II UZBEK-INDONESIAN JOINT INTERNATIONAL CONFERENCE

Economics And Management Towards Nation Character Development

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- Economic science, education and formation of human capital
- Social policy and labor market
- World economy and development of national economic system
- Financial system and financial and credit institutes

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“II Uzbek-Indonesian Joint International Conference”
Economics and Management Towards Nation Character Development
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          Gunadarma University (Indonesia)
FOREWORD

Dear participants of international conference!

On behalf of staff and students of the branch of Russian economic university after G.V. Plekhanov in Tashkent allow me to greet all the participants of the international conference and express gratitude to the rector of Gunadarma University professor E. Margianti for participation in this event.

Representatives of Indonesia have been to the Branch many times. A large-scale "Uzbekistan-Indonesia" culture forum was organized and held at our university. Regular meetings with students of our university is an indicator of importance of such events in deepening and developing bilateral cooperation between Uzbekistan and Indonesia in various areas, in particular in education sphere. These aspects were the basic theme of negotiations with the Branch authorities during the visit of Ambassador of Indonesia in Uzbekistan. During his visit Extraordinary and Plenipotentiary Ambassador of Indonesia in Uzbekistan Mr. Mohamad Asruchin made a report on the issues of economy development of Indonesia for the students of the Branch. It is very important for the university to expand outlook of our students. Meetings of such level, certainly, help to learn more about the country, its culture and history, and especially economy. During the meeting students of Branch asked the Ambassador of Indonesia a lot of different questions on education system, opportunity of training in universities of the country, organization of joint seminars, symposiums and discussions of projects and programs representing mutual interest and student's exchange programs as well.

The delegation of Gunadarma University headed by the rector of university prof. E. Margianti visited the Branch several times. Gunadarma University specializes in the sphere of information technologies. There are 1300 teachers in the University. The university has partner programs with universities of the USA, France, England and etc. University consists of twelve departments in the capital city Djakarta and it takes the fifth place according to the rating in Indonesia. Gunadarma University was founded in 1981 and successfully functions in the sphere of education and scientific and research works. During the meetings there also signed Cooperation agreement between Gunadarma University and the Branch of REU after G.V. Plekhanov in Tashkent.

The given agreement provides bilateral cooperation between two universities in sphere of carrying out the research works which represent a mutual interest, short-term exchange of teachers and scientists for implementing scientific researches, consultations promoting scientific personnel education, organization of joint seminars, symposiums and discussions of projects and programs representing a mutual interest and students' exchange as well.

Within the limits of the given agreement the delegation of the Branch of Russian economic university after G.V. Plekhanov in Tashkent visited Indonesia in October, 2011 and took part in the work of Uzbek-Indonesian joint international conference organized by Gunadarma University. Extraordinary and Plenipotentiary Ambassador of Uzbekistan in Indonesia in Uzbekistan Mr. Shakvat Djamanov took part and made a report at the conference.

While visiting Indonesia we admire this country and its hospitable people every time. Gunadarma University and its staff impressed us greatly; it is a great honor for us to be partners of one of the largest and well-known universities of Indonesia.

In 2012 Russian economic university celebrated its 105 anniversary from the date of its foundation. During its activity the University trained more 150 thousand highly qualified specialists, about 2300 specialists are from Tashkent Branch in the Tashkent Branch. They work successfully in Russia, Uzbekistan and in the countries of the near and far abroad. Achieving high results in various spheres of activities, the graduates of the University rank the leading positions in politics and economy, business and science, continue renowned teaching traditions at the universities of Russia and abroad. We do our best for our students to do well in studying.

At the University training is conducted on 22 educational programs of higher professional education, three sets of programs of additional professional education. We have made contracts on students’ exchange and cooperation on programs of double and triple diploma with the higher educational institutions of 17 countries of the far and near abroad. High level of education in our University is known far of Russia boundaries. For more than 105 years of its existence REU after G.V. Plekhanov has always been famous for its teaching staff. For the period of its functioning the Branch in Tashkent has steadily ranked the place on the market of educational services of the Republic of Uzbekistan. Hundreds of applicants annually compete for the right to study in our Branch.

