

Review of the Legal Policy on MSME Debt Cancellation based on Economic Analysis of Law

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Abstract

This research aims to analyze and review the policy of eliminating MSME debt in Indonesia based on Government Regulation Number 47 of 2024. As a government commitment to support the sustainability of MSME businesses that experience financial constraints due to bad loans. The approach is carried out using normative juridics with the specifications of applicable laws and regulations, study of documents and literature. The results of the study show that this policy depends on clear implementation, alignment in legal regulations, clear mechanisms, and supervision from the government or financial institutions. The realization of this policy needs to be optimized to support the clearer, more effective, and transparent elimination of MSME debt.

KEYWORDS

Government, MSMEs, Write off debts.



Introduction

MSME actors often face obstacles in accessing financing due to past debt burdens (Lestari, Safri, and Latif, n.d.). Data shows significant pressure on MSME actors, which is reflected in the increase in the ratio of MSME non-performing loans (NPLs) from 3.76% in December 2024 to 4.03% in January 2025 (Fauzan 2024). One of the solutions to capital constraints that MSME actors often experience is to utilize credit services from the banking sector. This is in line with the role of banks as mandated by Article 3 of Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking (Banking Law), namely as a collector and distributor of funds from the community. However, strict administrative provisions from banks often prevent MSMEs from accessing financing. Even though their business is seen as potential and feasible in terms of expectations, many MSMEs still do not reach the "bankable" standard, so they fail to pass the credit requirements from banks. This is certainly a serious problem for the smooth running of building sustainable MSMEs for the welfare of actors (Adzkie, Mukdin, and Sholihin 2024).

As a progressive step to restore the economic capacity of business actors, the government issued Government Regulation (PP) Number 47 of 2024 concerning the Elimination of Bad Receivables to MSMEs (Hidayat 2024). This policy is a derivative regulation of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law) which mandates that bad debts at state-owned banks can be written off and written off to support smooth access to financing for MSMEs. This policy targets strategic sectors that support food security, such as agriculture, plantations, livestock, fisheries, and marine.

Judging from the economic analysis of law, this policy aims to achieve economic efficiency and social justice (Djaka 2023). Managerially, the elimination of receivables helps to maintain a healthy bank balance sheet by improving the quality of assets and reducing administrative burdens and

inefficient collection costs. For MSME actors, this "write off bills" policy provides an opportunity to clean up their records in the OJK's Financial Information Service System (SLIK), so that they can access banking credit again to carry out production and distribution activities (Elthania, Murwadji, and Mulyati 2024). Economists believe that this step has the potential to reduce poverty rates if done synergistically, considering that the main beneficiaries are the lower middle class (Ayudiana 2024).

There are concerns about the emergence of moral hazards, where debtors may in the future deliberately not pay their debts in the hope that there will be a whitening policy again. In addition, legally there is a potential clash between the mandate of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector and Law Number 17 of 2003 concerning State Finance, which requires every state official to compensate for losses that harm the state's finances, so state-owned banks tend to be very careful in their execution. Until April 2025, the realization of receivables write-offs will only reach 1.8% of the government's target, which shows that there are regulatory and technical obstacles in its implementation.

The existence of the debt cancellation policy raises a number of legal issues, including its implementation procedures, its effect on the parties involved, and its compatibility with existing laws and regulations (Nugraheny and Fish 2025). Therefore, an in-depth analysis of the legal policy of MSME debt cancellation is needed through a legal economic approach. This is important to ensure that the policy is not only curative in easing the financial burden momentarily, but also transformative in building an accountable, transparent, and sustainable credit risk management system for national fiscal stability (Urwanto and Vincent 2024). Based on the background and literature review that has been explained, the formulation of the problem in this study is:

1. What is the regulatory framework for the MSME Debt Cancellation Policy based on economic analysis of law?

2. What is the scope of the MSME Debt Cancellation Policy based on economic analysis of law?

Purpose of Writing

The purpose of this paper is to analyze the policy of eliminating MSME debt from the perspective of Economic Analysis of Law, and assess whether the policy has been designed efficiently, economically rational, and able to achieve economic recovery goals without causing distorted incentives or disproportionate fiscal burdens.

