

**PROSPEROUS MICRO-, SMALL- AND MEDIUM-SIZED  
ENTERPRISES (MSMEs) THANKS TO RURAL BANKS (BPR) IN  
SIDOARJO REGENCY**

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**Abstract:** *Micro-, small- and medium-sized enterprises (MSMEs) are among the main drivers of economic growth. When the economic crisis hit in 1997, only MSMEs could survive. In addition to being economic drivers, MSMEs are capable of employment and providing a significant contribution to the Gross Domestic Product (GDP).*

*The purpose of the present study was to analyze the role of rural banks (BPR) on MSMEs in Sidoarjo Regency, East Java. This study was a qualitative descriptive one. A total of 26 informants from 11 Book I BPR in Sidoarjo was interviewed.*

*Results showed that the loans disbursed by BPRs greatly supported the improvement in the living standards of MSMEs. Of the 26 informants, all of them experienced an increase in both company profits and employment. Initially, there were those with no employee but, with the development of the business, they were capable of employment and some even increased the number of their employees. The loans disbursed by BPR had a significant role in the progress of MSMEs as evidenced by the improvement in their living standards. The Government is recommended to pay more attention to BPR by making policies that enable BPR to survive in the face of competition, especially with commercial banks.*

**Keywords:** *Loans; micro-, small- and medium-sized enterprises; rural banks (BPR).*

## **1. Introduction**

The economic conditions of East Java in 2016 showed a very significant growth relative to that of the previous year. The figure of the growth rate for the first quarter of 2015 was 5.05%, while that of 2016 was 5.34%. The loans disbursed by BPR as one type of banks for micro-, small- and medium-sized enterprises rose from IDR 90.42 trillion in February 2015 to IDR 102.67 trillion in February 2016.

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MSMEs are capable of economic recovery of the country since it can contribute significantly to GDP and of employment (Anggraeni, 2012). MSMEs constitute the main drivers of economic growth in East Java. Data from the Statistics Indonesia show that, after the economic crisis, the number of MSMEs did not decrease but continued to increase. In 2012, there were 56,539,560 enterprises in Indonesia, 56,534,592 or 99.99% being MSMEs. The remaining 0.01% were large-scale enterprises.

In 2015, there were 59,262,772 MSMEs and in 2016 it increased to 61,651,177 and only 0.01% of them were large enterprises. MSMEs employed 112,828,610 or 97.04% of the total of 116,273,356 workers in 2016 (Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia).

In 2016, Indonesia's GDP was 7,009,283 billion (59.84%), rising to 7,704,635.9 billion in 2017 (60%). This explains that MSMEs are productive businesses to be developed that can have impacts on the development of other sectors in Indonesia. The banking service sector is among those with a role in developing MSMEs since almost 30% of MSME businesses use working capital from banks. A study by Husaeni and Dewi (2019) showed that Islamic microfinance had a significant effect on the level of MSME business development among BMT members in West Java. Similarly, a study by Oktafia (2017) showed that the growth rate of MSMEs was accelerated by the role and support of Islamic microfinance institutions (LKMS).

A study by Sudaryanto *et al.* (2011) entitled "Strategies for Empowering MSMEs in the Face of ASEAN Free Market" showed that (1) strategies for developing MSMEs in Indonesia were inseparable from banking support with regard to loan disbursement; (2) a strategy for anticipating increasingly open and competitive market mechanisms, especially in the ASEAN region, was market domination, being a prerequisite for increasing the competitiveness of MSMEs.

Mulyati (2017) showed that there was a significant effect of loan disbursement on the increase in SME income; the higher the level of loan disbursement the higher

the level of SME income would be. This was because SMEs could develop their businesses with the loans disbursed by banks.

Therefore, the purpose of the present study was to analyze the role of loans disbursed by BPR in increasing the income MSMEs.

## **2. Theoretical Framework**

### **Loans**

Article 21 paragraph 11 of Law No. 7 of 1992 concerning Banking as amended by Law No. 10 of 1998 states that a credit is the provision of money or claim equivalent to money based on a loan agreement between a bank and another party, obligating the borrowing party to repay his debt after a certain period, with interest, fee, or profit share.

The purposes of credit extension include (Kasmir, 2018):

1. Looking for profits

Banks will receive interest income from credits.

2. Supporting customers' businesses

Customers can increase their cash flow, facilitating them to improve their businesses.

