

ASSESSING THE IMPACT OF GOVERNMENT
CREDIT GUARANTEE SCHEME (KUR) FOR MICRO,
SMALL AND MEDIUM ENTERPRISES ON POVERTY
REDUCTION IN INDONESIA

BY

SUBKHAN

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the degree of doctor of philosophy (Economics)

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International Islamic University Malaysia

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ABSTRACT

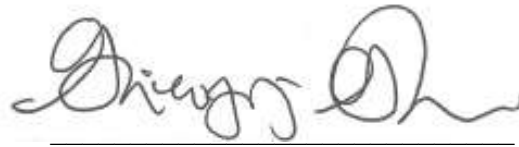
The main objective of this study is to measure the impact of the Government Credit Guarantee scheme (Kredit Usaha Rakyat/KUR) on poverty reduction as characterized by the household welfare improvement. A total of 739 respondents were chosen based on a purposive random sampling method. This study employed a cross-sectional design to examine whether participation in KUR programs improves household welfare in the Central Java Province (two cities and five districts). To collect the data, this study developed two instruments- the first instrument was a questionnaire adapted from several previous studies and the second instrument was an in-depth interview to collect data related to the suggested solution. Accordingly, the logistic regression model is implemented to analyze the impact of the KUR program on household welfare improvement. This study provides the evidence of the impact of access to KUR on household welfare improvement. There are four dimensions to measure the welfare improving goals of a household, namely, (i) extreme poverty alleviation, (ii) housing improvement, (iii) children's education and healthcare, and (iv) household information and communication technology (ICT). Access to KUR has a positive effect on all those three dependent variables of extreme poverty eradication, namely monthly income, monthly food expenditure, and monthly non-food expenditure. In housing improvement, access to KUR has a positive impact on four out of seven variables. These four variables include living space in square meter per adult, improvement on access to clean water and drinking water, better electricity, and improvement on facilities for bathing, washing and toilet. On the other hand, access to KUR has no significant effect on homeland status; roof, floor and wall; and waste water disposal system. In children's education and healthcare, access to KUR has a positive impact on health care expenditure and medical treatment for children. In household information and communication technology (household ICT), access to KUR has a positive impact on the ownership of personal computer, ownership of cellular phone and improvement in internet access. Finally, this study provides several suggestions from experts for overcoming the challenges of the accessibility of MSMEs to KUR for welfare improvement. These suggestions include: 1) training and technical guidance for MSMEs; 2) assistance to MSMEs that have run a business; 3) empowerment of modern financial management and digital marketing. Bank officers need to conduct a field survey to find out what problems are experienced by prospective debtors. In addition, the government must also disseminate KUR programs regularly to the public.

