

## ENHANCING SHARIA KUR EFFECTIVENESS IN BATANG: REGULATORY BARRIERS AND MSME ECONOMIC GROWTH

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### *Abstract*

*Micro, Small, and Medium Enterprises (MSMEs) are a vital driver of Indonesia's economy, particularly in Batang Regency, which is known for its thriving agricultural, craft, and culinary sectors. This study evaluates the effectiveness of the sharia-based Kredit Usaha Rakyat (KUR) disbursement at Bank Syariah Indonesia (BSI) KCP Batang, with a focus on regulatory barriers and economic impacts. Employing qualitative methods—including interviews, observations, and document analysis—the research identifies a structured process comprising application, verification, field surveys, feasibility analysis, contract signing, and fund disbursement. However, approximately 20% of applications experience delays due to incomplete business permits and extended survey times in rural areas, further exacerbated by the low financial literacy of MSME actors. While KUR has successfully increased working capital and even boosted revenue by up to 30% for some beneficiaries, the lack of post-disbursement support limits its long-term impact. Based on the findings, this study offers data-driven recommendations: the implementation of digital verification systems, the provision of financial literacy workshops, and collaboration with local governments to streamline permit issuance. These strategies align with national MSME financing objectives set by the Coordinating Ministry for Economic Affairs.*

**Keywords:** MSMEs, Sharia KUR, Effectiveness, Regulatory Barriers, Batang Regency

### **Abstrak**

Usaha Mikro, Kecil, dan Menengah (UMKM) menjadi tulang punggung ekonomi Indonesia, terutama di sektor pertanian dan kerajinan Kabupaten Batang. Penelitian ini mengevaluasi efektivitas pencairan Kredit Usaha Rakyat (KUR) syariah di Bank Syariah Indonesia (BSI) KCP Batang, fokus pada hambatan regulasi dan dampak ekonomi. Menggunakan metode – wawancara, observasi, dan analisis dokumen – penelitian menemukan proses terstruktur: pengajuan, verifikasi, survei lapangan, analisis kelayakan, penandatanganan akad, dan pencairan. Namun, 20% pengajuan tertunda akibat izin tidak lengkap dan survei pedesaan yang lama, ditambah rendahnya literasi keuangan UMKM. KUR meningkatkan modal usaha, dengan kenaikan pendapatan 30% untuk beberapa UMKM, tetapi minimnya pendampingan pasca-pencairan membatasi dampak. Rekomendasi berbasis data meliputi sistem verifikasi digital pelatihan literasi

keuangan, dan kemitraan pemerintah lokal untuk izin, sejalan dengan kebijakan nasional dari Kementerian Koordinator Bidang Perekonomian.

**Kata Kunci:** *UMKM, KUR Syariah, Efektivitas, Hambatan Regulasi, Kabupaten Batang*

## **Introduction**

Micro, Small, and Medium Enterprises (MSMEs) drive Indonesia's economy, contributing 61.07% to GDP and employing 97% of the workforce (Kemenko Perekonomian, 2023). In Batang Regency, Central Java, over 10,000 MSMEs in agriculture (e.g., coffee, palm sugar), handicrafts (e.g., batik), and culinary sectors sustain local livelihoods but face significant barriers to capital access. Complex documentation, prolonged verification processes, and low financial literacy hinder growth, particularly in rural settings (Azis & Azizah, 2022; Cahyadi & Windirah, 2021). These challenges are critical in sharia-compliant financing, where inefficiencies in Kredit Usaha Rakyat (KUR) disbursement at Bank Syariah Indonesia (BSI) KCP Batang—such as delays in obtaining permits (e.g., NIB) and limited post-disbursement mentoring—restrict MSME development, despite national policies promoting integrated financing ecosystems (Kemenko Perekonomian, 2023)