On September, 21-22 In the Branch of Russian economic university after G.V. Plekhanov in Tashkent there conducted II Uzbek-Indonesian joint international conference Economics and Management Towards Nation Character Development jointly with Gunadarma University and with the support of Embassy of Indonesia in Uzbekistan. The collection of theses of participants' reports has been published on the basis of researches materials of leading and young scientists, who have perspective views on innovative development of national economy at the beginning of the conference. Conference, its total documents and recommendations become a practical basis of consolidation of our universities with the purpose of development of higher education.

I wish all the participants fruitful and constructive work.

Director of the Branch of “Russian Economic university after G.V. Plekhanov” in Tashkent,
Doctor of economic sciences, professor Kalandar Abdurakhmanov
FOREWORD

First of all, I am honourer and pleased to present my foreword for the Proceedings of "II Uzbek-Indonesian Joint International Conference on Economics and Management Towards Nation Character Development".

This conference was obviously became the culmination of the vision, dedication and the cooperation of Gunadarma University, Jakarta, Indonesia and Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan. The conference is planned to be held alternately in Indonesia and Uzbekistan in the time series. The first conference of October 18-19, 2011 has been organized in Jakarta, Indonesia is the first event in this plan series.

"II Uzbek-Indonesian Joint International Conference on Economics and Management Towards Nation Character Development" that will be held in Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan on September 21-22, 2012 as the next steps of the collaboration and cooperation as well others occasion in the future, I belif will bring us to be closer in some aspects.

In the first conference has been presented 38 papers which cover a broad spectrum topics of economics and management towards nation character development. These papers captured the spirit of the Conference and reflect its major focus and objectives. The articles provide an overview of critical research issues reflecting on past achievements and future challenges, while for the second conference, Gunadarma University will send a fullteam delegation of Economic Faculty included Rector, and Vice Rector IV of Collaboration and Cooperation, Dean of Economic Faculty, Head of Department and Center as well Head of Departments and senior researchers from Diponegoro University, Semarang to convey the research articles and paper covering many aspects of insightful, inspirational messages, scholarly analysis of critical policy, programs issues of economics and management as well as experienced-based notes for practice. I belif that can provided a significant contribution to the development of knowledge in this interested area.

In this special occasion, I’d like to take this opportunity to expressed my gratitudes and thanks to all people who made this first conference the success as it was. Firstly, allowed me to give my special appreciation and gratitude to leaders of Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan in their trust to Gunadarma University in building cooperation for mutual benefit. I took this opportunity to make a bal ance situation of inviting Rector of Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan, Prof Dr Abdurakhmanov K. Kh to become Honorary Profesor in Gunadarma University, Jakarta, Indonesia as well I was in Branch of Russian Economic University after G.V.Plekhanov in Tashkent.

I encourage the continuation and development of cooperation programs and services which serve to strengthen economics and management in both countries and the relationships between Branch of Russian Economic University after G.V.Plekhanov in Tashkent, Uzbekistan and Gunadarma University, Jakarta, Indonesia.

In this ocassion, please allowed me also to express my appreciation and gratitude to all of the organizing team including scientific committee, program chairs, session chairs, and others, for their commitment, effort and dedication in undertaking their own task to bring the success of this conference.

Finally, I owe our gratitude to all the conference participants for their contributions to the intellectual discourse during the conference and for the overall success of it. The conference would not have been successful without the support and active contribution from all participants.

As closing remarks, Let’s say thanks to the Lord Almighty God for all His blessing on us.

Prof. Dr. E.S. Margianti, S.E. MM
Rector of Gunadarma University
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PART I

We would like to acknowledge these following names for contributing their paper(s) in "II Uzbek-Indonesian Joint International Conference Economics and Management Towards Nation Character Development":

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Thank you for participating in our conference
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Analysis is based on data obtained by questionnaires with tabulation and processes them into data in graphical form, also making them easier to understand. Several of general information on two aspects in above will be obtained from tabulation and graph. Descriptive analysis will also use SWOT analysis to map the strengths, weaknesses, opportunities, and threats faced by banks with an analysis of managerial models at commercial banks that exist today. Further research is focused on the activity analysis, design, testing and implementation of research models to produce studies and new information on analyses as models of credit risk management study implemented in web application of electronic learning (e-learning) based on information technology.

