People's Business Credit (KUR): Between MSME Empowerment and Legal Deviation Loopholes

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A R T I C L E I N F O

Article history:
Received 26 October 2025
Revised 27 November 2025
Accepted 2 December 2025

Key words:
People's Business Credit,
Legal deviation,
Fictitious business,
Banking supervision,
Prudential principle.

A B S T R A C T

The distribution of People's Business Credit (KUR) as a strategic government program to empower Micro, Small, and Medium Enterprises (MSMEs) faces serious challenges in the form of legal deviation practices. This study aims to analyze legal deviations in KUR distribution and identify efforts to enhance supervisory effectiveness in preventing program misuse. The research employs a normative juridical approach with analytical descriptive specifications, examining positive legal provisions governing KUR and the various modes of deviation that occur. The findings reveal that legal deviations in KUR distribution include financial data manipulation, document forgery, fictitious business applications, collusion between business actors and bank officers, and fund misappropriation for purposes beyond business objectives. These practices violate Coordinating Minister for Economic Affairs Regulation Number 1 of 2022 and may be subject to criminal sanctions under Articles 263, 372, and 378 of the Indonesian Criminal Code, as well as corruption charges if they result in state financial losses. Banks as distributing institutions bear responsibility for implementing the prudential banking principle and the know-your-customer principle, while the Financial Services Authority holds authority to impose administrative sanctions on negligent banks. Preventive measures against KUR misuse require regulatory strengthening with clear criteria for productive and feasible businesses, stringent document verification, direct assessment of business existence, internal collusion prevention, fund utilization monitoring, and consistent law enforcement. Through such comprehensive strategies, the KUR program can be distributed with precise targeting and provide optimal contributions to MSME empowerment and national economic development.

INTRODUCTION

Small and Medium Enterprises (SMEs) have a strategic role in the Indonesian economy as the backbone of national economic development. This sector contributes significantly to job creation, economic growth, and poverty reduction. The resilience of SMEs in facing changes in the business environment is heavily influenced by the flexibility of the organizational structure applied by business actors, as an adaptive structure facilitates adjustment to constantly changing market conditions (Darmawan & Mardikaningsih, 2023). Good business knowledge management also serves as one of the sources of competitive advantage that helps SMEs maintain their position amidst competition (Darmawan, 2023). The expansion of employment generated by this sector also alters the patterns and dynamics of labor relations, including the welfare aspects of the workforce involved in it (Darmawan, 2023). The Indonesian government, through various policies, strives to encourage SME development, one of which is through the People's Business Credit

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(Kredit Usaha Rakyat - KUR) program launched to provide easier access to financing with subsidized interest.

The KUR program is designed to overcome capital constraints that have long been the main obstacle to SME development. The availability of business capital is indeed a major determining factor in increasing business income, alongside the education level of business actors and the utilization of technology in conducting production and marketing activities (Sinambela et al., 2021). Through this financing scheme, MSME actors obtain the opportunity to access business capital with lighter requirements compared to commercial loans. The business capital that has been acquired should ideally also be accompanied by steps to maintain legal aspects of business assets so that the built business value remains protected in the long term (Hidayat et al., 2024). The existence of the KUR program is expected to strengthen business capital capacity while encouraging the acceleration of real sector development and sustainable MSME empowerment (Wulandari & Setiyowati, 2022).

The distribution of KUR is regulated based on applicable legal provisions, including Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises as well as Government Regulation Number 7 of 2021 concerning Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. Such legal provisions essentially function like formal agreements binding the parties in business activities, so that clarity of rules becomes an important foundation for the creation of legal certainty in business practices (Da Silva et al., 2022). Both regulations establish MSME criteria for KUR recipients based on net worth, business capital, and annual sales results. With clear criteria, the KUR program is expected to be on target in supporting productive business development (Rahmanda et al., 2026). Such legal certainty also needs to be accompanied by the regulation of other obligations for business actors, including taxation aspects, so that fairness among business actors is maintained (Siswanto et al., 2024).