Bank Syariah Indonesia (BSI) KCP Batang offers sharia KUR with financing up to IDR 500 million at a 6% annual margin under *murabahah* and *musyarakah* contracts to enhance financial inclusion (Antonio, 2020; Bank Syariah Indonesia, 2025). However, prior studies highlight persistent challenges in sharia microfinancing, including regulatory barriers and inadequate mentoring, which are pronounced in rural areas like Batang (Setiawan et al., 2023; Wulandari & Setiyowati, 2022). This study addresses the problem of ineffective KUR disbursement at BSI KCP Batang, focusing on regulatory barriers (e.g., permit delays, verification bottlenecks) and their economic impact on MSMEs. Its novelty lies in analyzing Batang's informal MSME ecosystem, unlike urban-focused studies (Asmayaturrafaah & Hasan, 2023), and emphasizing post-disbursement mentoring as a critical success factor. The objectives are: (1) to analyze KUR disbursement procedures, (2) to identify regulatory and operational barriers, and (3) to evaluate economic outcomes for MSMEs, contributing insights to align sharia financing with national MSME development goals.

## Literature Review

Sharia microfinancing is a financial mechanism rooted in Islamic principles, designed to support small-scale entrepreneurs while adhering to prohibitions on *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). According to Antonio (2020), sharia financing employs contracts such as *murabahah* (cost-plus sale), *mudharabah* (profit-sharing), and *musyarakah* (joint venture), ensuring transparency and mutual benefit between financial institutions and clients. These contracts suit MSMEs, which often lack the collateral or credit history required by conventional banks. The KUR program, introduced by the Indonesian government, integrates these principles to provide accessible financing for MSMEs, targeting productive sectors like agriculture, fisheries, and manufacturing (Mongkito et al., 2021). The program offers three financing tiers—Super Micro KUR (up to IDR 10 million), Micro KUR (IDR 10–100 million), and Small KUR (IDR 100–500 million)—with tenors of 36 to 60 months and a subsidized margin of 6% per year (Bank Syariah Indonesia, 2025).

Studies on sharia KUR effectiveness reveal mixed outcomes. Azis & Azizah (2022) found that KUR boosts MSME productivity in Mojokerto by funding inventory and equipment, though administrative complexities (e.g., NIB/SIUP requirements) exclude smaller enterprises. Cahyadi & Windirah (2021) noted that despite its collateral-free design for smaller loans, lengthy verification processes, including SLIK checks and field surveys, delay access, especially in rural areas. Nurhasanah et al. (2020) further highlight documentation challenges in sharia rural banks in West Java, reflecting similar barriers in informal MSME settings like Batang. Regulatory issues also impede progress, as Saifurrahman & Kassim (2024) identify imbalances that hinder financial inclusion for MSMEs and Islamic banks.

Financial literacy is another critical factor affecting KUR implementation. Wulandari & Setiyowati (2022) found that many MSMEs lack understanding of sharia contracts, leading to misconceptions about repayment obligations and contract terms. This issue is compounded by limited post-disbursement mentoring, which results in some MSMEs using KUR funds for consumptive purposes rather than productive investments

(Asmayaturrafaah & Hasan, 2023). In the context of Islamic banking, Afriyeni & Susanto (2019) emphasize the importance of risk management and sharia compliance to ensure sustainable financing practices. They argue that banks must balance accessibility with rigorous due diligence to minimize non-performing loans (NPLs).

The concept of financial inclusion provides a broader theoretical lens for this study. Muchlis (2018) defines financial inclusion as the provision of accessible, affordable, and appropriate financial services to underserved populations, including MSMEs. Sharia KUR aligns with this goal by offering financing that adheres to Islamic values while addressing the capital needs of small businesses. However, achieving true financial inclusion requires overcoming barriers such as bureaucratic processes, low digital literacy, and regional disparities in banking infrastructure (Maslachah & Sopingi, 2024). In Batang Regency, where MSMEs are predominantly agricultural and craft-based, these challenges are particularly relevant due to limited access to formal documentation and financial education.