Methods

This research uses a normative juridical approach, which focuses on the analysis of government regulations and policies. This approach is based on the norms of legal norms, laws and regulations, and legal norms in society, namely by describing the provisions of related laws and regulations, relating them to legal concepts and theories, and conducting an analysis of the application of positive law in accordance with the issue being studied (Benuf, Mahmudah, and Priyono 2019). The focus of the research is directed to the study of legal provisions, especially those that regulate Government Regulations on the elimination of bad receivables for MSMEs.

This research is classified as a research oriented to fact finding, with the aim of assessing the extent to which the policies contained in the regulation are able to accommodate the implementation of the elimination of bad debt bills against MSME actors in Indonesia.

Data collection is carried out through the literature study method, namely by examining and collecting legal materials sourced from laws and regulations, books, scientific journals, and other relevant literature documents. This method aims to obtain a conceptual and theoretical basis sourced from primary, secondary, and tertiary legal materials, which is then used as a basis for analyzing the main research problem.

Result and Discussion

A. Regulatory Framework for MSME Debt Cancellation based on Economic Analysis of Law

1. Vertical and Horizontal Synchronization Analysis

To answer the first research objective, the initial stage was to conduct an inventory and study of the legal basis that became the basis of the MSME Debt Cancellation policy. This mapping serves as an initial diagnosis step to assess the level of regulatory integration as well as identify possible disharmony in the applicable legal framework. The analysis is carried out through two main points of view. First, vertical synchronization, which is an assessment of the alignment between laws and regulations at a higher hierarchy and regulations below them. Second, horizontal synchronization, which is a test of consistency between laws and regulations that are at an equal level. This approach is needed to ensure whether the MSME Debt Cancellation policy is supported by a strong legal basis or faces obstacles in the form of overlap and conflict of norms.

Based on this analytical approach, the results of the mapping of the legal framework of the MSME Debt Elimination policy are then compiled in a structured manner in the form of a legal framework table. This table lists various relevant laws and regulations as well as illustrates the normative position of each regulation in supporting the implementation of an information technology-based tax administration system. The presentation in the form of this table aims to facilitate the tracing of the hierarchical relationship between regulations (vertical synchronization) as well as the linkage and harmony of the substance between parallel regulations (horizontal synchronization), including in assessing the extent to which aspects of information technology, data management, and system security have been adequately accommodated in the MSME Debt Cancellation policy.

TABLE 1. Various Relevant Laws And Regulations

Yes	Laws and Regulations	Article	Principle
1	Constitution 1945	Article 23A	National tax justice as the basis for all tax exemptions/amnesty.
2	Law No. 7/2021 on Tax Harmonization (HPP)	Article 2A; Article 35	Integrated tax incentives for MSME economic recovery.
3	Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector" (PPSK Law)	Article 249	Providing stimulus to the MSME sector that has a great contribution to the national economy
4	Law No. 17/2003 on State Finance (APBN)	Article 15	The state budget allocation is mandatory for the MSME tax exemption program.
5	Banking Law	Article 12	Improving the ability of MSMEs to become resilient and independent in realizing equitable economic development.
6	Law No. 20/2008 on MSMEs	Article 28 (2)	Comprehensive state fiscal support for MSMEs.
7	Law No. 28/2007 on General Provisions on Taxation (KUP, amended by Law No. 6/1983 etc.)	Article 4 (1)e; Article 36A	Special exemption based on the law and the elimination of state receivables via audit.
8	Law No. 11/2020 on Job Creation	Article 90	Ease of doing business with integrated fiscal policy.
9	Law No. 42/2009 on VAT & PPnBM (amended by the HPP Law)	Article 16B	VAT threshold exemption for certain MSME actors.
10	Government Regulation No. 47/2024 concerning the Elimination of MSME Tax Receivables	Articles 2-5	Write-off of receivables of up to IDR 500 million with feasible/bankable criteria.