Conclusion
V-Class of risk management is combination of learning content such as: text learning material, presentation impressions, video, forum, glossary, quisinonare and task for students. Basically, the previous observations of electronic learning implementation for creation web in risk management courses used case studies on commercial banks in Indonesia. Further discussion and coordination is conducted by Gunadarma University research which have activities to develop E-Learning methods. This research is conducted by informal interviews such as banking practitioners, academics, and IT experts in E-Learning methods. So generally interaction media makes independence’s students in completing assignments.

References
4. Tim Basel II, 2006, Kerangka Kecukupan Modal Untuk Risiko Operasional, Bank Indonesia, Jakarta

CONTRIBUTION OF RURAL BANKS TO THE INDONESIA'S ECONOMY: A PRELIMINARY INVESTIGATION

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Abstract
Rural banks are associated with micro, small, and medium enterprises lending and local community development. In Indonesia, the number of these enterprises and their contribution to nation's economy are of significance. The present study aimed at investigating the role of banks, particularly rural banks, in the Indonesia's economy. Time series data on the provincial economic growth (i.e., gross regional domestic products) and the rural banks growth indicators (i.e., number of banks, number of offices, third party funds, and assets growth) were used in this study. The data which were obtained from various sources—Central Bank of Indonesia and Statistics Indonesia in particular—were analyzed. Results of correlation analysis show that all indicators of rural banks growth closely related with economic growth indicator. This indicates that rural banks have the potential to play an important contribution to the country’s economic growth through its provincial economic development. Using multiple linear regression analysis to evaluate the potential influence of rural banks on regional economic growth, it is found that simultaneously regional economic growth is influenced by rural banks through their growth indicators. Partially, however, only one rural banks growth indicators that significantly influence economic growth namely number of rural banks. This preliminary study will further be followed by a more comprehensive study using regional (i.e., provincial) data with more appropriate statistical model.

Keywords: rural banks; economic growth; gross domestic product; fund disbursement; third party funds; number of banks; number of offices; assets growth.

Background to the Study
Historically, rural banks are closely related with micro, small, and medium enterprises lending and local community development (Hein et al., 2005). In Indonesia, in early 1900s, rural banks which were called employees banks (bank pegawai) and village banks (bank desa) was established. The primary objective was to help local government employees, especially clerks, and farmers solve their financial problems. Since 1960s through a number of legislation on banking industries, the existence and contribution of rural banks have been recognized (Karsidi, 2008).

Banking systems in Indonesia consist of two general classifications of banks namely commercial banks and rural banks. Currently, there are 120 commercials banks with approximately 15 thousands offices and more than 1600 rural banks with slightly more than 4000 offices (Indonesian Banking Statistics, 2012). However, based on their assets, third party funds, and funds disbursement, as shown in the table below, rural banks are very small compared with commercial banks.

In the last decade, rural banks experienced significant growth in terms of number of banks, number of offices, amount of funds disbursement, assets growth, and amount of third party funds collected. Since rural banks are closely associated with micro, small, and medium enterprises (Hein et al, 2005) and these enterprises play significant roles in the Indonesian economy (Ibrahim, 2003), it is assumed that rural banks have the potential to contribute to nation's economy.

Table 1. Commercial and rural banks comparisons

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Commercial Banks</th>
<th>Rural Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trillion IDR¹</td>
<td>Per cent</td>
</tr>
<tr>
<td>Assets</td>
<td>3,598.715</td>
<td>98.46</td>
</tr>
<tr>
<td>Third Party Funds</td>
<td>3,019.115</td>
<td>98.51</td>
</tr>
<tr>
<td>Funds Disbursement</td>
<td>3,363.904</td>
<td>98.42</td>
</tr>
</tbody>
</table>

Note: ¹ IDR= Indonesian Rupiah
Allen & Carletti (2008), state that banks perform at least five roles in the economy. These include: (i) ameliorating the information problems between investors and borrowers; (ii) providing inter-temporal smoothing of risk that cannot be diversified at a certain point in time; (iii) contributing to the growth of the economy; and (iv) performing a crucial role in corporate governance. In relation with rural or community banks, Hoenig (2003), argues that community banks hold, in facts, only a small share of the nation’s banking assets, however, they provide important financial services to some key sector of the economy. Not different from rural banking in Indonesia as stated by Ibrahim (2003), there are three types of customers who depend heavily on “relationship-banking” model that community banks provide: (i) small business; (ii) farmers; and (iii) depositors with low to moderate wealth (Hoenig, 2003).

