Role of Rural Bank in MSE Economic Development in Indonesia

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Abstract: This study aims to know the role of rural bank in MSE economic development in Indonesia. The method used in this study uses regression The data used are secondary data obtained from bank publication reports during period 2018 - 2019. The population used in this study is rural banks in East Java and sample selection based on purposive sampling. The results showed that working capital loans from rural bank (BPR) have a significant effect on sales turnover, net profit margins and MSEs working capital turnoverThis research will be useful in knowing the performance of working capital disbursement to MSEs based on existing models based on existing parameters.

1.   Introduction

Banking is one of the wheels of the country's economy which has an important role in mobilizing public funds starting from running a business, transactions and saving. Rural Bank (BPR) is defined as a bank that carries out business activities conventionally and / or based on sharia principles which in its activities does not provide services in payment traffic. BPRs accept deposits only in the form of time deposits, savings deposits, and / or other equivalent forms. BPR business activities are primarily aimed at serving small businesses and communities in rural areas. The role of BPR in Indonesia, in providing credit to Micro and Small Enterprises as of September 2018, is the largest in East Java (14.2%), followed by West Java (13.7%) and DKI Jakarta (13.2%).

The provision of MSME credit is still not optimal due to the condition of BPR, which in general are still facing many obstacles and challenges in providing credit services to Micro and Small Enterprises. These constraints and challenges are the inadequate capital structure and limitations in collecting public funds, (2) inadequate quality of resources at both the managerial and operational levels, (3) the absence of supporting facilities for the BPR industry such as institutions that can function as a buffer for funds. liquidity for BPRs, and (4) weak controls and inefficiency in operational activities. From the perspective of Micro and Small Enterprises (MSEs), it can be seen that there are still many who have poor financial performance, characterized by low business turnover, low business profits, small cash receipts from operating activities and narrow product marketing areas.

According to the opinion of Puspitasari (2015) there are 4 main factors causing the low performance of small and medium enterprises (SMEs) in Indonesia, almost 60% of small businesses still use traditional technology, Market share tends to decline due to lack of capital, weak technology and managerial. able to meet administrative requirements in order to obtain assistance from the Bank and the level of dependence on government facilities tends to be very large. It is in this problem that the role of BPR for people in rural areas is expected to be able to spearhead the financing of the UMK sector, by channelling credit to MSEs in the long term and conducting business coaching so that loans can improve the financial performance of the MSEs receiving these loans. This study aims to investigate how much working capital credit by BPRs to MSEs on the total working capital credit provided by banks to MSEs in East Java and the effect of working capital loans on sales turnover, net profit margin and net working capital turn over MSEs.

2. Literature Review
2.1   Rural Bank (BPR)
The distribution of community funds is carried out by BPRs in the form of providing credit to MSEs and rural communities. Loans disbursed by BPRs to MSEs are mostly in the form of working capital loans which are further divided into several types according to the business sectors of MSEs that receive credit, namely: the trade sector, the industrial sector, the agricultural sector, and the service sector. Apart from working capital loans, a small proportion of BPRs were disbursed in the form of consumptive loans to several individual customers.

2.2 Micro and Small Enterprises

The definition of Small Business is a productive economic business that stands alone, which is carried out by an individual or a business entity that is not a subsidiary or branch of a company that is owned, controlled, or is a part, either directly or indirectly, of a medium or large business that meets the criteria. Small Business as referred to in Law No. 20 of 2008. The criteria for micro business units are those with a maximum asset of 50 million and a maximum turnover of 300 million. Meanwhile, the criteria for small business units are those with assets above 50 million and a turnover of more than 300 million. According to research by Azriani, et al. (2008) the financial performance of SMEs can be measured from five parameters, namely the value of business turnover, the profit of small businesses assets owned, use of labour within the family, and use of labor outside the family. This is in line with Puspitasari's research (2015) which concluded that the increase in MSE turnover is inseparable from the role of BPRs in channelling working capital loans. According to research conducted by Ardiana, et al. (2010) to assess the financial performance of SMEs can be based on ROI (Return On Investment). Furthermore, ROI is described in more detail by the ratio of Net Profit Margin and Capital Turn Over (Harahap, 2008; Mugwenhi et al., 2019). Based on the financial performance appraisal techniques for MSEs that have been previously described, in this study, the financial performance of MSEs will be analysed using parameters and ratios as shown in Table 1.