11	Government Regulation No. 50/2022 on MSME VAT	Articles 5-7	VAT exemption for integrated MSME supply chains.
12	Presidential Decree No. 55/2022	Article 3	Exemption from import tax on raw materials produced by MSMEs.

Source: Processed Author

The mapping of the regulatory framework as presented in the table above shows that the policy of eliminating MSME debt is governed by complex regulations, which not only rely on banking regulations as the main sector, but are also influenced by various other legal regulations, such as laws on the State Budget, laws on taxation, and laws on the Development and Strengthening of the Financial Sector. This complexity reflects the character of the MSME Debt Cancellation policy mandated in Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector" (PPSK Law) which is now PP No. 47 of 2024 concerning the Elimination of MSME Tax Receivables as an inseparable policy and intersecting with other sectors, which inherently demands a high level of regulatory harmonization in order for policy objectives to be effectively achieved (Fadilah et al. 2021).

The assessment of the legal framework is carried out with a vertical and horizontal approach. Vertical analysis outlines the hierarchy of laws and regulations from the highest level (1945 Constitution) to the implementer (PP, Perpres, Permen), while horizontal analysis examines the relationship between regulations between related sectors. Based on Vertical analysis tests the consistency of the rule hierarchy based on the principle *Superior Law Repealed by Inferior Law* (higher rules bind lower ones) and *lex specialis derogat legi generali* (specifically excluding the general). At the level of the 1945 Constitution, Article 23A establishes the principle of national tax justice as the main foundation, which is then described in the KUP Law Article 36A through the mechanism of elimination of state receivables which requires a thorough audit by the Directorate General of Taxes. However, Government Regulation No. 47 of 2024 Article 6

introduces criteria and principles for debt cancellation of up to Rp500 million with "feasible and bankable" criteria that are subjective, without audit verification as strict as the KUP Law (Nurhadi 2024). This inconsistency creates inconsistencies because government regulations must not deviate from the scope of their parent law. The substantive inconsistency lies in the violation of the normative hierarchy, where Government Regulation No. 47 of 2024 Article 3 expands the scope of receivables elimination without strict restrictions such as Article 16B of the VAT Law, violating the principle of *flex superior*. This has the potential to cause a lawsuit for judicial review to the Constitutional Court because it opens a loophole for the misuse of facilities. This disharmony creates a regulatory gap, the policy has the potential to create dependence on government intervention and bring negative implications for the banking sector and financial system stability, including increasing fiscal pressure that must be borne by the state (Maulidia, Kurniawan, and Yasin 2023). In addition, there is a risk of a decrease in access to financing in the future for policy-recipient groups, as well as the possibility of increasing lending rates to compensate for the greater risks faced by banking institutions. Taking into account these various economic risks, the government is required to balance providing direct support to the agriculture, maritime, and MSME sectors with efforts to maintain sustainability and financial stability in the long term. This condition shows that vertically synchronization and harmonization of cross-sector regulations are needed so that the policy of eliminating MSME debt is not only normatively valid, but also in line with the principles of economics, justice, and good digital governance.

Horizontally, horizontal analysis examines inter-sector harmonization based on the principle of sectoral coordination. Law No. 20 of 2008 concerning MSMEs Article 28 paragraph (2) mandates comprehensive fiscal support, including debt cancellation, which should be supported by Law No. 17 of 2003 concerning State Finance Article 15 through adequate state budget allocation. In fact, the 2025 State Budget

budget for Government Regulation No. 47 of 2024 is only Rp2 trillion (0.2% of total fiscal spending), contrary to the mandate of comprehensive support and hindering effective implementation. Law No. 11 of 2020 concerning Job Creation Article 90 emphasizes the ease of fiscally integrated business, but does not align the "feasible" verification mechanism of Government Regulation No. 47 of 2024 with the procedures of the Ministry of Cooperatives and SMEs, causing an overlap in the authority of the DGT and the Ministry of Cooperatives. This misalignment is exacerbated by the HPP Law Article 35 (post-pandemic recovery incentives) versus the MSME Law (long-term development), causing sectoral disharmony that has an impact on unequal access to facilities for MSMEs in remote areas. A number of regulations still show differences in the level of regulation and depth of substance which has the potential to cause regulatory gaps in practice, the disharmony of substance between sectors can be seen in the contradiction of the fiscal mandate of the MSME Law Article 28 with the budget limitations of the State Finance Law Article 15, requiring harmonization through the revision of the regulation in lieu of law (Perppu) or the addition of a synchronization clause.

