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The Cooperation between Conventional Commercial Banks and Rural Banks for Financial Inclusiveness Improvement of Small, Medium and Micro Enterprises

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ABSTRACT

One of the accesses to funding for MSMEs is by inclusive financing which conducted through the collaboration between conventional commercial banks (BUK) and rural credit banks (BPR) with executing, channeling and joint financing schemes. The MSMEs Credit Banking Cooperation (KPKU) between BUK and BPR aims to be mutually beneficial with the ultimate goal is for more financed MSMEs by banks. For BPRs that have limited funds, the KPKU is the main alternative source of funds apart from savings and time deposits. The executing, channeling and co-financing schemes have different characters, especially to parties that dividing the funds to MSMEs debtors and parties who bear the risk due to non-payment funds that have been distributed to MSMEs. This research is a normative research using statutory and conceptual approach. This research concludes that there are three schemes have different characteristics, especially regarding to the parties that distributed the funds to MSME debtors and parties who guarantee the risk due to MSME debtors defaulting.

Keywords: Commercial Banks, Cooperation, Conventional, Rural Banks

INTRODUCTION

Bank Indonesia admits that access to financing for micro, small, and medium enterprises (MSMEs) is very limited. However, MSMEs need to be encouraged to develop due to their high contribution to the economy and significant employment absorption. One of the instruments used to promote MSME development is bank financing.¹

Based on data from BAPPENAS in 2016, the contribution of the MSME sector to the national GDP was 57.6%. Additionally, MSMEs absorb a large workforce and are closely integrated with society. BAPPENAS data from 2016 shows that MSMEs employed 132.3 million people.² It is even stated that MSMEs employ around 97.0% of the workforce in Indonesia. Research by Tientip indicates that in Thailand, the government has long recognized the importance of small and medium-sized enterprises (SMEs) to the economy and has provided substantial financial support to this sector.³

To support MSMEs, Bank Indonesia issued Regulation No. 17/12/PBI/2015, which amended Regulation No. 14/22/PBI/2012 (June 26, 2015). This regulation required commercial banks to extend credit to MSMEs, including through cooperation between commercial banks and rural banks under the MSME Credit Banking Cooperation (KPKU) scheme.

However, the provisions in Regulation No. 17/12/PBI/2015 were later revoked and replaced by Regulation No. 23/13/PBI/2021 concerning the Macprudential Inclusive Financing Ratio for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units (PBI 23/2021). This regulation maintains provisions for credit or financing to MSMEs through financial service institutions, including rural credit banks (BPR), Sharia people financing banks (BPRS), non-bank financial service institutions, and public service agencies or business entities authorized to manage bank funds for inclusive financing in accordance with legislative provisions.

The provision of credit or financing through BPR or BPRS includes channeling, executing, and syndicated schemes. PBI 23/2021 also provides opportunities for financial technology (fintech) companies, as non-bank financial service institutions, to collaborate with banks in distributing credit or financing to MSMEs using similar schemes. The rise of fintech companies has significantly improved access to online funding. According to Financial Services Authority Regulation No. 77/POJK.01/2016 on information technology-based lending and

¹ Bank Indonesia Indonesia, *Peraturan Bank Indonesia Nomor 23/13/PBI/2021 Tentang Rasio Pembiayaan Inklusif Makprudensial Bagi Bank Umum Konvensional, Bank Umum Syariah, Dan Unit Usaha Syariah* (Jakarta, 2021).

² Departemen Penelitian dan Pengaturan Perbankan, *Panduan Kerjasama Perbankan Kredit Usaha Mikro, Kecil, Dan Menengah (KPKU)* (Otoritas Jasa Keuangan, 2018).

³ Tientip Subhanij, "Commercial Bank Innovations in Small and Medium-Sized Enterprise Finance: Global Models and Implications for Thailand," *Asian Development Bank Institute* (2016).

borrowing services (fintech lending), fintech companies can fulfill cash fund needs quickly, accurately, easily, and efficiently. Thus, fintech companies have become a viable solution for MSMEs in obtaining funding access.

