

## DISTRIBUTION OF PEOPLE'S BUSINESS CREDIT (KUR) IN INDONESIA: IDENTIFYING MISTARGETING PHENOMENA DUE TO ADVERSE SELECTION

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**Abstract:** The People's Business Credit (KUR) is a subsidized financing instrument initiated by the Indonesian government aimed at increasing access to capital for eligible but unbankable entrepreneurs. However, in practice, the distribution of KUR still faces targeting challenges due to adverse selection, which arises from information asymmetry among the government, financial institutions, and borrowers. This study aims to identify the presence of adverse selection in KUR distribution across Indonesia, which potentially leads to mistargeting in the subsidized credit market. The study utilizes data from the March 2024 National Socio-Economic Survey (SUSENAS) with a total sample of 65,535 households. The analysis employs binary logistic regression, simultaneous testing, partial testing, and marginal effect estimation. Data collection was conducted using a non-participant observation technique. The results indicate that all research variables—business ownership, region, savings account ownership, asset ownership, main income source, and occupation—simultaneously have a significant effect on the probability of a household becoming a KUR recipient. The findings also reveal that access to KUR, particularly for micro and small enterprises (MSEs), remains limited despite being the primary target of the program. Furthermore, the presence of adverse selection is identified, wherein households with existing assets are more likely to obtain KUR financing. This highlights the need for policy reforms in the KUR distribution mechanism to ensure that eligible productive businesses without additional collateral can access financing in a fair and inclusive manner across all regions of Indonesia.

**Keywords:** People's Business Credit (KUR), business ownership, region, savings account, assets, main income source, occupation

## INTRODUCTION

Poverty is a challenge to development and a global issue, particularly in developing countries like Indonesia. One of the government's policies to improve public welfare is through the development of the micro, small, and medium enterprise (MSME) sector, which is a crucial pillar of the national economy due to its enormous potential and contribution. According to data from the Ministry of Cooperatives and SMEs in 2023, MSMEs contributed approximately 61 percent to gross domestic product (GDP), with a value reaching IDR 9,580 trillion. Furthermore, MSMEs are also a major provider of employment, with a national workforce absorption rate reaching 97 percent of the total workforce in Indonesia. (Ministry of Cooperatives and SMEs, 2024) This proves that MSMEs are a key factor in supporting the economy and creating jobs in Indonesia. However, the majority of MSMEs are run by individuals or lower-middle-class households, either as a primary or supplementary source of income. (Adha, 2023) This is in line with data from the Indonesian Ministry of Cooperatives and SMEs, which states that by 2024

there will be around 65 million business units operating in Indonesia, 99.6 percent of which are micro-enterprises.(T. Wulandari et al., 2024).

When running a business, particularly in the MSME sector, capital is often a major challenge for business owners, particularly when it comes to working capital and investment. This lack of capital can lead to low returns for MSMEs. Additional external capital can increase revenue, enabling their businesses to thrive.(Adju et al., 2023)Capital is an important factor in production, which means that capital will greatly influence the growth and development of a business. When the capital used is small, the products produced will also be small, and likewise, if the capital used is large, it will not rule out the possibility that the number of products produced will also be large.(Najoan, 2022).

To address the primary challenge facing MSMEs, namely capital, access to loans or capital credit is a crucial solution for increasing production capacity and ultimately boosting MSME income. However, the challenge facing the poor, particularly start-ups, is the continued difficulty in accessing financing from financial institutions.(Fadilla and Zahid, 2023)The government is aware of the various obstacles faced by MSMEs, especially access to business capital. One of the steps taken is through financing for micro and small businesses.(Aristanto, 2019). Therefore, in 1945, the Indonesian government began issuing a policy in the form of a microcredit program specifically for lower-middle-class communities to advance their businesses. Microcredit is a form of microfinance service intended for lower-middle-class communities who do not have assets to serve as collateral. The goal is to provide inclusive financing access to conventional financial institutions and to fund small businesses that can generate income to improve the living conditions of borrowers.(Kaicer et al., 2024)In this case, financial institutions face two theoretically conflicting goals, known as the double bottom line or dual mission, namely providing access to financial services to lower-middle class communities and achieving financial sustainability of financial institutions.(Blanco-Oliver et al., 2023).