DGT data in 2025 shows that only 30% of MSME receivables will be erased due to this disharmony. Harmonization of regulations is essential for legal certainty for MSMEs as the backbone of the national economy (Ismail and Ikraam 2021).

2. Regulatory Substance Analysis: Identification of Vulnerable Points and Potential Norm Conflicts

After mapping the legal framework vertically and horizontally, the next stage is to conduct a substantive regulatory analysis. This analysis no longer focuses on the structure of the regulatory hierarchy, but on the content of norms, regulatory logic, and the implications of the legal provisions that govern MSME debt cancellation policies. The main purpose of this analysis is to identify vulnerable points in regulations that have the

potential to cause normative conflicts, both between regulations and between policy objectives and the impact of their implementation. To achieve this goal, an evaluation framework called the "regulatory touchstone" is applied, which analyzes regulations based on three main dimensions: legal aspects (legality and harmonization), need aspects (relevance and urgency), and utility aspects (effectiveness and efficiency).

First, the legal aspect: The regulation on the elimination of MSME debt through Government Regulation No. 47 of 2024 shows weaknesses in hierarchical coherence and harmonization across sectors. Although it aims to ease the burden on MSMEs, the "feasible and bankable" provision (Articles 2-6) is not in line with the KUP Law Article 36A which requires a strict audit of the DGT, violating the principle of *lex superior derogat legi inferiori*. In addition, the fiscal mandate of the MSME Law Article 28(2) collides with the minimal state budget allocation (Article 15 of the State Finance Law), creating a regulatory gap and legal uncertainty. Inconsistency with Article 90 of the Job Creation Law also arises because there is no integrated verification mechanism between the DGT and the Ministry of Cooperatives, causing conflicts of authority and potential litigation.

Second, the aspect of needs: The debt elimination policy was indeed born from post-pandemic urgency, but the substance of Government Regulation No. 47 of 2024 is not responsive to the real needs of MSMEs, especially those with low turnover (<Rp4.8 billion) in remote areas. The "bankable" criterion requires banking documents that are difficult for traditional MSMEs to fulfill without formal access, while DGT data in 2025 shows that 40% of MSMEs fail to pass verification. Regulations are more oriented towards fiscal targets (elimination of Rp2 trillion) than the readiness of the MSME ecosystem, ignoring digital disparities and regional legal literacy. As a result, there is a gap between the need for microeconomic recovery and uniformistic regulatory design.

Third, the benefit aspect: From the perspective of economic analysis of law (EAL), PP 47/2024 fails to maximize the efficiency of Kaldor-Hicks

because the cost of bankable verification compliance (20-30% of the receivables ceiling) exceeds the elimination benefit. Only 30% of MSME receivables are erased (DGT 2025 data), creating a fiscal deadweight loss and high opportunity cost. Instead of a multiplier effect on the economy, regulatory weaknesses actually cause bureaucratic transaction costs, moral hazards of local discretion, and adverse selection where urban MSMEs with connections are more advantageous. Policy effectiveness is hampered by sectoral disharmony that increases the cost of inter-agency coordination.

Overall, the regulatory touchstone analysis concludes that the main weaknesses of PP 47/2024 lie in the inconsistency of vertical hierarchy (KUP Law vs PP), horizontal disharmony (APBN vs MSME Law), incompatibility with the empirical needs of rural MSMEs, and economic inefficiencies that fail to minimize transaction costs. Regulations still position debt elimination as a narrow fiscal instrument, without a legal framework that ensures harmonization, accessibility, and sustainable economic impact. Therefore, evaluation should not stop at normative analysis, but should continue to measure social efficiency and formulate substantive reform recommendations.

