

ARTICLE

The Impact of KUR Disbursement on MSME's Credit Growth

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ABSTRACT

MSMEs support social and economic growth through employment and poverty reduction. Recently, MSMEs have had some challenges, including limited access to capital. Hence, the government should participate in solving those challenges, such as creating various MSME financing empowerment programs with multiple schemes, such as interest subsidies, guarantees, or risk sharing. KUR become an alternative instrument to support MSME financing in Indonesia, with substantial implications for economic growth. This study aims to provide empirical evidence regarding the effect of KUR Disbursement on MSME's Credit Growth with MSME's Commercial Credit Growth as a mediating variable. The data covered 33 provinces in Indonesia from 2015-2021. Using the Random Effect Model and Ordinary Least Square (OLS) Regression, the results indicated that (1) KUR Disbursement does not affect MSME's Credit Growth, (2) KUR Disbursement negatively influences MSME's Commercial Credit Growth, (3) MSME's Commercial Credit Growth positively influences MSME's Credit Growth, and (4) MSME's Commercial Credit Growth does not mediate the relationship between KUR Disbursement on MSME's Credit Growth means MSME's Commercial Credit Growth cannot act as a mediating factor in enhancing the effect of KUR Disbursement on MSME's Credit Growth.

A. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) support social and economic growth in developing countries by generating employment and reducing poverty (Karno & Widiawati, 2021). In Indonesia, MSMEs contributed significantly to the GDP, accounting for 61.1% in 2018. However, their contribution to Indonesian exports remained relatively low at 14.4% (Sonobe et al., 2021).

MSMEs currently face several challenges. Common obstacles include limited access to capital, business information, technology, and skilled workers; difficulties in marketing and obtaining raw materials; and government policies or regulations that often create unpopular policies (Tambunan, 2021). Based on the World Bank Survey (2015), the top five obstacles to doing business in Indonesia are operating in the informal sector (36.7%), tax rates (14.3%), political instability (12.8%), licenses and permits (6.8%), and access to financing (6.3%). Regarding the business scale, the obstacle of accessing financing is more significant for micro and small enterprises than for medium-sized enterprises (World Bank Report, 2015). This is

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supported by [Abe et al. \(2015\)](#), stating that the most significant challenge to the sustainability and growth of MSMEs is the lack of financing.

Furthermore, this research focuses on the issue of access to financing for MSMEs. This focus aligns with the directive of the president of the Republic of Indonesia, Joko Widodo, who aims for the MSME credit ratio to reach 30% of total banking credit by 2024 ([BPMI Setpres, 2021](#)). Based on the International Finance Corporation (IFC) study, greater demand than supply creates a significant gap in MSME financing. The MSME financing gap in Indonesia was estimated to be US\$165.85 billion in 2017, equivalent to 19% of GDP ([International Finance Corporation, 2017](#)).

To address those issues, the Indonesian government has implemented various MSME empowerment programs, focusing on facilitating financing access, funded by banks or the government, with various schemes ranging from interest subsidies and guarantees to risk-sharing. However, those credit programs did not run smoothly; many were discontinued due to defaults and deemed off-target by external supervisory authorities (*Badan Pemeriksaan Keuangan/BPK*). Therefore, currently, only three credit programs remain: People's Business Credit (*Kredit Usaha Rakyat/KUR*), Ultra Micro Financing (UMi), and the Warehouse Receipt Subsidy Scheme (SSRG).

Nevertheless, with the government's effort to facilitate financing access for MSMEs, the proportion of MSME's credit over total credit was stagnant at around 20% for the last ten years, which is lower than that of our ASEAN neighbour countries, where the proportion reaches between 30% and 80%. The president of Indonesia is concerned, so he set goals for his ministries to achieve a minimal 30% MSME credit ratio in 2024.

This research addresses the problems by examining a broader scope involving MSME commercial credits (non-KUR credit). It assesses how much KUR and commercial credits influence MSME credit growth.

B. LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs) is a common term in the economic world that refers to enterprises owned by individuals or business entities with limited assets, revenue, or employees. In Indonesia, the criteria of MSMEs are defined by Government Regulation 7/2021 about the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises.

MSME credit is loans from banks or other formal financial institutions recognized by the Financial Services Authority (OJK) to Micro, Small, and Medium Enterprises (MSMEs) to finance operational activities and business development. MSME's credit can be used for various purposes, such as working capital, investments, purchasing equipment, raw materials, or business expansion.

MSME's credit can help MSMEs expand their businesses and increase business productivity, thereby expanding their market and boosting their income. Also, MSME's credit can improve the community's economic well-being by creating jobs and promoting economic growth in the region. To obtain MSME credit, prospective debtors must meet specific requirements from banks or other financial institutions, such as having a bank account or completing business documentation. In this study, MSME's credits are differentiated from MSME's Commercial credits. Commercial credits are credit programs owned by banks without government subsidy, such as BRI Kupedes, BNI Wirausaha, and Mandiri Kredit Usaha Mikro (KUM).