However, the implementation of the KUR program in the field faces various serious challenges. The practice of legal deviations in the distribution of KUR has become a problem that threatens the effectiveness of the program (Novianti, 2024). Various modes of misappropriation are found, including the submission of fictitious businesses, document falsification, financial data engineering, collusion between business actors and bank officers, and the misuse of funds for purposes outside the business objective (Purba et al., 2023). This kind of fund misuse is essentially closely related to the weak regulation of anti-money laundering in the financial sector, including in digital-based services increasingly used by business actors (Fiana et al., 2024). The tendency of some business actors to run activities without formal legal entities also opens up gaps for the emergence of fictitious businesses that are difficult for banks to verify regarding their existence (Hardyansah et al., 2024). These deviations increase the risk of non-performing loans and damage public trust in the KUR program.

The practice of legal deviations in the distribution of KUR causes financial losses to the state and financial institutions, as well as hinders the achievement of program objectives in empowering SMEs. Fictitious businesses that apply for KUR with fake data have no legal legitimacy and do not carry out real economic activities (Moeda et al., 2024). Enhanced law enforcement for legitimate business actors is also needed to protect MSMEs that run activities honestly from the adverse impacts of such fictitious business practices (Firdaus & Hardyansah, 2025). Consequently, the distributed credit cannot be repaid according to obligations, thereby adding to the burden of non-performing loans in the banking sector. This phenomenon indicates weaknesses in the monitoring and verification system of KUR distribution.

The prevention and prosecution of legal deviations in the KUR program constitute an urgent agenda that requires serious attention from various parties. Banks as channeling institutions have the responsibility to apply the prudence principle and the Know Your Customer (KYC) principle in every credit application process (Dediansyah et al., 2025). Consistent law enforcement has proven effective in preventing various fraudulent practices in business and investment activities, making a similar approach relevant to be applied in supervising KUR distribution (Saputra et al., 2021). The Financial Services Authority (Otoritas Jasa Keuangan - OJK) as the supervisor of the financial services sector has the authority to impose administrative sanctions on banks that neglect to carry out their obligations. Law enforcement through criminal and civil sanctions is necessary to provide a deterrent effect for perpetrators of deviations. The firm application of criminal sanctions against legal violations has proven capable of causing a deterrent effect for violators in various sectors, so the same approach should also be applied to deviations in KUR distribution (Martono et al., 2025).

This study aims to analyze legal deviation practices in the distribution of People's Business Credit (Kredit Usaha Rakyat) and identify efforts to improve supervision effectiveness to prevent program abuse. This research is important to provide intellectual contribution for policy improvement and the strengthening of the KUR supervisory system, so that the program aimed at empowering MSMEs can run in accordance with legal mandates and achieve the expected targets.

RESEARCH METHOD

This study uses a normative juridical approach with an analytical descriptive research specification. The normative juridical approach was chosen because the research focuses on analyzing the legal provisions governing the distribution of People's Business Credit (Kredit Usaha Rakyat) as well as the deviation practices occurring in its implementation. This research examines positive legal norms related to the KUR program, including Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, Government Regulation Number 7 of 2021 concerning Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, as well as the Regulation of the Coordinating Minister for Economic Affairs Number 1 of 2022 concerning People's Business Credit.

The type of data used in this research is secondary data obtained from primary legal materials and secondary legal materials. Primary legal materials consist of laws and regulations governing MSMEs and KUR, the Indonesian Criminal Code (Kitab Undang-Undang Hukum Pidana), the Indonesian Civil Code (Kitab Undang-Undang Hukum Perdata), as well as Law Number 31 of 1999 jo. Law Number 20 of 2001 concerning the Eradication of Corruption Crimes. Secondary legal materials include scientific literature, legal journals, scientific articles, and previous research results relevant to the discussion of KUR and legal deviations in credit distribution. Tertiary legal materials in the form of legal dictionaries and encyclopedias are used to clarify legal terms used.

