

Empowering Small and Medium Enterprises: The Impact of People's Credit Banks in North Sumatra

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Abstract. *Micro, Small and Medium Enterprises are one of the components of business that have a large enough role in creating jobs in Indonesia, and advancing the economy. MSMEs have a strategic role in driving national economic development. People's credit banking efforts in developing the country's economy are to provide financing to the real sector through micro, small and medium enterprises. Along with the government's attention to the development of MSMEs in Indonesia, Rural Banks have also participated in empowering MSMEs, providing support with various strategies, such as by establishing micro-financing service centers such as MSME outlets or MSME centers,*

Keywords: *Rural Banks, MSMEs, the Indonesian Economy*

INTRODUCTION

MSMEs in Indonesia are often in the spotlight in discussions about economic development. This is because most of the business actors in Indonesia are owners of micro, small and medium enterprises. From year to year, the total number of MSME units in Indonesia and its GDP continues to grow. With the large number of MSMEs, it is not surprising that MSMEs are the pillars of Indonesia's economic growth. In the last 5 years, the contribution of MSMEs in Indonesia to Gross Domestic Product (GDP) increased from 57.8% to 61%.

So far, the development of the micro, small and medium enterprises (MSME) sector has shown excellent progress. It is natural that this sector becomes the focus of Rural Bank financing. The MSME sector is even able to support national economic growth. This sector is also the driving force of the economy when the crisis hit. Just like MSMEs, Rural Banks, which have been neglected so far, have shown their resilience when a crisis occurs. The great potential of MSMEs is also an important point for Rural Banks to channel their financing.

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¹³ Banking is an institution that carries out three main functions, namely accepting ¹¹ deposits, lending money, and sending money services. In the economic history of the Muslims. The functions of the bank have been known since the time of the Prophet Muhammad, these ¹³ functions are accepting deposited assets, lending money for consumption and business purposes, sending money (Artaloka, 2008).

Evidence of the commitment of the Rural Bank to empower the people's economy is to provide financing that is channeled to ¹⁰ the Micro, Small and Medium Enterprises (MSME) sector. The main focus of Rural Banks is the distribution of capital to the MSME sector which incidentally requires broad access to reach them. Why does the MSME sector need capital distribution? Because the national MSME sector is known to have positive characteristics such as a sector that absorbs a large workforce, accommodates the role of the poor and is dominant in the economic structure. Limited capital will cause MSMEs to have narrower space for movement, for example experiencing difficulties in developing their business because they are unable to meet consumer needs. If this is not resolved, it is possible that efforts to create jobs will be difficult to pursue. The provision of credit or capital capital to MSME actors will directly affect the volume of business if it is used as working capital. If the credit is used for investment or for business diversification, it will increase job opportunities which in turn will increase business volume as well. The increase in business volume will be able to increase income for SMEs and workers who work for the company. The government as the policy holder ² is expected to support the development of micro, small and medium enterprises (MSMEs). In addition, existing financial institutions can support and help overcome capital problems which are common problems faced by them (Rashi Khadisa, 2021). will directly affect the volume of business if it is used as working capital. If the credit is used for investment or for business diversification, it will increase job opportunities which in turn will increase business volume as well. The increase in business volume will be able to increase income for SMEs and workers who work for the company. The government as the policy holder is expected to support the development ² of micro, small and medium enterprises (MSMEs). In addition, existing financial institutions can support and help overcome capital problems which are common problems faced by them (Rashi Khadisa, 2021). will directly affect the volume of business if it is used as working capital. If the credit is used for investment or for business diversification, it will increase job opportunities which in turn will increase business volume as well. The increase in business volume will be able to increase income for SMEs and workers who work for the company. The government as the policy holder is expected to support the development ² of

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RESEARCH METHOD(S)

The data used in this research is qualitative data. through the collection of data obtained by reviewing books, articles, and the internet, which discuss the role of Rural Banks in developing Indonesian MSMEs. This data collection tool is in the form of data collection through library studies.

FINDINGS AND DUSCUSSION

Rural Banks

Rural Banks are banks that carry out their business activities based on the principles of Rural Credit and according to their type, Rural Banks consist of BUS (People's Credit Commercial Bank), UUS (Rural Business Unit) and BPRS (Rural Credit Bank). Rural Banks are banks whose activities refer to Islamic law and in their activities do not charge interest or pay interest to customers. Rural bank rewards received or paid to customers depend on the contracts and agreements made by the customer and the bank. Agreements (contracts) contained in Rural Bank banking must be subject to the terms and pillars of the contract as regulated in Islamic law (Andriyanto, 2019).