KUR is the government's credit program for productive and feasible entrepreneurs who lack collateral (Permenko No. 1/2023). KUR is associated with low interest rates. Its interest rate changes every year, depending on the results of the MSMEs Committee meeting. In 2015, the government set the KUR interest rate at 12%. It continued to lower it over the years,

reaching only 6% in 2023, except for Supermicro Scheme and Agricultural Equipment Financing (Alsintan), which was set at 3%. The reduction in the KUR interest rate impacts the substantial interest government subsidy. Table 1 displays the interest rate, government subsidy, and KUR ceiling from 2015 to 2022.

Table 1. Interest Rate, Government Subsidies and KUR Ceiling 2015-2022

	2015	2016	2017	2018	2019	2020	2021	2022
KUR's Rate	12%	9%	9%	7%	7%	7%	6%	6%
Gov Subsidy								
- Super Micro	-	-	-	-	-	13%	13%	12%
- Micro	7%	10%	9.5%	10.5%	10.5%	10.5%	10.5%	10%
- Small	-	-	-	5.5%	5.5%	5.5%	5.5%	5.5%
- Placement of Indonesian Migrant Workers	12%	12%	12%	14%	14%	14%	14%	13.5%
- Retail	3%	4.5%	4.5%	-	-	-	-	-
Disbursement target (Trillion IDR)	30	100	110	123	140	190	285	373

Source: Permenko Perekonomian, PMK, and news (Analyzed by the Researchers) (2023)

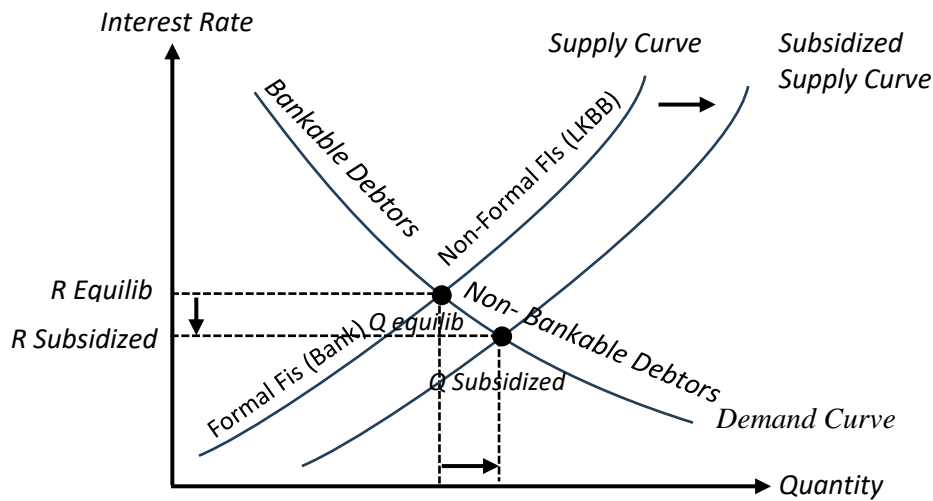
The ongoing interest rates decrease and the continuous increase in the lending disbursement target is part of the government's efforts to expand access to financing for MSMEs. In 2023, significant changes to the KUR policy have been introduced to promote financial inclusion and the graduation of KUR debtors. These changes include an increase in interest rates for repeat debtors, a prohibition on debtors who have borrowed commercial loans from borrowing KUR, a reduction in the interest rate for Super Micro KUR from 6% to 3%, a maximum limit of access to KUR financing of two times for the non-production sector and four times for the production sector, and sanctions for distributors who request additional collateral for Micro KUR and Super Micro debtors.

The KUR program is expected to run effectively and positively impact business operators who face difficulties in accessing bank financing (non-bankable). This positive impact is expected to be seen in the improvement of the economic conditions of debtors, both in their personal and financial conditions, such as improved living conditions, better health, and increased education levels, and increased in assets, revenue, and the number of employees in their business (Mardanugraha et al., 2018). On a macro scale, the positive impact of KUR is expected to increase the number of bankable business operators, allowing more MSMEs to access commercial credit.

In the market equilibrium concept, subsidies in the economy can positively reduce production costs, making products offered to the public cheaper and more abundant (Mankiw, 2012). In MSME financing, government subsidies are expected to reduce the banking interest rate, allowing more people to access formal bank financing, as seen in Figure 1. The change in the number of debtors depends on how elastic the supply and demand curves.

However, in the concept of Laissez-Faire, government interference, such as subsidy in the perfect market, is criticized as the cause of market inefficiencies (Smith, 1776). On the contrary, those who reject the concept of Laissez-Faire argue that the government is needed because the market is not always perfect; there will always be information asymmetry (Stiglitz & Rosengard, 2015). In the context of MSME financing in Indonesia, the role of the government is required due to an imperfect market. This is evident from the limited access to MSME financing (Suryani et al., 2019). The proportion of MSME's credit to the total credit in Indonesia is deficient compared to neighbouring ASEAN countries, even though MSMEs contribute 61.1% to Indonesia's GDP. The imperfect banking credit market results in an unequal credit allocation to debtors, with only medium and large enterprises having access to

financing. The economic disparities among debtors and asymmetric information influence this situation. Moreover, many MSMEs are afraid to access commercial credit.



