



The Impact of Microenterprise Credit Disbursement on the Profitability of State-Owned Banks

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ABSTRACT

This study aims to analyze the effect of People's Business Credit (KUR) distribution on the profitability of state-owned banks for the 2017-2024 period. Profitability is measured using Return on Assets (ROA), with Non-Performing Loans (NPL) and Operating Expenses to Operating Income (BOPO) as control variables. The data used is annual panel data analyzed using panel data regression with a Fixed Effect Model (FEM). The results show that KUR has a negative but insignificant effect on ROA. NPL has a negative and significant effect on ROA, while BOPO has a negative but insignificant effect. Simultaneously, all variables have a significant effect on profitability. These findings indicate that bank profitability is more influenced by credit quality and operational efficiency than by increased KUR distribution.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have an important role in the Indonesian economy, but still face obstacles in obtaining access to financing. (Bank Indonesia, 2020) To address these issues, the government developed the People's Business Credit (KUR) program as a subsidized financing scheme aimed at increasing access to capital for MSMEs. (Coordinating Ministry for Economic Affairs, 2020) Since its launch, KUR distribution has continued to increase and has become a key instrument in supporting economic growth and post-pandemic recovery.

State-owned banks such as BRI, BNI, Bank Mandiri, and BTN are the main distributors of the national People's Business Credit (KUR). On the one hand, increased KUR distribution has the potential to increase bank revenue through credit growth. However, on the other hand, the relatively low interest rate characteristic of KUR can limit banks' profit margins. This raises questions about the extent to which KUR distribution can support bank profitability. KUR distribution occurs on a very large scale and is one of the most significant productive financing interventions in the national banking system. (Assistant Deputy for Capital Markets and Financial Institutions, 2024).

From the perspective of the Theory of Financial Intermediation, banks function as intermediary institutions that channel funds to productive sectors to stimulate economic growth. The success of this function is reflected in the bank's ability to generate profits, generally measured by Return on Assets (ROA). In addition to lending, bank profitability is also influenced by credit quality and operational efficiency, as reflected in the NPL and BOPO ratio.

The dualism of the KUR, which functions as a public policy instrument but also as part of a bank's credit portfolio, presents a dilemma for banking management. From an asset perspective, increasing KUR disbursement could expand a bank's total credit holdings and potentially increase interest income. However, KUR's low interest margins, coupled with substantial credit risk and high operational costs, could reduce bank profits. (Farida et al., 2018).

From a financial performance perspective, bank profitability is the main indicator for seeing the level of health and efficiency of a bank in carrying out its intermediation function. (Spaseska et al., 2025). According to the results of the OJK (Banking Surveillance) quarterly survey as of December 2023, the banking industry's ROA level was at 2.74%. (OJK, 2023) This figure reflects that, on a macro level, the banking sector is still able to maintain stable profitability amidst the ongoing economic dynamics. This ROA stability also indicates that banks in Indonesia, including state-owned banks as the primary distributors of KUR, are still able to effectively manage their assets to generate profits while simultaneously fulfilling their intermediary function in supporting the real sector. (OJK, 2024).

This study uses NPL and BOPO as control variables to account for other factors that may affect bank profitability. NPL reflects credit risk, while BOPO represents the bank's operational efficiency. The inclusion of these variables aims to provide a more accurate estimation of the effect of KUR disbursement on ROA by considering the credit risk and operational efficiency of each bank.

This study employs **panel data**, which combines cross-sectional and time-series data from several state-owned banks observed over the study period. This approach allows the study to capture differences in bank characteristics as well as changes in each bank's conditions over time. In addition to providing a larger number of observations, the use of panel data enables a more comprehensive analysis of the effect of KUR disbursement on the profitability of state-owned banks.

Research on banking profitability generally focuses on internal factors such as NPL, BOPO, CAR, and LDR, while research specifically examining the effect of KUR on bank profitability is still relatively limited, especially for state-owned banks as the main distributors of KUR. Therefore, this study contributes to enriching the literature on the relationship between subsidized credit programs and banking performance through a panel data analysis of four state-owned banks for the period 2017–2024. This study aims to analyze the effect of KUR distribution on the profitability of state-owned banks by considering the influence of credit quality and operational efficiency.