In 1984, the Mini Credit and Midi Credit schemes were launched, funded by excess liquidity from Bank Indonesia. In the same year, the government, through Presidential Decree No. 29 of 1984, launched a non-agricultural microcredit program funded by the state budget (APBN). These programs included the Small Industry Credit (KIK) and Permanent Working Capital Credit (KMKP) schemes. The Small Investment Credit (KIK) scheme was implemented in 1984 and was discontinued in 1999 due to high non-performing loans. Furthermore, the Permanent Working Capital Credit (KMKP) was also discontinued in 1999 due to the same problem, namely the high non-performing loan rate at that time. The high non-performing loan rates in the KIK and KMKP programs resulted in losses of approximately Rp800 billion for the Indonesian Credit Insurance Company (ASKRINDO), which covered 75 percent of the loan risk.(Sandoko et al., 1995). In addition, the Candak Kulak Credit (KCK) scheme was also issued since 1972 to help provide additional capital for small traders through KUD, but was also discontinued in 1984. The implications are the same as the Bimas credit program, the mini credit program, midi credit, KIK, KMKP and KCK were discontinued due to facing the problem of high bad debt rates.

In 2000, because Law No. 23 of 1999 prohibited Bank Indonesia from using liquidity for credit distribution, the KUT program was discontinued. As a replacement, the government launched the Food Security Credit (KKP) program in 2000. The primary reason for the low absorption of KKP was the persistently high KUT arrears, despite the

fact that KUT repayment is a prerequisite for KKP applications. Another factor was farmers' limited ability to meet credit collateral requirements. On the other hand, banks also tended to be cautious and less than optimal in disbursing credit because they used their own funds, and they still had concerns due to the experience of bad loans in previous KUT programs. Furthermore, agricultural businesses were still considered high-risk by banks.(Hastuti et al., 2002).

Various problems with previous credit programs prompted the government to design new policies to increase access to capital for small businesses. In November 2007, the government implemented a credit program known as the People's Business Credit (KUR) for MSMEs.(Aristanto, 2019). KUR is a government program, but all the funds come entirely from bank funds.(Findi et al., 2024). KUR was launched in 2007 with a guarantee service fee (IJP) scheme, where the risk of bad credit/non-performing loans (NPL) is borne jointly by the government (70 percent) and the implementing bank (30 percent).(Syahrir et al., 2016). KUR is a credit or financing for MSMEs in the form of providing working capital and investment supported by guarantee facilities for productive and feasible businesses but has limitations in fulfilling the requirements set by banks, especially collateral.(Pratama and Fernos, 2019). So, the KUR program aims to improve and expand access to financing for unbankable MSMEs.

Non-profit financial institutions such as microcredit often conflict with financial sufficiency and poverty reduction, because financial institutions, especially banks, are organized as profit-oriented companies and regulated by state financial authorities, and some of their funds come from commercial sources, so that the provision of credit will prioritize individuals who are more financially stable.(Cao-Alvira and Deidda, 2020)In the credit distribution process, financial institutions naturally strive to minimize the risk of non-performing loans. A prospective borrower's asset ownership is a crucial indicator for banks and influences whether or not a loan can be disbursed. When borrowers are aware that collateral is a requirement in the credit process, they can assess whether they are bankable.(Meidiyustiani et al., 2019)However, issues such as the inability to provide additional collateral are one of the challenges faced by MSMEs in accessing credit. Naturally, the greater the assets a debtor possesses, the easier it is for them to access credit.

The government has launched numerous programs, but they haven't reached the lower-middle class. The government allocates substantial subsidy spending in the state budget, but it's misdirected, flowing to the upper-middle and upper classes.(Syahrir et al., 2016). Similar to the KUR program, although its goal is to provide financing access to MSMEs with the potential to grow, its implementation often suffers from misdirected targeting.