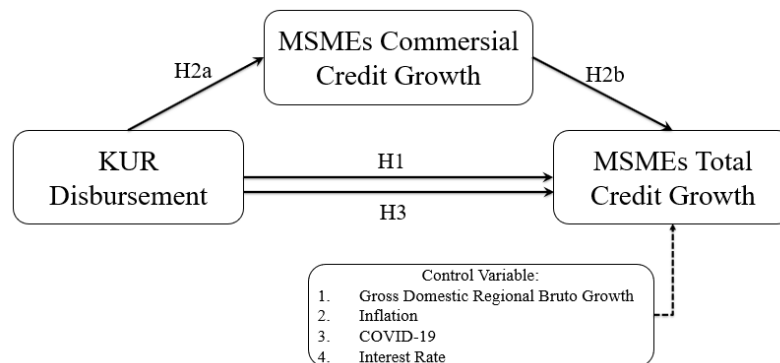
(Source: Market Equilibrium (Analyzed by the researchers))

Figure 1. Shift in the Equilibrium Point of MSME Interest Rates

Several studies found a positive correlation between MSME financing and improving MSME productivity. Idrees et al. (2022) researched Pakistan and concluded that microfinance institutions impact the revenue and growth of MSMEs. The role of microfinance institutions is demonstrated through variables, such as Advancing loans, Short-term and Long-term loans, Paying back Loans, Foster Quality Advice, Technical support, Financial Products and Services, Social Networks, and Value chain opportunities.

Many studies showed the positive impact of the KUR on MSMEs (Ahuja & Batra, 2020; Chiappini et al., 2022; Dianthy & Marhaeni, 2017; Lestari & Juniariani, 2022). One study conducted by Ulfa & Mulyadi (2020) found a positive impact of the KUR on the development of micro-businesses, indirectly impacting poverty alleviation in Makassar. This finding is consistent with the research conducted by Putra & Saskara (2013), concluding that KUR positively influences the income and employment opportunities of MSMEs after testing 57 MSME samples in Denpasar.

This study aims to determine the impact of the KUR Distribution on MSMEs' total credit growth. An increasingly diverse program is expected to increase debtors' access to financing. The KUR program is expected to provide an option for a segment other than MSME credit. The research hypothesis is that KUR's growth positively impacts MSME credit growth. Figure 2 presents the research framework, and the following sections propose the hypotheses.



(Source: The Researchers (2023))

Figure 2. Research Framework

KUR Disbursement and MSMEs Total Credit Growth

Ishak & Dama (2022) examined the influence of the KUR on the development of MSMEs in the Telaga Jaya and Tilango Districts of Gorontalo Regency. The results indicate that the KUR positively impacts the growth of MSME entrepreneurs. Further, Anwar (2021) investigated the impact of rural business loans, KUR, on the development of MSMEs in PT BRI (Persero) Tbk. Unit Jati Mulyo. The research results show that rural business loans positively and significantly impact the development of MSMEs. Ismiyanti & Mahadwartha (2020) studied the influence of Non-Performing Loans (NPL), the number of debtors, and the income growth of MSMEs on the disbursement of KUR. The research results indicate that income growth harms KUR disbursement. Successful MSMEs tend to borrow from investment credit programs instead of continuing to use KUR. Meanwhile, non-performing loans and the number of debtors do not influence KUR disbursement.

H1: KUR Disbursement has a positive effect on MSMEs Total Credit Growth

KUR Disbursement and MSME's Commercial Credit Growth

This hypothesis tests the possibility that the disbursement of KUR has a positive impact on the disbursement of commercial credit. Beck (2013) argued that difficulties accessing MSME financing can arise from the demand or supply sides. The low funding for MSMEs originating from the demand side is caused by the low self-confidence of MSME entrepreneurs who are afraid to access banking financing. In contrast, supply-side constraints occur when these difficulties are due to the limited reach of banks to MSME entrepreneurs. Government financing policies like KUR that provide interest rate subsidies and guarantees should positively impact both sides. For MSME entrepreneurs, the obstacles can be reduced with low interest rates and government guarantees. With more MSME entrepreneurs willing to access banking financing, the market share of bank debtors will increase. MSME entrepreneurs who cannot access KUR financing but have viable businesses (bankable) can access commercial funding, indirectly resulting in commercial credit growth.

