



THE ROLE OF REGIONAL DEVELOPMENT BANKS IN INDONESIA

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Abstract Coronavirus disease (COVID-19) has an impact on the banking sector. There was a decline in performance for the Regional Development Bank (BPD). Disrupted banking performance will have an impact on financial system stability and have an impact on Indonesia's economic growth. Debtors need credit loosening, but there is no appeal for depositors to postpone withdrawals before maturity, so that bank liquidity is running low due to the unlimited number of withdrawals. The call for easing installment payments with a delay in installments from debtors to banks has caused banks, especially rural banks, to experience liquidity difficulties in stopping channeling new loans and focusing on providing liquidity to anticipate savings funds' withdrawals. The development of BPD performance will be seen from the addition of the number of banks, the loan to deposit ratio, the number of third party funds, and the number of loans. The analysis used is descriptive qualitative with data for the 2016-2020 period. The main findings are the need to optimize the banking intermediation function, maintain financial system stability, and support economic growth by enhancing the role of BPD in Indonesia.

Keywords: COVID-19, Regional Development Bank (BPD), withdrawals

I. INTRODUCTION

The role of financial institutions in Indonesia is major for advancing the economy. Indonesia's financial system is divided into the monetary system, supervisory system, financial system, and banking. The monetary and macroprudential policy system is regulated by the Central Bank (Namely BI). The supervisory system is regulated by the Financial Services Authority (Namely OJK). Financial services are carried out by financial institutions, insurance businesses, pension funds, pawnshops, and the capital market. Meanwhile, banking services are divided into commercial banks and rural banks that carry out activities based on conventional and sharia principles. Commercial banks consist of various banks, namely state-owned banks, foreign exchange banks, non-foreign exchange banks, regional development banks, joint venture banks, and foreign banks. This research focuses on highlighting the role of Regional Development Banks in promoting economic growth in Indonesia.

Banking is one of the industries that has been negatively affected by the conditions of the Covid Pandemic 19. The coronavirus (COVID-19) directly impacts to Regional Development Bank (Namely BPD) performance. Banking limits credit, so that some groups of people do not have financial services. Before the Pandemic era, rural and low-income communities relied on banking access to BPD. Constraints during the Pandemic were liquidity limitations and internal banking policies. An internal policy that refers to limiting credit distribution and refers to the relaxation of debtor credit.

Economic development and activity are rapidly increasing, especially in big cities [12] [13]. Therefore, the role of the BPD is very vital for the progress of urban, rural, and low-level economic development. Banking, especially BPD, can be an economic driver, especially in the Micro, Small and Medium Enterprises (MSMEs) sector. In carrying out its business activities, BPD is faced with intense banking industry competition, global conditions, and problems with limited capital. To optimize intermediation, BPD needs to expand by adding to the office network, strategic banking service alliances with other institutions with extensive networks, such as branchless banking.

Banking institutions' development is in line with regional developments. An area's progress can be seen from the facilities and the number of banks in the area. The need for funds from banks for Regional Owned Enterprises (BUMD), leading sectors, and MSMEs in a region will spur the business sector's growth. The greater the absorption of funds from the banking sector will increase the production of goods and services [10]. The community needs financial institutions for both consumptive and productive purposes [7]. Debtors need credit loosening, but there is no appeal for depositors to postpone withdrawals before maturity, so that bank liquidity is running low due to the unlimited number of withdrawals. In a pandemic situation, BPD targets will not be achieved due to delays in intermediation. The role of BPD is vital for the

regions to encourage economic growth, regional development, increase the standard of living of the community, manage regional finances, and one of the sources of local revenue. A strategy is needed to optimize BPD in Indonesia.

The bank's main function is to collect funds from the public and channel them back to the community for various purposes or as a financial intermediary. Specifically, a bank can function as an agent of trust, an agent of development, and an agent of services [2] [3]. As a financial institution, bank daily activities will not be separated from the financial sector. The most basic banking activity is buying money by raising funds from the wider community. Then sell the money that has been collected by flowing it back to the community through loans or credit [9].

The bank will profit from this money buying and selling activity, namely from the difference between the purchase price and the selling price of loan interest. Other bank activities to support activities that collect and channel funds are providing other services [4]. This activity is intended to facilitate activities to collect and distribute funds. In practice, activity banks are differentiated according to the type of bank. Each type of bank has characteristics and duties in carrying out its activities [11]. According to Law no. 13 of 1962 concerning the provisions of the Regional Development Bank, Banks were established to provide financing to implement regional development efforts in the framework of planned national development [5]. The Bank provides requirements for investment, expansion, and renewal of regional development projects carried out by local governments and mixed companies between local governments and private companies [6].

II. METHODS

This research uses the descriptive qualitative method. Analyzing data through electronic media, books, and scientific journals with discussions on BPD in Indonesia. Qualitative methods facilitate a researcher to study an object of study in-depth and in detail. Qualitative methods will produce more detailed information and data sourced from literature studies that allow increased understanding of the object of study and the case being studied [8]. The analysis was carried out based on data period 2016-2020 and theoretical linkages to see the optimization of the role of BPD in Indonesia.