As stated by Pisany, fintech lending presents a new competitive challenge to banks. The term "fintech" sometimes refers to technologies used by banks to modernize their business models. However, technological innovation also enables financial services to be provided by non-banking entities, creating new competition for banks. Tech-based lending providers have strong potential but are often poorly regulated and supervised. Questions arise regarding how competition affects banks, which banks are most exposed, and whether fintech and bigtech credit have similar impacts on the banking sector. Pisany's research aims to provide empirical insights into these issues using recent data on technology-based lending across multiple countries.⁴

The MSME Credit Banking Cooperation (KPKU) between conventional commercial banks (BUK) and BPRs aims to create mutual benefits, ultimately increasing MSME financing by banks. For BPRs with limited funds, KPKU serves as an alternative funding source besides savings and deposits.⁵

Meliza Zafrizal highlighted that the lack of third-party funds is one of the main factors causing many BPRs to face risks and struggle to survive in the long term. This was also confirmed by Heru Kristiyana, Chief Executive of OJK Banking Supervision, who stated that the number of BPRs significantly declined from 2019 to 2020. The remaining number of BPRs was 1,709 in 2019 and 1,669 in 2020, mainly due to capital challenges, governance issues, infrastructure limitations, and service constraints.

BPRs are classified into three categories based on core capital: BPRKU 1 (less than IDR 15 billion), BPRKU 2 (IDR 15 billion to less than IDR 50 billion), and BPRKU 3 (at least IDR 50 billion). According to Indonesian Banking Statistics data from December 2021, there were 1,468 BPRs and 107 BUKs.

This research will analyze the characteristics of cooperation schemes between BUK and BPR in providing funding for MSMEs. It is structured into four parts: discussing the problem and research method, explaining the research results, and presenting the conclusions.

⁴ Oskar Kowalewski and Paweł Pisany, "Banks' Consumer Lending Reaction to Fintech and Bigtech Credit Emergence in the Context of Soft versus Hard Credit Information Processing," *International Review of Financial Analysis* 81 (May 2022): 102116, <https://linkinghub.elsevier.com/retrieve/pii/S1057521922000849>.

⁵ Departemen Penelitian dan Pengaturan Perbankan, *Panduan Kerjasama Perbankan Kredit Usaha Mikro, Kecil, Dan Menengah (KPKU)*.

RESEARCH METHODOLOGY

This research is a normative study that employs a statutory and conceptual approach. It aims to analyze the characteristics of the cooperation scheme between BUK and BPR in enhancing financial inclusion for MSMEs. The legal materials used in this study consist of primary and secondary sources. Primary legal materials include the *Burgerlijk Wetboek* (BW), Constitution Number 20/2008 on Micro, Small, and Medium Enterprises, along with its implementing regulations in the form of Government Regulations, Bank Indonesia Regulations, and Financial Services Authority Regulations. Secondary legal materials comprise books, reputable national and international journals, and research reports.

RESULT AND DISCUSSION

Based on Johan Arifin's statement, MSMEs face several challenges, including low productivity, limited access to productive resources—especially capital, technology, information, and markets—and an unfavorable business climate. The issue of limited access to productive resources is particularly evident in funding. Most financial institutions primarily offer working capital loans, while investment loans are very limited, making it difficult for businesses to expand. Additionally, MSMEs often struggle to meet loan requirements. Even if their businesses are considered viable, they are constrained by the need for sufficient collateral, as assessed by banks.

Micro, small, and medium enterprises (MSMEs) are defined in Law Number 20 of 2008 on Micro, Small, and Medium Enterprises (UU MSMEs). However, the criteria for these businesses have been updated under Government Regulation Number 7/2021 (PP 7/2021) on the Ease, Protection, and Empowerment of Cooperatives and MSMEs. These changes were implemented in accordance with Articles 86, 87, 88, 89, 90, 91, 94, 104, and 185 (b) of Law Number 11 of 2020 on Job Creation.