3. Helping the Government

For the Government, the more loans disbursed the higher the increase in development in various sectors would be.

### **Rural Banks (BPR)**

A BPR is a bank that undertakes the business activity of raising public funds to be distributed to other people in need of it and/or to entrepreneurs requiring capital for their business expansion. Nearly most BPR in Indonesia assist the MSME sector for the development. BPR activities are indeed much narrower than those of commercial banks, since BPR cannot accept current accounts and undertake foreign exchange and insurance activities.

BPR is divided into three (3) groups:

1. Book I BPR

Book I BPR has a capital of less than IDR 15,000,000,000 (fifteen billion).

2. Book II BPR

Book II BPR has a capital of IDR 15,000,000,000 (fifteen billion) to IDR 50,000,000,000 (fifty billion).

3. Book III BPR

Book III BPR has a capital of more than IDR 50,000,000,000 (fifty billion).

**MSMEs**

According to Article 1 of Law No. 20 of 2008 concerning Micro-, Small- and Medium-sized Enterprises, MSMEs are defined as follows:

1. A micro-enterprise is a productive business owned by an individual person and/or an individual business entity that meets the criteria for a micro- enterprise, namely: (1) having a maximum net worth of IDR 50,000,000 (fifty million Rupiah), excluding land and buildings for businesses; or (2) having annual sales of not more than IDR 300,000,000 (three hundred million Rupiah).
2. A small-sized enterprise is an independent productive economic business undertaken by an individual or business entity that is not a subsidiary or a branch of a company owned, controlled, or part either directly or indirectly of a medium-sized enterprise or large enterprise and meets the criteria for a small-sized enterprise, namely: (1) having a net worth of IDR 50,000,000 (fifty million Rupiah) up to a maximum of IDR 500,000,000 (five hundred million Rupiah) excluding land and buildings for businesses; or (2) having annual sales of IDR 300,000,000 (three hundred million Rupiah) up to a maximum of IDR 2,500,000,000 (two billion five hundred million Rupiah).
3. A medium-sized enterprise is an independent productive economic business undertaken by an individual or business entity that is not a subsidiary or a branch of a company owned, controlled, or part either directly or indirectly of a small-sized enterprise or large enterprise and meets the criteria of: (1) having a net worth of IDR 500,000,000 (five hundred million Rupiah) up to a maximum of IDR 10,000,000,000 (ten billion Rupiah) excluding land and buildings for businesses; or (2) having annual sales of IDR 2,500,000,000 (two billion five hundred million Rupiah) up to a maximum of IDR 50,000,000,000 (fifty billion Rupiah).

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MSMEs constitute an important part of the economic system in Indonesia since they are more numerous than large-scale industrial businesses, have an advantage in employing more labor and are capable of accelerating the process of equitable development.

### **3. Research Method**

The present study was a qualitative descriptive one aimed at analyzing the role of BPR with regard to the MSME sector. It was conducted by means of in-depth interviews with informants representing MSME customers who received credit facilities from the BPR and participatory observation (Bungin, 2011). An in-depth interview is a face-to-face enquiry of an interviewer and the informant, with or without using guidelines. Observation is a method of collecting data by means of examination and sensing (Bungin, 2011). The object of the present study was MSME customers who took credits at 11 BPR in Sidoarjo. The instrument was the researchers (Sugiyono, 2010). Data were collected from MSMEs who received credit facilities from BPR in Sidoarjo. The field survey generated 26 MSME informants.

### **4. Results and Discussion**

MSMEs accounted for 99.9% of the total number of business actors in Indonesia, or 61,651,177 units in 2016 with a GDP contribution of 57.17% and employing 112,828,610 people or 97.04%. MSMEs were able to prove its existence by surviving the 1998 crisis relative to large-sized enterprises.

Of the 26 informants, 84.62% received their loans more than 3 times from the same BPR, while 15.38% did the same twice. Furthermore, the informants also had an increase in employment, with some of them starting their businesses with no employee but having employees when being interviewed. There were also those initially having only 1 employee but currently having 3 employees. All informants interviewed experienced an increase in profits. They greatly benefited from the loans disbursed by BPR. For example, Pak Junaidi was initially able to generate

sales of only IDR 1,000,000 (one million rupiah), but currently he was able to generate sales of IDR 25,000,000 (twenty five million rupiah), with the number of employees increasing from 2 to 12. Ibu Minarti with an initial turnover of only IDR 10,000,000 (ten million rupiah) was currently able to generate a monthly turnover of IDR 150,000,000 (one hundred fifty million Rupiah) per month, with an increase in the number of employees from 2 to 27. Pak Dimitri with an initial income of IDR 20,000,000 (twenty million) per month) currently increased his income of up to IDR 90,000,000 (ninety million Rupiah) per month, with the number of employees increasing from 3 to 10.

