

Research Paper

The Role of Islamic Rural Banks in the Development and Strengthening of Micro, Small and Medium Enterprises in the Agribusiness Sector in Riau Province

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Abstract: The problem of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province is business capital. This research aims to analyze the role of Islamic Rural Banks in the development and strengthening of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province. The method used in this research is empirical research. The results of the research explain that the average Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province have characteristics in the age group of 38 to 43 years with junior high school level education and 1 to 7 years of business experience. There are two Sharia Rural Banks in Riau Province, namely BPRS Berkah Dana Fadhilillah and BPRS Hasanah. Bank service variables and types of financing products have a significant effect on the development and strengthening of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province. The strategy adopted by BPRS Berkah Dana Fadhilillah and BPRS Hasanah is a faster financing process so that they can compete with conventional banks as well as product innovation and affordable administrative costs.

Keywords: Agribusiness, Bank, Development and Strengthening.



1. Introduction

Data from Bank Indonesia Pekanbaru states that the number of Micro, Small and Medium Enterprises in Riau Province is 483,610 people with details 76% are micro businesses, 23% are small businesses, and 1% are medium enterprises [1]. Data from the Pekanbaru City Central Statistics Agency states that in 2021 there will be 6,979 Micro, Small and Medium Enterprises in Pekanbaru City who receive government assistance through the Micro Business Aid program [2].

As an area with an agrarian pattern because it has extensive agricultural and plantation land, the agribusiness sector is one of the potential businesses in Riau Province [3]. However, the problem of Micro, Small and Medium Enterprises in the agribusiness sector is business capital [4]. In fact, banks, both conventional and Islamic banks, have offered various types of business capital financing products, but not specifically for Micro, Small and Medium Enterprises in the agribusiness sector.

In Riau Province, there are two Sharia Rural Banks that provide financing products for Micro, Small and Medium Enterprises in the agribusiness sector. The two Sharia Rural Banks are BPRS Berkah Dana Fadhlillah, having its address in Kampar Regency and BPRS Hasanah, having its address in Pekanbaru City [5].

From the background of the problems described above, the problems discussed in this research are how is the role of Islamic Rural Banks in the development and strengthening of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province?

2. Literature Review

The categories of micro, small and medium enterprises are regulated in Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises [6]. The categories of micro, small and medium enterprises are [7]:

- a. Micro business is a business that has a net worth of a maximum of Rp. 50,000,000.00 (fifty million rupiahs) excluding land and buildings for business premises or has annual sales of a maximum of Rp. 300,000,000.00 (three hundred million rupiahs).
- b. Small business is a business that has a net worth of more than Rp. 50,000,000.00 (fifty million rupiah) up to a maximum of Rp. 500,000,000.00 (five hundred million rupiah) excluding land and buildings where the business is located or has annual sales of more than Rp. Rp300,000,000.00 (three hundred million rupiah) up to a maximum of Rp2,500,000,000.00 (two billion five hundred million rupiah).
- c. Medium-sized business is a business that has a net worth of more than Rp. 500,000,000.00 (five hundred million rupiah) up to a maximum of Rp. 10,000,000.00 (ten billion rupiah) excluding land and buildings where the business is located or has annual sales of more than Rp. from Rp.2,500,000,000.00 (two billion five hundred million rupiah) to a maximum of Rp.50,000,000,000.00 (fifty billion rupiah).

3. Research Methodology

The method used in this research is empirical research. Empirical research is a research method carried out by analyzing the facts found in the field [8]. This research consists of three stages, namely the preparation stage, the implementation stage, and the reporting stage. Data collection techniques in this research were carried out through observation, interviews, questionnaires, and literature study. The data analysis technique in this research was carried out through quantitative descriptive analysis. Respondents interviewed in this research were the Director of BPRS Berkah Dana Fadhlillah and Director of BPRS Hasanah as well as Micro, Small and Medium Enterprises in the agribusiness sector.

4. Finding and Discussions

Bank is a financial institution that carries out business activities to collect funds from the public and distribute funds to the public and provide financial services [9]. Based on its business activities, the types of banks can be divided into conventional banks and Islamic banks [10]. Sharia bank is a bank that carries out business activities based on the principles of Islamic law in banking activities based on a fatwa issued by the National Sharia Council of the Indonesian Ulama Council [11]. Types of Islamic banks consist of Islamic commercial banks, sharia business units, and Islamic People's Financing Banks. Based on data from the Financial Services Authority of the Republic of Indonesia in 2017, the number of Islamic commercial banks in Indonesia amounted to 13 banks, sharia business units from conventional banks amounted to 21 banks, and Islamic People's Financing Banks amounted to 102

banks [12]. BPRS Berkah Dana Fadhlillah and BPRS Hasanah are Islamic banks with the type of Sharia Rural Bank.