There are differences between the criteria for MSMEs in UU MSMEs and PP 7/2021. Micro Businesses, according to UU MSMEs, are defined as productive businesses owned by individuals and/or business entities that meet the criteria for Micro Enterprises as stipulated in the MSME Law. Meanwhile, according to PP 7/2021, Micro Businesses refer to productive businesses owned by individuals and/or individual business entities that align with the criteria for Micro Enterprises as regulated in the Government Regulation. Small Businesses, according to UU MSMEs, are independent, productive economic businesses operated by individuals or business entities that are not subsidiaries or branches of medium or large enterprises, either directly or indirectly, and meet the criteria for Small Businesses as stated in the MSME Law. Meanwhile, according to PP 7/2021, Small Businesses follow similar principles but adhere to the specific

regulations outlined in the Government Regulation. Medium Enterprises, according to UU MSMEs, are independent, productive economic businesses operated by individuals or business entities that are not subsidiaries or branches of small or large enterprises, either directly or indirectly, and meet the total net assets or annual sales requirements as regulated in the MSME Law. Meanwhile, according to PP 7/2021, Medium Enterprises are similarly defined but must fulfill the criteria for Medium Businesses as stipulated in the Government Regulation.

Furthermore, details regarding wealth and sales results can be illustrated in the table below.

Table 1. The Criteria for Micro, Small and Medium Enterprises

No	Criteria	Wealth		Sales Result	
		UU UMKM	PP 7/2021	UU UMKM	PP 7/2021
1	Micro Business	The net worth is at least IDR 50,000,000.00 (fifty million rupiah), excluding land and business buildings.	The business capital is a maximum of IDR 1,000,000,000 (one billion rupiah), excluding land and business buildings.	The maximum annual sales are IDR 300,000,000.00 (three hundred million rupiah).	The annual sales result reaches up to IDR 2,000,000,000 (two billion rupiah) per year.
2	Small Business	Have a net worth of more than IDR 50,000,000.00 (fifty million rupiah) up to a maximum of IDR 500,000,000.00 (five hundred million rupiah), excluding land and business buildings.	Have more than IDR 1,000,000,000 (one billion rupiah) and up to IDR 5,000,000,000 (five billion rupiah), excluding land and business buildings.	Have annual sales of more than Rp. 300,000,000 (three hundred million rupiah) up to Rp. 2,500,000,000 (two billion five hundred million rupiah).	Have annual sales results ranging from IDR 2,000,000,000 (two billion rupiah) up to IDR 15,000,000,000 (fifteen billion rupiahs) per year.

3	Medium Enterprise	Have a net worth of more than IDR 500,000,000.00 (five hundred million rupiah) up to IDR 10,000,000,000.00 (ten billion rupiah), excluding land and business buildings.	Medium enterprises have a business capital of more than IDR 5,000,000,000 (five billion rupiah) and up to IDR 10,000,000,000 (ten billion rupiah), excluding land and business buildings.	Medium enterprises have a business capital ranging from IDR 5,000,000,000 (five billion rupiah) to IDR 10,000,000,000 (ten billion rupiah), excluding land and business buildings.	Medium enterprises have annual sales ranging from IDR 15,000,000,000 (fifteen billion rupiah) to IDR 50,000,000,000 (fifty billion rupiah).
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Source: Processed Data by Researchers

In PP 7/2021, there are different criteria for business capital used in the establishment or registration of newly established MSMEs. Specifically, for MSMEs that have already been established, annual sales results are used as the basis for providing facilities for protection and empowerment. This differs from the criteria in the MSME Law, which does not distinguish between newly established and existing MSMEs but is instead determined based on wealth and annual sales results.

MSMEs are one of the pillars of economic strength, expanding employment opportunities and playing a role in income distribution, economic growth, and national stability. Therefore, Bank Indonesia maintains financial system stability through macroprudential policies that encourage balanced and high-quality intermediation functions. BUK and BPR serve as intermediary institutions, with BUK required to provide inclusive financing—funds made available by banks for MSMEs, MSME corporations, and/or low-income individuals in rupiah or foreign currency—to enhance the role of MSMEs, as outlined in PBI 23/2021.

