



Building Financial Inclusion: The Role of Rural Banks and Cooperatives as Motors of Micro and Medium Economic Growth

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ABSTRACT

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This study aims to examine the role of rural banks (BPR) and cooperatives in supporting the economic growth of the micro, small, and medium enterprises (MSMEs) sector in Indonesia. The research method used is qualitative research with a descriptive approach. Data were collected through literature studies from various related literature. The results showed that MSMEs have an important role in the structure of the Indonesian economy, contributing more than 99% of GDP and absorbing most of the workforce. However, its existence also faces challenges and limitations, such as capital problems, production techniques, market share, management, and licensing. BPR and cooperatives have a strategic role in supporting the MSME economy. BPR provides fund distribution to MSMEs in the form of working capital loans, while cooperatives act as business entities consisting of individuals or legal entities with the principles of kinship and mutual assistance. Efforts to strengthen the MSME sector continue to be carried out by the government, the private sector, and the community. Collaboration between financial institutions, including rural banks and cooperatives, with Islamic economic principles has also been tested.

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A. INTRODUCTION

One of the financial institutions in Indonesia is BPR. To get funds from the public, the financial system consists of financial institutions. Therefore, the organization can be in the form of a bank or a nonbank. The banking sector is an important part of a country's economic growth.¹ The role of the government and institutions in the financial sector is critical to Indonesia's economic growth. The task of the government is to create and establish policies that support the business world so that financial institutions, both banks and business actors in the field, can easily utilize policies and carry out business activities. Ultimately, this will help accelerate economic growth.² Because capital issues are one of the factors that affect business success. Therefore, the role played by the private sector and government in meeting capital needs is crucial. This role is largely given through lending by financial institutions, including commercial banks, state banks, and rural banks. The performance of BPR itself as a lender is increasing.

It is expected that rural banks will spearhead MSME financing. However, commercial bank lending to MSMEs is still low for several reasons, including (1) limited information about MSMEs, (2) MSME risk, and (3) high loan interest caused by inefficient banking, profit targets that must be achieved, and price leader and price follower mechanisms that reduce interest rates.³

B. THEORITICAL FRAMEWORK

Theory study or also what is often called the theoretical basis is a series of concepts, definitions, and also perspectives on one thing that are neatly arranged. This theoretical study is important in a research because it will later become the theoretical basis or theoretical basis of the research

C. METHOD

¹ Gst Ngr and Alit Asmara, 'THE ROLE AND CHALLENGES OF RURAL BANKS (RURAL BANKS) TODAY I', 3.1 (2020), 1–10.

² Ilham Yanti, 'THE ROLE OF SHARIA RURAL BANKS (BPRS) IN EMPOWERING MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN PALOPO CITY.', V.2 (2015), 129–37.

³ 'The Role of Rural Banks (BPR) in Improving the Success of the MSME Sector', 1–8.

This research is included in the type of research that uses a qualitative approach instead of a quantitative one. A qualitative approach is used if the data collected is qualitative, namely data presented in the form of words or sentences. Qualitative research prioritizes data quality, so in qualitative research, statistical analysis is not used.

This research is included in the type of descriptive research, not in-depth research. Descriptive research only describes, explains, writes, and reports a situation, an object, or an event of fact as it is and in the form of a condensation of facts. The purpose of this descriptive research is to make a systematic, factual, and accurate description, picture, or painting of the facts, properties, and relationships between the phenomena investigated.

Meanwhile, judging from the place of research implementation, this research is included in the type of literature research, not laboratory research or field research. Literature research aims to collect data and information with the help of various materials contained in the library room, such as books, magazines, manuscripts, notes, historical stories, documents, and others. In essence, the data obtained by means of literature research is used as the basis of the main tool for the analysis of research practice.

The author's literature research collects data by conducting research on several pieces of literature related to the writing of this scientific paper. The steps taken in carrying out this literature study are reading, quoting to analyze and formulate things that are considered necessary in fulfilling the data, conducting content analysis, and SWOT analysis, which examines the role of rural banks and cooperatives as micro- and medium-sized enterprises.

D. FINDINGS AND DISCUSSION

Understanding Small and Medium Enterprises

Based on Law Number 20 of 2008 concerning MSMEs (small and medium enterprises), productive businesses owned by individuals or individual business entities that meet the criteria for micro enterprises regulated in this law are considered small and medium enterprises.

Stand-alone productive economic enterprises carried out by individuals or business entities that are not subsidiaries owned, controlled, or become part

either directly or indirectly of medium enterprises or large enterprises and meet the criteria of small businesses are referred to as small businesses.

Medium enterprises are productive economic enterprises established by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or become a direct or indirect part of small or large enterprises with a total net worth or annual sales proceeds.

Micro-enterprises are the main pillars of the national economy that get significant opportunities, support, protection, and development as a result of them. Micro-enterprises also have the ability to expand employment and provide extensive economic services to the community, contribute to the process of equitable distribution and increase people's income, and contribute to the establishment of national stability.