LITERATURE REVIEW

Financial Intermediation Theory

The theory of financial intermediation put forward by Gurley & Shaw (1960) explains that banks act as intermediaries between parties with funds and parties needing funds by reducing information asymmetry, transaction costs, and differences in liquidity preferences. This role was later expanded by Allen & Santomero (1998) which emphasizes the bank's role as a risk manager through the credit selection and monitoring process. In the context of this research, intermediation theory is relevant to explaining the distribution of People's Business Credit (KUR) by state-owned banks. As credit aimed at MSMEs with relatively higher risk levels and lower interest margins due to government subsidies, KUR requires banks to manage risk effectively while maintaining profitability. Therefore, intermediation theory serves as a foundation for understanding how KUR distribution can affect the profitability of state-owned banks.

Previous research on bank profitability generally focused on internal bank ratios such as BOPO, CAR, LDR, and NPL. Only a few studies included KUR as an independent variable. For example, a study by Yunus et al. (2019) This study discusses the impact of KUR on BRI Syariah for the 2019–2023 period, demonstrating that KUR has a significant positive impact on ROA. Therefore, the results of this study are expected to fill the gap in the literature regarding the relationship between government financing programs and financial performance at state-owned banks.

Several previous studies have shown that credit distribution is associated with various aspects of economic and banking performance. Setyawati & Hartono (2025) found that access to microcredit through the KUR program has a positive relationship with household energy consumption, indicating that KUR can provide economic benefits to financing recipients. Meanwhile, Boadi et al. (2017) demonstrated that financing for SMEs contributes significantly to bank profitability in Ghana, although the effectiveness of SME loan management was

not consistently significant across all models. Similarly, Wu et al. (2022) found that credit growth has a positive effect on ROA and is related to credit risk. These findings suggest that increased credit distribution, including KUR, has the potential to contribute to bank performance and profitability. However, studies specifically examining the effect of KUR distribution on ROA among Indonesian state-owned banks remain limited. Therefore, this study seeks to address this gap by examining the relationship while incorporating NPL and BOPO as control variables.

H1: It is suspected that KUR distribution has a significant effect on the profitability of state-owned banks.

Relationship between KUR and ROA

The relationship between KUR distribution and bank profitability as measured by ROA can be explained through financial intermediation theory. Gurley & Shaw (1960). This theory states that banks function as intermediaries, channeling funds to the productive sector to generate income. In this context, KUR is a productive asset with the potential to increase interest income and bank profitability by increasing the volume of credit disbursed. Despite having a lower interest rate than commercial loans, KUR can still contribute to bank profits due to its large disbursement volume. However, this impact is highly dependent on the quality of the loans disbursed. Increased credit risk can lead to higher NPLs and provisioning costs, thereby depressing bank profitability.

Several studies have shown that MSME credit distribution, including the People's Business Credit (KUR), tends to have a positive impact on ROA because it increases productive assets and bank revenue. Therefore, KUR distribution is expected to improve the profitability of state-owned banks if combined with effective credit risk management and maintained financing quality.

The following figure shows the conceptual framework that explains the relationships between the variables in this study.

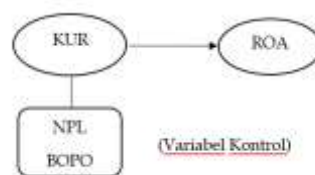


Figure 1. Conceptual Framework

METHODOLOGY

In this study, a quantitative approach with a panel data regression technique is used to investigate the impact of KUR distribution on the profitability of state-owned banks, proxied by return on assets (ROA). Secondary data from bank annual reports covering the years 2017–2024 were used. A more thorough examination of the relationship between variables is made possible by the use of panel data, which combines temporal (time series) and individual (cross-section) dimensions. This study population includes all banks in Indonesia. Purposive sampling is the method employed, and it is based on the requirements of being a state-owned bank with complete data that distributes

KUR. Based on these criteria, four banks were obtained as research samples: BRI, BNI, Bank Mandiri, and BTN.