Data collection techniques were carried out through literature studies by examining various legal documents and literature related to the KUR program. The collected data was then analyzed qualitatively using legal interpretation methods, which is the interpretation of statutory provisions to find the meaning and intent of the lawmakers. The analysis was conducted using a systematic approach, which involves interpreting legal provisions by connecting them with other articles in the same regulation or other related regulations (Feler, 2025). This approach aims to obtain a comprehensive understanding regarding KUR regulations and the mechanisms for preventing legal deviations.

This research also uses a case approach to identify the modes of deviation occurring in the distribution of KUR. Cases found in various literature are analyzed to uncover patterns of violations and weaknesses in the existing supervisory system. The analysis results are then used to formulate strategies for increasing the effectiveness of supervision and preventing KUR abuse.

RESULT AND DISCUSSION

The Essence and Legal Basis of the KUR Program

The provision of credit is one of the main instruments in encouraging economic growth. This activity is part of the banking function as an intermediary institution that gathers and channels public funds into consumer and productive sectors, thereby significantly influencing national economic development (Abdulkadir, 2022). The People's Business Credit (Kredit Usaha Rakyat - KUR) program emerged as a strategic government program to provide easier access to financing for MSME actors through a subsidized interest scheme lower than commercial loans. Funds obtained from such financing schemes are ideally managed with good operational governance to be able to encourage optimal business performance while fostering the social responsibility of business actors towards their surrounding environment (Barzani et al., 2022). This program aims to strengthen business capital capacity in the context of accelerating the development of the real sector and empowering MSMEs (Wulandari & Setiyowati, 2022). The success of utilizing such capital is also determined by the psychological factors of business actors, because a positive work attitude will foster a commitment to running a business sustainably (Darmawan & Mardikaningsih, 2022). Responsible business management, including the efficient use of resources, is also an important part so that business growth driven by KUR continues to run sustainably (Mardikaningsih & Nuraini, 2022).

The criteria for MSMEs eligible to receive KUR are regulated based on Law Number 20 of 2008 and Government Regulation Number 7 of 2021, which establish indicators of net worth, business capital, and annual sales results. Based on Law No. 20 of 2008, the net worth limit for micro enterprises is 50 million Rupiah, small enterprises is more than 50 million up to 500 million Rupiah, and medium enterprises is more than 500 million up to 10 billion

Rupiah. Meanwhile, Gov. Reg. No. 7 of 2021 sets the business capital limit for micro enterprises at a maximum of 1 billion Rupiah, small enterprises at more than 1 billion up to 5 billion Rupiah, and medium enterprises at more than 5 billion up to 10 billion Rupiah. The annual sales revenue limit in Gov. Reg. No. 7 of 2021 is 300 million Rupiah for micro enterprises, more than 300 million up to 2.5 billion Rupiah for small enterprises, and more than 2.5 billion up to 50 billion Rupiah for medium enterprises (Ardhiansyah & Mustofa, 2025). The achievement of these criteria is generally inseparable from the role of business owners in applying appropriate leadership patterns, because a good leadership style will shape a positive work climate and encourage work behavior that supports business growth (Mardikaningsih et al., 2022).

Businesses that are legitimate and recognized as MSMEs must have a real existence and operate within the framework of applicable law, including compliance with business registration, obtaining required permits, reporting according to regulations, and transparent and orderly financial records (Solihat, 2025). The utilization of technology in practice also helps business actors carry out such administrative governance more orderly, including in financial recording and business reporting (Darmawan, 2024). The readiness of business actors to fulfill these various administrative obligations can also be improved through proper job training, because capacity building of human resources also supports the smoothness of coordination in running a business (Fared & Darmawan, 2021). The fulfillment of these requirements provides legal protection and appropriate access to financing for MSMEs.