BPRS Berkah Dana Fadhlillah was established on June 11, 1994 and obtained a permit through the Decree of the Minister of Finance of the Republic of Indonesia Number Kep-197/KM-17/1996 dated June 6, 1996 [13]. BPRS Berkah Dana Fadhlillah is located at Jl. Raya Pekanbaru - Bangkinang Km. 50 Air Tiris, Kampar Regency. The vision of BPRS Berkah Dana Fadhlillah is “To become a Leading Sharia Bank that is Healthy and Strong so that it Can Play a Role as a Driving Force in Empowering the Economy of Small and Medium People”. In realizing this vision, the mission of BPRS Berkah Dana Fadhlillah is to:

- a. Mobilizing community businesses by collecting and distributing funds to productive businesses.
- b. Improving the community's business capabilities by cooperating in business management.
- c. Provide an adequate level of profit for shareholders and the people by prioritizing halal ways and pleasing to Allah.
- d. Participate in raising the Islamic community economy.



Figure 1. Research Interview with the Director of BPRS Berkah Dana Fadhlillah

Director of BPRS Berkah Dana Fadhlillah named Mr. Rizaldi. BPRS Berkah Dana Fadhlillah currently has one branch office in Pekanbaru City and two cash offices in Tambang District and Bangkinang District, Kampar Regency. In assisting the development and strengthening of Micro, Small and Medium Enterprises in Riau Province, BPRS Berkah Dana Fadhlillah provides financing products, namely murabahah financing, mudharabah financing, musyarakah financing, and multi-service financing.

Not long after the establishment of BPRS Berkah Dana Fadhlillah, on August 25, 1994 BPRS Hasanah was established and obtained a permit through the Decree of the Minister of Finance of the Republic of Indonesia Number Kep-007/KM.17/1995 dated January 9, 1995. BPRS Hasanah is located at Jl. H. R. Soebrantas No. 87 Pekanbaru City. The vision of BPRS Hasanah is “Grow and Develop to Become a Leading Islamic People's Financing Bank in Its Staff Based on Faith and Taqwa and Become a Pillar for the Economic Life of the Hasanah People”. In realizing this vision, the mission of BPRS Hasanah is to:

- a. Uphold and carry out sharia principles in a pure and kaffah manner.
- b. Migrating with the community leaving the subhat to a pure and clean life.

- c. Promote and invite people to love sharia principles and apply them in business life that is run to get ridho and blessings.
- d. Become a means for the development of the sharia economy and for the welfare of the people.

The Director of BPRS Hasanah named Mr. Dedy Febriyanto. In assisting the development and strengthening of Micro, Small and Medium Enterprises in Riau Province, BPRS Hasanah provides financing products, namely hasanah financing, micro financing, consumer financing, multi-service financing, and Umrah worship financing.



Figure 2. Research Interview with the Director of BPRS Hasanah

The number of Micro, Small and Medium Enterprises in the agribusiness sector which is the object of this research is 10 people. In terms of age, the average Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province have characteristics in the age group of 38 to 43 years. The details are 32% aged 32 - 37 years, 38 - 43 years old are 40%, and ages 44 - 49 years are 28%. In terms of education, the average Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province have an educational background at the junior high school level. In terms of business experience, on average, Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province have 1 to 7 years of business experience. The details are 1-7 years of business experience amounting to 88% and 8-14 years of business experience amounting to 12%.

The variables used in this research are bank services and types of financing products. Regarding bank services, out of 10 respondents, 72% answered that BPRS Berkah Dana Fadhlillah provides good service to Micro, Small and Medium Enterprises in the agribusiness sector, while 76% answered that BPRS Hasanah provides good service to Micro, Small and Medium Enterprises and Medium agribusiness sector. Regarding the types of financing products, out of 10 respondents, 56% answered that BPRS Berkah Dana Fadhlillah provides types of financing products for Micro, Small and Medium Enterprises in the agribusiness sector, while 68% answered that BPRS Hasanah provides types of financing products for the Micro, Small and Medium Enterprises in the agribusiness sector.

In the midst of competition from banking financial institutions, both conventional and Islamic banks, which are increasingly stringent in offering various types of business capital financing products, however, BPRS Berkah Dana Fadhlillah and BPRS Hasanah are more in demand by Micro,

Small and Medium Enterprises in the agribusiness sector in Riau Province. The strategy adopted by BPRS Berkah Dana Fadhlillah and BPRS Hasanah is a faster financing process so that they can compete with conventional banks as well as product innovation and affordable administrative costs.