H2a: KUR Disbursement has a positive effect on MSME's commercial Credit Growth

MSME's Commercial Credit Growth and MSME Total Credit Growth

This hypothesis tests the influence of higher growth in commercial credit on the total development of MSME credit compared to the influence of KUR credit. This is because the proportion of KUR credit is less substantial than that of commercial credit. The proportion of KUR credit to MSME credit until 2023 is about 30% of the total MSME credit. With the increasing amount of commercial credit, its impact on the growth of total MSME credit will undoubtedly have a more significant effect than KUR credit.

H2b: MSME's commercial Credit Growth has a positive effect on MSME Total Credit Growth

KUR Disbursement and MSMEs Total Credit Growth, with MSME's commercial Credit Growth as Mediating Variable

This hypothesis tests the possibility that the disbursement of KUR indirectly impacts the total credit growth, but through intermediaries, the development of commercial credit ultimately contributes to the growth of total MSME credit. In line with Beck's opinion (2013), appropriate financing policies can expand overall access to MSME financing.

H3: MSME commercial Credit Growth mediates the relationship of KUR Disbursement to MSME Total Credit Growth

C. METHOD

This study employed the quantitative method and secondary data. The secondary data originated from the Indonesian Banking Statistics by the OJK, SIKP Application, Central Statistics Agency (Badan Pusat Statistik), and Bank Indonesia. The data used was panel data from 33 provinces in Indonesia from 2015 to 2021.

This study used the growth of total MSME credit as the dependent variable and the Disbursement of KUR as the independent variable. In addition, this research employed a mediating variable, the growth of commercial MSME credit. The control variables were the Growth of Gross Regional Domestic Product (PDRBG), Regional Inflation Rate (INF), COVID-19 (COV), and Interest Rate (RATE). Table 2 presents the operationalization of variables in detail.

Table 2. Variable Operationalization

Variable	Definition	Description	Scale
Total MSEM's Credit Growth (MSME)	The percentage growth of the outstanding MSME's credit compared to the previous year in a specific province.	$MESM_{it} = \frac{MESM_{it} - MESM_{it-1}}{MESM_{it-1}}$	Ratio
KUR Disbursement (KUR)	The KUR Disbursement in a specific province and year is measured in trillion rupiah.	Natural Logarithm (LN) from KUR Disbursement per Province	Ratio
MSEM's Commercial Credit Growth (MSMECOM)	The percentage growth of the outstanding MSME's commercial credit compared to the previous year in a specific province.	$MSMECOM_{it} = \frac{MSMECOM_{it} - MSMECOM_{it-1}}{MSMECOM_{it-1}}$	Ratio
Gross Regional Domestic Product Growth (PDRBG)	The value of Gross Regional Domestic Product growth in a specific province and year, using constant prices	-	Ratio
Regional Inflation Rate (INF)	The Consumer Price Index (CPI) year-on-year inflation rate in a specific province in December	Average city/district inflation rate per province	Ratio
COVID-19 (COV)	Adjustments Before the Pandemic and During the Covid-19 Pandemic	Dummy Variable, 1 for 2020 and 2021, otherwise 0	Dummy
Interest Rate (RATE)	Annual Interest Rate	-	Percentage

Source: Analyzed by the researchers (2023)

The analysis tool used was linear regression on the panel data, with three methods to analyze panel data regression: Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). The steps were the Chow, Hausman, and Lagrange Multiplier Test to obtain the suitable model in panel regression.

After testing the classical assumptions: the normality test, heteroskedasticity test, and multicollinearity Test, and the fitness of the research model, data was analyzed using the following equations.

$$MSME_{it} = \alpha + \beta_1 KUR_{it} + \beta_2 PDRBG_{it} + \beta_3 INF_{it} + \beta_4 COV_{it} + \beta_5 RATE_{it} + \epsilon \quad \dots (1)$$

$$MSMECOM_{it} = \alpha + \beta_1 KUR_{it} + \beta_2 PDRBG_{it} + \beta_3 INF_{it} + \beta_4 COV_{it} + \beta_5 RATE_{it} + \epsilon \quad \dots (2)$$

$$MSEM_{it} = \alpha' + \beta'_1 MSMECOM_{it} + \beta'_2 KUR_{it} + \beta'_3 PDRBG_{it} + \beta'_4 INF_{it} + \beta'_5 COV_{it} + \beta'_6 RATE_{it} + \epsilon' \quad \dots (3)$$

This study employed the Sobel test (1982) and the Baron & Kenny (1986) test to support the finding of H3. The author applied the Sobel test through the following steps.

- a. Computing the unstandardized indirect effect: a (H2a) x b (H2b)

- b. Calculating the standard error (Sobel test) using the formula: $\sqrt{(b^2Sa^2 + a^2Sb^2)}$
 Sa is the standard error of a; Sb is the standard error of b.
- c. Assessing the significance of the unstandardized indirect effect by dividing it by the standard error. It is considered significant if the result is greater than 1.96 (5% confidence interval) or 1.65 (10% confidence interval).

