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# Implementation of Bank Sanctions and Repressive Legal Remedies in Resolving Non-Performing Loans Resulting from the Misuse of People's Business Credit (KUR) by Debtors in Indonesia

**Ayahandono Kussetyadi[1], Appe Hutauruk[2], Hotman Sinambela[3], Fendi Maruba Parlindungan Hutahaean[4]**
Program Studi Ilmu Hukum, Fakultas Hukum, Universitas Mpu Tantular, Indonesia

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**Abstract**

*People's Business Credit (Kredit Usaha Rakyat/KUR) is a government financing program designed to improve access to capital for productive Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Despite its significant contribution to economic development, the implementation of KUR has encountered various legal challenges, particularly the misuse of loan funds by debtors for purposes inconsistent with the agreed credit objectives. Such deviations frequently result in non-performing loans, causing financial losses to banks and reducing the effectiveness of the KUR program. This study aims to examine the implementation of legal sanctions and the repressive legal remedies available to banks in resolving non-performing loans arising from the misuse of KUR by debtors in Indonesia. The research employs a normative legal method using statutory, conceptual, and case approaches. Primary, secondary, and tertiary legal materials were analyzed through a qualitative descriptive approach. The findings indicate that banks primarily impose civil sanctions based on credit agreements, including written warnings, debt collection, credit restructuring where legally justified, acceleration of loan repayment, and collateral execution in accordance with applicable laws and regulations. Furthermore, where evidence of fraud, document forgery, intentional misrepresentation, or other criminal acts is identified, banks may pursue criminal proceedings under the relevant provisions of Indonesian law. The study concludes that effective enforcement of contractual obligations, supported by comprehensive legal protection and prudent banking principles, is essential to safeguarding the sustainability of the KUR program and maintaining the stability of Indonesia's banking sector.*



***Corresponding Author:***
**Appe Hutauruk**
Program Studi Ilmu Hukum, Fakultas Hukum, Universitas Mpu Tantular, Indonesia
Email Coresspondent: appehuturuk@gmail.com

## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Indonesia's economic development by contributing significantly to employment creation, poverty reduction, and national economic growth. To strengthen MSMEs' access to financing, the Government of Indonesia introduced the People's Business Credit (Kredit Usaha Rakyat/KUR) program, which provides subsidized financing through banking institutions to productive yet financially underserved enterprises. Through this program, banks act not only as financial intermediaries but also as instruments supporting national economic policy. Consequently, the sustainability of KUR depends on the proper allocation and utilization of credit funds by debtors in accordance with the agreed financing objectives (Elliyana *et al.,* 2020).

The implementation of KUR has generated positive impacts on business development; however, its effectiveness is frequently undermined by the misuse of loan proceeds. In practice, some debtors divert KUR funds from productive business activities to personal or consumptive purposes, resulting in reduced business performance and ultimately increasing the number of non-performing loans (NPLs). Such conditions not only expose banks to financial losses but also weaken the government's objective of expanding productive financing for MSMEs (Orlando *et al.,* 2019).

Previous studies have primarily examined legal mechanisms for resolving non-performing loans from the perspective of general banking disputes. Research by Dewi et al. (2023) emphasizes that settlement of bad loans generally prioritizes negotiation, restructuring, and civil litigation after debtors fail to fulfill contractual obligations. Likewise, Soleha (2020) argues that credit restructuring constitutes the primary legal instrument before banks undertake more coercive legal actions. These studies provide valuable insights into loan recovery mechanisms but mainly focus on ordinary credit defaults rather than misuse of subsidized government credit schemes.

Other legal studies have analyzed debtor default and contractual liability within Indonesian banking law. Zen et al. (2024) explain that debtor default constitutes the legal basis for civil liability arising from credit agreements, while Goni (2016) highlights that improper utilization of loan facilities is among the major causes of non-performing loans under Indonesian banking regulations. Nevertheless, these studies concentrate predominantly on contractual breaches without specifically examining the legal consequences of diverting KUR funds from their intended purposes.