Forms and Modes of Legal Deviations in the Distribution of KUR

The implementation of the KUR program faces serious challenges in the form of legal deviation practices. Based on Law Number 3 of 1982 concerning Mandatory Company Registration, a business is defined as all activities in the economic sector aimed at obtaining profits. However, deviation practices in KUR instead lead to unreal economic activities and are carried out with the intent to deceive in order to illegally obtain profits (Rahmanda et al., 2026). In banking, this deviation is viewed as a form of fraud, where perpetrators utilize fake documents or misleading information to obtain credit without the intention of running a legitimate business. Provisions regarding digital credit distribution within the framework of business law and financial markets emphasize that every financing facility should ideally be accompanied by a monitoring mechanism capable of detecting deviations from the application stage (Yuristiawan et al., 2024). Compliance with moral values and legal rules in corporate managerial decision-making also acts as a determining factor for channeling institutions to prevent such fraudulent practices (Halizah et al., 2024).

One of the dominant forms of deviation is the submission of fictitious businesses, where perpetrators use false data or engineering to get credit facilities. Fictitious businesses do not meet the criteria of productive and feasible businesses as stipulated in the Regulation of the Coordinating Minister for Economic Affairs Number 1 of 2022 Article 3 paragraph (2), thus they lack legal legitimacy and have the potential to harm financial institutions as well as the state (Purba et al., 2023). Businesses that are feasible to receive KUR must be able to generate profits that allow debtors to pay interest and return principal debts according to the agreed timeframe, making strict business verification an absolute requirement (Adzkia et al., 2024). Differences in contract structures between private ownership and individual business entities also affect liability risks and asset protection of owners, making accurate mapping of business status an important part of the verification process (Akbar et al., 2024). The principle of dividing obligations among parties in the distribution agreement is also relevantly applied to the KUR scheme, given that protection for parties acting in good faith needs to be guarded so they are not harmed by parties abusing credit facilities (Kurniawan et al., 2024). The authority of administrators or directors in managing business entities, along with the inherent legal responsibilities attached to them, also serves as a reference to assess the validity of a business before credit is approved (Nugroho et al., 2024).

The modes of KUR misappropriation reflect the sophistication of the perpetrators. Financial data engineering is carried out by manipulating figures of income, assets, and business information to look more profitable in the eyes of the bank, because perpetrators realize their actual financial capacity is insufficient to obtain the expected credit limit (Esmail et al., 2023). Document falsification includes corporate establishment deeds, identity cards, additional collateral documents such as freehold land titles, building use rights, use rights, customary land management rights, and vehicle ownership documents (BPKB), including changes in marital status, employment status, and age. Fictitious businesses are created by borrowing names or other people's businesses to meet the administrative requirements of KUR applications that necessitate the existence of a legitimate and registered business. Corporate responsibility for various forms of violations, including those occurring in the digital realm, demonstrates the importance of strict business governance so that fraudulent practices are not allowed to develop within financial institutions (Batubara et al., 2024). Collusion between perpetrators and bank officers indicates systemic problems that require serious attention from various parties. Disputes arising from such deviations can be resolved through arbitration and mediation as part of the national legal framework, so resolution does not always depend on formal judicial processes (Junaidi et al., 2024). The consequences of breach of contract (wanprestasi) in various forms of digital-based business transactions also show that the abuse of financial facilities has the potential to cause widespread losses for related parties (Anggoro et al., 2024). KUR funds are also misused for personal interests such as buying luxury goods or investments outside the business field, thereby hindering the main objective of the program in supporting MSME development. A culture of innovation that balances technological speed with humanitarian value considerations is needed so that digital transformation in credit distribution remains anchored in the principles of prudence and responsibility (Darmawan, 2023).

Impact of Deviations and Legal Consequences

Legal deviations in the KUR program have a significant impact on risks and trust. Loopholes in the verification and supervision system are exploited by fictitious business actors, thereby increasing the non-performing loan (NPL) rate and damaging public trust in a program that is supposed to empower MSMEs sustainably (Widnyana et al., 2024). These deviations also have the potential to cause state losses through corruption practices in the distribution of KUR (Purba et al., 2023). This condition is increasingly concerning considering that conventional business actors who run their businesses honestly must struggle to maintain their businesses amidst market competition, while the credit funds that should support this group instead flow to unauthorized parties (Arifin et al., 2022).

