

## **The Role of BPRS in The Development and Growth of UMKM in Indonesia**

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**Abstract:** Because Micro, Small, and Medium Enterprises (MSMEs) are an important part of the Indonesian economy, the role of Sharia People Credit Bank (BPRS) is crucial in supporting the growth and advancement of MSMEs. As a sharia financial institution, BPRS has a strategic goal to enhance financing inclusion while adhering to sharia principles that align with the needs of the community. Due to the lack of collateral and high business risks, MSMEs often struggle to obtain financing from conventional banks. On the other hand, BPRS provides more flexible financing products based on profit-sharing, murabahah, or ijarah, which enable SMEs to grow. BPRS not only provides capital in this situation but also acts as a strategic partner for SMEs to manage their businesses, increase production capacity, and expand market networks. BPRS can gain greater trust among MSME actors, most of whom are Muslim, by using an approach based on Sharia values. BPRS also helps with economic stability and local welfare. This article discusses how BPRS can accelerate the growth of small and medium enterprises (SMEs) in Indonesia by providing easier and more sustainable access to financing. It also discusses the challenges and opportunities faced while fulfilling that role.

**Keywords:** BPRS, MSME, economic growth, sharia financing, and economic inclusion.

### **BACKGROUND**

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia play a very important role in the country's economy. Data shows that the MSME sector contributes around 60% of Indonesia's Gross Domestic Product (GDP) and absorbs more than 97% of the national workforce. Despite their huge contribution, MSMEs often face various challenges, especially in terms of financing and access to resources that can support their growth. Many MSME players find it difficult to obtain financing from conventional financial institutions, mainly due to limited collateral and small business scale.

This is where the role of Sharia Rural Banks (BPRS) becomes very important. As a financial institution based on sharia principles, BPRS offers more inclusive and flexible financing alternatives for MSMEs. The financing products offered by BPRS, such as murabahah (sale and purchase with a profit margin), musyarakah (profit-sharing partnership), and ijarah (lease), provide financing solutions that are more suited to the characteristics of MSMEs, which often have higher risks and needs that cannot be met by conventional banks.

In addition, BPRS also has the advantage of building trust with MSME players, especially among people who prioritize sharia principles in doing business. The existence of BPRS allows MSME players to get easier access to finance without having to be burdened with interest, so they can focus more on business development. Thus, BPRS not only acts as a capital provider, but also as a strategic partner in encouraging the sustainable growth and development of MSMEs.

However, despite the vital role of BPRS, challenges such as low Islamic financial literacy, limited capacity and network of BPRS, as well as the need for more varied financing product innovations are still an obstacle. Therefore, it is important to continue optimizing the role of BPRS in the MSME ecosystem, so that this sector can continue to grow and contribute more to the Indonesian economy.

## RESEARCH METHODS

The approach in this research uses a qualitative study method using literature review techniques. The data collection technique in this research journal is based on data from previous studies in related journals and articles. The author focuses on analyzing the role of BPRS in the development and growth of umkm in Indonesia, how bprs can contribute to the development of umkm, and what solutions can be offered.

## RESULTS AND DISCUSSION

### 1. Definition and Criteria of MSMEs

The definition of MSMEs varies from country to country, with no universal agreement on its meaning. In general, MSMEs are defined based on certain criteria such as the amount of labor used, the amount of capital, and the turnover generated. In addition, MSMEs can also be defined based on their characteristics, such as business scale, technology applied, organizational and management structure. In Indonesia, prior to the enactment of Law No. 20/2008, various agencies such as Bank Indonesia, the Central Bureau of Statistics, the Ministry of Cooperatives and SMEs, and other institutions had formulated definitions of MSMEs based on their respective needs. Most of these definitions focused on quantitative criteria, such as turnover and asset ownership, as the main benchmarks.

Based on Law No. 9 of 1995, UMKN small businesses are defined as follows:

- a. Productive businesses owned by Indonesian citizens, which can take the form of business entities without legal entities, individual business entities, or legal entities.
- b. Small enterprises do not include subsidiaries or branches of companies that are owned, controlled, or affiliated, either directly or indirectly, with medium or large enterprises.
- c. Have a maximum net worth of IDR 200 million, excluding land and building of the business premises, or have an annual sales revenue of IDR 100 million.

With the enactment of Law No. 20/2008, the definition of MSMEs has been adjusted as follows:

1. Micro businesses refer to productive enterprises owned by individuals or small-scale business entities that fulfill the qualifications of a micro business.
2. Small businesses are independent economic ventures managed by individuals or entities, which are not subsidiaries or branches of companies owned, controlled, or connected either directly or indirectly to medium or large-scale businesses
3. Medium-sized enterprises are autonomous economic activities operated by individuals or business entities. These enterprises are not subsidiaries or branches of companies owned, controlled, or affiliated either directly or indirectly with small or large businesses. Their total net assets or annual revenue align with the legal provisions. The criteria for MSMEs are grouped based on the amount of assets and turnover owned by each business entity, as formulated in Law No. 20/2008 on MSMEs. However, grouping based on the number of workers involved in a business is not included in the law.