This study adopts Antonio's (2020) framework for sharia financing procedures, which outlines a standardized process involving application, document verification, field surveys, feasibility analysis, contract signing, fund disbursement, and monitoring. By comparing this framework with the practical implementation at BSI KCP Batang, the study aims to identify discrepancies and propose solutions to enhance the effectiveness of sharia KUR. Additionally, it draws on the financial inclusion literature to contextualize the role of KUR in empowering MSMEs in a regional setting.

### **Research Focus**

Given the qualitative nature of this study, a formal hypothesis is not proposed. Instead, the research is guided by the following focus statement: The sharia KUR disbursement procedures at BSI KCP Batang, while designed to be accessible and compliant with Islamic principles, encounter practical barriers that limit their effectiveness in fostering MSME growth. These barriers include administrative complexities, prolonged verification processes, and low financial literacy among MSMEs. This statement directs the analysis toward evaluating procedural efficiency,

identifying specific challenges, and assessing the socioeconomic impact of KUR on MSMEs in Batang Regency.

### **Research Method**

This study employs a qualitative approach to examine the effectiveness of sharia Kredit Usaha Rakyat (KUR) disbursement at Bank Syariah Indonesia (BSI) KCP Batang, focusing on regulatory barriers and MSME economic impacts. A qualitative design is justified as it allows in-depth exploration of contextual issues, such as rural financing challenges, which quantitative methods may overlook (Cresswell & Poth, 2018). Data were collected through semi-structured interviews, observations, and document analysis. Five informants were purposively selected: two BSI staff (microfinancing and marketing officers) and three MSME owners from agriculture, culinary, and handicraft sectors, reflecting Batang's dominant MSME industries, which align with the study's objectives to assess sector-specific economic outcomes (Azis & Azizah, 2022). While the small sample limits generalisation, it ensures rich, context-specific insights into Batang's informal MSME ecosystem.

Data were analyzed using NVivo 12 to code and categorize themes, following a three-step process: open coding (identifying initial patterns, e.g., "documentation delays"), axial coding (grouping into categories, e.g., "regulatory barriers"), and selective coding (refining themes, e.g., "impact of mentoring"). Triangulation across interviews, observations, and BSI documents (e.g., KUR guidelines) ensured validity. Reliability was enhanced by maintaining an audit trail of coding decisions and peer debriefing with a colleague to verify theme consistency (Cresswell & Poth, 2018). This approach supports the study's aim to provide actionable insights for sharia financing improvements in rural settings.

### **Discussion**

The sharia Kredit Usaha Rakyat (KUR) program at Bank Syariah Indonesia (BSI) KCP Batang supports Micro, Small, and Medium Enterprises (MSMEs) through sharia-compliant financing, aligning with Indonesia's financial inclusion and poverty alleviation

goals (Kemenko Perekonomian, 2023). This study comprehensively examines KUR disbursement procedures, regulatory and operational barriers, and economic impacts on MSMEs in Batang Regency, addressing gaps between theoretical design and practical execution. By integrating field findings with prior research, it reinforces and extends studies like Nurhasanah et al. (2020), Saifurrahman & Kassim (2024), Setiawan et al. (2023), and Wulandari & Setiyowati (2022).

### **KUR Disbursement Procedures at BSI KCP Batang**

The KUR process follows a sharia-compliant framework (Antonio, 2020) involving application submission (identity cards, family cards, business permits like SKU or NIB), administrative verification (document checks, SLIK credit history), field surveys (business viability), feasibility analysis (capacity and economic evaluation), sharia contract signing (*murabahah* or *wakalah*), and fund disbursement with monitoring. Interviews with two BSI staff indicate a 7–14-day target timeline. Observations of 10 MSME applications revealed delays, with some cases taking up to three weeks due to incomplete permits or rural logistical constraints. For instance, a culinary MSME faced delays renewing their SKU, requiring local authority coordination. This reinforces Nurhasanah et al. (2020) on documentation barriers in sharia rural financing and Setiawan et al. (2023) on limited MSME access to Islamic bank funding, highlighting the need for streamlined rural processes (Cahyadi & Windirah, 2021).