Ansori (2008) referred to Rural Banks as Islamic banks (Islamic Banks) which in general terms are banks whose operations are based on the principles of Islamic People's Credit.

Other terms for naming Rural Bank entities, namely interest-free banks (Interest-Free Banks), banks without usury (Lariba Bank). According to Ismail, Rural Bank banking is everything related to Rural Banks and People's Credit business units, including institutions, business activities, as well as ways to collect funds from the public in the form of deposits and investments from the owners of the funds. Rural Banks as intermediary institutions between investors who invest their funds in the bank and then Rural Banks which channel their funds to parties who need funds.

In the banking system in Indonesia, there are two types of banking operational systems, namely conventional banks and Rural Banks. According to Law no. 21 of 2008 concerning Rural Banking, Rural Banks are banks that carry out business activities based on the principles of People's Credit, or Islamic legal principles regulated in the fatwa of the Indonesian Ulama Council such as the principles of justice and balance ('adl wa tawazun), benefit (maslahah), universalism (naturalism), and does not contain gharar, maysir, usury, injustice and unlawful objects. In addition, the People's Credit Banking Law also mandates Rural Banks to carry out social functions by carrying out functions such as baitul mal institutions, namely receiving funds from zakat, infaq, alms, grants,

Objectives And Functions Of The People's Credit Bank

Rural Banks have a goal to support the implementation of national development in order to improve justice, togetherness, and equitable distribution of people's welfare (Article 3 of Law No. 21 of 2008). According to Heri Sudarsono, the establishment of a Rural Bank has several objectives, including: Directing the economic activities of the people to muamalah in Islam, especially muamalat related to banking in order to avoid the practices of usury or other types of business/traders that contain elements of Gharar (deception), where these types of business are not only prohibited in Islam, but also has had a negative impact on the economic life of the people. To create a justice in the economic field by means of equal distribution of opinion through investment activities, so that there is no very large gap between the owners of capital and those who need funds. Justice in Islam has implications as, social justice and economic justice. To improve the quality of life of the people by opening up greater business opportunities, especially the poor, which are directed towards productive business activities, towards the creation of business independence.

Law No. 21 of 2008 also describes the functions of Rural Banks in Article 4 as follows:

1. Rural Banks and Rural Business Units are required to carry out the function of collecting and distributing public funds.
2. Rural Banks and Rural Business Units ³ can carry out social functions in the form of baitul mal institutions, namely receiving funds from zakat, infaq, alms, or other social funds and channeling them to zakat management organizations.
3. Rural Banks and Rural Business Units can collect social funds originating from cash waqf and distribute them to waqf managers (nazhir) in accordance with the will of the waqf giver (wakif).
4. The function of Rural Banks can be manifested as an intermediary agent, namely the intermediary party between the community and the community, and between the community and the government in terms of collecting and distributing funds. Furthermore, Rural Banks also function as fund and investment managers (managers of investment and financing), providers of banking services as conventional banks but with notes according to the corridors of Rural Banks, and managers of social functions.

Functions of Rural Banks to Collect Public Funds .The first function of Rural Banks is to collect funds from people who have excess funds. Rural Banks collect or collect funds from the public in the form of deposits using al-wadiah contracts and in the form of investments using al-mudharabah contracts. Functions of Rural Banks as Channeling Funds to the Community Channeling funds ¹⁶ is a very important activity for Rural Banks. In this case the Rural Bank will get a return on the funds distributed. The return or income obtained by the Rural Bank for the distribution of these funds depends on the contract. Rural Banks distribute funds to the public using various contracts, including buying and selling contracts and partnership or business cooperation contracts. In a sale and purchase contract, the return obtained by the bank for the distribution of funds is in the form of a profit margin. Profit margin is the difference between the selling price to the customer and the bank's purchase price. The income derived from the distribution of funds to customers using business cooperation contracts is profit sharing. The function of Rural Banks is to provide Bank Services. Various types of service products that can be provided by Rural Banks include money transfer services (transfers), book transfers, collection of securities and so on. Service activity is an activity that is expected by Rural Banks to increase bank income from fees for bank services.

Definition Of Small And Medium Micro Business

In accordance with Law Number 20 of 2008 concerning ¹²Micro, Small and Medium Enterprises (MSMEs): Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria for Micro Enterprises as regulated in ⁴this Law. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part either directly or indirectly of a medium-sized ⁸business or large business that meets the Business criteria. Small as referred to in this Law. Medium Enterprises are productive economic businesses that stand alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part either directly or indirectly with Small Businesses or large businesses with total net assets or annual sales proceeds as regulated in this Law. MSME criteria are as follows:

- ⁷1. Micro Enterprises : (Assets)Max. 50 Million, (Turnover) Max. 300 Million
2. Small Business: (Assets)> 50 Million - 500 Million, (Turnover) > 300 Million - 2.5 Billion
3. Medium Business: (Assets) > 500 Million - 10 Billion, (Turnover) > 2.5 Billion - 50 Billion.