Furthermore, the Baron & Kenny (1986) test outlines three criteria for concluding the mediating effect. The first criterion is that KUR Disbursement must significantly predict Total MSME's credit Growth, as indicated in the first regression equation. The second regression equation tests the second criterion: KUR Disbursement significantly predicts MSEM's Commercial Credit Growth. The third regression equation was used for the last criterion to verify if KUR Disbursement significantly predicts Total MSME's credit Growth through MSEM's Commercial Credit Growth. There is partial mediation if the relationship between KUR Disbursement is weaker but remains significant. In contrast, if this relationship is essential in the initial regression model but not in the final regression model, there is complete mediation, indicating no direct effect of KUR Disbursement on Total MSMEs' Credit Growth, and KUR Disbursement fully mediates the association between KUR Disbursement and Total MSMEs' Credit Growth.

D. RESULT AND DISCUSSION

Descriptive statistics provide an overview of each variable, including the number of observations, the mean, standard deviation, and minimum and maximum values for each variable. The descriptive statistics for the research data are presented in Table 3.

Table 3. Descriptive Analytic Statistic

Variable	n	Mean	Std. Dev	Min	Max
MSME	231	0.0773	0.0835	-0.2825	0.5709
KUR	231	7.5230	1.2192	4.2841	10.8417
MSMECOM	231	0.0605	0.0559	-0.2044	0.2581
PDRBG	231	0.0749	0.0529	-0.1100	0.2946
INF	231	2.8065	1.1892	0.3500	7.2500
COV	231	0.2857	0.4527	0.0000	1.0000
RATE	231	0.0800	0.0200	0.0600	0.1200

Notes:

MSME = Total MSEM's Credit Growth; KUR = KUR Distribution per Province; MSMECOM = MSME's commercial Credit Growth; PDRBG = Gross Regional Domestic Product Growth; INF = Regional Inflation Rate; COV = COVID-19 Pandemic; RATE = Interest Rate

Source: Analyzed by the Researchers using STATA (2023)

Furthermore, the correlation test results show no strong correlation among the tested variables, as shown in Table 4. The correlation between KUR and MSME is negative but insignificant, contradicting the hypothesis. However, regarding the mediating variable, MSME Commercial is significantly and positively correlated with MSME at a 5% significance level, which aligns with the hypothesis.

Table 4. Correlation Test Results

	MSME	KUR	MSMECOM	PDRBG	INF	COV	RATE
MSME	1.0000						
KUR	-0.1233	1.0000					
MSMECOM	0.8325*	-0.3704*	1.0000				
PDRBG	0.3263*	-0.2434*	0.4031*	1.0000			
INF	0.0608	-0.3196*	0.2158*	0.3669*	1.0000		
COV	-0.1709*	0.3708*	-0.5124*	-0.3986*	-0.4373*	1.0000	

RATE	0.1103	-0.5373*	0.3495*	0.3509*	0.4702*	-0.6325*	1.0000
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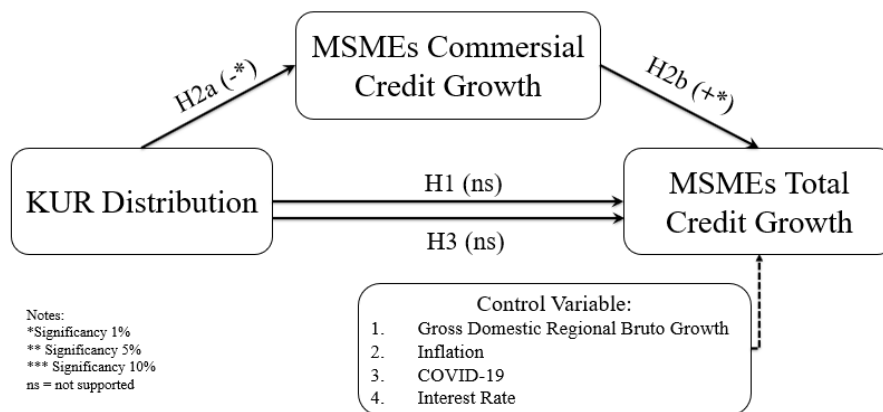
Notes:

MSME = Total MSEM's Credit Growth; **KUR** = KUR Distribution per Province; **MSMECOM** = MSEM's Commercial Credit Growth; **PDRBG** = Gross Regional Domestic Product Growth; **INF** = Regional Inflation Rate; **COV** = COVID-19 Pandemic; **RATE** = Interest Rate

* Significancy level 5%.

Source: Analyzed by the Researchers using STATA (2023)

Further, the researchers conclude the Random Effect Model (REM) regarding the panel data selection. Subsequently, after passing a series of classical assumption tests with the conclusion that there was no violation of classical assumptions, a regression analysis was performed. The hypothesis test results in Table 5 indicate that all regression models are significant ($p < 0.01$). Furthermore, the R^2 for Model 1 is 11.85%, meaning that the independent variables in this model explain 11.85% of the total variance in Total MSME Credit Growth. In contrast, Model 2 has a higher R^2 (34.93%), implying that other variables (not mentioned in Model 2) may explain the variation in MSME Commercial Credit Growth. Meanwhile, Model 3 has an R^2 of 80.53%, and since the R^2 is higher than that of Model 1, the MSME commercial credit growth variable may also explain Total MSME Credit Growth.