Table 1. Proxy of Operational Variable

| Variable	Concept	Measurement
Increase in sales	Increase in sales of a company	$\frac{\text{year sales running} - \text{sales year before}}{\text{sales year before}}$
Net Profit Margin	A low ratio can be caused by a decline in sales that is greater than a decrease in costs, and vice versa.	$\frac{\text{net profit}}{\text{sales}}$
Working Capital Turnover	The ability of additional working capital to increase the size of the company's annual sales	$\frac{\text{Sales}}{\text{average working capital}}$

3. Methodology

The research method used in the preparation of this research is descriptive quantitative. Quantitative method is a research method that uses statistical formulas in identifying and processing variables that arise from the problem to be answered. Quantitative research using a descriptive format aims to explain, summarize various conditions, various situations, or various variables that arise in society, which are the objects of this research based on what happened. The condition of the population or empirical facts that will be described in this study is about the effect of providing working capital loans by BPRs to MSEs on the increase in sales and profits of MSEs during period 2018 until 2019.

The hypothesis to be tested in this study is related to the presence or absence of the influence of the independent variable on the dependent variable, so for this test, the H_1 test is that the provision of working capital credit by BPR has a significant effect on increasing business turnover / MSE sales, H_2 granting working capital credit BPR has a significant influence on the increase in the net profit margin of MSEs, and H_3, the provision of working capital loans by BPRs has a significant effect on the increase in the working capital turnover of MSEs. The population in this study is the Rural Bank (BPR) located in East Java. Furthermore, MSEs which are used as research samples are MSEs that have received working capital credit by BPR in East Java.

4. Result and Discussion

4.1 Descriptive statistics

The size of the portion of working capital loans provided by BPRs to MSEs to the total provision of working capital loans by banks to MSEs in East Java is shown in graph 1. The data required in data processing so that it can be tested are data on the average increase in business sales after receiving working capital credit and the average MSE net profit margin during the 2019 period. The data is compiled based on the results of a questionnaire to 100 MSE respondents.
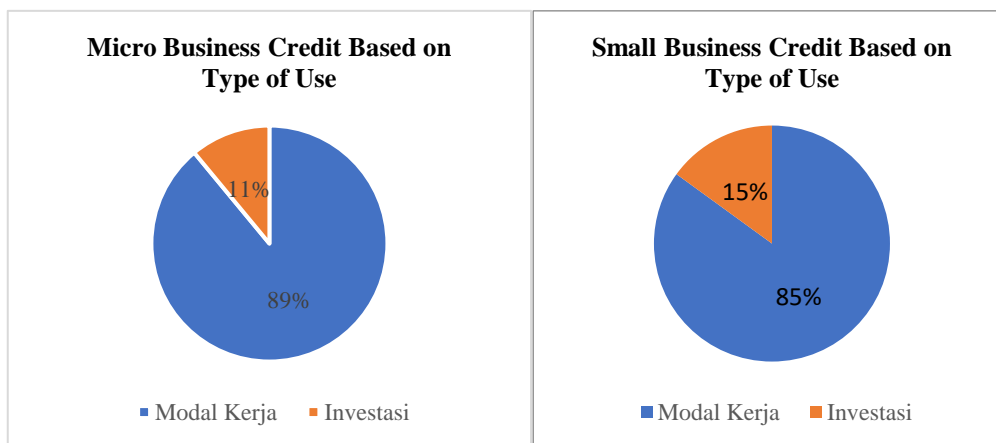
Graph 1. Proportion of Credit by Type of UMK Usage

Based on Table 2 shows that all variables do not occur auto correlation and heteroscedasticity.

