comparative analysis, following these steps:

1. Identifying ESG indicators reported by BNI in its Sustainability Reports (2021–2024).
2. Categorizing empirical findings from the literature into Environmental, Social, and Governance dimensions.
3. Comparing BNI's ESG practices with theoretical frameworks and empirical evidence to assess alignment and identify gaps or areas for improvement.
4. Interpreting the findings from the perspective of business ethics and long-term sustainability.

The scope of this study is limited to:

1. Analysis of BNI's ESG implementation based on the 2021–2024 reporting period.
2. ESG indicators disclosed in the bank's sustainability reports.
3. Theoretical and empirical insights derived from the selected academic journals.

Accordingly, this study does not aim to provide a comprehensive assessment of BNI's overall performance, but rather focuses on ESG dimensions relevant to business ethics, corporate governance, and long-term banking sustainability.

4. RESULTS AND DISCUSSION

4.1 Implementation of ESG as a Basis for Credit Decision-Making at Bank BNI (2021–2024)

The implementation of Environmental, Social, and Governance (ESG) principles as a basis for credit decision-making at Bank Negara Indonesia (BNI) demonstrates a consistent and gradual development over the 2021–2024 period. Based on BNI's Sustainability Reports, ESG integration into financing policies was not implemented instantaneously but rather through the strengthening of risk management practices, debtor risk acceptance criteria, and the allocation of financing toward sectors with more positive environmental and social impacts.

a. 2021: ESG as a Credit Risk Mitigation Instrument

[2], BNI began to strengthen ESG implementation in its financing processes by integrating environmental, social, and governance risk management into its credit assessment framework. This was reflected in the value of sustainable financing under the Sustainable Business Activity Category (Kategori Kegiatan Usaha Berkelanjutan/KKUB), which reached IDR 172.4 trillion, representing approximately 29.6% of BNI's total credit portfolio. This proportion indicates that nearly one-third of BNI's credit portfolio was directed toward business activities considered to have relatively controlled environmental and social risks. At this stage, ESG primarily functioned as a risk mitigation tool aimed at avoiding financing for companies with high potential environmental and social impacts. Consequently, BNI began screening debtors not only based on financial capacity but also on non-financial risks inherent in their business activities.

b. 2022: ESG as a Debtor Selection and Incentive Mechanism

[3], ESG implementation within BNI's credit policy was further strengthened. The value of sustainable financing increased to IDR 182.9 trillion, although its percentage of total credit declined to approximately

28.5% due to overall credit growth at BNI. In addition to the increase in sustainable financing, BNI began to disburse Sustainability-Linked Loans (SLLs) during this year. This financing scheme links credit terms to the achievement of specific ESG performance targets by debtors. Borrowers that meet predefined sustainability indicators may receive incentives, such as interest rate adjustments. The use of SLLs indicates that BNI began to more actively assess the ESG track record and readiness of its debtors. ESG thus evolved from a risk avoidance mechanism into a tool for debtor selection and a driver of sustainable business behavior among borrowers.

c. **2023: ESG Integrated into Risk Acceptance Criteria**

[9], ESG became more systematically integrated into BNI's credit decision-making process. Sustainable financing under KKUB amounted to IDR 181.1 trillion, or approximately 26.4% of total credit. Although the percentage declined, the absolute value of sustainable financing remained high, reflecting BNI's consistent commitment to sustainable financing. During this period, BNI strengthened ESG-based Risk Acceptance Criteria (RAC) across 18 business sectors. This required borrowing companies to meet specific environmental and social risk criteria before credit approval. In addition, BNI began implementing Climate Risk Stress Testing across its credit portfolio to assess the potential impact of climate-related risks on financing quality. At this stage, ESG functioned as a primary filter in credit approval, with the debtor's ESG track record becoming a key component in creditworthiness assessments, particularly from a long-term risk perspective.

d. **2024: ESG as Part of a Sustainable Credit Strategy**

[8], ESG implementation in BNI's credit policy had become an integral part of its sustainable business strategy. The total sustainable financing portfolio reached approximately IDR 190.5 trillion. This allocation consisted of IDR 73.4 trillion in green financing—covering renewable energy, low-emission transportation, and other environmentally friendly business activities—and approximately IDR 117 trillion in financing for small and medium-sized enterprises (SMEs), contributing to financial inclusion and positive social impacts. This allocation demonstrates that BNI actively prioritizes financing for sectors with stronger ESG profiles. At this stage, ESG was not only used to assess risks and select debtors but also served as a tool to guide debtor behavior toward more responsible and sustainable business practices.

