

## **STUDY ON ROLE OF RURAL BANK INDUSTRY IN SUPPORTING MICRO, SMALL AND MEDIUM ENTERPRISE IN INDONESIA**

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### **ABSTRACT**

*This study examines the Role of Rural Bank Industry in Supporting Micro, Small and Medium Enterprises (MSMEs) in Indonesia. In this research, Rural Banks have a very tight competition in the banking world and other financial institutions. In accordance with the size of the Rural Bank's assets, it should be devoted to serving the middle and lower society and financing MSMEs. The results show that Rural Bank is the spearhead for small communities and MSMEs entrepreneurs in providing financing to them; The existence of Rural Bank should be maintained as the spearhead of the nation's economy; The contribution of Rural Banks in MSME financing should continue to be improved. Based on the result of research can researcher make recommendation that Rural Bank must continue to do internal revamping; In addition, promotion to introduce Rural Bank to the community must be done continuously; On the other hand, the government with perbarindo as a container of Rural Bank should continue to make policies that support the development of Rural Banks.*

*Key Words: Rural Bank, MSMEs, Internal Revamping, Regulation*

### **1. INTRODUCTION**

Globalization that causes loss of boundaries between countries in terms of economics, is the driving force of the business environment becomes increasingly turbulent that is increasingly fast again to change. Similarly, the condition with the existing banking business in Indonesia. The condition of banking competition in Indonesia is very tight, whether competing with Bank financial institutions and competition among financial institutions themselves.

Indonesian Banking Industry consists of two types, namely Commercial Bank and Rural Bank

(Surya, 2017: 2). According to law number 7 of 1992 which has been amended by Law No. 10 of 1998 provides the definition of Commercial Banks and Rural Banks.

Banking Industry in Indonesia especially Rural Bank has a very close relationship with Micro, Small and Medium Enterprises (MSMEs). Understanding SMEs according to Law No.20 of 2008.

According to Surya Budiman dissertation (2018: 2) that "Indonesia's banking industry to date is experiencing growth. This situation can be seen from the growth of banking assets, the growth

of income and other indicators in the Indonesian banking industry.

Furthermore, according to Surya Budiman Dissertation (2018: 8) that "especially for Rural Bank, where during the crisis occurred in Indonesia 1997 - 1998, Rural Bank can survive and through the crisis at that time Rural Bank serve Micro, Small, and Medium Enterprise. Through Rural Banks and small and medium-sized micro enterprises is finally slowly the wheels of the Indonesian economy began to grow and slowly rise again ". This condition shows the important role of Rural Bank in doing financing to UMKM.

In accordance with the size of Rural Bank assets, the involvement of Rural Banks in Indonesia should be devoted to serve the lower middle class and finance Micro, Small and Medium Enterprises (MSMEs). but the current phenomenon that the existing financial institutions In Indonesia are busy entering the Micro, Small, Medium Enterprise (MSMEs) market, especially for financial institutions of the Bank, Commercial Banks are also busy entering this market where their own competence is still lacking in financing in the sector of MSME compared with Rural Bank. This condition causes obstacles for Rural Banks in Indonesia in performing its role to provide services to the middle and lower society and to finance MSMEs. In connection with the above conditions, the authors are interested to conduct a study on the Role of Rural Bank Industry in support of MSMEs in Indonesia.

## **2. LITERATURE REVIEW**

Indonesian Banking Industry consists of two types, namely Commercial Bank and Rural Bank (Surya, 2017: 2). According to law number 7 of 1992 which has been amended by Law No. 10 of 1998 provides the definition of Commercial

Banks and Rural Banks as follows:

1. Commercial Bank is a Bank which operates conventionally and / or based on sharia principles in which its business activities provide or serve the payment traffic.

2. Rural Bank is a Bank operating in a conventional and / or based on sharia principles in which its business activities do not conduct payment traffic.

Banking Industry in Indonesia especially Rural Bank has a very close relationship with Micro, Small and Medium Enterprises (MSMEs).

