

PLAN FOR RE-IMPLEMENTATION OF PEOPLE'S BUSINESS CREDIT RESTRUCTURING AND ITS IMPACT ON MSMEs

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Abstract

The restructuring of People's Business Credit (KUR) for Micro, Small, and Medium Enterprises (MSMEs) was completed at the end of March 2024. However, the government plans to re-implement the policy, considering that the MSME segment's non-performing loan (NPL) rate continues to rise, reaching 4.04 percent in June 2024. This article analyzes the benefits of KUR restructuring for MSMEs and the readiness of credit-providing banks. The restructuring will allow MSMEs facing credit payment difficulties to continue and develop their businesses. On the other hand, banks need to be selective in determining restructuring recipients through strict and professional assessments to improve their performance and health. In its oversight function, Commission VI of the DPR RI needs to encourage the government to conduct socialization, assistance, and supervision of MSMEs in implementing KUR restructuring. Additionally, Commission XI of the DPR RI should urge the OJK to issue regulations on re-implementation KUR restructuring promptly.

Introduction

The government plans to re-implement the People's Business Credit (KUR) restructuring policy. This decision is driven by the rising non-performing loan (NPL) ratio, which indicates the proportion of non-performing loans to total loans. Data from the Financial Ser-

vices Authority (OJK) shows that as of June 2024, the gross NPL ratio for micro, small, and medium enterprises (MSMEs) reached 4.04 percent, approaching the critical 5 percent threshold. Additionally, data from Bank Indonesia indicates that the NPL ratio has been increasing. Specifically, the NPL ratio for micro-



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credit was 2.95 percent as of March 2024 and rose to 3.24 percent by May 2024, while the NPL ratio for small business credit increased from 4.65 percent in March 2024 to 4.92 percent in May 2024 (Fatmarani, 2024).

The rise in MSME NPLs can be attributed to the expiration of the credit restructuring policy on March 31, 2024, which followed the revocation of the Covid-19 pandemic status in June 2023. According to the OJK, the credit restructuring stimulus was a key part of the countercyclical policy and a landmark measure supporting the performance of debtors, banks, and the broader economy (“Laporan surveillance perbankan,” 2024).

The plan to re-implement the KUR restructuring program is expected to provide a solution for the sustainability of MSME businesses with outstanding credit obligations while maintaining the banking sector’s health. However, for this policy to be effective, it needs to be accompanied by clear criteria and legal certainty to ensure that it benefits MSMEs. Additionally, this policy is expected to support banking performance and contribute positively to the national economy. This article analyzes the proposed re-implementation of the KUR restructuring policy, its benefits for MSMEs, and its challenges for the banking sector.

Benefits of KUR Restructuring for MSMEs

The KUR is a financing or credit program provided by banking institutions to support MSMEs. KUR offers funds for investment and working capital backed by productive business guarantee facilities. Efforts to empower and develop MSMEs are aimed at enhancing en-

trepreneurship, improving access to financing, and expanding product marketing (Khosyati & Rahima, 2024). The KUR program is designed to accelerate the growth of MSMEs, focusing on poverty reduction and job creation. From the government’s perspective, KUR provides significant benefits by fostering real sector development and empowering MSMEs to reduce poverty, create employment opportunities, and spur economic growth.

The importance of KUR for MSMEs is highlighted in the Indonesian Banking Surveillance Report (LSPI) for the first quarter of 2024. The report indicates that the realization of MSME credit under the KUR program from January to the end of March 2024 reached IDR70.66 trillion, equivalent to 23.55 percent of the 2024 target of IDR300 trillion. The KUR was distributed to 1.21 million debtors. The LSPI also noted that most of the KUR was allocated to Micro KUR, totaling IDR47.42 trillion (67.12 percent), followed by Small KUR at IDR22.85 trillion (32.34 percent), Super Micro KUR at IDR381.81 billion (0.54 percent), and Indonesian Migrant Workers (PMI) KUR at IDR5.59 billion (0.01 percent) (“Laporan surveillance perbankan,” 2024). However, following the termination of the restructuring program in March, the trend of NPLs among MSMEs has increased. As of April 2024, the gross NPL for MSMEs rose to 4.26 percent, a sharp increase from 3.98 percent in March 2024 (Irawati, 2024). This condition could positively impact the nation if addressed promptly and effectively.