The Role Of Msmes In Moving The Economy

The fact proves that during the economic crisis, MSMEs are able to survive in the face of economic shocks. Apart from being resilient to the crisis, the national MSME sector is known to have positive characteristics such as a sector that absorbs a large workforce, accommodates the role of the poor and is dominant in the economic structure. Based on the latest data obtained, this sector has a number of business actors reaching 51.3 million business units or having a contribution of 99%, absorbing 90.9 million workers (97%), contributing to GDP of IDR 2,609 trillion (55, 6%), and contributed foreign exchange of IDR 183.8 trillion or 20% (Abiaqsa, 2011).

⁹MSMEs have a strategic role in driving national economic development. In addition to playing a role in economic growth, maintaining economic stability, and absorbing labor, MSMEs also play a role in distributing development results, developing the business world, and adding to the APBN and APBD through taxation. Because ⁹MSMEs have an important role in business development in Indonesia, and are also the forerunner of the growth of large

businesses, this sector should receive special attention not only from the government and investors, but also from MSME actors themselves and the banking sector. Attention in the form of MSME development efforts must be carried out in an integrated manner with national and sustainable economic development.

The Role Of The People's Credit Bank In Developing Msmes

Reflecting on the economic crisis that proved the resilience of the Rural Bank and MSMEs, the Rural Bank and MSMEs should always work together to build and move the country's economy. Rural Bank is one of the banks that focuses on the development and empowerment of the MSME sector. People's Credit Banking and its products are very in line with the character of the MSME sector business world. Rural Banks operate by applying the principle of fair profit sharing without applying interest on transactions so as not to burden the MSME sector in terms of business financing. Each Rural Bank has a variety of financing strategies, for example, Rural Banks establish micro-financing service centers such as MSME outlets or MSME centers. In the midst of the fact that the Rural Bank was able to survive during the pandemic. People's Credit Banking must emerge as a forum and agency that overshadows and capitalizes on all the activities of small businesses, especially SMEs in running their business in order to comply with Islamic People's Credit. People's Credit Banking is present as a second intermediary or as a provider of business capital to the community and collects public funds either in the form of credit or in the form of other products in order to realize the standard of living of the community. Rural Banks should focus their financing on this sector, because MSMEs are considered capable of supporting the national economy.

President Director of BSI, Hery Gunardi, stated "BSI is ready to support economic development in various segments, including corporate, commercial, small and medium enterprises, micro businesses, consumers and Islamic boarding schools." . Until February 2021, the distribution of BSI financing in the MSME sector is IDR 35.3 trillion. Transaction growth year on year (yoy) for BSI mobile was 77.24 percent with a volume value as of February 28, 2021, of IDR 11 trillion. BSI's commitment in developing MSMEs should also be imitated by other Rural Banks, especially Rural Commercial Banks. For BPRS, I think there is no need to doubt it, because their target is MSMEs. We just have to wait for the breakthroughs of other Rural Banks in Indonesia in developing MSMEs in Indonesia (Gustanto, 2021).

In addition to the role of Rural Banks in helping economic development through empowering MSMEs, Rural Banks also contribute to attracting foreign investors to Indonesia,

especially from Middle-Eastern countries. The existence of various investment opportunities for Rural Credit in Indonesia has attracted investors from other countries to invest in Indonesia. Furthermore, People's Credit banking as a form of the People's Credit economic movement encourages the emergence of ethical economic behavior among the Indonesian people. People's Credit Economy is an economy that sided with truth and justice and rejected all forms of economic behavior that were not good, such as the usury system, speculation, and uncertainty (Ujung, 2012).

CONCLUSION

Rural Bank as an Islamic bank (Islamic Bank) which in general terms is a bank whose operations are based on the principles of Islamic People's Credit. Other terms for naming Rural Bank entities, namely interest-free banks (Interest-Free Banks), banks without usury (Lariba Bank). Micro, Small and Medium Enterprises are one of the components of business that have a large enough role in creating jobs in Indonesia, and advancing the economy. So it can be concluded that Rural Bank banking is present to move the wheels of the Indonesian economy through the development and empowerment of MSMEs, providing support with various strategies such as by establishing micro-financing service centers such as MSME outlets or MSME centers.

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