خلاصة البحث

الهدف الرئيسي من هذا البحث هو قياس تأثير خطة ضمان الانتمان الحكومية (انتمان الشركات الشعبية/KUR) على تخفيف حدة الفقر التي تتميز بزيادة في رعاية الأسرة. وقد تم اختيار 739 مجيباً على أساس طريقة اختيار العينات العشوائية القصدية. تستخدم هذه الدراسة تصميمًا مستعرضًا لدراسة ما إذا كانت المشاركة في برنامج انتمان الشركات الشعبية/KUR تؤدي إلى تحسين رفاهية الأسرة في مقاطعة جاوى الوسطى (مدينتان وخمس مناطق). من أجل جمع البيانات، تستخدم هذه الدراسة أداتين؛ الأداة الأولى هي استبانة تم إعدادها من العديد من الدراسات السابقة والأداة الثانية هي مقابلة متعمقة لجمع البيانات المتعلقة بالحل المقترح. تم تطبيق نموذج الانحدار اللوجستي لتحليل تأثير برنامج انتمان الشركات الشعبية/KUR على تحسين رفاهية الأسرة. تقدم هذه الدراسة دليلًا على تأثير الوصول إلى برنامج انتمان الشركات الشعبية/KUR على تحسين الرعاية المنزلية. هناك أربعة أبعاد لقياس الهدف المتمثل في تحسين رعاية الأسرة، وهي (1) تخفيف حدة الفقر المدقع؛ (2) تحسينات الإسكان؛ (3) تعليم وصحة الأطفال؛ و(د) تكنولوجيا المعلومات والاتصالات المنزلية (ICT). والوصول إلى برنامج انتمان الشركات الشعبية/KUR له تأثير إيجابي على المتغيرات الثلاثة المعتمدة على التخفيف من حدة الفقر، وهي الدخل الشهري، والنفقات الغذائية الشهرية، والنفقات الشهرية غير الغذائية. فيما يتعلق بتحسين الإسكان، فإن الوصول إلى برنامج انتمان الشركات الشعبية/KUR له تأثير إيجابي على أربعة من المتغيرات السبعة. تشمل هذه المتغيرات الأربعة متوسط مساحة الأرض بالمتر المربع لكل شخص، وزيادة الوصول إلى المياه النظيفة ومياه الشرب، وتحسين الكهرباء، وتحسين مرافق الاستحمام والغسيل والمرحاض. من ناحية أخرى، فإن الوصول إلى برنامج انتمان الشركات الشعبية/KUR ليس له تأثير كبير على حالة ملكية المنزل؛ وجودة السقف والأرضيات والجدران؛ وأنظمة التخلص من المياه العادمة. من حيث التعليم والرعاية الصحية للأطفال، فإن الوصول إلى برنامج انتمان الشركات الشعبية/KUR له تأثير إيجابي على الإنفاق على الرعاية الصحية والرعاية الطبية للأطفال. في تكنولوجيا المعلومات والاتصالات المنزلية (تكنولوجيا المعلومات والاتصالات المنزلية)، فإن الوصول إلى برنامج انتمان الشركات الشعبية/KUR له تأثير إيجابي على ملكية أجهزة الكمبيوتر الشخصية، وملكية الهواتف الخلوية، وزيادة الوصول إلى الإنترنت. أخيرًا، تقدم هذه الدراسة بعض النصائح من الخبراء للتغلب على تحديات إمكانية الوصول إلى المشاريع الصغيرة والمتوسطة الحجم إلى برنامج انتمان الشركات الشعبية/KUR لتحسين الرعاية الاجتماعية. وتشمل هذه الاقتراحات ما يلي: (1) التدريب والتوجيه الفني للمشاريع الصغيرة والمتوسطة الحجم؛ (2) تقديم المساعدة للشركات الصغيرة والمتوسطة التي تدير أعمالاً؛ (3) تمكين الإدارة المالية الحديثة والتسويق الرقمي؛ (4) حاجة مسؤولي البنوك إلى إجراء مسح ميداني لمعرفة المشكلات التي يواجهها المدين المحتمل. بالإضافة إلى ذلك، يجب على الحكومة أيضًا نشر برنامج انتمان الشركات الشعبية/KUR بانتظام على الجمهور.

APPROVAL PAGE

The dissertation of Subkhan has been approved by the following:



Gairuzazmi Mat Ghani
Supervisor

Norma Md. Saad
Co-Supervisor

Mohd Asmy Thas Thaker
Internal Examiner

Nor Azam Abdul Razak
External Examiner

Naziruddin Abdullah
External Examiner

Erry Yulian Triblas Adesta
Chairman

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Subkhan

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LIST OF ABBREVIATIONS

BDS	Business Development Service
BNI	Bank Negara Indonesia
BPD	Bank Pembangunan Daerah
BRI	Bank Rakyat Indonesia
EH	Education and Health
HI	Housing improvement
ICT	Information and Communication Technology
KUR	Kredit Usaha Rakyat
MDGs	Medium Development Goals
MSMEs	Micro Small and Medium Enterprises
NPL	Non Performing Loan
NPWP	Nomor Pokok Wajib Pajak
PR	Poverty Reduction
RO	Research Objectives
RQ	Research Questions
RTM	Rumah Tangga Miskin)
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
TNP2K	Tim Nasional Percepatan Penanggulangan Kemiskinan
WI	Welfare Improvement