Research concerning banking prudence has further demonstrated the importance of preventive supervision in minimizing credit risk. Dwiantara et al. (2014) conclude that effective monitoring and restructuring may reduce the incidence of bad loans where debtors maintain good faith. However, the study does not distinguish between debtors experiencing genuine financial hardship and those intentionally committing moral hazard by misappropriating subsidized credit facilities.

Although previous literature has discussed credit restructuring, debtor default, banking supervision, and legal protection for creditors, limited attention has been devoted to the implementation of repressive legal remedies specifically applicable to debtors who intentionally misuse People's Business Credit (KUR). Existing studies generally address non-performing loans from a contractual perspective without comprehensively integrating banking regulations, contractual sanctions, collateral enforcement, and potential criminal liability arising from intentional diversion of subsidized loan funds (Santoso, 2022).

Accordingly, this study offers scientific novelty by developing a comprehensive legal analysis of the implementation of bank sanctions and repressive legal remedies in resolving non-performing loans resulting from the misuse of People's Business Credit (KUR). Unlike previous studies, this research integrates civil law, banking law, prudential banking principles, government regulations concerning KUR, and potential criminal sanctions into a single analytical framework to explain how Indonesian banks legally respond to intentional misuse of subsidized credit facilities (Hernoko, 2021).

Based on these considerations, this study aims to analyze the implementation of legal sanctions imposed by banks on debtors who misuse People's Business Credit (KUR) and to examine the effectiveness of repressive legal remedies in resolving non-performing loans under the Indonesian legal system. The findings are expected to contribute to the development of banking law, strengthen legal protection for financial institutions, and provide recommendations for improving the governance and supervision of government-supported credit programs (Suparni, 2020)..

## 2. METHOD

This study employed a normative legal research design to examine the implementation of bank sanctions and repressive legal remedies in resolving non-performing People's Business Credit (Kredit Usaha Rakyat/KUR) resulting from debtors' misuse of loan funds. Normative legal research focuses on analyzing legal norms, statutory provisions, legal doctrines, and judicial principles governing legal relationships between banks and debtors. This approach is appropriate because the study primarily investigates the application of banking law, contract law, and regulations governing KUR rather than measuring empirical variables (Soekanto & Mamudji, 2001).

The research adopted three complementary approaches. First, the statutory approach was applied to examine Indonesian legislation governing banking activities, credit agreements, and the implementation of People's Business Credit (KUR). Second, the conceptual approach was used to analyze legal doctrines concerning legal protection, contractual liability, prudential banking principles, and legal sanctions. Third, the case approach was employed to assess legal issues arising from the misuse of KUR funds by debtors and the legal consequences imposed by banks under applicable regulations (Soekanto, 2006).

The legal materials consisted of primary, secondary, and tertiary legal sources. Primary legal materials included the Civil Code (KUHPerdata), the Indonesian Banking Law, regulations governing People's Business Credit (KUR), and other relevant statutory instruments. Secondary legal materials comprised scholarly journal articles, legal textbooks, and previous research discussing banking law, non-performing loans, debtor default, and legal protection for creditors. Tertiary legal materials included legal dictionaries and legal encyclopedias used to clarify legal terminology and concepts (Bahsan, 2008).

Data collection was conducted through library research by reviewing legislation, legal literature, academic publications, and judicial documents relevant to the research topic. These legal materials were systematically classified according to the research objectives and subsequently examined to identify legal norms governing sanctions against debtors who misuse KUR facilities. The collected legal materials were then compared and interpreted to obtain comprehensive legal arguments supporting the analysis (Usman, 2012).

## 3. RESULTS AND DISCUSSION

### a. Legal Protection for Banks Against the Misuse of People's Business Credit (KUR)

People's Business Credit (Kredit Usaha Rakyat/KUR) represents a government-supported financing scheme intended to improve financial accessibility for productive Micro, Small, and Medium Enterprises (MSMEs). The legal relationship established between banks and debtors through KUR is fundamentally contractual, requiring each party to perform reciprocal obligations in accordance with the credit agreement. Banks are obligated to provide financing after conducting prudent credit analysis, while debtors are required to utilize the loan exclusively for the business purposes specified in the credit contract. Consequently, any deviation from the agreed purpose constitutes a legal violation that affects not only contractual obligations but also the effectiveness of public financing policies supporting national economic development (Hermansyah, 2014).