### **Implementation Challenges**

Systemic barriers hinder KUR effectiveness, extending prior findings (Saifurrahman & Kassim, 2024; Wulandari & Setiyowati, 2022). First, incomplete documentation is prevalent, as Batang's informal MSMEs often lack NIB or SIUP, aligning with Nurhasanah et al. (2020) on funding access issues. An agricultural MSME owner reported a one-week delay to secure an SKU due to bureaucratic hurdles. Second, prolonged verification, particularly field surveys in remote areas, takes 2–3 days per client due to poor infrastructure. Third, low financial literacy causes misinterpretations of sharia contracts, with some MSMEs confusing *murabahah* terms with interest-based loans (Asmayaturrafaah & Hasan, 2023). For larger loans (above IDR 100 million), collateral

requirements (e.g., property certificates) reflect risk management but limit access, consistent with Saifurrahman & Kassim (2024) and Setiawan et al. (2023) on regulatory constraints in Islamic MSME financing. These findings add specificity to Batang's rural informal sector.

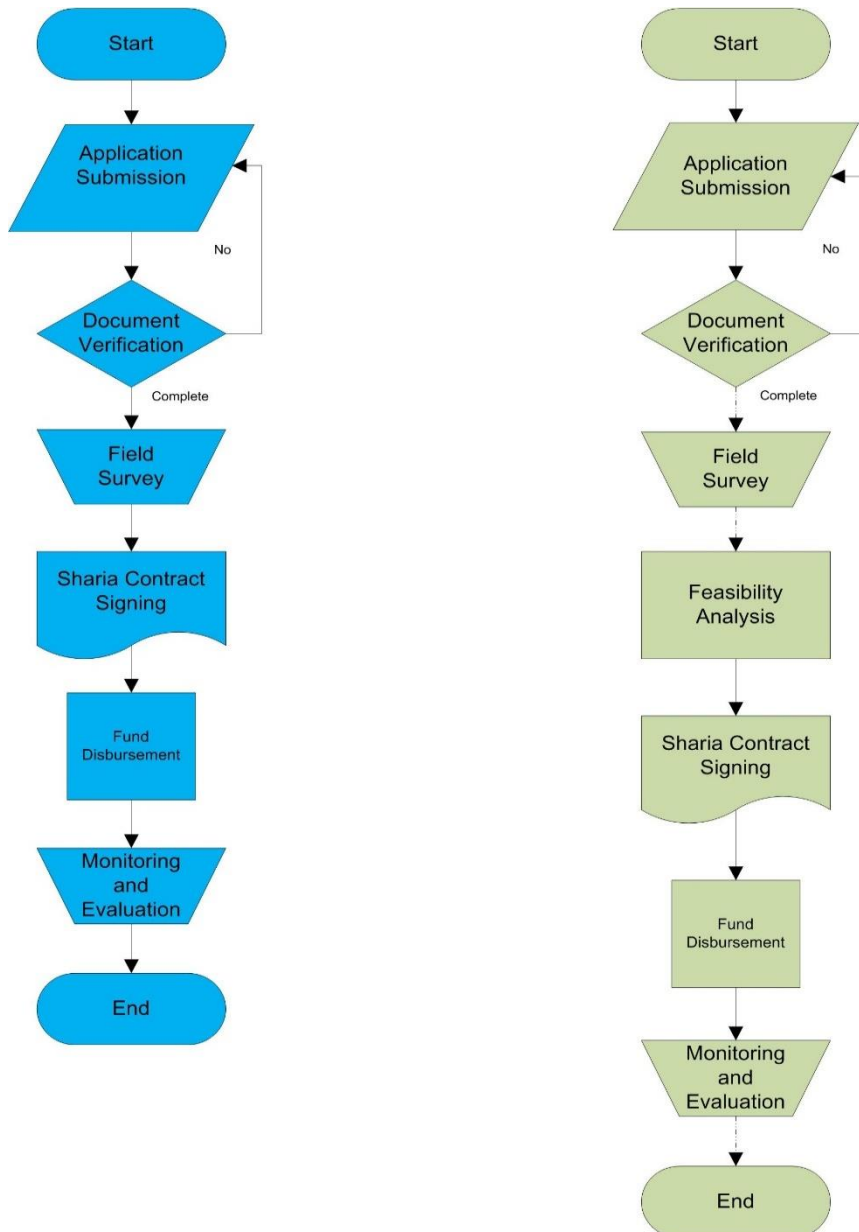
### **Impact on MSMEs in Batang Regency**