There were also informants who experienced a decrease in employees due to a change of their work process from the process costing to order costing. However, they remained experiencing an increase in profits, despite the loss in the process.

The following table shows the number of labor employed by MSMEs:

**Table 1**  
**Labor Employed by MSMEs**

<b>No</b>	<b>Name</b>	<b>Number of employees</b>
1	Kus	None
2	Mar	0 to 1
3	Ali	None
4	Novi	None
5	Junaidi	2 to 12
6	Fatimah	0 to 2
7	Dju	6 to 13
8	Minarti	2 to 27
9	Suyitno	None
10	Ariyani	0 to 2
11	Johan	15 to 6
12	Nur M	30 to 40
13	Sen	4 to 7
14	Dimitri	3 to 10
15	Eko	1 to 3
16	Novi	1 to 3
17	Nur H	0 to 1
18	Paul	0 to 2
19	Sukir	0 to 2
20	Askan	1 to 3
21	Syamsul	2 to 12
22	Kholifa	0 to 2
23	Nurw	2 to 4
24	Mamik	0 to 4
25	Faisol	2 to 20
26	Widhi	3 to 6

Of the 26 informants, all of them confirmed an increase in profits, as shown in the following table:

**Table 2**  
**Increase in Profits**

<b>No</b>	<b>Name</b>	<b>Increase in Profits</b>
1	Kus	Yes
2	Mar	Yes
3	Ali	Yes
4	Novi	Yes
5	Junaidi	Yes
6	Fatimah	Yes
7	Dju	Yes
8	Minarti	Yes
9	Suyitno	Yes
10	Ariyani	Yes
11	Johan	Yes
12	Nur M	Yes
13	Sen	Yes
14	Dimitri	Yes
15	Eko	Yes
16	Novi	Yes
17	Nur H	Yes
18	Paul	Yes
19	Sukir	Yes
20	Askan	Yes
21	Syamsul	Yes
22	Kholifa	Yes
23	Nurw	Yes
24	Mamik	Yes
25	Faisol	Yes
26	Widhi	Yes

Despite the inability of some MSMEs to state the profit figures, they confirmed an increase in profits (since the majority of MSMEs did not perform bookkeeping).

Results of the present study support those of Sari (2015) showing that (1) there was a significant effect of the disbursement of MSME loans to the growth of MSMEs; (2) MSMEs' GDP growth closely related to the national economic growth. In addition, Malik and Siringoringo (2011) also showed that (1) loans had a direct and **PROSPEROUS MICRO-, SMALL- AND MEDIUM-SIZED ENTERPRISES (MSMEs)....**



significant positive effect on SME assets; (2) loans also had a direct and significant positive effect on the number of SME employees; (3) loans had a direct and significant positive effect on SME income, while assets had an indirect and significant negative effect on SME income. Results of the present study were also in line with those of Mulyati (2017) showing that: (1) there was a significant effect of the disbursement of loans on the increase in income; (2) disbursement of loans had a significant effect on increasing the income of SMEs listed as debtors at PT. BPR Pundi Masyarakat, meaning that the higher the level of loans disbursed the higher the level of SME income would be since the loans could facilitate the development of their businesses.

## **5. Conclusion, Implication and Limitation**

### *5.1. Conclusion*

Loans extended by BPR to MSME customers had an effect on increasing the income of MSMEs. BPR in the present study were Book I BPR. In addition to being capable of increasing income, the loans could also increase employment in Sidoarjo Regency and the surrounding areas.

### *5.2. Implication and Limitation*

BPR plays an undeniably vital role for MSMEs. Thus, the Government is expected to pay more attention to the survival of BPR by policy making. The Government should impose restrictions on commercial banks since increasingly larger MSMEs would resort to commercial banks due to loan disbursement limits imposed on rural banks by the Government.

MSMEs can provide their employees with training to improve their performance. This is consistent with the study by Jones *et al.* (2013) showing that SMEs who had training methods could improve the performance of their human resources.

Future researchers are expected to spare more time to assist MSMEs to make a simple bookkeeping in order to determine their actual profits.

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