Regarding the relationship between banks—as financial institution, rural banks in particular, and economic growth, Beck et al. (2000) stated that finance has a more important impact on growth through fostering productivity growth and resource allocation than through pure capital accumulation. In a more specific term, Beck (2012), referring to Klapper et al. (2006), Aghion et al. (2007), and Ayyagari et al. (2011), argues that the availability of external finance is closely associated with entrepreneurship, higher firm entry, and firm dynamism and innovations. Schumpeter in 1911 stated that financial intermediaries (i.e., banks) play a very crucial role in economic development because they choose which firms get to use society’s savings (Beck et al., 2000).

Accordingly, this preliminary study is aimed at investigating the role of rural bank in the nation’s economy, particularly through regional or provincial economic growth.

Research Methods

Secondary data, covering regional or provincial economic growth (i.e., gross regional domestic product), indicators of rural banks development (i.e., assets growth, number of banks, number of offices, and third party funds collected) from 26 provinces in the periods between 2004 and 2011, were used in this study. The data were obtained from various sources, including—in particular—Central Bank of Indonesia (i.e, Indonesian Banking Statistics) and Statistic Indonesia. Correlation and multiple linear regression analyses were performed to investigate the potential relationships between gross regional domestic product and rural banks development indicators.

Results and Discussions

Descriptive analysis

As mentioned earlier in this paper, rural banks in Indonesia in the last decade (i.e., between 2000-2011), have experienced significant development. This is indicated by number of banks and its offices, assets growth, amount of fund disbursement, amount of collected third party funds, financial performances (i.e.,

![Fig. 1. Growth of bank and associated offices numbers](image)

![Fig. 2. Growth of rural bank assets](image)

As shown in the figure, the number of offices relatively steadily increases in the last 10 to 11 year period. The number of banks, on the other hand, tends to decrease in the periods. However, it was offset by an increase number of banks with bigger assets.

As clearly depicted in the figure above, rural banks assets grow in a relatively spectacular manner. It grows from as low as 4.73 trillion IDR in 2000 to as high as 55 trillion IDR in 2011. It grew more than ten times during this period of time.

Growth in assets was followed by growth in the amount of fund disbursement. The amount of fund disbursement experienced a very fast growth in this period. Starting, in 2000, from only 4.34 billion IDR, it grew up to more than 30 trillion IDR. This indicates that economic contribution of rural bank on the nation’s economy significantly increases.

![Fig. 3. Growth in the amount of funds disbursement](image)

![Fig. 4. Growth in the amount of third party funds](image)
Growth in both assets and the amount of fund disbursement was directly and indirectly supported by significant growth in the amount of third party funds—the primary sources of fund for banks—either in term of time deposits or saving deposits. Figure 4 depicts clearly the steady increase of third party funds collected in the last decades. As indicated in the figure, the total third party funds increase more than 12 times from 3.08 billion IDR to 38.21 billion IDR.

![Fig. 5. Rural banks financial performance](image)

![Fig. 6. Growth in customer/account numbers](image)

LDR which indicates the rate of banks intermediaries function seems to be steady. It moves around its average value, i.e., 80.10 per cent. This is in line with the policy implied by Central Bank of Indonesia which states that LDR of bank in Indonesia should be no less than 80 per cent. NPL decreases from nearly 16 per cent to 5.22 per cent—a bit higher than the maximum rate of NPL allowed by Central Bank of Indonesia, i.e., 5.00 per cent. ROA and ROE are in the range, respectively, between 2.39 and 3.44 per cent and between 13.55 and 25.40 per cent, which can be assumed to be good.