From the perspective of criminal law, fictitious business actors who use false data or documents can be charged under Article 378 of the Indonesian Criminal Code regarding fraud, namely the use of a false name, false dignity, trickery, or a series of lies to move other people to surrender something. Document falsification such as Micro and Small Business Permits (IUMK) or financial reports constitutes a criminal offense as regulated in Article 263 of the Indonesian Criminal Code regarding the falsification of letters or documents (Okprianti et al., 2025). The embezzlement of KUR funds can be charged under Article 372 of the Indonesian Criminal Code. Internal bank involvement that assists or conspires with fictitious business actors can be categorized as a corruption crime if such collusion harms state finances, in accordance with Law Number 31 of 1999 jo. Law Number 20 of 2001 concerning the Eradication of Corruption Crimes. Such collusion issues can actually be minimized if ethical values and organizational culture are instilled consistently as instruments for preventing conflicts of interest within the internal environment of financial institutions (Khayru et al., 2021). The abuse of authority by bank officers in granting KUR to unqualified customers can be considered an abuse of authority as regulated in Article 421 of the Indonesian Criminal Code. The application of ethical principles in every business decision-making process also determines the continuity of the institution as well as good relationships with external parties, including customers and regulators, so such abuses of authority should ideally be prevented from the outset (Mardikaningsih & Darmawan, 2022).

In the realm of civil law, debtors who falsify data to obtain credit are considered to have breached the credit agreement which requires the provision of true and honest information about their business, thus they can be categorized as committing a breach of contract / wanprestasi (Wijaya & Kursiswanti, 2025). Article 1239 of the Indonesian Civil Code states that every unfulfilled engagement must be settled with the obligation to provide compensation in the form of costs, losses, and interest. The lack of integrity in conveying business information honestly also reflects the debtor's weak commitment to the principle of transparency that should be built from the beginning of the contractual relationship, just as integrity is important to maintain in every form of business communication to other parties (Essa & Mardikaningsih, 2021). Banks or financial institutions that suffer losses due to the distribution of KUR to fictitious businesses have the right to file a civil lawsuit to demand the return of funds, and the court can order the seizure of the perpetrator's assets if proven to be obtained from the proceeds of fraud or manipulation.

The Role of Banks and OJK in the Distribution of

KUR

Banks play an important role in distributing KUR appropriately. According to Sumarsik and Hariasih (2018), a bank is a financial institution whose activities involve collecting public funds and channeling them back in the form of credit as well as issuing banknotes to improve the standard of living of the community (Sari & Imaningsih, 2022). Banks involved in distributing KUR to deviation perpetrators can face serious legal consequences regarding the obligation to apply the prudential banking principle. Failure to comply with this principle poses significant legal and reputational risks for banking institutions (Rorong, 2019). Ethical-based leadership in the banking environment plays a major role in shaping a positive and sustainable work culture, so that the prudence principle can truly be applied consistently by every rank, rather than merely serving as an administrative formality (Mardikaningsih et al., 2022).

Banks are also obliged to implement the Know Your Customer (KYC) principle, which requires the identification and verification of customer identity before providing services, including the distribution of KUR. If deviation practices occur, it can be concluded that the bank has violated the KYC principle, which has the potential to damage its reputation in the eyes of the public and investors. The optimization of large-scale data management can help banks make more precise decisions and support the formulation of more measurable business strategies, including in detecting anomalies in customer data during the KYC verification process (Ali & Darmawan, 2023). A decline in customer trust has a negative impact on the number of customers served as well as the bank's image in the financial market, making compliance with KYC a key to public trust (Rahmiyati & Rimayanti, 2024). The application of digital technology in the customer verification process also needs to pay attention to the readiness of all bank employees, including senior workers, so that the transition to a digital system runs evenly without leaving behind any of the existing human resources (Darmawan, 2023).