The findings of this study indicate that legal protection for banks originates primarily from contractual provisions governing the rights and obligations of both parties. Credit agreements expressly require debtors to allocate KUR funds for productive business activities. Where debtors intentionally redirect the funds toward consumptive expenditures or other unauthorized purposes, the resulting conduct constitutes a breach of contractual obligations. Such violations provide banks with legitimate legal authority to terminate financing facilities, accelerate repayment obligations, and pursue additional legal remedies available under Indonesian private law. These findings demonstrate that contractual clauses serve not merely as administrative requirements but as enforceable legal instruments ensuring accountability throughout the credit relationship (Sjahdeeni, 2010).

The research further reveals that prudential banking principles significantly strengthen the legal position of banks before and after loan disbursement. Prior to approving KUR applications, banks conduct comprehensive assessments concerning the debtor's character, repayment capacity, business feasibility, collateral, and economic conditions. Nevertheless, despite rigorous credit evaluation, post-disbursement monitoring remains equally essential because misuse frequently occurs after financing has been released. This finding suggests that legal protection cannot rely solely upon preventive credit assessment but must also incorporate continuous supervision capable of detecting deviations at an early stage before they develop into non-performing loans (Djumhana, 2012).

Another important finding concerns the legal significance of good faith in implementing credit agreements. The study demonstrates that misuse of KUR funds reflects not merely financial inability but intentional disregard for contractual commitments. The absence of good faith fundamentally alters the legal position of debtors because contractual protection under Indonesian civil law presupposes honest performance of agreed obligations. Once intentional misuse has been established, banks acquire stronger legal justification to discontinue accommodative measures and proceed with stricter legal enforcement. Consequently, legal protection for banks functions simultaneously as a mechanism to preserve contractual certainty and maintain public confidence in government-sponsored financing programs (Badrulzaman, 2011).

The present findings differ from conventional studies emphasizing financial aspects of credit risk management. Rather than viewing non-performing loans solely as economic consequences of business failure, this research demonstrates that intentional diversion of KUR funds constitutes a distinct legal issue involving contractual liability, abuse of subsidized public financing, and potential violations extending beyond ordinary debtor default. This distinction is particularly important because legal responses toward intentional misuse should differ from responses applicable to debtors experiencing genuine business difficulties. Accordingly, the legal framework must distinguish between business failure arising from market conditions and non-performing loans caused by deliberate misconduct (Fuady, 2014).

These findings also provide a broader contribution to Indonesian banking law by emphasizing that legal protection for banks should be interpreted as protection of both private contractual rights and public economic interests. Since KUR involves government-supported financing intended to stimulate productive economic activities, misuse of loan funds undermines not only the financial interests of banks but also the broader policy objectives underlying the national credit program. Therefore, effective legal protection requires the integration of contractual enforcement, prudential supervision, and regulatory compliance to ensure that subsidized financing continues to achieve its intended socio-economic purposes (Marpaung, 2011).

### b. Implementation of Bank Sanctions for Debtors Misusing People's Business Credit (KUR)

The findings demonstrate that the implementation of sanctions against debtors who misuse People's Business Credit (KUR) follows a progressive legal mechanism rather than an immediate punitive approach. Banks generally begin by identifying whether the debtor's default arises from genuine business difficulties or from intentional misuse of loan proceeds. This distinction is essential because the legal consequences differ significantly according to the debtor's conduct and level of good faith. Where investigations reveal that KUR funds have been intentionally diverted from productive business activities to personal or consumptive purposes, banks are legally justified in imposing contractual sanctions based on the provisions contained in the credit agreement (Subekti, 2008).