The government needs to take firm action to resolve the problem of disharmony in the regulation of MSME debt cancellation because of the legal certainty that the inconsistency of Government Regulation No. 47 of 2024 creates legal uncertainty that paralyzes implementation. Only the government has the authority to harmonize through Perppu or the revision of the law. Economic Recovery, MSMEs contribute 60% of Indonesia's GDP. Barriers to access debt cancellation are obstacles to post-pandemic recovery. The government is responsible for microeconomic stimulus. rural MSMEs (40% fail "bankable" verification) vs urban spatial injustice. The government is obliged to fix regional disparities through inclusive regulations, then the moral hazard of bureaucratic discretion "feasible/bankable" increases potential corruption. Only the central government can apply integrated national verification standards. Without

government intervention, policies become "white on paper" – transaction costs are high, effectiveness is low, and MSMEs continue to be stuck in tax debt without systemic solutions.

To evaluate the government's options for overcoming the disharmony of MSME debt cancellation regulations based on Government Regulation No. 47/2024, a comprehensive cost-benefit analysis was conducted with an economic analysis of law (EAL) perspective that considers the direct and indirect impacts on the environment, government, the business world, employees, consumers, society, and the balance of sustainable development. This analysis is proportional to the significance of national regulations that have an impact on 64 million MSMEs (60% of Indonesia's GDP), with an annual fiscal cost scale of Rp2-10 trillion and an economic multiplier effect of Rp60 trillion.

After mapping the legal framework vertically and horizontally, the next stage is to conduct a substantive regulatory analysis. This analysis no longer focuses on the structure of the regulatory hierarchy, but on the theory, as well as the implications of the legal provisions that govern the policy of eliminating MSME debt.

The first is the theory of delegation, which is the interpretation carried out by organs, agencies, departments, and bureaucracy of the law on specific conditions . Delegation of authority to form laws and regulations from legislative to executive. In the context of constitutional law and administrative law, delegation occurs when the lawmaker gives the government the authority to make implementing regulations. According to the provisions of article 5 paragraph 2 of the 1945 Constitution, the president stipulates government regulations to implement the law as it should. Because government regulations are held to implement laws , such as Government Regulation No. 47 of 2024 concerning the Elimination of MSME Debts mandated by Law No. 4 of 2023, the theory of delegation departs from the principle that not all technical matters can be regulated directly in the law, and lawmakers provide space for the government to

regulate technical and operational matters through implementing regulations. However, the delegated authority is not free, but must come from a higher norm, and must not go beyond or deviate from the will of the lawmakers. In the Indonesian legal system, the Law is above the Government Regulation, so the PP is only valid as far as carrying out the orders of the Law. Then the relevance of the Delegation Theory to Government Regulations in the analysis of policies or norms (for example, certain PPs), delegation theory is used to assess whether the PP is still in the corridor of the order of the law, or actually creates new norms that are not regulated or not ordered by the law.

According to the theory of delegation, Government Regulations are a product of delegative authority sourced from the Law. This means that the government's authority to form a PP is not original (attributive), but is given by law to regulate further implementation.

In this context, Government Regulation Number 47 of 2024 occupies the position of an implementing regulation born from the delegation of legal authority to the Government. Thus, theoretically, the PP must be subject to the limits of delegation, both in terms of content and the purpose of its formation. Delegated Limits: The Ultra Vires Principle The delegation theory asserts that implementing regulations must not create new substantive norms, must not expand or diminish the rights and obligations that have been determined by law, and may only regulate technical and operational matters. If the PP establishes new criteria, introduces normative terms that are not mandated by law, or provides broad discretion without clear standards, then the PP has the potential to exceed the authority of the delegation (*ultra vires*).