The Financial Services Authority (Otoritas Jasa Keuangan - OJK) has the authority to supervise and regulate banking institutions in the process of distributing KUR. If banks do not apply the prudence principle, the OJK can impose administrative sanctions in the form of financial fines adjusted to the severity of the violation, dismissal as a KUR channeler if fictitious business practices or other non-compliance are found, and restrictions on business activities such as a ban on providing new loans until the issue is resolved (Andini & Wantu, 2023). The effectiveness of supervision conducted by both the OJK and banks is also determined by employee productivity in carrying out monitoring duties in the digital era, where human resource creativity and innovation become supporting factors for thoroughness in detecting violations (Darmawan, 2023). These sanctions have a significant impact on reputation and financial loss for the bank in question, making the role of the OJK crucial in maintaining the credibility and security of KUR distribution.

Prevention Strategies and Supervisory Strengthening

Regulatory strengthening is a fundamental step in minimizing fictitious business practices. The formulation of clearer and stricter regulations is required to ensure transparency and the authenticity of the data submitted, covering higher standards for the verification of business legality documents, financial reports, and applicant identity (Wulandari & Herwastoeti, 2025). More specific arrangements regarding the obligation of financial institutions to conduct due diligence and field verification before approving credit applications are crucial to minimize the risk of fictitious credit. Regulatory uncertainty also poses a distinct managerial challenge for channeling institutions, making business sustainability strategies capable of adapting to rule changes an urgent necessity so that KUR distribution continues to run safely (Mardikaningsih & Darmawan, 2021).

The Regulation of the Coordinating Minister for Economic Affairs Number 1 of 2022 has regulated the implementation of KUR covering distribution, reporting, guidance, supervision, and evaluation, and emphasizes that KUR is intended for productive and feasible businesses (Purnawan et al., 2023). However, the regulation does not explicitly state clear criteria to determine productive and feasible businesses, thereby creating the potential for diverse interpretations among channeling institutions and enabling the distribution of credit to businesses that do not meet the qualifications. The absence of strict standards increases the risk of abuse due to the lack of objective measures to assess business feasibility. A strict legal framework is also needed to prevent unhealthy business practices that harm MSME actors, just as legal protection is important for small businesses from various forms of market deviations (Indarto et al., 2023).

Business feasibility assessment is the primary responsibility of banks through analysis in accordance with the prudence principle and KYC.

The prudence principle demands in-depth checking of document completeness, the validity of business legality, and the business prospects of prospective debtors (Sari, 2023). The KYC principle requires an understanding of customer profiles, financial histories, and business backgrounds to avoid the risk of granting credit to irresponsible parties. However, the lack of clarity of criteria in regulations causes the analysis process to be subjective and potentially increases the risk of abuse or assessment errors. The ability of bank officers to adapt to changes in verification technology also determines the accuracy of this assessment, because employees' self-confidence in operating new systems is closely related to the consistency of business feasibility analysis results (Mardikaningsih & Darmawan, 2022).

Regulatory clarity is the main key to KUR distribution. The formulation of regulations must establish clear and measurable criteria to define productive and feasible businesses, covering indicators of minimum turnover, number of employees, and relevant business sectors (Purnawan et al., 2023). Comprehensive guidelines for channeling institutions in conducting business feasibility assessments consistently are needed, covering methods and evaluation indicators that can be applied objectively in credit decision-making. The drafting of such criteria can refer to juridical studies regarding the standards for fulfilling small and medium business requirements, as applied in certification arrangements for MSMEs that demand clear indicators and assessment mechanisms (Hakiky et al., 2023). A more adaptive and gradual approach in drafting these guidelines is also needed so that channeling institutions can respond to changing field conditions quickly and flexibly (Darmawan, 2021).