The first sanction commonly implemented is the issuance of written warnings followed by intensive collection efforts. Written warnings serve not only as administrative procedures but also as formal legal notifications informing debtors that they have violated contractual obligations. The findings indicate that these warning letters provide debtors with an opportunity to restore compliance before stronger legal measures are applied. From a legal perspective, this procedure reflects the principle of proportionality because banks initially prioritize voluntary fulfillment of contractual obligations while simultaneously documenting the debtor's failure to perform. Consequently, written warnings become important legal evidence should future litigation become necessary (Sutarno, 2011).

The research further indicates that acceleration of loan repayment constitutes one of the most significant contractual sanctions available to banks. Once misuse of KUR funds has been verified, banks may terminate the credit facility and require immediate repayment of all outstanding obligations without waiting for the original maturity date. Such acceleration clauses are intended to minimize additional financial losses and prevent further deterioration of credit quality. The findings suggest that acceleration mechanisms provide legal certainty because debtors have previously agreed to these contractual provisions upon signing the credit agreement. Therefore, enforcement of accelerated repayment does not constitute arbitrary action but rather the implementation of mutually agreed contractual obligations (Khairandy, 2021).

Collateral execution also represents an important component of sanction implementation. The findings reveal that banks may proceed with executing collateral after debtors fail to comply with contractual obligations despite previous warnings and collection efforts. Execution of collateral functions not merely as a debt recovery mechanism but also as legal protection ensuring that banking institutions maintain financial stability while safeguarding public funds entrusted to them. Moreover, collateral execution reinforces the principle that contractual rights and obligations must be performed consistently to preserve legal certainty within banking transactions (Yahman, 2021).

Another important finding concerns the relationship between contractual sanctions and prudential banking supervision. The study indicates that sanctions imposed after misuse has been identified should not be interpreted as isolated legal actions but rather as part of an integrated risk management system. Banks continuously evaluate credit quality through monitoring activities, enabling early identification of irregularities before loans deteriorate into permanent losses. Effective monitoring therefore strengthens the legitimacy of subsequent sanctions because enforcement is supported by documented evidence demonstrating that debtors intentionally violated the agreed purpose of financing. This systematic process enhances both legal accountability and institutional transparency (Idroes, 2020).

Comparison with previous research reveals important differences. Earlier studies generally emphasize restructuring and negotiation as the preferred approaches for resolving non-performing loans. However, the present findings demonstrate that such accommodative measures become inappropriate where debtors intentionally misuse subsidized credit facilities. Deliberate diversion of KUR funds reflects moral hazard rather than temporary financial hardship, thereby requiring stronger contractual sanctions to preserve the integrity of government-supported financing schemes. Consequently, implementation of bank sanctions should be understood not merely as debt recovery but as an instrument for protecting public trust in Indonesia's banking system and ensuring that government credit programs continue to support productive economic activities (Gazali, 2022).

**c. Comparison with Previous Studies, Scientific Novelty, and Legal Implications**

The findings of this study demonstrate that the legal resolution of non-performing People's Business Credit (KUR) cannot be understood solely as a contractual dispute between banks and debtors. Instead, the misuse of subsidized credit facilities creates a multidimensional legal issue involving contractual liability, banking regulation, government financing policy, and public accountability. This broader perspective distinguishes the present study from conventional discussions of non-performing loans, which generally emphasize repayment capacity and financial restructuring while paying limited attention to the legal consequences of intentionally diverting government-supported financing. The results therefore confirm that the legal framework governing KUR requires stronger integration between private law obligations and public regulatory objectives to ensure that subsidized financing achieves its intended socio-economic function (Palar, 2018).

Comparison with previous studies reveals several important differences. Earlier research primarily focused on settlement mechanisms through negotiation, mediation, or restructuring as instruments for recovering problematic loans. Such approaches are appropriate where debtors experience genuine financial hardship caused by changing economic conditions. However, the present findings indicate that debtors who intentionally misuse KUR funds demonstrate a different legal character because the default originates from deliberate misconduct rather than business failure. Consequently, applying accommodative settlement mechanisms without considering intentional misuse may reduce legal certainty and weaken public confidence in government credit programs (Putra, 2017).