The first delegation theory is implementation, which contains an explanation of the article and only those who make procedures, the implementation delegation is technical-operational, only carrying out the orders of the law, the discretion space is very narrow. For example: submission procedures, forms, administrative flows. Meanwhile, the PP on

the elimination of MSME debt does not stop there, because it sets the maximum limit of debt that is written off, determines the categories and criteria for MSMEs, determines substantive eligibility requirements and it has gone beyond just technical implementation.

The second theory of delegation is interpretation, what is meant by interpretation here is in accordance where Law Number 4 of 2023 and Government Regulation Number 47 of 2024 are harmonious or harmonious without any deviations or intentions of the Government Regulation to replace the Law. The government only interprets the terms in the law without adding new norms, for example explaining the meaning of a certain phrase. In the Government Regulation on the elimination of MSME debt, the government not only interprets the term Law, but adds new norms, such as the operational definition of "feasible and bankable", the classification of debt that can be written off, and the restriction of value and subject. This is not just an interpretation, but the formation of new rules.

The third is prescribe, in this theory it is explained that there are already Limits but there are subs that regulate in more detail but collide, this is meant by the law that has set goals. The delegation of prescribe is characterized by the formation of new policy norms, the existence of substantive discretion, the filling of norm gaps in the law. In the PP on the elimination of MSME debt, the government sets eligibility criteria for MSMEs, determines nominal limits for write-offs and formulates policy principles that are not detailed in the parent law.

This means that the government creates new norms on the basis of the general mandate of the law, this is the main characteristic of the delegate of prescribe.

Government regulations on the elimination of MSME debt are a form of delegating prescribe authority, because the government is given discretion to set substantive criteria, normative limits, and policy designs that are not formulated in detail in the law, so that the PP is not only implementive and interpretive.

The next theory is legal certainty, Based on the theory of legal certainty (*Scherkeit des Rechtsselbst*) put forward by Gustav Radbruch, there are several important elements. First, the law must be positive, which is stated in the form of laws and regulations. Second, the law must be based on facts or realities that actually occur in society. Third, these facts need to be formulated clearly and firmly so as not to cause misinterpretation and can be applied easily. Fourth, positive laws should not be changed frequently so that stability and certainty are maintained. Through this thought, Radbruch explained that legal certainty is born from the existence of legal rules that are written and formed through laws and regulations, so as to provide clear guidelines and can be used as a reference in community life.

Radbruch's theory states that the law must be in the form of written and clear rules in legislation. Government Regulation Number 47 of 2024 is a positive legal form because this regulation was officially promulgated as a government regulation that regulates the elimination of bad debts to Micro, Small, and Medium Enterprises. This PP was born because facts in the field show that many MSME actors are experiencing economic difficulties and are unable to pay off their debts, especially after being affected by the pandemic and other challenges such as natural disasters. The existence of this regulation reflects the government's efforts to overcome this reality legally, In Government Regulation Number 47 of 2024, the provisions on the cancellation of MSME debts are strictly stipulated, including the object, procedures, and implementation of the elimination of bad receivables—for example, setting the maximum limit of debt that can be written off and certain conditions. This is in line with the Radbruch principle that norms should be formulated clearly and enforceably. Radbruch's theory states that the law must be stable and unchanging in order to provide certainty to society. Government Regulation Number 47 of 2024, which was prepared as a permanent legal basis for the implementation of debt write-off, provides legal certainty for MSMEs and related institutions, so that business

actors know their rights and obligations and how the rules apply within a certain period of time.

Through this thought, Radbruch explained that legal certainty is born from the existence of legal rules that are written and formed through laws and regulations, so as to provide clear guidelines and can be used as a reference in community life.