According to the Fiscal Policy Agency, inclusive finance ensures that every member of society has access to various quality formal financial services that are timely, smooth, safe, and affordable according to their needs and financial capabilities, ultimately improving community welfare. Similarly, inclusive finance is described as a core financial concept that makes various financial products and services accessible and affordable, particularly for individuals and businesses excluded from the formal financial system. One major factor affecting financial service accessibility in rural areas is financial literacy.⁶

⁶ Morshadul Hasan, Thi Le, and Ariful Hoque, “How Does Financial Literacy Impact on Inclusive Finance?,” *Financial Innovation* 7, no. 1 (December 3, 2021): 40, <https://jfin-swufe.springeropen.com/articles/10.1186/s40854-021-00259-9>.

Xu Jing also emphasized the importance of inclusive finance, stating that its development provides residents with greater access to financial services and is a key factor in building a well-off society and fostering economic growth in recent years.⁷

BUK can directly provide credit to MSMEs, MSME corporations, and/or low-income individuals, referred to as PBR—individuals with a specific income limit per month—either through financial service institutions, public service agencies, and/or business entities, or indirectly through the same channels. There are three cooperation schemes between BUK and BPR in providing credit to GENERAL: channeling, executing, and syndication schemes. Mahfud Effendi described the Linkage Channeling Program as a partnership financing program in which banks provide indirect financial support to micro businesses.⁸

As stated in PBI 23/2021, banks are required to fulfill the Macroprudential Inclusive Financing Ratio (RPIM), which describes a bank's portion of inclusive financing per the provisions of PBI 23/2021. The RPIM obligation is implemented in stages as follows:

1. At least 20% by the end of June 2022 and the end of December 2022;
2. At least 25% by the end of June 2023 and the end of December 2023; and
3. At least 30% from the end of June 2024 onwards.

For example, the Regulation of West Kotawaringin Regency Number 6 of 2020, concerning Regional Public Companies, states that Perumda BPR Marunting Sejahtera provides credit for people's business loans and/or local businesses while also offering guidance for MSMEs and cooperating with financial institutions. Similarly, Perumda BPR, the Regional Bank of Madiun Regency, based on Madiun Regency Regional Regulation Number 10 of 2019, aims to facilitate effective and efficient MSME financing per regulatory provisions. Its business activities also include collaboration with financial institutions and other entities. These examples highlight that BPRs are actively providing credit to MSME entrepreneurs and partnering with financial institutions like BUK to address capital limitations.

PBI 23/2021 does not explicitly define the channeling, executing, or syndication schemes. However, their definitions can be found in Bank Indonesia Circular Letter (SEBI) Number 15/35/DPAU, issued on August 29, 2013, regarding the Provision of Credit or Financing by Commercial Banks and Technical Assistance for MSME Development.

⁷ Jing Xu, Mingyue Sun, and Hening Wang, "Inclusive Financing's Development and Urban-Rural Income Gap—Empirical Analysis Based on Provincial Panel Data," ed. F. Wen and S.M. Ziaei, *E3S Web of Conferences* 275 (June 21, 2021): 03015, <https://www.e3s-conferences.org/10.1051/e3sconf/202127503015>.

⁸ Sugiono, "Peran Pendidikan Ekonomi Dalam Menghadapi MEA Dan Penguatan UMKM," *Jurnal Utilitas* 1, no. 2 (2015).

Executing Schemes

Executing schemes refer to the credit distribution or MSME financing provided to GENERAL debtors through specific financial institutions, such as BPR, BPRS, and other non-bank financial institutions, including savings and loan cooperatives, Baitul Maal Wa Tamwil, and similar institutions.