The study also identifies a significant relationship between prudential banking obligations and the effectiveness of legal sanctions. Preventive supervision conducted before and after loan disbursement plays a decisive role in determining whether banks possess sufficient legal evidence to enforce contractual sanctions and pursue repressive legal remedies. This finding suggests that legal protection for banks depends not only on statutory authority but also on the quality of internal monitoring systems capable of documenting debtor misconduct. Effective supervision therefore strengthens procedural fairness while simultaneously reducing potential legal disputes concerning the legitimacy of enforcement measures (Sutedi, 2020).

Another important contribution concerns the distinction between ordinary debtor default and intentional misuse of subsidized financing. Previous legal literature generally classifies non-performing loans within the broader doctrine of breach of contract. Nevertheless, the present research demonstrates that intentional diversion of KUR funds should be evaluated through a more comprehensive legal framework because such conduct directly undermines government policies designed to promote productive economic activities among Micro, Small, and Medium Enterprises

(MSMEs). This perspective expands the understanding of legal responsibility by emphasizing that misuse of subsidized credit affects not only contractual relationships but also broader public interests associated with national economic development (Waluyo, 2021).

The scientific novelty of this research lies in the development of an integrated legal framework explaining the implementation of bank sanctions and repressive legal remedies against debtors who intentionally misuse People's Business Credit (KUR). Unlike previous studies that separately discuss banking contracts, non-performing loans, or legal protection for creditors, this study combines civil law principles, banking regulations, prudential banking obligations, collateral enforcement, and potential criminal liability within a unified analytical model. This integrated approach provides a more comprehensive explanation of how Indonesian banks should respond when subsidized credit facilities are intentionally diverted from their intended productive purposes (Muhammad, 2020).

The practical implications of this research extend beyond dispute resolution. Banks should strengthen post-disbursement supervision through periodic monitoring, verification of business activities, and early detection of deviations in fund utilization. Regulatory authorities should also improve coordination between banking supervision and government agencies responsible for administering KUR to ensure that misuse is identified before substantial financial losses occur. Furthermore, clearer regulatory guidelines concerning the classification of intentional misuse and corresponding legal sanctions would enhance consistency in law enforcement while reinforcing public trust in Indonesia's banking sector. Accordingly, the findings support the view that effective implementation of legal sanctions, combined with prudent supervision and regulatory certainty, constitutes an essential element in maintaining the sustainability and credibility of the People's Business Credit program (Hartono, 2019).

## 4. CONCLUSION

This study concludes that the implementation of legal sanctions against debtors who intentionally misuse People's Business Credit (Kredit Usaha Rakyat/KUR) in Indonesia constitutes an integral component of legal protection for banking institutions and the sustainability of government-supported financing programs. The findings demonstrate that the legal relationship established through KUR financing extends beyond ordinary contractual obligations because the program serves broader public policy objectives aimed at strengthening Micro, Small, and Medium Enterprises (MSMEs). Consequently, the intentional diversion of KUR funds from productive business purposes to unauthorized uses creates legal consequences that justify the application of contractual sanctions and stronger legal enforcement measures.

The study further finds that banks implement sanctions through a progressive legal framework beginning with contractual enforcement, including written warnings, debt collection, acceleration of loan repayment, and collateral execution where debtors fail to fulfill their contractual obligations. When misuse of KUR is accompanied by fraudulent conduct, document falsification, or other unlawful acts, civil remedies alone are insufficient, and criminal legal proceedings may be pursued in accordance with applicable Indonesian laws. The effectiveness of these legal measures depends not only on statutory provisions but also on the consistent application of prudential banking principles, continuous post-disbursement supervision, and adequate documentation supporting enforcement actions.

The scientific contribution of this research lies in the development of an integrated legal perspective that combines contractual liability, banking regulation, prudential supervision, and repressive legal remedies into a unified framework for addressing non-performing People's Business Credit resulting from intentional misuse by debtors. This integrated approach provides a broader understanding of legal protection for banks while simultaneously supporting the accountability, sustainability, and effectiveness of Indonesia's People's Business Credit program.

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