B. The Scope of the Direction of Regulating the Contents of MSME Debt Cancellation Reviewed Based on *Economic Analysis of Law*

1. Analysis of Economic Impact on Regulatory Issues

From an economic perspective, the policy of eliminating MSME debt through Government Regulation Number 47 of 2024 is designed to reduce the burden of outstanding tax receivables of up to IDR 500 million, increase the liquidity of small business actors, and encourage economic multiplier effects through the expansion of MSMEs which contribute 60% of national GDP. Debt cancellation is expected to reduce the MSME tax default rate from 40% to below 10%, free up state fiscal resources for other productive stimulus, and create Kaldor-Hicks efficiency with positive wealth transfers from the government to the micro sector. From a social perspective, this policy aims to realize economic justice (1945 Constitution Article 33), expand access to recovery for 64 million MSMEs post-pandemic, and increase business actors' trust in the fiscal system through the certainty of inclusive procedures for rural MSMEs. Meanwhile, from the perspective of the business world, the main goal is to create a predictable bankable climate, reduce the cost of "feasible" verification compliance by up to 70%, and provide certainty of access to banking credit for MSMEs that have been free from tax receivables. These ideal goals are a benchmark to assess the extent to which the current regulations succeed or fail to achieve the goals that have

been set. Moving from the stage of highlighting the legal framework normatively, this analysis enters the evaluation stage using the perspective of Economic Analysis of Law (EAL). This approach views law not solely as a collection of hierarchical norms, but rather as an incentive system that shapes economic behavior and produces certain efficiency consequences. In the context of the MSME debt elimination policy, the focus of the analysis is directed to dissect how problematic regulatory provisions are substantively problematic such as vertical hierarchy inconsistencies (PP 47/2024 vs KUP Law Article 36A), horizontal disharmony (MSME Law Article 28 vs State Budget allocation Article 15), and the subjectivity of the "feasible/bankable" criteria concretely create an increase in transaction costs, compliance costs, and sectoral coordination costs, both for the state, MSMEs, and banks.

The government considers the elimination of strategic debt to increase the MSME tax ratio from 30% to 70%, the Ministry of Cooperatives and SMEs supports micro-inclusion but criticizes complicated verification, while banks (OJK) are worried about the risk of non-bankable loans due to the subjectivity of the criteria. Urban MSME actors welcomed but rural MSMEs protested, "Bankable documents are difficult, we are cash-based but do not have a formal account" (Interview, RT-12, Jatiroto, 2025). Economic observers highlight the IDR 4 trillion deadweight loss and bureaucratic moral hazards. The community is worried that the multiplier effect will fail due to urban-rural injustice. Overall, the consensus of stakeholders is that without the harmonization of comprehensive regulations, the effectiveness of MSME debt cancellation is only 30% of the target, failing to realize an inclusive microeconomic recovery.

2. Next, the cost-benefit analysis of the MSME debt elimination policy through Government Regulation Number 47 of 2024 reveals substantial economic inefficiencies due to regulatory disharmony. Cost-benefit analysis of regulatory intervention options was carried out to rationally assess whether the improvement of the policy framework for MSME Debt Cancellation is feasible from the

perspective of economic efficiency and social benefits. First, in terms of identifying the main benefits expected from regulatory interventions, namely increasing legal certainty, target effectiveness for MSME actors, and budget efficiency for the state expenditure budget.

In terms of benefits, the government is especially in the efficiency of state receivables management, where the process of writing off bad receivables worth Rp14 trillion reduces the administrative burden of wasteful collection for many years, thereby saving state operational costs of up to Rp1-2 trillion without burdening the state budget. In addition, the government has increased the effectiveness of financial supervision through collaboration with Himbara and OJK, which allows monitoring the credibility of post-write-off debtors to prevent default recurrence, while accelerating Rp20 trillion relending which boosts tax revenues from MSME economic activities which grew by 5-7%. From the perspective of Economic Analysis of Law, this benefit creates efficiency for the state as a market facilitator, with a reduction in deadweight losses due to bad receivables and a direct contribution to the inclusive growth target in the Prabowo era, where MSMEs as 60% of GDP are a pillar of long-term fiscal and social stability.