(Source: Analyzed by the Researchers (2023))
 Figure 3. Hypothesis Test Results

The Effect of KUR Disbursement on MSME's Total Credit Growth

The first hypothesis in this study examines the influence of KUR disbursement on MSMEs' total credit growth. The test results in Table 5 show a negative and insignificant effect between KUR disbursement (KUR) and MSMEs' total credit growth (MSME). This result contradicts the first hypothesis; therefore, the first hypothesis is not supported. Overall, KUR disbursement does not impact MSMEs' credit growth. This outcome suggests that this study did not capture other factors influencing MSMEs' credit growth. KUR-disbursing banks are bound by micro-prudential banking regulations, such as NPL, LDR, CAR, and GWM (Damayanti & Adam 2015). These regulations affect the disbursement of KUR to prospective MSME debtors deemed capable of repaying the loans, resulting in no significant increase in total MSME credit. These results contradict the findings of Ishak & Dama (2022) and Anwar (2021), which suggest that KUR influences increasing the growth of MSME entrepreneurs.

Furthermore, the control variables in this study produced varying results. The Gross Regional Domestic Product (PDRBG) variables and the COVID-19 pandemic (COV) showed positive and significant effects. In contrast, the Inflation (INF) and Interest Rate (RATE) variables yielded non-significant results. The significant result for Gross Regional Domestic Product (PDRBG) indicates that when PDRBG grows, purchasing power increases, increasing

MSME product growth. Consequently, MSMEs require sufficient capital for development, including through KUR.

Additionally, the COVID-19 pandemic is a significant control variable, reflecting the ongoing impact of the pandemic. Based on the test results in Table 5, the influence of the COVID variable differs between the dependent variable of commercial MSMEs' credit growth (model 2) and total MSMEs' credit growth (Model 3). This suggests that MSMEs preferred KUR financing over commercial credit financing during the COVID-19 pandemic.

The Effect of KUR Disbursement on MSME Commercial Credit Growth

The indirect effect consists of two parts. The first part is the effect of KUR disbursement (KUR) on commercial MSME credit growth (MSMECOM) (H2a). The second part is the effect of commercial MSME credit growth (MSMECOM) on total MSME credit growth (MSME) (H2b). Table 5 also shows the results of the indirect effect. By testing the indirect effect of KUR on MSMECOM, this research examines whether KUR disbursement influences the growth of commercial MSME credit. The results show a negative and significant influence between KUR and MSMECOM, indicating that Hypothesis 2a is unsupported.

MSME debtors prefer to utilize KUR facilities when commercial debtors have no restrictions. This is due to the ease of the credit application process in the banking sector. At the same time, the interest rate does not significantly affect the decision, meaning that MSMEs can afford the commercial interest rate. With affordable interest rates and more straightforward requirements, MSME entrepreneurs tend to switch from commercial credit to KUR (Aristanto, 2019). This explains the test results, indicating that the lack of increase in commercial credit is due to the shift in credit schemes.

The Effect of MSME's Commercial Credit Growth on MSME's Total Credit Growth

Furthermore, in the second part of the indirect effect, the results show a positive and significant effect between Commercial MSME Credit Growth (MSMECOM) and Total MSME Credit Growth (MSME), thus supporting H2b. These results indicate that the growth of commercial MSME credit is one of the factors contributing to the increase in total MSME credit growth. When commercial MSME credit increases, it positively impacts the development of total MSME credit. This suggests that the presidential directive to achieve a 30% proportion of credit by 2024 can be realized if these trends continue.

Therefore, the indirect influence can be accepted, as both the first and second parts have significant results. To support the third hypothesis, the researchers conducted the Sobel Test (1982) to determine the significance level of the indirect influence (the combination of H2a and H2b, a multiplied by b). The result indicates insignificant influence.

The Effect of MSME Commercial Credit Growth on The Relationship between KUR Disbursement and MSME Total Credit Growth

Table 5 also demonstrates the effect of Commercial MSME Credit Growth (MSMECOM) on the relationship between the Disbursement of KUR (KUR) and Total MSME Credit Growth (MSME). When the mediating variable, MSMECOM, is added to the model, the effect of KUR on MSME yields significantly different results. These results show that by adding the mediating variable MSMECOM, the direct effect between KUR and MSME becomes significant and negative. The coefficient is lower than Model 1 (direct effect), indicating that KUR does not affect MSME when MSMECOM increases. Therefore, MSMECOM cannot act as a mediating factor in enhancing the impact of KUR on MSME.