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Two fundamental problems faced by developing countries, including Indonesia are: (1) high economic disparity or inequality in income distribution between high-income groups and low-income groups, and (2) higher level of poverty or the number of people living below the poverty line and high unemployment rate. In order to reduce poverty, create jobs, and decrease the income gap, the Indonesian government has issued a policy package called the Master Plan for the Acceleration and Expansion of Poverty Reduction in Indonesia (MP3KI). The master plan is directed through the integration and synergy of poverty alleviation program and adapted to the conditions of each region/area. In the implementation, this master plan is grouped into four clusters:

Cluster 1: Assistance and social protection for the poor in the forms of school operation assistance, cheap rice for the poor, health insurance and assistance for the fulfillment of basic needs;

Cluster 2: Community Empowerment, a program to encourage self-reliance in poverty reduction among others in terms of providing infrastructure, promoting innovation, and improving the quality of human resources;

Cluster 3: Government program for the poor such as the procurement of low-cost housing, cheap public transportation, cheap electricity program, a community-based drinking water program; and

Cluster 4: Credit program for micro, small, and medium enterprises (MSMEs) or commonly known as the Government Credit Guarantee (Kredit Usaha Rakyat/KUR).

KUR is a form of microfinance provided for MSMEs that have the ability to build productive enterprises (feasible), but has limitations in meeting the requirements of the bank to get loan/financing. KUR is a microfinance program with a maximum value (for each recipient) of Rp500,000,000 (US\$40,000) distributed to MSMEs and guaranteed by the government through guaranteed institutions namely, PT Jamkrindo and PT Askrindo, PT Jamkrida Jatim, and PT Jamkrida Bali Mandara.

According to Law No.20/ 2008, the main purpose of the Government Credit Guarantee is to accelerate the development of economic activities in the real sector, alleviate poverty, expand work opportunities, and improve household welfare. The detailed objectives of the KUR program are as follows:

- a. Accelerate real sector development and empower micro, small, and medium enterprises and cooperatives (UMKMK)
- b. Increase access to finance of MSMEs and develop their access to the financial institution.
- c. As part of poverty alleviation efforts and measures to expand job opportunities.
- d. Reduce income inequality among societies.

MSMEs play an important role in the Indonesian economy. MSMEs can provide jobs and drive the economy, especially the primary and secondary sectors so as to improve household income. For low-income or poor people in rural areas, MSMEs are very important as these enterprises have been an important engine for the development of local economy and community (Tambunan, 2008).

In 2012, MSMEs contributed 58.1% to GDP, 97.2% of the creation of employment opportunities, and 14.1% of the export revenue (Ministry of SMSEs, 2014). This indicates that MSMEs have a major role in stimulating economic growth, creating jobs, and strengthening export structure as well as accelerating poverty reduction (Firdausy, 2005; LIPI, 2012). To support MSMEs, on June 8, 2007, the Indonesian government launched the Presidential Decree No. 6/2007 on the Acceleration of Real Sector Development and MSMEs Empowerment. One important step in the implementation of the Decree was the Credit Guarantee Program for MSMEs or so-called microfinance program for MSMEs. The main goal of this scheme is to improve the access of MSMEs to sources of capital from formal financial institutions in order to accelerate poverty reduction, employment creation, and income generation.

Since it was launched in 2007, implementation of the KUR program has shown continued improvement. In the period from 2008 to 2018, the number of banks and financial institutions participating in the program has grown from six national banks to 41 banks and financial institutions including cooperatives. In the same period, the number of KUR customers increased nearly five-fold from 2.3 million to 11.9 million people. Meanwhile, the amount of loans disbursed through the KUR scheme increased by about 16 times from 11.5 trillion rupiah to 186.1 trillion rupiah. Up to 2018, the cumulative amount of funds that has been channeled through the KUR program exceeded 341.7 trillion rupiah with payback rate of 9 percent.