To select the best research model, the Chow and Hausman tests were performed. Once the research model was determined, classical assumption tests were conducted, including multicollinearity, heteroscedasticity, and autocorrelation. Multicollinearity was tested by examining the correlation values between variables, and heteroscedasticity was tested by using the ABSRESS test. The Durbin-Watson test was used to detect the presence of autocorrelation in this study.

In a panel data regression framework, hypothesis testing employs the t-test (partial) and the F-test (simultaneous). Furthermore, the ability of the independent variable to explain changes in the dependent variable is measured using the coefficient of determination (R²) (Gujarati & Porter, 2009). The dependent variable in this study is bank profitability, proxied by ROA. The independent variable used is KUR, with NPL and BOPO as control variables. The following is the formulation of the panel data regression model utilized in this investigation:

$$ROA_{it} = \alpha + \beta_1 LnKUR_{it} + \beta_2 NPL_{it} + \beta_3 BOPO_{it} + \varepsilon_{it}$$

RESEARCH RESULT

Chow Test

Table 1. Chow Test Results

<i>Effects Test</i>	<i>Statistics</i>	<i>df</i>	<i>Prob.</i>
<i>Cross-section F</i>	25.687419	(3.25)	0.0000
<i>Cross-section Chi-square</i>	45.014629	3	0.0000

Based on table 1, the probability value is $0.0000 < 0.05$, so the Fixed Effect Model was chosen. This model was chosen because it is able to capture and accommodate heterogeneity or differences in specific characteristics in each cross-section in the analysis.

Hausman test

Table 2. Hausman Test Results

<i>Test Summary</i>	<i>Chi-Sq. Statistic</i>	<i>Chi-Sq. df</i>	<i>Prob.</i>
<i>Random cross-section</i>	77.062256	3	0.0000

The test results show a probability value of 0.0000, lower than the 0.05 significance limit. Therefore, the Fixed Effect Model (FEM) is considered more appropriate than the Random Effect Model (REM). Based on the Chow and Hausman tests, this study used the FEM model and did not require additional testing with the Lagrange Multiplier test.

The Fixed Effect Model (FEM) is used because it can account for time-invariant differences in the characteristics of each state-owned bank during the study period. Each bank has specific characteristics, such as business scale, business strategies, and internal policies, which may affect ROA. By using FEM,

these individual differences can be controlled, allowing for a more accurate estimation of the effects of KUR, NPL, and BOPO on ROA.

Multicollinearity Test

Table 3. Multicollinearity Test Results

	NPL	LNKUR	BOPO
NPL	1	-0.096268	0.756454
LNKUR	-0.096268	1	0.060458
BOPO	0.756454	0.060458	1

Because all correlation values between independent variables have not above the designated critical limit, which is appropriate for use in regression analysis, the multicollinearity test results in Table 3 demonstrate that there is no hint of multicollinearity in the model.

Heteroscedasticity Test

Table 4. Results of Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.104297	0.231846	0.449857	0.6567
LNKUR	-0.003114	0.010733	-0.290163	0.7741
NPL	0.006439	0.031257	0.206003	0.8385
BOPO	0.000234	0.003135	0.074780	0.9410

The test's probability value is higher than the significance level of 0.05. This suggests that heteroscedasticity is not present in the model. As a result, the error variance might be regarded as homoscedastic or constant.

Autocorrelation Test

Table 5. Durbin-Watson Results

Durbin-Watson stat	1.745066
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In the results of panel data regression testing using the Fixed Effect Model, the Durbin-Watson value obtained was 1.745066, which was around the number 2, which indicated that the regression model did not identify autocorrelation.