In a report published by Detik Finance (2023), the Minister of Cooperatives and SMEs stated that the KUR program still faces problems in terms of distribution that is not on target.(Arini, 2023)The Deputy for Micro Enterprises at the Ministry of Cooperatives and SMEs stated that based on the monitoring and evaluation survey conducted by the Ministry of Cooperatives and SMEs in August-October 2023 in 23 provinces, several violations were found. The monitoring and evaluation survey involved 1,047 debtors and 182 KUR (People's Business Credit) distribution branches, with the majority of respondents being KUR Micro and KUR Super Micro debtors with credit limits of less than IDR 100,000,000.00. It was stated that KUR distribution in the field was not 100 percent in accordance with existing regulations and distribution guidelines, and there

were still findings of violations by KUR distributing banks. There are several findings found in the field, namely: first, there are 144 debtors or 16.1 percent of KUR micro and KUR super micro with a ceiling of up to IDR 100,000,000.00 subject to additional collateral, the use of KUR by 93 percent is allocated for working capital, 6 percent is used for investment, and 1 percent is used for other purposes such as renovating a house, buying a vehicle, and others. Then, there are 2 debtors (0.2 percent) who are civil servants (teachers and civil servants of the Education Office). There are 4 percent of KUR distributions are KUR recipients who are currently receiving commercial credit (switching). Furthermore, Small KUR with a ceiling above Rp100,000,000.00 to Rp500,000,000.00 is subject to unreasonable additional collateral, which exceeds the amount of the contract received, and there are 32 Small KUR debtors with a ceiling close to the upper limit of the Micro KUR ceiling with a range of Rp100,000,000.00 to Rp110,000,000.00 so that they can be subject to additional collateral by the KUR distributor. In addition, a small number of additional costs such as administration fees and insurance fees were still found.(Tempo.co, 2023)

These phenomena reflect the existence of information asymmetry in the form of adverse selection. Information asymmetry is a condition that indicates an imbalance in information between the agent and the principal.(Riandani and Rahmawati, 2019)According to Nanyar (1990), information asymmetry between the principal and agent will trigger opportunistic behavior, namely adverse selection (non-transparent information) from the agent. Therefore, based on the above phenomenon, adverse selection in KUR distribution occurs when more credit is allocated to parties deemed to meet certain criteria. As a result, market failure occurs, characterized by the fact that many MSMEs still have not gained access to financing credit, even though such credit has the potential to support their business development. Information asymmetry in KUR distribution occurs between the government and debtors. This occurs because the government only acts as a subsidy provider and guarantor.(Subianto et al., 2020)This, of course, creates the problem of adverse selection because the government lacks comprehensive information about who truly needs KUR, which can lead to inaccuracies in credit distribution.

In practice, all funds disbursed through the KUR scheme come entirely from KUR disbursing institutions, most of which are banking institutions. Therefore, the principle of prudence in KUR disbursement to prospective customers is a primary reference for banks, ultimately triggering credit rationing practices to limit the risk of non-performing loans.(Wahyuni et al., 2021)This occurs because implementing banks, as providers of funds, are naturally aware of the risk of default, thus maintaining high prudence in disbursing their credit. Distrust of financial institutions toward the poor is a barrier to their access to credit. Banks and financial institutions convey this distrust through actions such as demanding excessive collateral, requiring large amounts of savings, and charging high interest rates.(Ilham et al., 2022). Collateral requirements are ineffective when implemented in developing countries because many people in some developing countries, including Indonesia, lack collateral that meets bank requirements. MSMEs cannot access credit and often face rejection in accessing financing from financial institutions, partly due to their inability to provide collateral (guarantees) to submit to banks.(V. Wulandari et al., 2024). Furthermore, the trend of rising bank interest rates also makes it increasingly difficult for MSMEs with limited economic capacity to repay their

debts, making the availability of subsidized credit such as the People's Business Credit (KUR) crucial to maintaining financing affordability for them.(Cahya et al., 2021).