KUR restructuring can help MSMEs sustain their businesses despite difficulties meeting credit payment obligations. Restructuring poli-

cies offered by credit institutions, such as extending loan tenors, reducing interest rates, or postponing principal and interest payments, can help ensure the smooth operation of MSME activities. This, in turn, opens up opportunities for MSMEs to develop their businesses and enhance their market competitiveness. In the long term, MSMEs that effectively utilize restructuring may find it easier to gain banks' trust for financing productive ventures.

Although KUR restructuring is a strategic solution for MSMEs, it should be selectively provided to those who meet the criteria outlined in the relevant laws and regulations. According to Yulius, Deputy for Micro Business at the Ministry of Cooperatives and SMEs, the criteria for KUR debtors eligible for restructuring are as follows: First, the debtor needs to have a credit quality with a collectibility status of 2 (Special Mention) or Collectibility 3 (Substandard) at the time of the KUR restructuring. Second, the debtor still needs to have viable business prospects. Third, the debtor has viable business prospects and still demonstrates good faith in repaying the KUR. Fourth, the debtor needs to have received the KUR with a contract between 2023 and June 2024 (Laras, 2024).

These criteria are essential to create legal certainty, prevent bad debts, and minimize moral hazard among debtors, which could otherwise adversely affect the national economy.

Restructuring Challenges for Banks

Under normal conditions, banks can adopt internal policies

to manage non-performing loans, commonly called the 3R policy: Rescheduling, Reconditioning, and Restructuring. Rescheduling involves adjusting the payment schedule of the existing credit. Reconditioning refers to altering the credit agreement terms between the bank and the debtor, excluding changes to the maximum credit amount. Restructuring involves modifying the financing structure provided by the bank to debtors who are at risk of payment difficulties (Marzuki, 2024). Restructuring may include extending the credit repayment period, reducing arrears on principal and interest, lowering interest rates, and providing additional credit facilities (Fatmarani, 2024).

In the plan to re-implement the KUR restructuring, the government has agreed to delegate the mechanism to the credit providers while still adhering to the guidelines set forth by the Financial Services Authority (OJK). As of now, it is unclear whether the OJK will issue a special regulation for the re-implementation of KUR restructuring for MSMEs or continue to use Regulation No. 40/POJK.03/2019 on the Assessment of Asset Quality of Commercial Banks (POJK No. 40 of 2019), which was originally implemented to address the economic impact of the Covid-19 pandemic.

For credit-granting banks, restructuring can help prevent an increase in NPLs, which would negatively impact the bank's financial performance and asset quality by enabling customers to continue making payments. It is well-known that a significant rise in non-performing loans can severely affect a bank's ability to maintain finan-

cial stability. Moreover, by assisting MSMEs through restructuring, banks contribute to economic stability, support job creation, and promote sustainable economic activities. This, in turn, enhances the bank's positive image, increases customer loyalty, and fosters the potential for MSMEs to become long-term clients.

According to Article 53 of POJK No. 40 of 2019, KUR restructuring can be applied to debtors who still have viable business prospects and are deemed capable of fulfilling their obligations after the credit restructuring. In this context, each lending bank is required to assess MSMEs whose credit will be restructured. The bank's preparedness in evaluating the debtor's business prospects, understanding their financial status through Know Your Customer (KYC) practices, and determining the debtor's collectibility level are crucial steps in preventing moral hazard behaviors, where debtors might exploit the KUR restructuring policy. A thorough and professional assessment will be key in ensuring the success of the KUR restructuring program for MSMEs.

Conclusion

The policy of re-implementing KUR restructuring is expected to provide legal certainty and support for MSMEs in overcoming financial challenges while ensuring that government assistance is effectively received by both MSMEs benefiting from KUR and the banks providing it. KUR restructuring can be a viable solution for MSMEs to sustain and grow their businesses, enabling them to meet bank installment payments. However, the challenge for banks lies in conducting careful and

professional assessments to identify MSMEs that genuinely qualify for KUR restructuring. Targeting the right recipients is crucial for the success of the KUR restructuring program, which will ultimately positively impact the performance and health of the banks involved.

Commission VI of the DPR RI should encourage the government to undertake socialization, provide assistance, and supervise MSMEs in implementing KUR restructuring. Additionally, Commission VI should remind state-owned banks distributing KUR to maintain professionalism when conducting KUR restructuring assessments. Meanwhile, Commission XI of the DPR RI needs to urge the OJK to promptly issue the legal framework for re-implementing KUR restructuring.

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