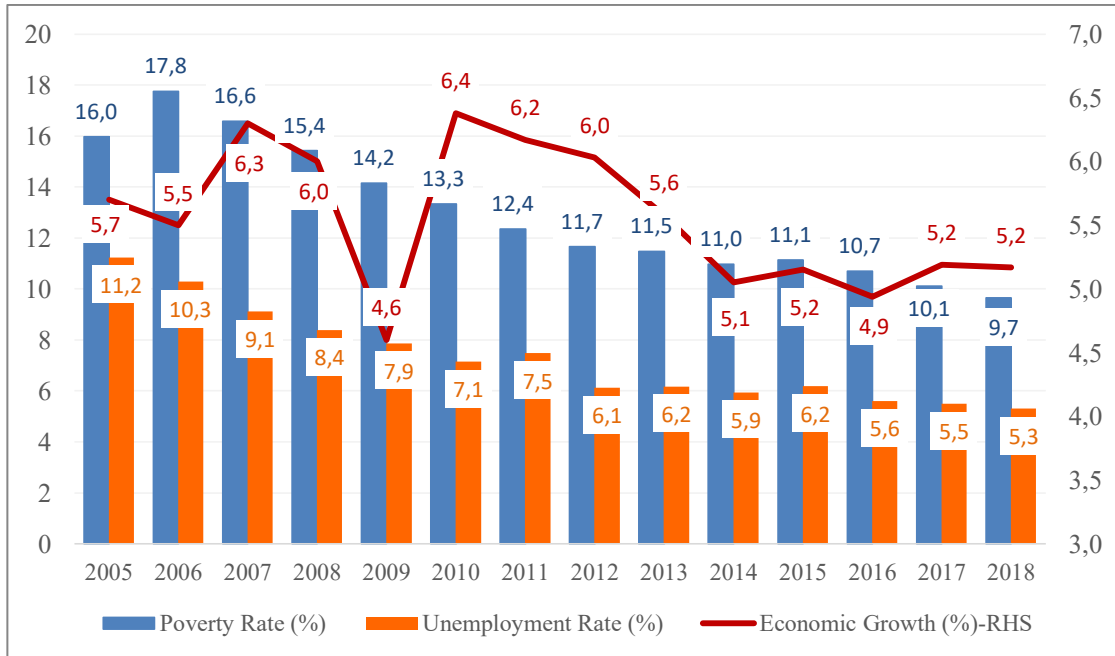
Within the period of 2010 to 2018, the actual distribution grew by an average of 30.7% per year, while the proposed distribution only increased by an average of 16.6% per year. Not surprisingly, the realization of KUR, especially since 2011, has always exceeded the target set by the government. This is an indication that the demand from MSMEs for KUR program is much higher than that assumed by the government. Since it was first launched by the Coordinating Ministry for Economic Affairs in 2007, the KUR program itself has evolved as a form of government adaptation to the needs of the community and national economic conditions. In 2018, the Coordinating Ministry for Economic Affairs together with related ministries/institutions re-established new policies regarding KUR. In this new policy, the government sets KUR with an interest rate of 7% per year and a varied subsidy scheme for each KUR category in the range of 5.5%-14%. Meanwhile, the total ceiling for the distribution of KUR in 2017 reached 123.631 trillion rupiah, which was distributed to various productive sectors, such as agriculture, forestry, fisheries, processing industries, trade, construction, and services.

As previously explained, one of the main purposes of KUR program is poverty alleviation. Poverty is defined as the condition of households or individuals when they are economically unable to access the set of goods and services needed to ensure a better life in the society. This inability is characterised by low levels of income to meet basic needs in the form of food, clothing, and housing which adversely affects the ability of households to meet the basic living standards, such as health and education. A specific threshold or poverty line is required to measure economic poverty. This threshold is used to distinguish between the poor and non-poor population (Feng, 2004). Suryawati (2004) and Feng (2014) divide poverty into absolute poverty and relative poverty. Absolute poverty is a poverty concept that

refers to the absolute poverty line (threshold) or a fixed standard of what households should be able to count on in order to meet their basic needs. Absolute poverty describes the condition in which the household or individual income is below the poverty line so that the income is not sufficient to meet their basic needs for food, clothing, health, housing, and education in order to improve the quality of life.