Abdul Aziz stated that intermediary institutions are responsible for selecting and determining MSME debtors, distributing and collecting the debts, and bearing the risk of unpaid funds.⁹ Based on the description above, it can be summarized as follows:

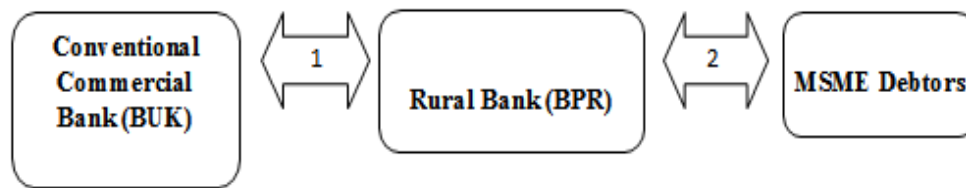


Figure 1. Legal Relations of the Parties

Source: Processed Data by Researchers

Description:

1. BUK cooperates with BPR through executing schemes based on a cooperation agreement.
2. BPR distributes the funds obtained from BUK to MSME debtors. BPR also has the authority to select and decide whether to approve credit, as well as to collect non-performing loans, since BPR bears the risk when MSME debtors fail to repay their loans.

Channeling Schemes

Channeling schemes refer to the distribution of MSME loans and financing to MSME debtors through specific financial institutions, including BPR, BPRS, and other non-bank financial institutions, as well as savings and loan cooperatives, *Baitul Maal Wa Tamwil* (BMT), and similar institutions.

According to Article 1792 of the BW, authority is defined as an agreement in which one party grants authority to another person to act on their behalf in conducting business. The key elements of authority are:

1. Agreement,
2. Delegation of authority to the beneficiary,
3. Acting on behalf of the authority in conducting business.

Abdul Aziz stated that in a channeling scheme, the intermediary institution is only responsible for distributing and collecting funds from MSME debtors.

⁹ Abdul Aziz and Eko Wicaksono, "Analisis Skema Alternatif Kredit Program Untuk Usaha Mikro, Kecil, Dan Menengah," *Jurnal Ekonomi dan Kebijakan Publik* 7, no. 2 (June 12, 2017): 143, <http://jurnal.dpr.go.id/index.php/ekp/article/view/420>.

However, the institution does not determine the allocation of funds and bears no risk if the funds remain unpaid. Based on the description above, the concept can be illustrated as follows:

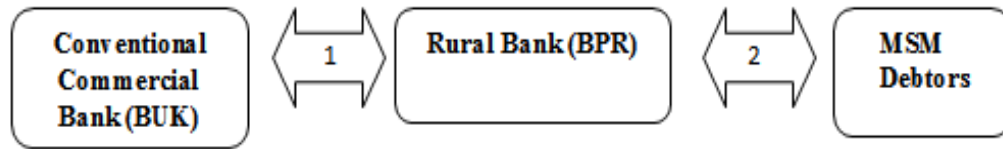


Figure 2. Legal Relations of the Parties

Source: Processed Data by Researchers

Description:

1. BUK cooperates with BPR through a channeling scheme. BPR acts as an agent or proxy for BUK in distributing funds to MSME debtors through credit facilities. As an agent, BPR is entitled to a commission for these activities.
2. BPR then provides credit to MSME debtors. When signing the credit agreement with an MSME debtor, BPR has the authority to act on behalf of BUK.

The Cooperation Agreement between BUK and BPR must be in written form. Generally, this agreement is prepared by BUK and regulates the disbursement of funds by BPR, BUK's obligation to monitor fund distribution, payment procedures and timelines, BPR's responsibility to report fund distribution to MSME debtors, dispute resolution, and other relevant matters outlined in writing.

Co-Financing (Syndicated)

Joint financing schemes involve collaboration between BUK and BPR in providing credit to MSMEs. Referring to Wahab's dissertation on joint financing between Islamic banks and Sharia microfinance institutions (LKMS), this type of financing involves both Islamic banks and LKMS in funding MSEs while sharing the risks according to their respective agreements. The authority to decide on financing cut-offs lies with both commercial banks and LKMS, while documentation at LKMS is recorded in the form of a balance sheet. The contract used between Islamic banks and LKMS is called *musyarakah*¹⁰.