Furthermore, to strengthen the results, the researchers conducted the Baron and Kenny (1986) test and Zhao (2010) test, simultaneously addressing the third hypothesis and

determining whether the Commercial MSME Credit Growth mediates the effect between the Disbursement of KUR (KUR) and Total MSME Credit Growth (MSME). The Baron and Kenny test requires all hypothesis test results to be significant, meaning that the total, indirect, and direct effects must be significant. Based on the Sobel test calculations, the result of the indirect effect is not essential, indicating no mediation. Thus, the third hypothesis is invalid: Commercial MSME Credit Growth does not mediate the impact between the KUR (KUR) and Total MSME Credit Growth (MSME) Disbursement (MSME). The presence of commercial MSME credit and KUR in the credit scheme for MSME becomes a substitution. Debtors prioritize the option that offers the most significant benefits. Banks also implement this strategy by prioritizing the disbursement of KUR up to the quota limit before considering commercial MSME credit (Dewi, 2022).

Table 5. Direct and mediation effects between KUR Disbursement, MSME's commercial Credit Growth, and MSME's Total Credit Growth

	Model 1 DV=MSME	Model 2 DV=MSMECOM	Model 3 DV=MSME
KUR	-0.0048 (0.343)	-0.0105* (0.000)	0.0113* (0.000)
MSMECOM			1.5365* (0.000)
PDRBG	0.5166* (0.000)	0.2549* (0.006)	0.1250** (0.019)
INF	-0.0067 (0.191)	-0.0043 (0.142)	-0.0001 (0.980)
COV	-0.0168 (0.275)	-0.0523* (0.000)	0.0637* (0.000)
RATE	-0.2271 (0.546)	-0.2309 (0.285)	0.1277 (0.471)
Prob > F	0.0000	0.0000	0.0000
R²	0.1185	0.3493	0.8053
Sobel-test coefficient		3.58	
a coefficient		-0.0105*	
b coefficient		1.5365*	
Indirect effect (a*b)		-0.0104	
Total effect (c)		-0.0048	
Direct effect (c')		0.0113*	

Notes: **MSME** = Total MSEM's Credit Growth; **KUR** = KUR Disbursement per Province; **MSMECOM** = MSEM's Commercial Credit Growth; **PDRBG** = Gross Regional Domestic Product Growth; **INF** = Regional Inflation Rate; **COV** = COVID-19 Pandemic; **RATE** = Interest Rate;
 *, **, and *** show significance levels at 1, 5, and 10 %

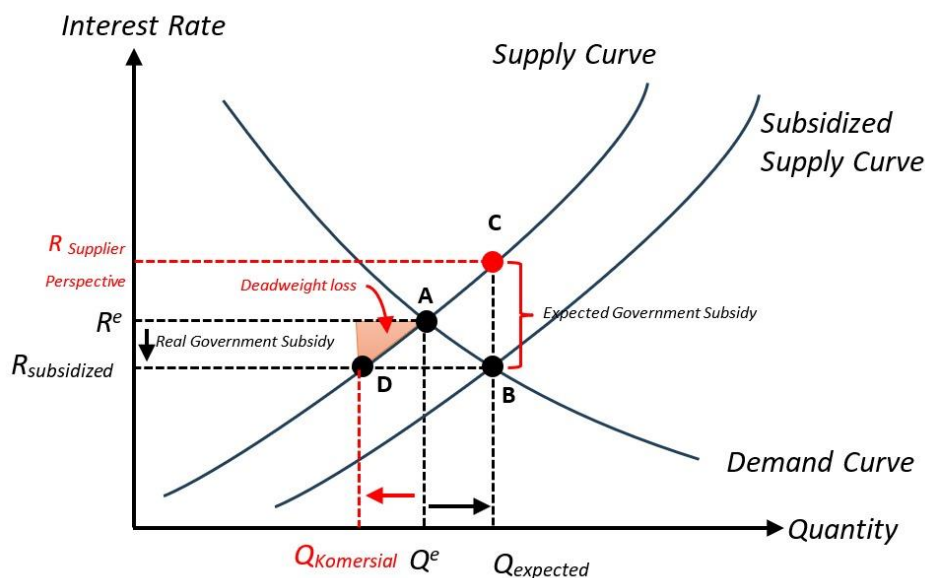
Source: Analyzed by the Researchers using STATA (2023)

Further, the researchers followed the Zhao test procedure to support the results of the third hypothesis. The test was conducted to determine the significance of the indirect effect, which was found to be non-significant. The next step was to determine the significance level of the direct effect. Based on the previous results, the indirect effect was insignificant, while the direct impact was significant, indicating no mediation (only a direct effect). Thus, the Zhao test aligns with the Baron, Kenny, and Sobel tests.

Discussion

Based on the testing of the hypotheses, It can be concluded that the disbursement of KUR does not significantly impact commercial credit growth. Instead, the disbursement of KUR harms the development of commercial credit. This contradicts the initial purpose of KUR to expand financing access for MSMEs and is contrary to the subsidized model in market

equilibrium, where the disbursement of subsidies should reduce the market interest ($R^e \rightarrow R_{\text{subsidized}}$), leading to an increase in the loan disbursement ($Q^e \rightarrow Q_{\text{expected}}$), as seen in Figure 4.