Sanctions for KUR violations in applicable regulations are generally only applied if the debtor defaults (wanprestasi), so more comprehensive regulations are needed to include sanctions for debtors proven to present false data or commit fraud starting from the application process, not just when default occurs (Bertrand & Mazza, 2022). Periodic audits of KUR channeling institutions are important to ensure the implementation of the prudence principle and thorough verification of debtor data. Such risk mitigation arrangements are in line with the need for legal protection in other technology-based financing schemes, where the clarity of sanctions and supervision become determining factors for fund security for lenders and borrowers alike (Sahid et al., 2023).

Strengthening Document Verification and Fictitious Business Detection

The prevention of document engineering can be done by requesting digital financial statements such as bank statements for the last three months, which are difficult to manipulate because transaction data is generated in real-time by the banking system. Transaction proofs such as receipts or purchase bills for the last two months can be examined to identify differences between new and old documents through physical inspection of paper and ink feasibility, enabling banks to detect document authenticity and prevent data manipulation (Esmail et al., 2023). The validity of such electronic documents also needs to be reviewed from the perspective of digital transaction legal protection, given that the validity of data recorded electronically becomes an important basis in assessing the authenticity of prospective debtors' financial proof (Sulaiman et al., 2023).

Identity document verification (KTP and KK) is carried out by matching data with the Department of Population and Civil Registration (Disdukcapil) to detect discrepancies in age, marital status, or occupation indicating falsification. Company establishment deeds are validated through the online system of the Ministry of Law and Human Rights at http://ahu.go.id to check authenticity and detailed information. Additional collateral documents are verified through SAMSAT for vehicle ownership documents (BPKB) and the National Land Agency (BPN) for freehold land titles, building use rights, use rights, and business premise use rights (Handayani et al., 2025). This kind of cross-system verification process demands that employees possess adequate knowledge to carry out routine jobs that are increasingly automated, so the thoroughness of inspection does not solely depend on the system, but also on the readiness of the human resources operating it (Darmawan, 2024).

The assessment of fictitious business existence is conducted through in-depth interviews regarding the reason for opening the business, establishment background factors, initial capital, and business management journey. The prospective debtor's inability to provide consistent answers or lack of understanding regarding the proposed business serves as an indication of a fictitious business. Checking the issuance date of business permits newly made before credit applications indicates that the business was established solely to meet administrative requirements. The principles of honesty and good faith in business relationships ought to be the basis of every business application, as emphasized by the importance of an ethical foundation in other business relations that similarly affect performance and trust between parties (Putra et al., 2022). Environmental confirmation with residents within a 10-meter radius of the business location can reveal unfamiliarity with the business or its owner as an indication of a fictitious business (Sukmawati et al., 2025). The involvement of surrounding residents in this confirmation process also reflects the importance of business actors' social responsibility towards the environment where they operate, as highlighted in studies regarding the obligations of major investment project actors toward surrounding communities (Aryanto et al., 2024).

The prevention of collusion between bank officers and debtors requires the implementation of strict rules with serious consequences such as immediate dismissal and reporting to the authorities (Thalib et al., 2025). If collusion is detected, legal steps are immediately taken through criminal mechanisms or administrative sanctions to provide a deterrent effect and maintain the integrity of banking institutions as well as public trust (Thalib et al., 2025). Strict rule enforcement against this collusion is rooted in the application of ethical principles in every business decision-making process, because decisions deviating from ethical values tend to harm institutional continuity and relations with external parties (Mardikaningsih & Darmawan, 2022).

The use of funds according to the objective can be ensured through a Budget Plan (Rencana Anggaran Biaya - RAB) adjusted to the requested fund amount. The RAB reveals fund allocation in detail, thus facilitating supervision and ensuring utilization for productive activities. Strict RAB verification minimizes the potential for mark-ups or fund misuse, and increases the accountability of fund recipients as the alignment between plans and realization becomes an indicator of program success (Surbakti et al., 2023). The clarity of such fund allocation arrangements can also be compared with cost-sharing schemes in other forms of business cooperation, where the firmness of rules regarding financial obligations between parties similarly determines the compliance and accountability of beneficiaries (Putra & Wibowo, 2023). Periodic supervisory visits to the business premises ensure business continuity and the proper use of disbursed funds.