Meanwhile, the concept of relative poverty is poverty measured using relative threshold, that is, a cut-off point in relation to the overall distribution of income or consumption in a country. Relative poverty illustrates the forms of poverty that occur because of the benefit of the development policies that have not reached the whole society resulting in income inequality or welfare inequality. Several factors directly or indirectly cause poverty, namely: (1) low quality and achievement of economic growth; (2) the instability of the macroeconomic and financial sector; (3) low levels of net wages and unequal income distribution; (4) low level of employment; (5) declining tax revenues, subsidies, and social expenses; (6) lack of use of technology, and (7) low levels and types of education.

The Indonesia Statistical Agency published the poverty gap index (P1) and poverty severity index (P2). The poverty gap index (P1) indicates the average size of each expenditure gap of the poor to the poverty line. The higher the index, the farther the average spending of the population from the poverty line. In addition, the poverty severity index (P2) provides an overview of the spread of expenditure among the poor. The higher the index value, the higher the expenditure inequality among the poor. As a developing country, Indonesia uses the absolute poverty in measuring the poverty rate. Over the last fourteen years, Indonesia has experienced strong economic growth and the poverty rate has declined steadily from 16.0% (2005) to 9.7% (2018).

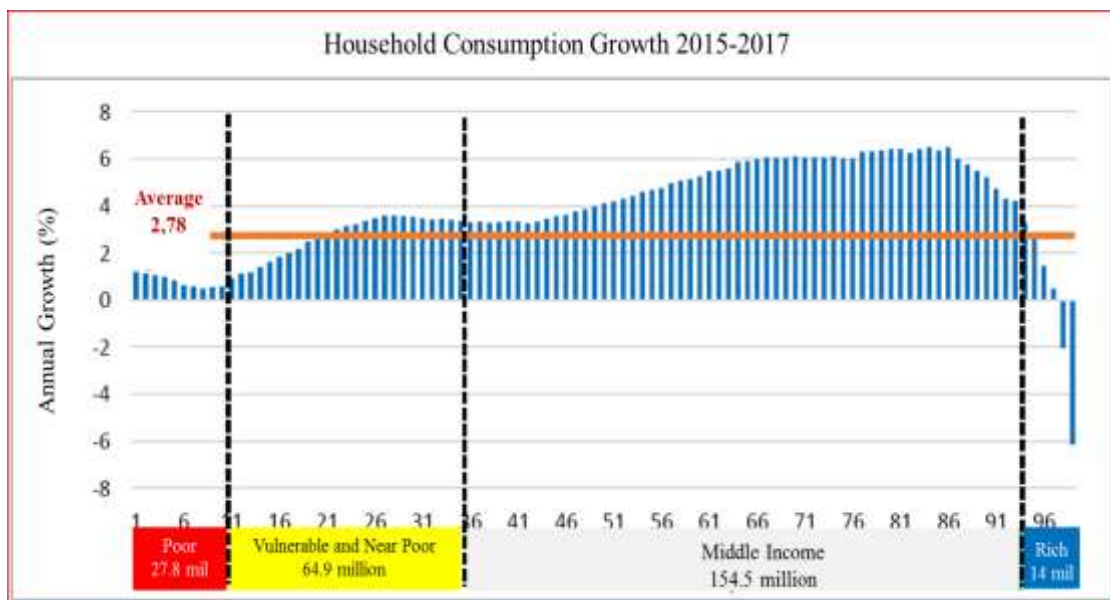


Source: Indonesia Central Bureau of Statistics (2019)

Figure 1.1 Steady Reduction in Poverty and Unemployment Rate in Indonesia

Despite the high economic growth and continued decline in poverty rate, there are still many vulnerable households on the edge of the poverty line. Relatively small shocks could cause the vulnerable households to fall into poverty. In 2011, only 12.5% of households were below the poverty line, but nearly 40% were below 1.5 times of the poverty line. Households move in and out of poverty easily with 55% of poor households in 2010 were not poor in 2009. At present, there are more than 24% of the population classified as vulnerable and near-poor, who need a different approach from the poor. In addition, it is important to remember that the national poverty reduction policy objective is not only to help poor families get out of poverty traps but also strengthen the resilience of vulnerable and near-poor groups in dealing with economic shocks so that they do not enter into the poverty gap.