Although Micro, Small and Medium Enterprises in the agribusiness sector are one of the potential businesses in Riau Province, Micro, Small and Medium Enterprises in the agribusiness sector can fail. According to Astamoen, failure is not a mistake. Failure can be used as a valuable lesson as material for self-evaluation in order to achieve success [14]. According to Edy, the failure of Micro, Small and Medium Enterprises usually occurs in the first 5 (five) years of doing business. The factors that influence the failure of Micro, Small and Medium Enterprises are the weaknesses of marketing management aspects, operational management aspects, human resource management aspects, and financial management aspects [15].

Weaknesses in the marketing management aspects of Micro, Small and Medium Enterprises are caused by [16]:

- a. Micro, Small and Medium Enterprises only market their products to one market.
- b. Micro, Small and Medium Enterprises make it easier to sell their products on credit.
- c. Micro, Small and Medium Enterprises sell their products not according to the standard order.
- d. Micro, Small and Medium Enterprises provide services beyond the agreed time limit.
- e. Micro, Small and Medium Enterprises only sell one type of product.

Weaknesses in the operational management aspects of Micro, Small and Medium Enterprises are caused by [17]:

- a. Micro, Small and Medium Enterprises still use simple technology.
- b. The production scale of Micro, Small and Medium Enterprises is still small.
- c. The cost of producing products for Micro, Small and Medium Enterprises is relatively high.
- d. Micro, Small and Medium Enterprises are dominated by family businesses.
- e. Micro, Small and Medium Enterprises are just a side business.

Weaknesses in the human resource management aspects of Micro, Small and Medium Enterprises are caused by [18]:

- a. Micro, Small and Medium Enterprises are not yet professional in doing business.
- b. Micro, Small and Medium Enterprises employ families.
- c. Micro, Small and Medium Enterprises mostly run their own business.
- d. Micro, Small and Medium Enterprises are unable to respond to market tastes.
- e. Micro, Small and Medium Enterprises have a low educational background.

Weaknesses in the financial management aspects of Micro, Small and Medium Enterprises are caused by [19]:

- a. There is no separation between personal assets and business capital.
- b. Micro, Small and Medium Enterprises do not record sales transactions.
- c. Micro, Small and Medium Enterprises serving debt sales.
- d. Ignoring depreciation budget.
- e. Micro, Small and Medium Enterprises have limited business capital.

Micro, Small and Medium Enterprises in the agribusiness sector that are customers of BPRS Berkah Dana Fadhlillah and BPRS Hasanah are not all smooth. There are some customers whose credit installments are delayed, even jammed. From the results of interviews with the Director of BPRS Berkah Dana Fadhlillah and Director of BPRS Hasanah, the causes of the failure of Micro, Small and Medium Enterprises in the agribusiness sector are:

- a. Micro, Small and Medium Enterprises in the agribusiness sector experience crop failure due to exposure to plant pests.
- b. Micro, Small and Medium Enterprises in the agribusiness sector experienced crop failure due to the flood disaster.
- c. A decline in market prices for agricultural and plantation products.
- d. Micro, Small and Medium Enterprises in the agribusiness sector apply a profit-sharing system that turns out to be detrimental.

- e. The calculation of the timing of Micro, Small and Medium Enterprises in the agribusiness sector is not appropriate in managing the business.
- f. The business capital of Micro, Small and Medium Enterprises in the agribusiness sector is used for personal and family needs.
- g. The financial management of Micro, Small and Medium Enterprises in the agribusiness sector is not well organized because it is only a side business.
- h. Micro, Small and Medium Enterprises in the agribusiness sector do not have experience.
- i. Wrong in business planning.
- j. Micro, Small and Medium Enterprises do not record sales transactions.

According to Chamidun, the forms of empowerment of Micro, Small and Medium Enterprises are [20]:

- a. Business capital assistance.
- b. Business opportunity information.
- c. Partnership program.
- d. Fast and affordable business licensing.
- e. Business promotion exhibition.

4. Conclusions

The problem of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province is business capital. This study aims to analyze the role of Islamic Rural Banks in the development and strengthening of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province. The method used in this research is empirical research. The results of the research explain that the average Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province have characteristics in the age group of 38 to 43 years with junior high school education and 1 to 7 years of business experience. There are two Sharia Rural Banks in Riau Province, namely BPRS Berkah Dana Fadhilillah and BPRS Hasanah. Bank service variables and types of financing products have a significant effect on the development and strengthening of Micro, Small and Medium Enterprises in the agribusiness sector in Riau Province. The strategy adopted by BPRS Berkah Dana Fadhilillah and BPRS Hasanah is a faster financing process so that they can compete with conventional banks as well as product innovation and affordable administrative costs.

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