More than 99% of productive people's economic activities are called MSMEs in the structure of the Indonesian economy. The existence of MSMEs is quite challenging if examined more deeply. On the one hand, being the fulcrum of people's hopes and better able to survive in times of economic crisis makes its existence considered worthwhile because its existence has the ability to provide many job opportunities, reduce poverty, unemployment, and urbanization flows, and encourage progress throughout the country and in the regions. On the contrary, its existence still faces many internal and external challenges and obstacles. Internally, MSMEs face many problems, such as how to run micro-business development programs, licensing, raw materials, marketing locations, difficulties in obtaining bank credit, and financial management and supervision problems. In addition, they also face limitations such as capital, production techniques, market share, and management.⁴

At the moment, various efforts are being made to improve this sector. This effort is carried out by the government as a policymaker, by private entities, such as financial and banking institutions, and by the community directly, which is the center of business activities. This was reinforced by the change in perspective of some people after the monetary crisis. Many go from their jobs as employees or employees to entrepreneurs, even carrying out both

⁴ 'EFFECTIVENESS OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) DEVELOPMENT PROGRAM IMPLEMENTATION IN SAMARINDA CITY (STUDY AT THE SAMARINDA CITY COOPERATIVES AND MSMEs OFFICE)', 5 (2017), 5431–45

roles.

Microfinance institutions are usually the main drivers of business activities in the community. Therefore, they have a strategic role in helping the growth of the economic sector in small and medium communities. Their development is not only conventional but also cooperates with businesses that adhere to the principles of Islamic economics that have been tested.⁵

Definition of Cooperative

A cooperative is an economic organization with a social character as a joint enterprise based on the principles of kinship and mutual assistance and established by individuals or cooperative legal entities. The criteria for cooperative identity are the basis for distinguishing cooperatives from other cooperatives. According to the International Work Organization, the elements included in cooperatives are:

1. association of people,
2. the incorporation of such persons on a voluntary basis,
3. There are economic goals to be achieved.
4. The cooperative formed is a business organization (business entity) that is democratically supervised and controlled.
5. There is a fair contribution to the capital required.
6. Cooperative members receive risks and benefits in a balanced manner.

Cooperatives should be managed like business institutions. A business institution needs good management. Likewise, to achieve the goals of the cooperative, management is a right. According to Prof. Ewell Paul Roy, cooperative management consists of four components: members, management, managers, and employees. Managers must be able to create a work environment that encourages employees to maintain high levels of productivity. Employees serve as intermediaries between management and customers.⁶

Understanding BPR

The legal basis of BPR is Law No. 7/1992 on Banking, as amended by Law No.

⁵ 'The Role of Sharia Microfinance Institutions in Economic Empowerment of Small and Medium Communities'.

⁶ Riza Syahputera and Martha Rianty N2, 'The Role of the Chairman of Management and Manager in the Preparation and Application of Financial Statements Based on SAK ETAP in Cooperatives in Palembang City', 14.2 (2019).

10/1998, which states that BPR is a bank that conducts business conventionally or based on sharia principles and does not provide payment services in its operations. Cooperatives, limited liability companies, and regional companies are some legal forms of BPR.

The Role of Rural Banks (BPR)

BPR provides community funds through lending to MSEs and rural communities. The loans given to MSEs are mostly in the form of working capital loans (KMK), which are further divided into several types based on the business fields of the receiving MSEs, namely:

- a. KMK trade sector
- b. KMK industrial sector
- c. KMK agricultural sector
- d. KMK service sector

In addition to working capital loans, a small number of rural banks provide consumer loans to several individual customers.⁷

E. CONCLUSION

Micro, small, and medium enterprises (MSMEs) have an important role in the national economy, contributing most of the gross domestic product (GDP) and absorbing most of the workforce in Indonesia. People's Credit Banks (BPR) play a role in distributing funds to MSMEs and rural communities through the provision of working capital loans.

Sharia cooperatives also play a role in supporting the MSME economy by applying sharia principles in their business activities. Although MSMEs have great potential, they still face obstacles and limitations, both internally and externally. The government, the private sector, and the community play a role in strengthening the MSME sector through various efforts, including through innovation and the development of micro and sharia financial institutions.

A cooperative is a business entity consisting of individuals or legal entities with the principles of kinship and mutual assistance. BPR has a legal basis as a bank that carries out business activities conventionally or based on

⁷ Dewi Yuliandari Indria Widyastuti, 'ANALYSIS OF THE ROLE OF RURAL BANKS (BPR) IN IMPROVING THE PERFORMANCE OF MICRO SMALL ENTERPRISES (MSES)', 2016, 41–48.

sharia principles that do not provide services in payment traffic.

The role of rural banks in the economy is the distribution of funds to MSMEs through the provision of working capital loans. Sharia cooperatives play a role in supporting the MSME economy by applying sharia principles in their business activities. Increasing financial inclusion through innovation and collaboration between financial institutions can help overcome constraints and limitations in supporting MSMEs and small and medium communities.

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