In the period of 2015 to 2017, the people's per capita consumption had grown positively by 2.8%. The middle class experienced the highest growth with an average of 5.1% per year while the poor and vulnerable /near poor group grew an average of 2.2% per year. However, the richest 2% of the population experienced negative growth on their per capita consumption.



Source: Indonesia Central Bureau of Statistics (2018)

Figure 1.2 Annual Household Consumption Growth 2015-2017

In terms of human development index (HDI), although included in the category of countries with high human development, compared with other 189 countries, Indonesia ranked 111th in 2019. This showed a decrease of the human capital compared to several years before in which Indonesia was ranked at 108th. The low level of human development index in Indonesia, among others, is caused by high level of poverty. In September 2017 the poverty rate was still quite high at 10.12% with the number of people living below the poverty line reached 27.8 million people.

The amount of KUR, poverty situation, and human development in Indonesia can be shown in Table 1.1.

Column 1 and Column 2 describe the total amount of KUR disbursed by the government to each province and the total number of KUR beneficiaries, respectively. Column 3 and Column 4 explain the human development index in each province. This index was calculated based on the new method as suggested by UNDP. Column 5 to Column 11 describe the poverty indices in each province based on three different poverty line incomes (PLIs), namely provincial PLI, national PLI, and international PLI.

The poverty incidence is highly sensitive to poverty line income (PLI) – the minimum level of income required by an average family to have access to the essential goods and services required to live a reasonably comfortable life (Pramanik, et al., 2009). When PLI increases, poverty incidence will always increase and vice versa. If international PLI (US\$1.25 per head per day) is used, the incidence of overall poverty becomes more than three-fold at national level. Col. 7 describes the poverty reduction rate (PRR) in each province based on provincial poverty line income. Poverty reduction rate in Indonesia appears to vary among provinces.

