

UNIVERSITI TEKNOLOGI MARA

**THE ROLE OF SHARIA RURAL
BANKS FOR THE SUSTAINABILITY
AND DEVELOPMENT OF
MICROENTERPRISES IN BANDUNG
INDONESIA**

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the economic development of a country. Besides contributing to the high percentage of employment, it also requires relatively small amount of investment. In Indonesia, MSMEs play important and strategic roles, as well as in the distribution of developmental outcomes. Sharia Rural Banks (*Bank Pembiayaan Rakyat Syariah – BPRS*) was established to improve the economic welfare of the Islamic ummah, especially the weak economic class in rural areas. One of the main focusses of BPRS is to provide easy and fast financial services to MSMEs. However, questions remain on the success of BPRS in supporting MSMEs. Financial Service Authority (*Otoritas Jasa Keuangan – OJK*) stated that BPRS face problems due to internal and external factors. Internal factors include lack of capital, management, governance and IT system. External factors include lack of knowledge (information) and government policy. Therefore, this research aims to explore the role of BPRS in the development of microenterprises in Bandung, West Java, Indonesia. It is a city with a large number of microenterprises and is also the place where BPRS was first established. Using qualitative method, a series of interviews and focus group discussion were conducted with BPRS, Bandung City Office of Cooperatives, Bank Indonesia, and selected microenterprises. Secondary data were also collected from The Ministry of Cooperatives and MSMEs, the Central Statistics Bureau (*Biro Pusat Statistik*), Bank Indonesia and OJK. The results of this study indicate that BPRS plays an important role in developing microenterprises, especially in the city of Bandung. However, BPRS faces challenges in doing so as First, the government's policy to reduce the People's Business Credit (*KUR*) interest rate from 7% to 6% in 2020. Second, the government's policy to increase the realization of People's Business Credit (*KUR*) to Rp. 190 trillion and the ceiling for micro debtors to Rp. 50 million. Third, rivalry from fintech loans which grew rapidly in 2019. Contributions of this research are: for microenterprises, this research contributes to the development of strategies to gain access to BPRS. For BPRS, contribute to improving its capabilities in IT-based financial reporting. For the government, take part in policy making to foster microenterprises. This research also has a contribution in developing stakeholder theory, maqashid theory, and agency theory in explaining the roles, challenges and strategies of BPRS in developing microenterprises. Based on this literature and other recent reviews, this study identifies various implications in relation to the theory and practice of the role of sharia BPR for the future sustainability and development of microenterprises in Bandung, Indonesia. This research has several limitations, such as only four of the seven BPRS in Bandung that are the object of this research, the number of microenterprises that become successful and sustainable BPRS customers is also limited, the research methodology used is in-depth qualitative interview approach which cannot be generalized.

Keywords: Microenterprises, Sharia Rural Banks, Bank Pembiayaan Rakyat Syariah (BPRS), Roles, Challenges, Strategie

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