In Indonesia, MSMEs are still not optimal in accessing capital because they are not yet bankable and can be at risk of non-smooth credit payments which will have an impact on the health of the banking sector. Therefore, banks are sometimes reluctant to distribute their credit because banks must be selective in choosing debtors and there are also limits on non-performing loans or NPLs set by the OJK.(Hidayat, 2024)In distributing KUR, both banking and non-banking financial institutions are needed to foster economic growth for businesses. However, the lack of additional collateral poses a concern that could increase the risk of non-performing loans (NPLs) for banking institutions. Limited access to collateral can increase the uncertainty of loan repayment, as unsecured borrowers are often perceived as higher risk by lenders.(Ahlin et al., 2020). Because of this, it will certainly lead to weaknesses in the KUR distribution scheme, namely that KUR distribution will be largely directed to bankable customers because the selection of prospective KUR customers is the authority of the implementing bank.

The relationship between banks and customers plays a crucial role in accessing bank credit. Account ownership, such as savings, checking, and time deposits, reflects a customer's financial activity, which can influence a bank's decision to grant credit.(Sudjarwo, 2017)Customers who actively deposit funds with a bank have a greater chance of receiving credit offers, especially for businesses with more than one account. A stable and consistent transaction pattern indicates sound financial management, making banks more likely to provide trust in lending.

Employment can influence a person's access to credit, as employment status is closely linked to financial stability and the ability to meet loan obligations. Permanent or formal employment often provides a greater sense of financial security, as a steady and guaranteed income allows individuals to better plan their finances.(Kurnia et al., 2023)This makes them more confident in taking out loans, as banks or financial institutions view them as borrowers capable of repaying their obligations. Conversely, informal workers, who frequently face income fluctuations, may feel the need to seek loans to cover their financial uncertainties.(Imtihan and Jatmiko, 2024)However, a job with a steady income certainly makes it easier to meet loan obligations, as this income stability is considered a factor that facilitates repayment.

Source of income refers to how a person earns their income. A stable source of income can certainly improve an individual's ability to meet loan obligations, making them more likely to apply for a loan when needed. Conversely, individuals with unstable sources of income face a higher risk of being unable to repay their loans.(Nasution et al., 2024)Income stability significantly impacts a person's access to credit. Financial institutions are more likely to lend to individuals with a steady and predictable income, as they are perceived as more capable of meeting repayment obligations. Meanwhile, unstable income sources can be a barrier to accessing credit, as banks will consider the potential risk of a borrower's inability to repay the loan. Therefore, consistent and reliable income is a crucial factor in increasing a person's likelihood of accessing credit. Employment status and income sources can therefore play a significant role in facilitating credit access, as banks tend to place more trust in customers with stable and predictable income.

Based on the aforementioned problems, it is clear that the implementation of the KUR (People's Business Credit) still faces various challenges in achieving targeted

accuracy. This phenomenon indicates a gap between the program's initial objectives and its implementation in the field, influenced by information asymmetry between the government as guarantor, financial institutions as distributors and providers of funds, or with debtors. This creates problems caused by adverse selection and results in many MSMEs being unable to access microcredit. This portrait of problems underlies this study to further explore and evaluate the KUR distribution mechanism in Indonesia, which will impact the opportunities for unbankable MSMEs to access capital. Therefore, the results of this study are expected to provide strategic recommendations to improve the effectiveness of the KUR program, particularly in ensuring the accuracy of fund distribution targets.