¹⁰ Drs. Wahab, "Pengaruh Program Linkage Terhadap Sustainabilitas Usaha Pada Lembaga Keuangan Mikro Syariah" (Universitas Islam Indonesia Yogyakarta, 2020).

Based on the description above, it can be illustrated as follows:

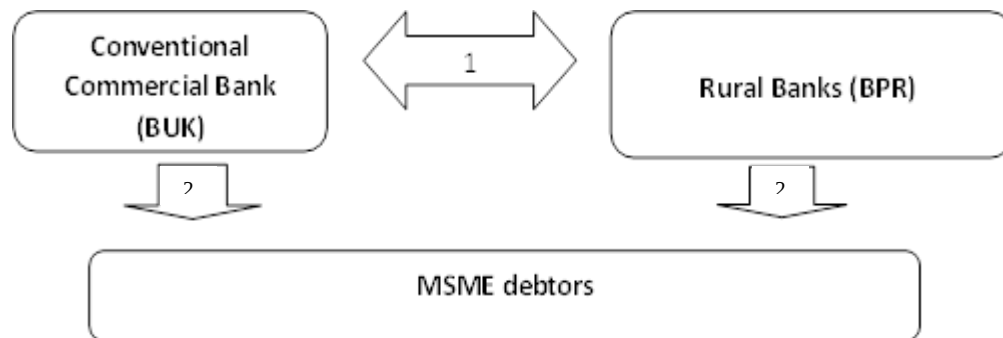


Figure 3. Legal Relations of the Parties

Source: Processed Data by Researchers

Description:

1. BUK cooperates with BPR through co-financing scheme.
2. BUK and BPR then jointly distribute the credit to MSME debtors.

Syndicated credit in banks serves as a way to circumvent the Maximum Lending Limit (BMPK) provision, given that syndicated loans involve very large amounts, making it impractical for a single bank to provide them alone. Additionally, issuing syndicated credit can increase risk, especially in cases of bad credit, as the loan is distributed among multiple banks. Victoria Ivashina and David Scharfstein also highlight this point:

“The advantage of syndicated lending is that it enables originating banks to share risk across the syndicate. Such risk sharing is valuable if banks are themselves financed in an imperfect capital market and adverse shocks require them to raise costly external capital. Banks weigh this diversification benefit against the reduced incentive they have to screen credit risk and monitor borrower behavior.”

Based on the explanation above, syndicated credit can be executed through three schemes: executing, channelling, and co-financing, as follows:

Table 2. The Comparison of Credit or Financing Schemes for MSMEs

No.	Description	Executing	Channeling	Co-Financing
1	Parties	Commercial banks and certain financial institutions	Commercial banks and certain financial institutions	Commercial banks and certain financial institutions
2	Cut-off credit	Certain financial institutions	Commercial banks	Jointly between commercial banks and certain financial institutions

3	The position of certain financial institutions	As a credit distributor for MSME debtors	As an agent/proxy of a commercial bank	Lending to MSME debtors along with commercial banks,
3	Risks due to default of MSME debtors	Certain financial institutions	Commercial bank	Share the risk in accordance with the portion of financing given to MSME debtors

Source: Processed Data by Researchers

CONCLUSION

The existence of MSMEs in Indonesia significantly contributes to the economy and absorbs a large workforce. However, MSMEs also face several challenges, one of which is limited access to funding from financial institutions, especially banks. To address this, Bank Indonesia has implemented a macroprudential policy through PBI 23/2021, requiring banks to fulfill the RPIM gradually from June 2022 to June 2024.

Inclusive financing can be provided by banks either directly or indirectly to MSMEs, MSME Corporations, and PBR. Credit granting or indirect financing for MSMEs, as implemented by BUK and BPR, can be carried out through three schemes: executing, channeling, and joint financing. These schemes have distinct characteristics, particularly regarding the parties responsible for distributing funds to MSME debtors and those who bear the risk in case of debtor defaults.

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