KUR financing boosts MSME productivity in Batang's agriculture and culinary sectors. A coffee producer doubled output (500 kg to 1,000 kg monthly) using a IDR 50 million loan for equipment, while a culinary MSME reported significant revenue growth after improving packaging. These outcomes support Azis & Azizah (2022) and Setiawan et al. (2023) on KUR's role in enhancing working capital and economic growth. However, limited post-disbursement mentoring leads to suboptimal fund use, with some MSMEs diverting funds to non-business expenses, aligning with Maslachah & Sopingi (2024) and Nurhasanah et al. (2020). Unlike urban-focused studies, this research highlights rural mentoring needs, contributing new insights to sharia financing impacts (Faizi & Yudhistira, 2023).

### **Theory vs. Practice: Bridging the Gap**

Antonio (2020) framework outlines a streamlined, inclusive sharia KUR disbursement process comprising application, document verification, field survey, contract signing, fund disbursement, and monitoring. However, practical implementation at BSI KCP Batang reveals notable deviations, particularly in rural contexts. As illustrated in Figure 1, while the core procedural stages remain consistent, field findings indicate additional steps such as feasibility analysis after field surveys, along with bottlenecks in document verification and limited post-disbursement mentoring. The diagram juxtaposes the ideal (blue) and actual (green) processes, with dashed arrows highlighting critical implementation barriers. These include delays in rural permit acquisition (e.g., NIB/SKU), prolonged field verification due to geographic constraints, and the absence of structured mentoring.

These findings are consistent with Saifurrahman & Kassim (2024), who emphasize regulatory constraints in Islamic microfinance; Setiawan et al. (2023) on limited MSME access in rural banking; and Wulandari & Setiyowati (2022) on delays caused by verification complexity. The absence of mentoring also confirms Afriyeni & Susanto's (2019) assertion that risk management in Islamic banks requires sustained post-financing support. This visual comparison underscores the gap between theoretical design and operational reality. Bridging this gap requires targeted interventions, including digitized verification systems, financial literacy training, and stronger local government collaboration, aligning implementation with national MSME development goals (Habriyanto et al., 2022; Kemenko Perekonomian, 2023).



**Figure 1.** Comparison of Ideal Sharia Financing Framework and Actual KUR Procedures at BSI KCP Batang

**Conclusion**

This study concludes that the sharia Kredit Usaha Rakyat (KUR) disbursement process at Bank Syariah Indonesia (BSI) KCP Batang follows a structured framework but faces challenges such as delayed document verification (e.g., SKU issues) and prolonged rural logistics. These barriers, coupled with low financial literacy and inadequate post-disbursement mentoring, limit access for informal MSMEs in Batang. Nevertheless, KUR

enhances productivity in agriculture and culinary sectors, as evidenced by increased coffee output and culinary revenue. The core issue is the gap between theoretical design and practical implementation, addressable through digital verification, financial literacy training, and local government collaboration. This research reinforces prior findings on regulatory barriers (Saifurrahman & Kassim, 2024) while contributing new insights on rural mentoring needs, supporting national financial inclusion goals (Kemenko Perekonomian, 2023).

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