Understanding SMEs according to Law No.20 of 2008 are as follows: In this Law the meaning of:1. Micro Enterprise is productive business owned by individual and / or individual business entity fulfilling the criteria of Micro Enterprises as regulated in this Law.

2. Small-scale business is a stand-alone productive economic enterprise undertaken by an individual or a business entity that is not a subsidiary or not a branch of a company owned, controlled, or becomes part of either directly or indirectly from a Medium-Sized Enterprise or a Large Enterprise criterion for small-scale enterprises as referred to in this Law.

3. Medium Business is a stand-alone productive economic enterprise, conducted by an individual or a business entity which is not a subsidiary or branch of a company owned, controlled, or becomes part directly or indirectly with a Small Business or Large Business net or annual sales proceeds as provided for in this Law.

4. A Large Enterprise is a productive economic enterprise carried out by a business entity with a net worth or a greater annual sale out of the Medium Enterprise, which includes state-owned or private national enterprises, joint ventures and foreign businesses conducting economic activity in Indonesia.

While the division of micro, small and medium enterprises by total assets and annual sales results are as follows:

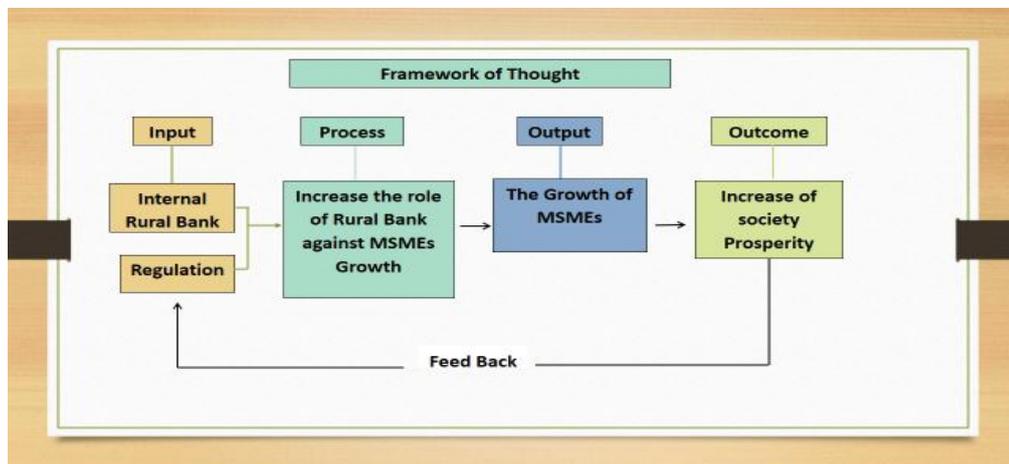
1. Micro Business Criteria are as follows:
  - a. has a net worth of at most Rp50,000,000.00 (fifty million rupiah) excluding land and building of business premises; or
  - b. has annual sales of at most Rp300,000,000.00 (three hundred million rupiah).
2. Small Business Criteria are as follows:
  - a. has a net worth of more than Rp50,000,000.00 (fifty million rupiah) up to a maximum of Rp500,000,000.00 (five hundred million rupiah) excluding land and building of business premises; or
  - b. has annual sales of more than Rp300,000,000.00 (three hundred million rupiah) up to a maximum of Rp2,500,000,000.00 (two billion five hundred million rupiah).
3. Medium Business Criteria are as follows:
  - a. has a net worth of more than Rp500,000,000.00 (five hundred million rupiah) up to a maximum of Rp10,000,000,000.00 (ten billion rupiah) excluding land and building of business premises; or

- b. has annual sales proceeds of more than Rp2,500,000,000.00 (two billion five hundred million rupiah) up to a maximum of Rp50,000,000,000.00 (fifty billion rupiahs).

### 2.1 Framework of Thought

In this framework of thought the researcher follow the flow in the study consisting of input, process, output and outcome. The inputs in this research begin by looking at the Internal Conditions of the Rural Banks themselves; Is the condition of Internal Bank Perkreditan Rakyat quite capable in doing its role in doing financing to Micro, Small and Medium Enterprises. The second input is how the existing Regulation of Rural Bank is whether the existing Regulation is enough to support the role of Rural Bank in financing the MSMEs.