Table 2 Autocorrelation Test Results

	N	DI	Du	4-du	4-dl	Dw	Note
1	100	1,654	1,694	2,306	2,346	1,875	There is no auto correlation
2	100	1,654	1,694	2,306	2,346	1,992	There is no auto correlation
3	100	1,654	1,694	2,306	2,346	1,875	There is no auto correlation

Model	Independent Variable	Sig.	Conclusion
1	Ln. Working capital credit	0.094	No Heteroscedasticity
2	Ln. Working capital credit	0.330	No Heteroscedasticity
3	Ln. Working capital credit	0.922	No Heteroscedasticity

Hypothesis 1 (Effect of Working Capital Credit on Increasing MSE Sales Turnover)

From the results of regression testing for model 1 in Table 3, the coefficient (R) value is 0.980, where this value shows a correlation or relationship between the Working Capital Credit variable and the MSE Sales Turnover Increase has a strong relationship because it has a correlation value> 0.5 While the coefficient of determination (R Square) is 0.960, which means that all independent variables consisting of working capital credit are able to explain the variation of the dependent variable, namely an increase in sales of 96%.

Hypothesis 2 (Effect of Working Capital Credit on MSE Net Profit Margins)
From the results of regression model 2 testing, the coefficient (R) value is 0.951 where this value shows a correlation or relationship between the working capital credit variable and the MSE Net Profit Margin which is stated to have a strong relationship because it has a correlation value> 0.5. Meanwhile, the coefficient of determination (R Square) is 0.904, which means that all independent variables consisting of working capital credit are able to explain the variation of the dependent variable, namely Net Profit Margin of 90.4%.

Hypothesis 3 (Effect of Working Capital Credit on Working Capital Turnover of MSEs)
From the results of regression model 3 testing, the coefficient (R) value is 0.867, where this value shows a correlation or relationship between the working capital credit variable and the MSE Net Working Capital Turn Over which is stated to have a strong relationship because it has a correlation value> 0.5. Meanwhile, the coefficient of determination (R Square) is 0.752, which means that all independent variables consisting of working capital credit are able to explain the variation of the dependent variable, namely MSE Net Working Capital Turn Over of 75.2%.

Table 3. Results of the R and R Square Test

Model	R	R Square
1	0.980	0.960
2	0.951	0.904
3	0.867	0.752

2. t-test (Hypothesis Testing)

To test the hypothesis, a partial test was carried out to see the significance of the effect of each independent variable on the dependent variable by assuming the other variables were constant.

Table 7. t-test results (partial test)

	Independent Variable	Sig.	T	Sig.	Conclusion
1	Ln. Working capital credit	0.980	48.337	0.000	H_1 accepted
2	Ln. Working capital credit	0.951	30.459	0.000	H_2 accepted
3	Ln. Working capital credit	0.876	17.250	0.000	H_3 accepted

Based on Table 7, it shows that working capital credit has an influence on the increase in MSE sales turnover at 1% sig alpha or H1 accepted. The results of this study reinforce the findings of Puspitasari (2015) which states that BPR plays a very important role in increasing the income of MSEs. The second hypothesis shows that working capital credit has an influence on MSE Net Profit Margin at sig alpha 1% or H2 accepted. The results of this study reinforce the findings of Ardiana, et al. (2010) and Harahap (2008). Then, the third hypothesis shows that working capital credit has a significant and positive effect on MSE Net Working Capital Turn Over at 1% alpha. The results of this study are in line with the study conducted by Azriani, et al. (2008).

5. Conclusion

The role of BPR in financing Micro and Small Enterprises still occupies a relatively small portion when compared to financing by Commercial Banks. Working capital loans extended by BPRs to MSEs had a positive effect on the average increase in MSE sales turnover during the three-year period following receipt of working capital loans. Working capital loans extended by BPRs to MSEs have a positive effect on the average net profit margin of MSEs during the three year period following receipt of working capital loans. This study is useful for researching the banking industry and the UMK community in evaluating the contribution of improving the economy. This study is useful for observers and researchers, and they can develop this study using different methodologies, variables, data, or proxies.

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