## METHOD

This study adopts a quantitative approach using a causal associative method to analyze how various household characteristics influence the probability of receiving People's Business Credit (KUR). The research seeks to uncover whether adverse selection occurs in KUR distribution—specifically, whether the program truly targets productive entrepreneurs or misses its intended beneficiaries. Using data from the nationally representative National Socio-Economic Survey (SUSENAS), the study examines variables such as business ownership, region, occupation, primary income source, asset ownership (house, land, savings account), and housing characteristics (floor area, ownership of other houses). Secondary quantitative and qualitative data from Statistics Indonesia (BPS) are utilized, with logistic regression as the main analytical technique. Likelihood ratio tests and z-statistics evaluate the simultaneous and partial effects of independent variables, while marginal effect analysis assesses the extent to which each factor influences KUR access. This comprehensive analysis helps clarify how effectively the KUR program reaches micro and small business actors and highlights key factors driving credit accessibility in Indonesia.

## RESULTS AND DISCUSSION

### Inferential Analysis of Research Data

#### Logit Regression Analysis Results

**Table 1. Results of Logit Regression Analysis**

Variables	Analysis Model 1 (All RT)	Analysis Model 2 (Businessmen)	Analysis Model 3 (Non- Business Actors)
Business	.4923292*** (.0297935)	- -	- -
Region	-.2866487*** (.0320075)	-.2243584*** (.0560798)	-.3168037*** (.0390684)
Source of Income	-	-	-
Work	0	0	0
Submission	-1.377739***	-.8050988***	-1.647769***

	(.135347)	(.0560798)	(.176832)
Investment	0	0	0
Retired	-1.096385*** (.1882659)	-2.426137** (.7154966)	-.8620648*** (.195692)
Work Sector	-	-	-
Doesn't work	0	0	0
S. Agriculture	-.3422409*** (.0372251)	-.475672*** (.0665245)	-.2799331*** (.0448598)
S. Manufacturing	-.1280852** (.0559825)	-.101784 (.0953605)	-.1469915** (.0694139)
S. Services	-.1190751*** (.0384006)	-.2269572*** (.0664927)	-.0663854 (.0470729)
Savings Account	.5233002*** (.0300178)	.5790305*** (.0531293)	.497458*** (.0364422)
Land	.4089014*** (.0487844)	.5867261*** (.0962885)	.3440538*** (.0567416)
House	-	-	-
One's own	0	0	0
Contract/Lease	.0687403 (.106978)	.0564002 (.2127686)	.0739924 (.1238666)
Rent Free	.035753 (.0630633)	.0577673 (.1198323)	.0235538 (.0742806)
Service	-.9986188*** (.2096337)	.1328323 (.3601221)	-1.339847*** (.2635026)
Other	0	0	0
Floor Area	.0020504*** (.0002561)	.0023265*** (.0004339)	.0019187*** (.0003188)
Another House	.0802642 (.0492768)	.1307126 (.0837123)	.0608814 (.0611354)
PseudoR <sup>2</sup>	0.0290	0.0256	0.0213
Number of Observations	65,472	15,269	50,203
LRchi <sup>2</sup>	1148.46***	296.72***	589.05***

Source: data attached to the author's thesis, 2025 (processed data)

Information:

\*\*\* = p<0.01

\*\* = p<0.05

\* = p<0.1

### Hypothesis Testing

The results of the simultaneous test using the likelihood ratio (LR) test show that the set of independent variables—business ownership, region, main income source, occupation, ownership of savings accounts, land, housing, floor area, and other properties—have a statistically significant influence on the probability of a household receiving KUR in Indonesia (LR chi<sup>2</sup> = 1148.46; p < 0.05). This finding confirms that at least one of these variables significantly contributes to determining access to subsidized

credit. Partial tests further reveal that variables such as business ownership, savings account ownership, land ownership, housing floor area, and employment in agriculture, manufacturing, and service sectors significantly and positively affect the likelihood of receiving KUR. Conversely, the regional variable shows a significant but negative influence, indicating regional disparities in access. Similarly, income from remittances and pensions is found to significantly influence credit access, while renting or living in government housing does not appear to have a significant negative effect.