Musa Hubeis (2009) identifies two perspectives in understanding MSMEs, namely:

- a. Size of business or type of entrepreneurship/stage of business development. MSMEs are classified based on: Individual self-employment, group self-employment, household industry, which is determined by the number of workers and business capital owned. The stages of MSME business development can be viewed from the aspect of growth with an efficiency and productivity approach, namely: Survival level, which includes businesses from individual self-employment to household industry, Consolidation level, which involves the transition from the use of traditional technology to the ability to adopt modern technology, Accumulation level, which is characterized by the use of modern technology and its relationship with economic and industrial structures.
- b. Use of technology. In this case, MSMEs can be categorized as: MSMEs that use traditional technology, which are gradually transitioning to modern technology, MSMEs that have used modern technology, with a tendency to be more closely related to the economic structure in general and the industrial structure in particular (Gani, 2021).

## **2. MSME Financing Theory**

- 1) Efforts to develop Micro, Small and Medium Enterprises (MSMEs) in Indonesia rely heavily on banking support in providing access to credit. One of the most well-known credit schemes in the community is Kredit Usaha Rakyat (KUR), which is specifically designed for MSMEs with viable business criteria without requiring collateral. In addition, strengthening MSME support institutions can be done through increasing accessibility and capacity building, such as training and research activities, which support the provision of credit to MSMEs.
- 2) One of the strategies to deal with increasingly open and competitive market mechanisms, especially in the ASEAN region, is market control, which is the main requirement to improve the competitiveness of MSMEs. To be able to control the market, MSMEs need to obtain information quickly and easily, both related to product markets and production

factor markets, in order to expand their product marketing networks. The utilization of information technology in MSME operations can help expand market access, both at the domestic and international levels, in a more efficient manner. (Sudaryanto & Wijayanti, 2014).

### **3. Definition, Function, and Role of BPRS**

#### **a. Definition of BPRS**

Sharia People's Financing Bank (BPRS) is one type of sharia-based financial institution that runs its operations in accordance with Islamic principles, including in terms of muamalah. The establishment of BPRS aims to support economic restructuring in Indonesia through various policies in the financial, monetary, and banking sectors, as well as provide an alternative to conventional banking practices that rely on interest rates.

Law Number 21 of 2008 states that Sharia People's Financing Banks are sharia-based banks that are not involved in payment traffic services. This law also replaces the term Bank Perkreditan Rakyat with Bank Pembiayaan Rakyat Syariah to emphasize the difference between the concept of credit in conventional banking and financing based on sharia principles. Article 1 paragraph 9 of Law No. 21 Year 2008 explains that BPRS is an Islamic bank whose operations do not provide payment services and fully follow sharia principles.

From this explanation, it can be concluded that BPRS is a banking institution whose activities are adjusted to Islamic law, which comes from the Qur'an and Hadith (Arus, Pertiwi, Diah, 2020).

#### **b. BPRS Function**

1. Serving the public by accepting deposits in the form of time deposits and savings
2. Provide credit facilities for customers.
3. Providing financing to customers based on profit-sharing principles in accordance with the provisions stipulated in government regulations.
4. Manage their funds by placing them in Bank Indonesia Certificates (SBI), certificates of deposit, time deposite, or in other banks (Rahmi, 2018).

#### **c. Role Of BPRS**

Sharia People Financing Bank (BPRS) have an important role in providing access to financing to MSMEs that often find it difficult to obtain funding from conventional financial institutions. BPRS provides various sharia financing schemes, such as mudharabah, musyarakah, murabahah, and others, which are tailored to sharia principles and the needs of MSMEs. This financing helps MSMEs in obtaining working capital, expanding their business, purchasing productive assets, and various other purposes.

In addition to providing financing, BPRS also provides mentoring and coaching to MSMEs. This assistance includes training related to business management, marketing, financial management, and various other aspects needed by MSMEs. The coaching process is conducted regularly to monitor business development, provide feedback, and offer solutions to challenges faced by MSMEs.

Despite its strategic role, BPRS faces several shortcomings in overcoming problems. This is due to limited resources, low MSME understanding of sharia products

and services, and intense competition with other financial institutions. One of the main challenges of BPRS is to increase Islamic financial literacy among MSMEs and the community, as well as innovate in creating products and services that suit the needs of MSMEs (Pasaribu & Indra, 2024).

In terms of financing, Islamic banking relies more on the real sector to meet the needs of the community, thus requiring a high level of trust. The government established Islamic banks not only to offer an alternative to sharia-based banking, but also to support the growth of the real sector. Islamic banks, including BPRS, play an important role in supporting activities in the real sector through various financing schemes, such as mudharabah, which are based on sharia principles.