Effective supervision functions preventively by signaling clearly that every action is under close scrutiny. Real legal risks in the form of criminal or administrative sanctions reduce the intention to commit deviations. This approach must be complemented by a transparent reporting mechanism and strict law enforcement against every violation to provide a deterrent effect. Consequently, public trust in the KUR program remains preserved, and funds are distributed in accordance with economic and social development objectives.

CONCLUSION

The practice of legal deviations in the distribution of People's Business Credit (Kredit Usaha Rakyat) is a serious issue that threatens the effectiveness of the MSME empowerment program. Various modes of deviation have been found, including financial data engineering, document falsification, submission of fictitious businesses, collusion between business actors and bank officers, and the misuse of funds for purposes outside the business objective. This practice violates the legal provisions governing KUR, including the Regulation of the Coordinating Minister for Economic Affairs Number 1 of 2022 which requires productive and feasible businesses as recipients of KUR.

Legal deviations in the KUR program result in an increase in non-performing loan risks, state financial losses, and a decline in public trust in the program. Fictitious businesses do not meet the criteria as legitimate businesses as regulated in Law Number 20 of 2008 and Government Regulation Number 7 of 2021, thus they are not entitled to receive KUR facilities. Perpetrators of deviations can be subject to criminal sanctions under Article 263, Article 372, and Article 378 of the Indonesian Criminal Code, as well as corruption criminal sanctions if internal bank involvement harms state finances.

Banks as channeling institutions have the responsibility to apply the prudence principle and the Know Your Customer (KYC) principle in the distribution of KUR. The failure of banks to apply these two principles has the potential to cause significant legal and reputational risks. The Financial Services Authority (Otoritas Jasa Keuangan) has the authority to impose administrative sanctions in the form of financial fines, dismissal as a KUR channeler, and restrictions on business activities for banks that neglect to carry out their obligations.

Efforts to increase the effectiveness of supervision and prevention of KUR abuse require a comprehensive strategy that includes strengthening regulations, strict document verification, direct assessment of business existence, prevention of internal collusion, monitoring of fund utilization through a Budget Plan (Rencana Anggaran Biaya), and periodic visits to business premises. Clarity of productive and feasible business criteria in regulations is the main key to avoiding diverse interpretations among channeling institutions.

The government needs to formulate regulations that establish clear and measurable criteria to define productive and feasible businesses, covering indicators of minimum turnover, number of employees, and relevant business sectors. KUR channeling banks are obliged to strengthen document verification mechanisms by utilizing online systems of the Ministry of Law and Human Rights, the Civil Registration Office (Disdukcapil), the Vehicle Registration Office (SAMSAT), and the National Land Agency (BPN) to ensure the validity of identity documents, company establishment deeds, and additional collateral documents.

Enhanced supervision must be carried out through direct verification of the physical existence of the business, in-depth interviews with prospective debtors, and confirmation from the surrounding environment of the business location. Banking institutions are obliged to apply strict sanctions in the form of dismissal and reporting to the authorities for bank officers involved in collusion with fictitious business actors. KUR recipients are required to prepare a Budget Plan accompanied by periodic reports on the realization of fund utilization to ensure funds are used according to the objective.

The Financial Services Authority needs to increase the frequency of audits and examinations of KUR channeling institutions to ensure compliance with the prudence principle and the Know Your Customer principle. Law enforcement against perpetrators of deviations must be carried out consistently through criminal, civil, and administrative mechanisms to provide a deterrent effect. An education program is needed for debtors regarding rights and obligations in credit applications as well as the legal consequences of presenting false data or document falsification.

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