Panel Data Regression Analysis

Table 5. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.385889	0.809589	7.887820	0.0000
LNKUR	-0.061181	0.037478	-1.632440	0.1151
NPL	-0.665525	0.109148	-6.097434	0.0000
BOPO	-0.019858	0.010947	-1.814126	0.0817
R-squared	0.935884	Mean dependent variable		2.371250
Adjusted R-squared	0.920496	SD dependent var		1.143906
SE of regression	0.322541	Akaike info criterion		0.765466

<i>Sum squared residual</i>	2.600814	Schwarz criterion	1.086095
<i>Log likelihood</i>	-5.247451	Hannan-Quinn criter.	0.871745
<i>F-statistic</i>	60.81964	Durbin-Watson stat	1.745066
<i>Prob(F-statistic)</i>	0.000000		

The results of the regression estimation using FEM which has been natural logarithmed produce the following equation:

$$\widehat{ROA}_{it} = 6.385889 + 0.061181 \ln KUR_{it} - 0.665525 NPL_{it} - 0.019858 BOPO_{it} + \varepsilon_{it}$$

The regression equation shows that the profitability of state-owned banks, as proxied by ROA, is influenced by KUR, NPL, and BOPO. A constant value of 6.385889 indicates that when all independent variables are held constant, ROA is estimated at 6.38%. The KUR coefficient of -0.061181 indicates that a 1% increase in KUR distribution tends to decrease ROA by 0.061 points, indicating a negative relationship. Meanwhile, the NPL coefficient of -0.665525 indicates that every 1% increase in NPL will decrease ROA by approximately 0.66%, while the BOPO coefficient of -0.019858 indicates that a 1% increase in BOPO will decrease ROA by approximately 0.02%. These results indicate that increasing non-performing loans and low operational efficiency tend to decrease bank profitability.

t-Test (Partial)

The partial test results show that the KUR variable does not have a significant effect on ROA because it has a probability value of 0.1151 (>0.05), so the hypothesis that KUR has an effect on ROA is rejected. Conversely, NPL has a negative and significant effect on ROA with a probability value of 0.0000 (<0.05), which indicates that increasing non-performing loans will reduce bank profitability. Meanwhile, BOPO has a negative direction of influence on ROA, but it is not statistically significant because its probability value is 0.0817 (>0.05).

F Test (Simultaneous)

The F-test results show an F-statistic value of 60.81964 with a Prob(F-statistic) of 0.000000 (<0.05). This indicates that the KUR variable as an independent variable, as well as NPL and BOPO as control variables, simultaneously influence the profitability of state-owned banks as proxied by ROA. Thus, the regression model used is considered feasible and able to explain the relationship between KUR distribution and bank profitability by considering credit risk factors and operational efficiency simultaneously.

Coefficient of Determination (R²)

The coefficient of determination test results show an R² value of 0.935884 and an Adjusted R² of 0.920496. These values indicate that the KUR, NPL, and BOPO variables are able to explain 93.58% of the variation in profitability of state-owned banks as proxied by ROA, while the remaining 6.42% is influenced by other factors outside the research model. The high Adjusted R² value also indicates that the regression model has excellent ability to explain variations in ROA.

DISCUSSION

The distribution of People's Business Credit (KUR) is expected to impact the ROA level. KUR is a form of bank funding distribution to the productive sector,

particularly MSMEs, which generates income in the form of credit interest. In accordance with Coordinating Minister for Economic Affairs Regulation Number 1 of 2023, the government is striving to expand access to MSME financing through the KUR program and provide interest subsidies to debtors. This policy encourages increased productive credit distribution. When KUR disbursement volume increases, banks have the opportunity to generate greater income, thus potentially increasing profits. This increase in profit will ultimately be reflected in an increase in ROA because banks are able to utilize their assets more productively. With an adjusted R-squared value of 0.920496, it can be seen that the combination of the KUR variable and the NPL and BOPO control variables accounted for 92.04 percent of the variation in banking profitability. External factors such as interest rates, management quality, capital structure, and macroeconomic conditions contributed 7.96 percent. From the perspective of financial intermediation theory Gurley & Shaw (1960) Bank profitability is influenced by the bank's effectiveness in carrying out its financial intermediation function. The success of this intermediation function is determined not only by the size of credit disbursement, such as through the People's Business Credit (KUR), but also by the bank's credit quality and operational efficiency. Therefore, the use of NPL and BOPO as control variables is important to ensure that the observed effect on profitability truly reflects the impact of KUR disbursement.