Several household asset-related indicators were also tested for their influence. Although land ownership and housing floor area had a significant positive effect, owning additional homes did not significantly influence credit access. Moreover, households living rent-free or in rented homes showed no significant negative effect, contrary to initial assumptions. These findings suggest the persistence of an asset-based bias in KUR distribution, reinforcing the existence of adverse selection. While intended to support unbankable micro-enterprises, the program tends to favor those with stronger financial profiles. This highlights the urgency of refining targeting mechanisms to ensure more inclusive and equitable access to subsidized credit programs across diverse household profiles in Indonesia.

### **Analysis Model 2**

The results of the simultaneous test using the likelihood ratio test (LR  $\chi^2 = 296.72$ ;  $p < 0.05$ ) indicate that, collectively, the variables of region, main source of income, type of employment, ownership of savings accounts, land ownership, home ownership status, floor area of the house, and ownership of additional houses significantly influence the probability of business households receiving KUR in Indonesia. Partial tests reveal that the region variable has a significant negative effect, while remittances and pensions as the main income source, employment in the agricultural and service sectors, as well as ownership of savings accounts, land, and larger house floor areas, significantly and positively affect the likelihood of receiving KUR. In contrast, employment in the manufacturing sector, rental or government-provided housing, rent-free housing, and ownership of other houses do not show a significant effect. These findings suggest that although KUR is intended to support productive business actors, its distribution is still influenced by socio-economic conditions, asset ownership, employment characteristics, and regional disparities, highlighting the need for policy improvements to ensure a more equitable and well-targeted allocation of KUR financing.

### **Analysis Model 3**

The results of the simultaneous test using the likelihood ratio method (LR  $\chi^2 = 589.05$ ,  $p < 0.05$ ,  $df = 13$ ) indicate that at least one of the independent variables—namely region, primary source of income, employment, ownership of a savings account, land ownership, housing status, house floor area, or ownership of another house—significantly influences the probability of non-business households receiving KUR in Indonesia. Partial tests show that the region variable has a significant negative effect, while income from remittances and pensions, employment in agriculture and



manufacturing sectors, ownership of savings accounts and land, and larger house floor area significantly increase the likelihood of receiving KUR. However, employment in the service sector, ownership of rental or rent-free homes, or other houses does not significantly influence the probability of KUR receipt. Interestingly, ownership of government-provided housing shows a significant negative influence. These findings suggest that socio-economic and asset-related factors still play a key role in determining access to KUR, even among non-business households, raising concerns about the accuracy of targeting and the inclusiveness of current financing policies.

### Calculation of Marginal Effect Value

**Table 2. Marginal Effect After Logit**

Variables	Analysis Model 1	Analysis Model 2	Analysis Model 3
Business	.039555*** (.0024086)	- -	- -
Region	-.0230301*** (.0025769)	-.0243285*** (.0060825)	-.0227201*** (.0028113)
Source of Income	-	-	-
Work Submission	0 -.0674706*** (.0035275)	0 -.0664425*** (.0126859)***	0 -.0648938*** (.003195)
Investment Retired	0 -.059506*** (.0061486)	0 -.1161525*** (.0096928)	0 -.0454078*** (.0069424)
Work Sector Doesn't work	- 0	- 0	- 0
S. Agriculture	-.026261*** (.0027246)	-.0493693*** (.0065591)	-.0192118*** (.0029499)
S. Manufacturing	-.0106773*** (.0044992)	-.0120367 (.0110055)	-.0106443*** (.0048051)
S. Services	-.0099609** (.0031538)	-.0257022*** (.0073424)	-.0049667 (.003481)
Savings Account	.0420433*** (.0024303)	.0627876*** (.0057723)	.035676*** (.002638)
Land	.0328522*** (.0039282)	.0636221*** (.0104573)	.0246744*** (.0040779)
House One's own	- 0	- 0	- 0
Contract/Lease	.0056956 (.0090937)	.0062214 (.0239267)	.0055103 (.0094915)
Rent Free	.002924 (.0052214)	.0063753 (.0134699)	.001718 (.0054635)
Service	-.0545577*** (.007237)	.0150568 (.0427205)	-.0570542*** (.0058474)
Other	0	0	0
Floor Area	.0001647***	.0002523***	.0001376***