III. RESULTS AND DISCUSSION

BPD business development increases every year. There are big challenges due to the pandemic period this year. Trade is hampered and results in a decline in customers. The source of BPD funds from local governments is also insignificant due to the transfer of budgets for handling the pandemic. Under these conditions, BPD needs to optimize cooperation between the group that is well known throughout Indonesia. There are 26 BPD dominated by Banks with Core Capital less than IDR1 trillion and Core Capital between IDR1 trillion - IDR5 trillion with a relatively small market share and business scale. Details of BPD in Indonesia based on total assets, namely 3 banks whose assets are less than Rp. 1 trillion, there are 19 banks with assets between Rp. 1 trillion to Rp. 5 trillion, there are 4 banks with assets between Rp. 5 trillion to Rp. 30 trillion, and no BPD is included in the asset category of more than IDR 30 trillion, with the following details:

Figure 1, Distribution Of Regional Development Banks In Indonesia

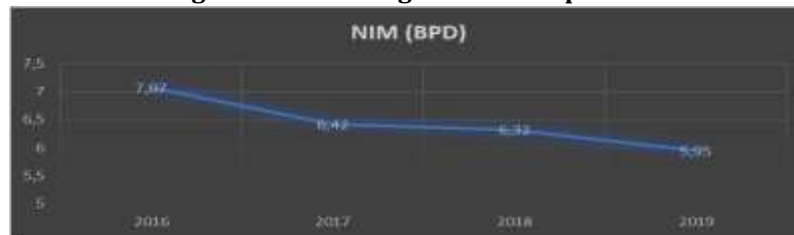


Source: OJK, 2020

BPD performance has experienced a downward trend every year. The decrease in Net Interest Margin (NIM) was mainly due to the increase in Bank Indonesia's benchmark interest rate during 2016-2018, cost of funds, and pandemic situations. The strategy is needed to recomposing high-cost deposits. The downward trend in NIM has always been in line with the increase in bank credit. During the pandemic, banks were also

burdened with credit restructuring. Bank interest income will also decline; This can be seen from the data on the downward trend in NIM with the following details:

Figure 2, Net Interest Margin Growth Of Regional Development Banks In Indonesia (%)



Source: OJK, 2020

A strategy is needed to manage expensive funds to have a positive impact on the banking business. Liquidity and intense competition, coupled with limited service coverage, have made small and medium-sized banks still rely on expensive funds to run their business. Third-party funds (DPK) from banks grow faster than credit because entrepreneurs postpone activities until things improve. Today's large debtors prefer to issue bonds or postpone credit loans to harm the credit growth ratio. However, banking indicators such as growth in assets, deposits, and credit remained positive, even above the banking industry as a whole, particularly for credit with negative industrial growth. The details of the development of BPD during the Pandemic are as follows:

Figure 3, Intermediation and Profitability Of Regional Development Banks In Indonesia



Source: OJK, 2020

The central government implements a policy of receiving State Funds Placement (Namely PUN) to assist banking liquidity. As of 18 November 2020, there have been 11 BPD recipients of PUN with a total of IDR 14 trillion. A total of 11 BPDs have distributed PUN funds. Government credit distribution has placed funds in BPD worth Rp. 14 trillion with a target of Rp. 29.11 trillion, and Rp. 24.92 trillion (85.59%) has been realized. The data details are as follows:

Figure 4, BPD Fund and Credit Distribution Of Regional Development Banks In Indonesia (September, 2020)



Source: OJK, 2020

There are several obstacles in distributing PUN funds to BPD, namely the demand for credit decreases and unsatisfactory economic activity, the selective principle in providing credit, and credit distribution in bailout loans to Regional-Owned Enterprises. There are obstacles to the time lag for PUN fund placement, which is only 6 months, while credit provision for the long term is up to 3 years. BPD needs some additional time and additional government funds. Lending is concentrated on multipurpose consumptive loans in collaboration with local governments. BPD targeting loans addressed to a civil servant who has a low credit risk because salary deductions are made directly every month.

The challenge of competition in financial services has made all parties involved in the banking sector think globally by prioritizing efficiency and the global standard of banking in other countries [1]. The level of Net Interest Margin continues to decline due to the Covid pandemic and restrictions on lending. A strategy is needed to get low-cost funds for credit financing sources. The banking industry gets some trouble increasing their interest income in this situation. Recomposition of funding to lower costs is required. The main problem of BPD is capital, which can be overcome using BPD collaboration or Initial Public Offering. It needs

cooperation between BPDs throughout Indonesia to optimize the potential for fund distribution, investment support, and technical cooperation.

Merging into a holding can remove these obstacles. The capital structure needs to be unified between BPDs by changing some of the regulations that become obstacles to this strategic plan. The business focus should back on supporting government and private capital investment throughout Indonesia. The other strategy by maximum utilizes the available resources by prioritizing regions and sub-regions in Indonesia in various development projects and programs that play an effective role economically. It is very prioritized to meet the needs of small areas with economic development potential in Indonesia. BPD can also provide technical assistance to prepare, finance, and implement various development programs and projects, including formulating proposals for specific projects. BPD needs to collaborate with foreign organizations with many economic development project designs for developing countries such as Indonesia.

Regional Development Banks have not contributed significantly to economic growth. BPD should give attention to innovation and strategy business during the Pandemic and improves following the everchanging digital banking era. The current situation demands a simple product and can be accessed anytime and anywhere, fast, and user friendly. Thus, BPD can carry out its functions effectively and efficiently.

IV. CONCLUSIONS

The current Covid 19 problem impacts several business sectors. BPD must leave traditional methods and switch to the application of information technology in their business operations. The application of technology will facilitate the public in financial inclusion. The BPD needs to find a new strategy related to relatively stable and diversified resources and collaboration with BPD members in Indonesia. BPD needs to be optimized to support economic development in the regions. This study has limitations so that it is expected to attract other researchers using quantitative methods.

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