Growth in number of customers or accounts either saving deposits, time deposits, or debtor is depicted in Figure 6. The figure clearly provides information regarding the number of individuals who are interested to become customers of rural banks. The majority of individuals are more interested in being rural banks saving deposits (81.77 per cent); followed by being rural banks debtors (31.94 per cent), and lastly being time deposit customers (4.29 per cent).

It can be concluded, based on data regarding number of banks and its offices, assets growth, amount of fund disbursement, amount of collected third party funds, financial performances (i.e., LDR, ROA, ROE, and NPL), and number of customers, that rural banks in Indonesia experienced a significant development in the last decade. The questions arise from this phenomena are that how its relationship with the nation’s economic development and do rural banks play an important role in nation’s economic development? Answer to these questions, at least for the time being, are described in sections which follow.

Inferential analysis: relationship between rural bank development and nation’s economic development

Figure 7 illustrates economic development of the nation’s which are represented by gross domestic product (GDP) parameters between 2000 and 2011.

![Fig. 7. Gross domestic product 2000-2011](image)

To evaluate relationship between rural banks and the nation’s economic development, as mentioned earlier in this paper, data on gross regional domestic product, number of rural banks and its associated offices, amount of third party funds collected, and asset growth from 26 provinces between 2004 to 2011 were used. It is important to mention that a relatively complete rural bank data were provided by Central Bank of Indonesia through its Indonesian Bank Statistics published in early 2005.

Relationships between provincial economic growth (i.e., GRDP) and rural banks growth indicators (i.e., BPR Number, Assets Growth, and Third Party Funds), using Pearson’s correlation analysis, are shown in Table 2.

<table>
<thead>
<tr>
<th>Economic Growth</th>
<th>BPR Number</th>
<th>Assets Growth</th>
<th>Third Party Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$r$</td>
<td>$\text{significance}$</td>
<td>$R$</td>
</tr>
<tr>
<td>GRDP</td>
<td>$0.593$</td>
<td>$\text{hs}^2$</td>
<td>$0.557$</td>
</tr>
</tbody>
</table>

Notes: $^1$GRDP: gross regional domestic product; $^2$hs: significant at the 0.01 level.

As depicted in the table above, all rural banks development indicators have a relatively strong significant relationship with provincial economic growth which is represented by gross regional domestic product. This suggests that rural banks tend to have contribution to the nation’s economic development. To evaluate contribution of rural banks to the nation’s economy, in this preliminary study, multiple linear regression analysis was performed. Hypotheses that will be tested were that rural banks affect, through their development indicators, the nation’s economy represented by gross regional domestic product. Results of the analysis, which include model summary, analysis of variance (ANOVA), and regression coefficients, are presented in table which follows.
Referring to the F-test result, which is significant at 0.01 levels, it is concluded that provincial or regional economic growth (i.e., GRDP) is affected by rural banks development (i.e., number of bank and its offices, assets, fund disbursement, third party fund, and number of customers). Rural banks are closely related with regional economic development. Moreover, although it requires more comprehensive investigation, contribution of rural banks to nation’s economy cannot be ignored.

It suggested, accordingly, that the government, through monetary and fiscal institutions (i.e., Central Bank of Indonesia and Ministry of Finance), should pay more attention to rural banks.

**References**


<table>
<thead>
<tr>
<th>Variables</th>
<th>Regression Coefficients</th>
<th>t</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ustd¹</td>
<td>Std²</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>39.57</td>
<td>6.607</td>
<td>0.000</td>
</tr>
<tr>
<td>BPR Number</td>
<td>1.58</td>
<td>0.44</td>
<td>3.676</td>
</tr>
<tr>
<td>Assets Growth</td>
<td>0.011</td>
<td>0.22</td>
<td>1.409</td>
</tr>
<tr>
<td>Third Party Funds</td>
<td>-0.003</td>
<td>-0.05</td>
<td>-0.478</td>
</tr>
<tr>
<td>R-square:</td>
<td>0.359</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-test:</td>
<td>33.276 (significant at 0.01 level)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: ¹Ustd: unstandardized; ²Std: standardized

![Table 3. Regression coefficients of causal relationships between GRDP and rural banks development indicators](attachment:table.png)