		(.0000206)	(.000047)	(.0000229)
Another House		.0064486	.0141739	.0043662
		(.0039593)	(.0090776)	(.0043846)
Number of Observations	65,472	15,269	50,203	

Source: data attached to the author's thesis, 2025 (processed data)

Information:

\*\*\* =  $p < 0.01$

\*\* =  $p < 0.05$

\* =  $p < 0.1$

### **Analysis Model 1**

In Model 1, business ownership increases the likelihood of receiving KUR by 3.96%, while households in urban areas are 2.30% less likely to receive it than those in rural areas. Compared to households whose primary income comes from employment, those relying on remittances and pensions are 6.75% and 5.95% less likely, respectively, to receive KUR. Employment in agriculture, manufacturing, and services also reduces the probability of receiving KUR by 2.63%, 1.07%, and 1.00%, respectively, when compared to unemployed households. Conversely, having a savings account increases KUR access probability by 4.20%, and owning land adds 3.29%. Regarding housing, government-provided housing reduces KUR probability by 5.46% compared to self-owned homes, while rental and free-use housing show small positive but statistically insignificant effects. The floor area of a home has a minimal positive impact (0.017% per square meter), and ownership of an additional house slightly increases the probability by 0.64%, though this effect is also not statistically significant. Overall, asset ownership especially land, a savings account, and self-owned housing plays a stronger role than employment status in determining access to KUR.

### **Analysis Model 2**

In Model Analysis 2 (households engaged in business), households located in urban areas have a 2.43% lower probability of receiving KUR compared to those in rural areas. Households whose main sources of income come from remittances and pensions also show lower probabilities—by 6.64% and 11.62%, respectively—compared to those whose income comes from employment. Employment in the agricultural, manufacturing, and service sectors reduces the probability by 4.94%, 1.20% (not statistically significant), and 2.57%, respectively. Conversely, owning a savings account and land increases the probability of receiving KUR by 6.28% and 6.36%. Living in a rented house, a house free of rent, or official housing slightly increases the probability (by 0.62%, 0.64%, and 1.51%, respectively), though these effects are not statistically significant. House floor area and ownership of other houses also have a marginal positive impact. In Model Analysis 3 (households not engaged in business), urban residence decreases the probability of receiving KUR by 2.27%, while income from remittances and pensions reduces it by 6.49% and 4.54%, respectively. Jobs in the agricultural, manufacturing, and service sectors lower the probability by 1.92%, 1.06%, and 0.50% (the last being not statistically significant). Ownership of a savings account and land increases the probability by 3.57% and 2.47%, respectively. Regarding homeownership status, living in official housing reduces the probability by 5.71%, while renting, free rent, or owning another house has a minor, statistically insignificant positive effect. House floor area also shows a minimal positive

impact of 0.01%. Overall, these findings highlight that asset ownership (such as savings accounts and land) plays a more significant role in enhancing access to KUR compared to employment or residential location variables, both for business and non-business households.

### **Analysis Model 3**

In Model Analysis 3, non-business households living in urban areas have a 2.27% lower probability of receiving KUR compared to those in rural areas. Households whose main income comes from remittances or pensions are also less likely to receive KUR, by 6.49% and 4.54% respectively, compared to those with employment as their main income source. Employment in agriculture, manufacturing, and services decreases the probability by 1.92%, 1.06%, and 0.50%, with the latter not statistically significant. In contrast, owning a savings account and land increases the probability by 3.57% and 2.47%. Households living in rented, rent-free, or official housing experience slight increases in probability (0.55%, 0.17%, and -5.71% respectively), but most are statistically insignificant except official housing, which significantly decreases the chance. Larger floor area and ownership of an additional house slightly raise the probability (0.01% and 0.44%), though these effects are also not statistically significant.