Table 1.1 KUR, Human Development Indices (HDI) and Poverty Incidences

Province	KUR Up to 2017 (Million Rupiah)	Number of KUR Recipient	HDI		Poverty Indices (in %)						
			2014	2017	PLI Prov.*			PLI Nat.**		PLI Int.***	
					2014	2017	PRR	2014	2017	2014	2017
			Col.1	Col.2	Col.3	Col.4	Col.5	Col.6	Col.7	Col.8	Col.9
Very High Human Development											
DKI Jakarta	9,838,179	301,390	0.784	0.805	4.1	3.6	-13.2	0.3	0.1	3.6	2.1
High Human Development											
DI Yogyakarta	5,774,334	223,138	0.768	0.795	14.6	11.8	-18.8	13.4	11.0	39.4	25.6
Kalimantan Timur	4,193,167	148,143	0.738	0.758	6.3	6.1	-4.0	1.2	0.6	7.9	3.8
Kepulauan Riau	1,747,231	53,312	0.734	0.748	6.4	5.8	-8.9	0.9	0.9	8.7	5.5
Bali	10,411,943	319,906	0.725	0.748	4.8	3.9	-17.9	5.9	5.2	23.0	14.4
Riau	6,394,655	197,275	0.703	0.724	8.0	7.2	-9.8	3.0	3.3	18.7	10.0
Sulawesi Utara	2,507,124	99,411	0.686	0.722	8.3	7.6	-8.1	18.4	12.5	40.2	24.9
Banten	5,886,583	207,590	0.699	0.720	5.5	5.3	-4.7	6.7	4.1	25.5	13.4
Sumatera Barat	7,535,077	289,670	0.694	0.717	6.9	6.6	-4.9	4.1	3.0	22.0	11.2
Jawa Barat	35,622,847	1,722,593	0.688	0.713	9.2	7.3	-21.0	13.9	9.9	37.7	22.4
Aceh	4,372,502	191,784	0.688	0.712	17.0	15.7	-7.7	10.0	9.3	34.6	22.3
Sumatera Utara	12,213,967	440,676	0.689	0.712	9.9	8.9	-9.2	8.1	6.6	13.6	18.9
Jawa Tengah	48,231,682	2,446,318	0.688	0.711	13.6	11.2	-17.6	23.9	17.2	48.8	33.1
Sulawesi Selatan	16,154,655	695,807	0.664	0.709	9.5	8.9	-7.0	30.4	18.2	48.4	31.4
Jawa Timur	44,745,948	2,241,447	0.681	0.708	12.3	10.9	-11.6	18.5	14.4	26.3	17.7
Kepulauan Bangka Belitung	1,382,718	49,875	0.683	0.707	5.0	4.8	-4.0	0.6	0.2	5.4	1.5
Jambi	5,035,167	141,267	0.682	0.707	8.4	7.9	-6.4	8.8	3.6	32.8	11.5
Bengkulu	2,935,984	111,336	0.681	0.706	17.1	15.4	-9.8	11.6	6.9	37.5	18.7
Sulawesi Tenggara	3,578,985	133,131	0.685	0.706	12.8	11.3	-11.4	33.0	22.2	53.3	35.2

Kalimantan Tengah	3,023,046	104,193	0.678	0.704	6.1	5.1	-16.0	5.3	4.4	21.6	13.6
Kalimantan Selatan	5,404,541	217,410	0.676	0.702	4.8	4.7	-3.3	4.3	3.8	20.3	11.7
Medium Human Development											
Sumatera Selatan	6,378,984	207,912	0.668	0.694	13.6	12.8	-5.9	17.5	12.6	42.6	27.0
Lampung	8,040,433	375,535	0.664	0.690	14.2	13.0	-8.4	15.9	12.9	45.2	29.2
Sulawesi Tengah	3,510,156	126,596	0.700	0.689	13.6	13.7	0.6	12.7	13.3	37.3	27.3
Maluku	1,378,920	57,667	0.622	0.689	18.4	17.9	-3.2	11.6	12.3	31.6	26.9
Maluku Utara	711,298	24,427	0.667	0.678	7.4	6.6	-10.7	9.3	6.1	32.4	20.0
Gorontalo	1,594,657	85,397	0.681	0.677	17.4	15.8	-9.1	35.9	25.8	52.7	40.2
Nusa Tenggara Barat	5,527,802	244,367	0.643	0.673	17.1	14.6	-14.2	23.3	17.7	50.0	33.1
Kalimantan Barat	3,465,775	105,674	0.649	0.670	8.1	7.4	-8.7	13.1	7.6	36.6	19.4
Sulawesi Barat	1,355,440	42,713	0.652	0.651	12.1	11.2	-6.9	32.1	22.3	61.3	41.0
Nusa Tenggara Timur	3,720,968	147,270	0.623	0.644	19.6	21.0	7.3	37.2	28.8	66.0	48.9
Papua Barat	1,197,160	37,126	0.613	0.637	26.3	22.7	-13.7	11.6	13.5	32.3	23.7
Papua	2,843,428	84,566	0.568	0.601	27.8	27.4	-1.3	20.5	16.9	44.8	29.8
Indonesia	277,438,375	11,896,700	0.689	0.714	11.0	9.7	-11.9	11.0	9.7	37.3	23.8

Source: Indonesia Central Bureau of Statistics (2015 and 2018) and Ministry of Finance (2018)

Note:

* Poverty Line Income: in provincial level

** Poverty Line Income: in national level

*** Poverty Line Income; in international level

US\$1 = Rp14,200 (in 2018)