4.2 Trend Analysis of ESG Implementation in Credit Decision-Making (2021–2024)

From a quantitative perspective, BNI's sustainable financing ranged between IDR 170 and 190 trillion over the 2021–2024 period. Although the percentage of sustainable financing relative to total credit declined, the absolute value exhibited an upward trend, particularly in 2024. From a qualitative perspective, there was a clear shift in the role of ESG within BNI's credit policy framework: (i) **2021:** ESG as a credit risk mitigation tool (ii) **2022:** ESG as a debtor selection and incentive mechanism (iii) **2023:** ESG as a credit filter through Risk Acceptance Criteria and climate risk stress testing (iv) **2024:** ESG as an integral component of the sustainable credit strategy. These findings indicate that BNI has consistently used ESG as a basis for credit decision-making, aligning with empirical literature suggesting that banks increasingly leverage ESG to safeguard credit portfolio quality and institutional reputation.

Table 1. Trends in the Implementation of ESG as a Basis for Credit Decision-Making at Bank BNI (2021–2024)

Year	Sustainable Financing Value (IDR Trillion)	Percentage of Total Credit	ESG Policy Focus	Role of ESG in Credit Decision-Making
2021	172.4	±29.6%	Integration of Environmental, Social, and Governance (ESG) risks into credit risk management	Risk mitigation instrument to avoid financing sectors with high environmental and social impacts
2022	182.9	±28.5%	Distribution of Sustainability-Linked Loans (SLL) and strengthening ESG-based debtor selection	Debtor selection and incentive mechanism; ESG begins to encourage sustainable business behavior
2023	181.1	±26.4%	Implementation of ESG-based Risk Acceptance Criteria (RAC) across 18 sectors and Climate Risk Stress Testing	Primary credit eligibility filter; ESG integrated into long-term risk assessment
2024	190.5	Not explicitly disclosed	Green financing (IDR 73.4 trillion) and SME financing (approximately IDR 117 trillion)	Part of the sustainable credit strategy; ESG used to guide portfolio allocation and debtor behavior

Source: Compiled from the Sustainability Reports of PT Bank Negara Indonesia (Persero) Tbk., 2021–2024.

This table illustrates a shift in the role of ESG from a risk mitigation instrument to a strategic tool in credit portfolio management. This development indicates that ESG is no longer applied merely as a compliance-based requirement but has become an integral component of BNI's sustainable business strategy.

Based on the analysis of policy developments and financing trends over the 2021–2024 period, it can be concluded that ESG implementation at Bank BNI has undergone a significant transformation—from a risk-based approach toward a strategic framework for managing the credit portfolio. The increasingly systematic integration of ESG—ranging from debtor screening and sustainability-linked incentives to climate risk stress testing—demonstrates that ESG is no longer positioned as an administrative obligation, but rather as a governance instrument that influences credit allocation and long-term credit quality. This evolution strengthens the argument that ESG plays a critical role in maintaining portfolio stability, institutional reputation, and alignment with sustainable development objectives. These findings provide a foundation for concluding the effectiveness of ESG as a basis for credit decision-making at BNI and its implications for sustainable banking practices in Indonesia.

5. CONCLUSIONS

This study analyzes the implementation of ESG as a basis for credit decision-making at Bank Negara Indonesia (BNI) during the 2021–2024 period. The findings indicate that ESG integration at BNI has evolved systematically from a risk mitigation instrument to a strategic governance mechanism within credit management. Initially, ESG was applied to mitigate environmental and social risks in lending decisions. Over time, ESG became embedded in debtor selection, incentive structures through Sustainability-Linked Loans, sector-based Risk Acceptance Criteria, and climate risk stress testing. By 2024, ESG had been fully integrated into BNI's sustainable credit strategy, shaping portfolio allocation toward green financing and inclusive lending for SMEs.This transformation highlights that ESG at BNI no longer functions merely as a regulatory compliance requirement but as a strategic management tool that influences credit quality, portfolio resilience, and long-term sustainability. The findings reinforce the argument that effective ESG integration enhances credit governance, mitigates long-term risks, and aligns banking operations with sustainable development objectives.

The findings of this study offer several managerial implications for the banking industry. First, banks can utilize ESG frameworks not only to manage non-financial risks but also to support strategic credit allocation and portfolio optimization. Second, integrating ESG into credit policies—such as Risk Acceptance Criteria and incentive-based lending instruments—can enhance borrower discipline and promote sustainable business practices among debtors. Third, for policymakers and regulators, this study highlights the importance of providing clear and consistent ESG guidelines to support banks in operationalizing sustainability within core lending activities. Finally, the experience of BNI may serve as a reference model for other banks in emerging economies seeking to balance financial performance, risk management, and sustainability objectives.

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