### **Discussion of Research Results**

This study aims to address the central research question regarding the existence of adverse selection in the distribution of KUR (People's Business Credit). Based on the data, only 32.85% of KUR recipients were recorded as business owners, while the remaining 67.15% were not identified as micro or small business actors. This raises concerns about whether this group truly operates a business or is not engaged in any entrepreneurial activity at all. Regression analysis reveals that business ownership has a positive and significant effect on the probability of receiving KUR. However, out of 15,278 households that owned a business, only 12.65% accessed KUR, indicating that the program has yet to reach a large portion of its intended target micro and small entrepreneurs.

Further findings reveal that rural households are more likely to receive KUR compared to those in urban areas, despite better financial infrastructure in cities. Additionally, households relying on remittances or pensions, as well as those working in agriculture, manufacturing, or services, tend to have a lower likelihood of receiving KUR than unemployed households. This pattern suggests an imbalance in the recipient selection process, which may emphasize asset ownership or other factors over employment or business activity. These findings indicate the presence of adverse selection in the implementation of this subsidized financing program, potentially diverting benefits away from its true target groups.

**Table 3. Tabulation of Sample Land or Land Ownership with Household Occupation**

Job Sector	Land or Soil		
	n	%	Total
Doesn't work	28,230	50.71	33,685
S. Agriculture	13,228	23.76	14,961

S. Manufacturing	3,746	6.73	4,442
S. Services	10,464	18.80	12,447
Total	55,668	100.00	65,535

Source: data attached to the author's thesis, 2025 (processed data)

Based on table 3, the tabulation of land ownership by employment sector shows that of the total 55,668 households that own fixed assets in the form of land, the majority come from the group of unemployed households, namely 50.71 percent or 28,230 households. Meanwhile, households working in the agricultural sector were recorded at 23.76 percent or 13,228 households, followed by the service sector at 18.80 percent or 10,464 households, and the manufacturing sector at 6.73 percent or 3,746 households. This finding indicates that ownership of fixed assets in the form of land is actually more owned by households that do not have a main job.

**Table 4. Sample Tabulation of Owned Home Ownership by Household Work**

Job Sector	Own Home		
	n	%	Total
Doesn't work	30,099	50.95	33,685
S. Agriculture	14,014	23.72	14,961
S. Manufacturing	4,003	6.78	4,442
S. Services	10,963	18.56	12,447
Total	59,079	100.00	65,535

Source: data attached to the author's thesis, 2025 (processed data)

Based on tabulated data, the majority of households that own their homes are those without primary employment. This finding suggests that fixed assets such as home and land ownership are more concentrated among non-working households. Ironically, the KUR program—intended to support productive business actors appears more accessible to households that are not actively working but have fixed assets. In contrast, households employed in the agricultural, service, and manufacturing sectors show lower rates of homeownership, indicating a structural mismatch between the program's target and its actual beneficiaries.

Moreover, ownership of a savings account is shown to be a significant factor in improving household access to KUR. However, most business-owning households still lack savings accounts, limiting their ability to connect with formal financial systems that facilitate access to affordable credit. Additionally, asset-related variables such as owning a home, having a larger house floor area, and owning land consistently show positive and significant effects on KUR access. Meanwhile, renting, free housing, or government-provided housing do not significantly contribute to eligibility, as these are not considered fixed assets suitable for collateral.

These findings provide strong evidence of adverse selection in the distribution of KUR. Although the program is designed to reach unbankable but productive business owners, in practice, access is often granted to households with substantial assets. As a result, many micro and small business owners—who truly need subsidized financing—remain underserved. This gap reveals a disconnect between policy design and

implementation, and indicates that market mechanisms alone fail to allocate credit resources efficiently and equitably, thereby undermining the overall goal of improving social welfare through inclusive financial access.

## CONCLUSION

Based on the results of the analysis described in the previous chapter, the following conclusions can be drawn:

1. All variables in the regression model simultaneously have a significant effect on the probability of households receiving KUR.
2. Access for business actors, especially MSMEs, to KUR is still limited even though they are the main target of the program.
3. Indications of adverse selection in KUR distribution have been identified, where households with asset ownership actually have a higher chance of obtaining KUR financing.

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