(Source: Analyzed by the Researchers (2023))

Figure 4. Analysis of the Negative Impact of KUR Disbursement on Commercial Credit

Table 1 reveals several issues regarding the KUR subsidy scheme that negatively affect commercial credit. The first issue is the incorrect determination of the market interest rate. The government determines the subsidies to get a 6% interest rate from an equilibrium interest rate perceived as smaller than the supplier's perspective interest rate. The components of interest rates include the cost of funds (the cost of obtaining capital), LPS premiums, minimum required deposits, overhead costs (lender's operational costs), and credit costs (default risk). When the government expects Q^e to move to Q_{expected} , the risk of default and operational expenses of lenders will increase.

Consequently, the expected interest rate for lenders ($R_{\text{supplier perspective}}$) will be higher. This condition disincentivizes the bank from providing loans to high-risk debtors previously considered non-bankable, as it will harm the bank's profitability (Purboadji et al., 2022; Yi et al., 2022). Consequently, the proportion of MSME credit tends to remain stable (around 20% of total credit).

The second issue is the "no barrier to entry." Anyone can obtain KUR if they are Indonesian citizens and have the companies for over six months. Before the KUR policy change in 2023, the requirement was that they were "not currently" receiving commercial loans. With the clause "not currently," many debtors switched from commercial loans to KUR, decreasing commercial credit disbursement ($Q^e \rightarrow Q_{\text{Komersial}}$). The KUR policy in 2023, changing the word from "not currently" to "never," is expected to reduce the number of debtors switching to KUR.

From the demand side, when there is no "barrier to entry," people will pragmatically consider which option is more advantageous. Business owners will choose KUR financing over commercial loans. This situation becomes problematic when the KUR quota is run out. Business owners may postpone business development until the new quota of KUR is available next year. If this situation persists, micro and small loan disbursement will no longer be attractive to banks, as they cannot compete with the KUR's interest rate. In the long run, the government will disturb the market equilibrium, causing MSME loans other than KUR nonexistent. These findings align with the policies established by the Ministry of Finance, which impose restrictions on providing KUR to MSMEs.

E. CONCLUSION

This study provides empirical evidence regarding the relationship between the disbursement of KUR by province and the total growth of MSME credit, with the growth of commercial MSME credit as a mediating variable. The research covers all provinces in Indonesia (33 provinces), except for North Kalimantan, covering the period from 2015 to 2021, with 231 observations.

Based on the results of hypothesis testing using the STATA application, the following conclusions can be drawn: Regarding the first hypothesis, the study found that the disbursement of KUR does not significantly impact the total growth of MSME credit. This suggests that the scale of KUR disbursement does not affect the total growth of MSME credit. The results imply that banks distributing KUR are subject to regulations related to micro-prudential banking, such as non-performing loans (NPL), loan-to-deposit ratio (LDR), capital adequacy ratio (CAR), and good corporate governance (GWM). These factors result in the total growth of MSME credit being unaffected.

Further, the results of hypothesis 2a show that the disbursement of KUR significantly and negatively impacts the growth of commercial MSME credit. This result contradicts the intended purpose of KUR disbursement, which is to expand access to credit for MSMEs, particularly those previously considered non-bankable, rather than financing MSMEs who can already access traditional bank loans. This outcome indicates the potential for a decline in commercial credit growth when the KUR ceiling is increased. This situation arises due to the "no barrier to entry" for business owners considered bankable to obtain KUR. The criteria for KUR debtors were "not currently" receiving productive loans from banks before the policy change in 2023. This led business owners in all types of MSMEs to optimize for KUR facilities before taking commercial loans because it is cheaper.

Furthermore, hypothesis 2b shows a significant positive relationship between commercial MSME credit and total MSME credit, indicating that when commercial MSME credit increases, it affects the overall growth of MSME credit. This suggests that to achieve the minimum 30% MSME credit target by 2024, comprehensive improvements are needed in credit disbursement mechanisms, not just focusing on an increase in government program credit only. In other words, the 30% MSME credit target by 2024 can be achieved faster if Bank Indonesia generally improves MSME credit disbursement policies. Bank Indonesia has made efforts to increase MSME credit by providing incentives of around 0.2% to 0.5% on the Minimum Required Deposit (GWM) obligation if banks give loans to priority sectors, achieve macroprudential inclusive financing ratios, and other financing goals set by Bank Indonesia. However, the effectiveness of these incentives requires further assessment.

Finally, the results of the third hypothesis, both through STATA and various expert tests such as Baron and Kenny, Sobel, and Zhao, indicate that the growth of commercial MSME credit does not mediate the relationship between the KUR disbursement variable and the total growth of MSME credit.

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