The results show that MSME disbursement does not have a significant effect on Return on Assets (ROA) of state-owned banks during the study period. This finding indicates that an increase in KUR disbursement was not necessarily followed by an increase in bank profitability. This may occur because KUR is intended to support business financing for the community and is accompanied by government interest subsidies, meaning that the benefits of KUR disbursement to banks may not be fully reflected in increased profits. In addition, a higher volume of KUR disbursement does not necessarily lead to greater profitability, as ROA is also influenced by other factors, such as credit quality, operational efficiency, and the bank's ability to manage its assets. Therefore, the findings suggest that the volume of KUR disbursement is not a primary determinant of changes in ROA among state-owned banks.

Furthermore, agency theory explains that management decisions related to credit distribution, credit risk control, and operational cost efficiency can affect overall bank profitability. Conflicts of interest between management and company owners can lead to overly aggressive decisions in credit expansion or suboptimal operational cost management, thus impacting bank profitability. From a public interest theory perspective, banking profitability is not only a company's internal interest, but also related to the stability of the financial system and the interests of the wider community. The KUR program is a form of government intervention in expanding access to MSME financing to encourage economic growth and equitable distribution of public welfare. Therefore, regulators such as the Financial Services Authority (OJK) and Bank Indonesia not only oversee credit distribution but also control the level of credit risk through NPL supervision and encourage banking operational efficiency through the application of prudential banking principles and good corporate governance. Thus, the use of NPL and BOPO as control

variables also reflects the importance of maintaining the stability and sustainability of the banking industry for the public interest.

The results of this study are in line with research Subianto et al. (2020) which shows that banking financial performance is jointly influenced by profitability ratios, credit risk, operational efficiency, and credit distribution activities. In addition, this research Yunus et al. (2019) also shows that KUR distribution, credit quality, and operational efficiency are related to changes in bank profitability so that intermediation and risk management need to be carried out in a balanced manner. Thus, the results of this study indicate that banking profitability is not only influenced by the distribution of KUR as an intermediation function, but is also influenced by the condition of credit risk and operational efficiency of the bank, which in this study is controlled through the NPL and BOPO variables.

CONCLUSION AND RECOMMENDATIONS

The results of the study on the effect of the People's Business Credit (KUR) on banking profitability, with NPL and BOPO as control variables, indicate that KUR distribution does not significantly affect bank profitability. Because the KUR program focuses more on social functions and empowering MSMEs than on commercial objectives, this indicates that increasing KUR distribution has not been able to directly increase bank profitability. Furthermore, the increase in KUR distribution caused by KUR's relatively low credit risk and interest margins is not always followed by a significant increase in bank profits. Using NPL as a control variable, banking profitability is significantly affected by NPL. This condition indicates that the level of non-performing loans is negatively correlated with a bank's ability to generate profits, due to increased loan loss provisions and disruptions to interest income. Conversely, the BOPO variable as a control variable does not have a significant impact on bank profitability, although it has a negative relationship. This indicates that bank profitability tends to decline if operating costs increase. However, some banks can still maintain their profits by increasing operating income and income based on costs. Simultaneously, the KUR variable, along with the control variables NPL and BOPO, is proven to have a significant effect on bank profitability. These findings indicate that bank profitability is influenced not only by credit distribution as an intermediary function, but also by credit quality and operational efficiency. Thus, banking profitability is the result of the interaction between the financial intermediation function, credit risk management, and operational efficiency.

ADVANCED RESEARCH

This study has limitations because it only focuses on the effect of People's Business Credit (KUR) distribution on the profitability of state-owned banks, as proxied by ROA. The research object is also limited to state-owned banks as the main distributors of KUR, with NPL and BOPO used as control variables to control for the influence of credit risk and operational efficiency. Therefore, further research is recommended to expand the observation period, increase the number of research objects, for example by involving regional development banks (BPD) or private banks that also distribute KUR, and include other variables outside the model, especially macroeconomic factors such as inflation,

interest rates, economic growth, or exchange rates. Thus, further research is expected to provide a more comprehensive picture of the factors that influence banking profitability.

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