BPRS as part of Islamic financial institutions focuses on financing the real sector to encourage the improvement of the community's economy. According to Naja, There are three categories of financing in Islamic banks based on the purpose of use, namely financing for ownership of goods, services, and cooperative businesses, all of which are carried out in accordance with sharia principles.

BPRS has an important role as an institution that provides financing for the community, especially to support the establishment or development of MSMEs. In channeling financing, BPRS applies the 5C analysis, which assesses the character, capacity, capital, condition, and collateral of prospective debtors. Although BPRS is also involved in fostering and developing MSMEs, this effort is sometimes rejected because it is considered troublesome by some parties.

Financing provided by Islamic banks is based on the principle of trust, where the bank hands over funds with the belief that the debtor will return them as agreed. Financing distribution is one of the main priorities of BPRS, considering that the source of funds obtained from the community must be managed and returned in the form of financing in accordance with the bank's role as a financial institution. Based on financing products consist of various kinds, as follows (Damayanti, 2017):

1. Murabahah Financing is a financing scheme in which BPRS buys certain goods or commodities at the customer's request, then resells them at the base price plus an agreed margin. Payment can be made in installments according to the agreement.
2. Musyarakah Financing A form of cooperation between BPRS and customers to combine capital to finance a business. Profits are shared based on mutual agreement, while losses are borne proportionally according to the capital contribution of each party.
3. Ijarah Financing is a lease transaction conducted by BPRS to fulfill customer needs for goods or services. In this scheme, customers can lease goods with the option to buy them or get them as a grant after the lease period is over.
4. Mudharabah Financing is a business cooperation between BPRS as capital provider (shahibul maal) and customers as business managers (mudharib). The division of business results is carried out in accordance with the agreement in the contract. If there is a loss, the capital provider bears it, unless the loss is caused by the manager negligence or fraud (Purnama et al., 2024).

#### **4. Impact of BPRS on MSME growth**

- a. Creative Product Development

BPRS needs to continue to create innovative financial products specifically designed to meet the needs of MSMEs. For example, offering financing schemes that are more flexible and accessible to micro businesses that often face difficulties in accessing financial services.

b. Improving Financial Literacy

Financial education programs for the community, especially in rural areas, need to be improved. This will help people understand the benefits and mechanisms of services provided by BPRS, thereby increasing their trust and participation in the sharia-based financial system.

c. Service Digitalization

BPRS should utilize digital technology to improve efficiency and expand service coverage. The adoption of digital platforms makes it easier for MSMEs to access banking services, conduct transactions, and obtain financing more practically.

d. Cooperation with Government and Other Institutions

BPRS can strengthen its role in supporting MSMEs through collaboration with the government, other financial institutions and non-governmental organizations. This synergy includes entrepreneurship training programs, business mentoring, and facilitation of access to markets aimed at improving the capabilities and competitiveness of MSMEs.

e. Supervision and Management

Risk Strengthening supervision and risk management is crucial to maintaining the stability and sustainability of BPRS. The development of a comprehensive risk management system helps BPRS anticipate and manage risks that may arise from financing activities.

## **CONCLUSIONS**

BPRS plays a strategic role in supporting the growth of Micro, Small, and Medium Enterprises (MSMEs) which are the backbone of the Indonesian economy. In conditions where MSMEs often face major challenges, such as limited access to financing due to lack of collateral and high business risk, BPRS is present as an alternative solution based on sharia principles. This institution provides various financing products such as murabahah, mudharabah, musyarakah, and ijarah that suit the needs and characteristics of MSMEs. This sharia-based approach not only helps in the financing aspect, but also builds trust among MSME players, especially among people who prioritize Islamic principles in doing business.

In addition to providing financing, BPRS also provides assistance and coaching to MSMEs through training in business management, marketing, finance, and others. This assistance aims to increase the capacity of MSMEs to be more competitive, able to increase production, and expand market networks. Thus, BPRS is not only a financing institution but also a strategic partner in overcoming various problems faced by MSMEs.

However, despite the significant role of BPRS, there are several challenges that need to be overcome. These challenges include low Islamic financial literacy in the community, limited resources and network of BPRS, and competition with other financial institutions. For this reason, BPRS needs to continue to innovate, develop more varied products, and adopt digital technology to improve operational efficiency and service coverage.

Improving Islamic financial literacy is also key to success in attracting more MSMEs to utilize BPRS services. In addition, collaboration with the government, other financial institutions, and non-governmental organizations needs to be strengthened to create an ecosystem that supports MSME development. In this regard, synergy programs such as entrepreneurship training, business mentoring, and market access can be a key support. Through these measures, BPRS can contribute more effectively in driving the real sector and improving community welfare. As an institution that focuses on developing the MSME sector, BPRS has great potential to encourage financial inclusion, strengthen the competitiveness of MSMEs, and ultimately contribute to sustainable national economic growth.

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