Based on the above two inputs will result in a process of how to increase the role of Rural Banks against the growth of MSMEs. This condition will produce output in the form of MSMEs growth in Indonesia that will yield Outcome that is increase of society prosperity to Indonesia resident. The framework of this research in this research can be described as the following picture:



*Figure 2.1 Framework of Thought*

### **3. RESEARCH METHODOLOGY**

This research is a qualitative research and the method in this study using literature review, observation, interview and discussion with Expert Judgment.

According Naresh K malhotra (2010:73) describe the qualitative research as follow:

“Qualitative Research is unstructured. Exploratory is nature, based on small samples and may utilize popular qualitative techniques such as focus groups (group interview), world association (asking respondents to indicate their first responses to stimulus words), and depth interviews (one-on one interviews that probe the respondents ‘thought in detail’”

Uma Sekaran and Roger Bougie (2013: 96) explain exploratory studies as follows:

“An exploratory study is undertaken when not much is known about the situation at hand, or no information is available on how similar problems or research issues have been solved in the past. In such cases, extensive preliminary work needs to be done to understand what is occurring, assess the magnitude of the problem, and/or gain familiarity with the phenomena in the situation. Based on this preliminary work, we may either decide that further research is not needed (if the problem is not as big as we thought) or set up a more rigorous design for further, more comprehensive investigation”.

Data collection methods that researchers do aims to obtain primary data and secondary data used as study materials. In this condition is meant by primary data is data obtained or taken by researchers from the field and the mind of the researcher himself.

While the secondary data is data that has been prepared by other parties used by researchers in conducting this study.

Primary data researchers obtain based on the thoughts of researchers and

observations in the field that researchers do by looking at the incidents that occurred about the role of Rural Bank Primary data was obtained by conducting interviews with the directors and heads of Rural Banks. Then from the data obtained and supported by the minds of researchers obtained from observation, the researchers conducted focus group discussions of existing data and from the minds of the researchers themselves. Then the researchers confirm with Expert Judgment.

The Focus Groups Discussion consists of directors and heads of Rural Banks consisting of persons not interviewed as above. Then Expert Judgment consists of academic people as well as people from Rural Bank associations.

For Micro, Small and Medium Enterprise, researchers conduct research by conducting research into the field consisting of customers of BPR and UMKM who have not become BPR customers.

As for the secondary data, the authors obtained from the literatures and internet writers access and public seminar at the time of making this study.

### **4. RESULT AND DISCUSSION**

#### **4.1 Role of Rural Bank Industry in Financing MSMEs**

Based on the study of the literature that can be from Dissertation Surya Budiman (2018: 9) are as follows: "The role of Rural Banks in serving Micro, Small and Medium Enterprises (MSMEs) by comparing between the number of BPR offices and the number of SMEs can be seen in the image that the authors refer from a seminar conducted by the Financial Services Authority at MUNAS perbarindo held on 27 October 2014 at the Aquila-Bandung hotel as follows:

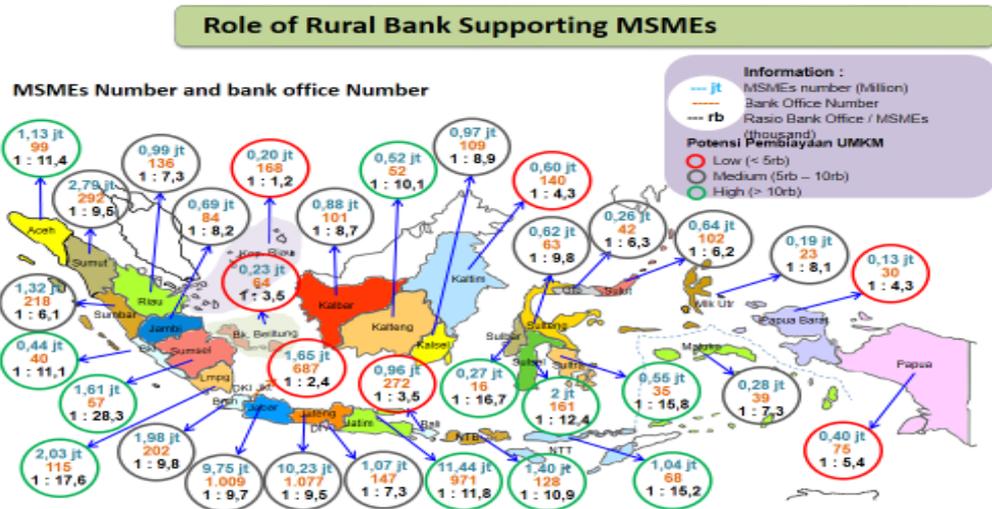
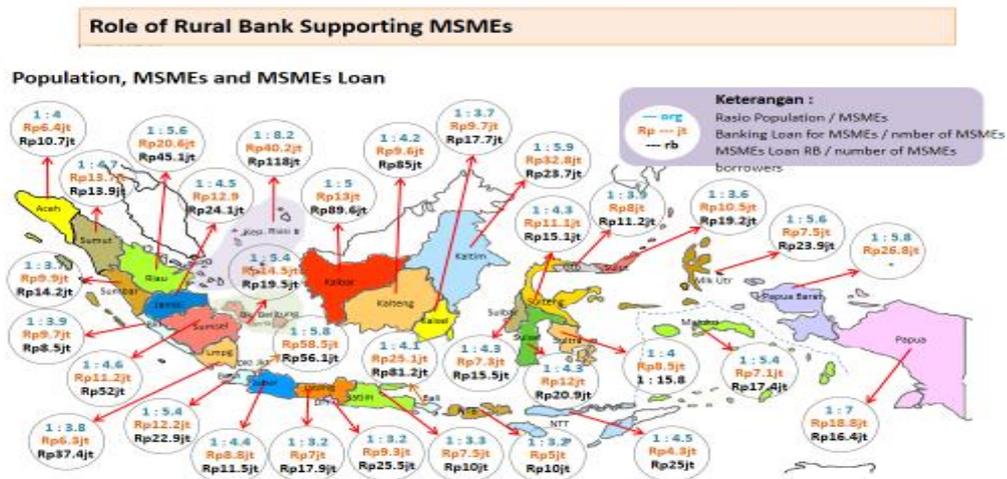


Figure 4.1 Role of Rural Bank Supporting MSMEs

Source: Financial Services Authority At the National Conference of Perbarindo October 27, 2014.

Based on the picture above shows that the spread of Rural Banks throughout Indonesia. This condition indicates that the development potential of Rural Bank has reached all regions in Indonesia. The largest number of Rural Bank offices are located on the island of Java. This condition is caused by the number of MSMEs in Java island and business potential is larger in Java

island. In addition, there are still many areas that have the potential of a medium to large business that is 1 Rural Bank office in proportion to 5,000 and above MSME entrepreneurs. If we compare the number of population, Micro Small and Medium Enterprises, as well as loans provided by banks and Rural Banks to MSMEs we can see in the following figure.



Source: Financial Services Authority at the National Conference of Perbarindo October 27, 2014

Based on the picture above shows that the ratio of MSMEs and the number of residents seen that on average in each

region, between 3 to 5 residents there is 1 entrepreneur MSMEs, with credit banking in this MSME sector varies

between 4.3 trillion rupiah up to 58.5 trillion rupiah. While the contribution from credit provision by Rural Banks ranged from 10 billion rupiah to 118 billion rupiah.

This condition shows that most of our people are MSMEs and most of them are micro entrepreneurs because many entrepreneurs in Indonesia are small entrepreneurs and they are still unable to develop their business. This condition is caused by their limited capital and limited ability they have.

While on the other hand the role of Rural Banks in the sector of MSMEs is still very small because the communication made by Rural Banks is still very less and still many MSMEs who have not known Banking, especially Rural Bank. On the other hand, Rural Banks have a great opportunity to play a role in the MSME sector".

The composition of BPR and Credit assets provided by Rural Banks can be seen in the following figure:



From the figure above shows that in the position of September 2017 that the composition of Rural Bank assets is only 1.67% compared with the assets of all banks in Indonesia. This condition indicates that the contribution of Rural Banks in the national economy is very small. Meanwhile, if we look at the composition of loans, the loans outstanding balance of Rural Banks is only 1.81% compared to the loans outstanding balance of all banks in Indonesia. This condition indicates that the asset and the amount of credit given, the role of Rural Bank in financing MSMEs is still very small.

#### **4.2 Discussion of the Research Result**

Based on the results of research conducted that Rural Banks have an important role in SMEs because if seen the role of Rural Banks in serving SMEs by looking at the number of Rural Bank offices and the number of SMEs that the spread of Rural Bank office throughout Indonesia. This condition shows that Rural Bank has spread all over Indonesia.

Meanwhile, when viewed from the data ratio of the number of MSMEs, the population, it appears that most of our population are MSME entrepreneurs and most of them are micro entrepreneurs. Many entrepreneurs in Indonesia are small entrepreneurs and have not been able to develop their business. This

condition is caused by their limited capital and limited ability they have. While on the other hand the role of Rural Banks in the sector of MSMEs is still very small because the communication made by Rural Banks is still very less and still many SMEs who have not known Banking, especially Rural Bank. On the other hand, Rural Banks have a great opportunity to play a role in the MSME sector".

This condition is in line with the opinion of mudrajad kuncoro (2015) at a National Seminar held in Semarang on 9 April 2015 with Title of Role of BPR / BPRS in Financial Inclusion in the AEC Era that "The government is currently implementing what is called Financial Inclusion Regulation. explains that Financial Exclusion is a market failure. Facts that can be seen (WEF, 2013): 50% of the population does not have an account at the bank, 80% of the poor (less than USD2 / day) have no account at the Bank, 200 million formal and informal businesses have no financial access.

According to Mudradjad that the current condition of banking access (2015) is:

- 10.96% of people are below the poverty line.
- 64.25% of our society lives in the countryside.
- 60% of our society has no banking access.
- 99.91% Business Actors Indonesia is the sector of Micro, Small and Medium Enterprises (MSMEs).
- 60% - 70% of 51.3 million MSMEs have not been connected by banks.

From the data and the results of research conducted that the competition in the financial institution industry is very tight, so that in the banking industry mutual seizure of MSME market share between Rural Bank and Commercial Bank. This condition is followed by 99.9% of entrepreneurs in Indonesia are

UMKM entrepreneurs, so the SME market for banking is still very wide. This condition is followed by many people who do not know banking. Although scattered almost throughout the archipelago, but still many people who do not know the banks, especially Rural Bank. So the contribution of Rural Banks in Indonesia's economy is very small and credit distribution to the public is also very small. On the otherhand, Rural Bank has capability in financing MSMEs.

Rural Banks have customers up to rural villages, so they are the spearhead in introducing banking to the public. In addition, the Rural Bank Industry is at the forefront of the national economy because history has proven that in 1997 to 1998 where there was an economic crisis in Indonesia, Rural Bank as a bank financial institution which at that time still can give credit to entrepreneurs and community, especially MSMEs.

In relation to the conditions, Rural Bank as a financial institution must be maintained, but to be able to support the development of MSMEs, Rural Bank must internally constantly improve themselves so that the more able to compete in the world of financial institutions and can contribute more to the community as well as MSMEs entrepreneurs.

Government as a regulator is expected to always make policies that support the development of Rural Banks.

## **5. CONCLUSIONS**

Rural Bank is the spearhead for small communities and MSMEs entrepreneurs in providing financing to them.

1. The existence of Rural Bank should be maintained as the spearhead of the nation's economy.
2. The contribution of Rural Banks in MSME financing should be continuously improved.

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