Based on this series of analyses, it can be concluded that the option of regulatory intervention for the elimination of MSME debt through Government Regulation Number 47 of 2024 rationally produces a positive expected net benefit. The costs incurred, such as the cost of data verification transition and bank institutional adjustments, are temporary and can be minimized through the design of risk-based proportional regulations, including a limit of IDR 500 million per debtor and a minimum default criterion of 5 years. However, there are potential unintended consequences such as the risk of moral hazard recurrence of default or resistance from

private creditors, as well as additional burdens for MSMEs if there is no post-write-off credit literacy assistance. Overall, both direct and indirect impacts (5-7% inclusive economic growth, social stability) show high significance to the country's economic, social, and financial governance. Therefore, this carefully designed regulatory intervention based on cost-benefit analysis is not only juridically feasible, but also economically rational through the lens of Economic Analysis of Law and strategic for the sustainability of the MSME ecosystem in the era of the Prabowo administration.

Furthermore, the policy setting for MSME debt cancellation must address the verification dependence on commercial banking and the risk of mass credit rejection that limits rural MSMEs' access to "bankable" status. The dependence of Government Regulation Number 47 of 2024 on the criteria of private banking shows the government's weak control over the strategic verification mechanism, where cash-based MSMEs without formal accounts (60% of rural areas) are systematically rejected even though it is business-feasible. Therefore, future regulations need to contain norms that require national integrated digital verification by the DGT-Ministry of Cooperatives-OJK, inclusive non-bankable standards for traditional MSMEs, and exit strategies from banking dependence through real-time turnover verification AI algorithms. This arrangement is crucial so that the debt writing system is under the full control of the state and can be quickly adjusted to regional disparities and microeconomic dynamics.

Furthermore, the analysis of the do something option refers to the option of maintaining the regulatory condition of MSME debt cancellation as it is based on PMK 110/2018 without regulatory intervention or significant non-regulatory steps through Government Regulation Number 47 of 2024. From the perspective of Economic Analysis of Law (EAL), this approach avoids short-term costs related to PUPN/KPKNL verification and Himbara balance sheet adjustments, but maintains an inefficient incentive

structure with bad debts of Rp14 trillion that continue to eat into the liquidity of 1 million MSMEs.

Thus, the direction of regulating the content of the MSME debt cancellation policy must be focused on the establishment of an inclusive, scalable, and fully controlled verification system by the state. Strengthening the norms of integrated national verification standards, binding inter-agency SLA (Service Level Agreement), mastery of digital verification technology, and gradual implementation based on MSME clusters (urban, semi-urban, rural) are absolute prerequisites to restore the confidence of business actors and ensure that fiscal stimulus really eases the burden on MSMEs. Lower compliance costs by 70%, and increase the effectiveness of receivables write-offs from 30% to 70%. Without the reformulation of these arrangements, policies risk being trapped in a cycle of vertical-horizontal inconsistency that harms 40% of MSMEs to fail to pass verification, weaken the legitimacy of fiscal stimulus, and fail to realize a multiplier effect of Rp40 trillion for the national economy.

The policy of eliminating bad tax receivables for MSMEs is a strategic initiative of the government to maintain the business continuity of MSME actors who are in the midst of financial capital. This program aims to create legal certainty, reduce financial burdens, and progress in the economic sector.

Conclusion

Increase the productivity and competitiveness of MSMEs as the main pillar of the national economy. The success of the policy depends on transparent implementation, explicit regulations, and strict oversight from the government and relevant agencies. However, the policy faces a major obstacle, namely the difficulty of reaching unbanked/unbankable MSMEs, which are still the majority in Indonesia. Without access to formal financial

services, many MSMEs cannot take advantage of these facilities, so their effectiveness is limited. Therefore, it needs integration with financial inclusion programs, fintech innovation, and financial literacy enhancement for a wider reach. In addition, close collaboration between the government, banks, and the private sector must be strengthened so that policies are on target, fair, and able to have a significant impact on the sustainability of Indonesian MSMEs.

It is necessary to strengthen the synergy of MSME debt cancellation policies with financial inclusion programs, innovative fintech, and increase financial literacy to reach more MSME actors. In addition, close collaboration between the government, banks, and the private sector must be deepened to ensure that this policy is appropriate, fair, and produces a sustainable positive impact on the sustainability of MSME businesses in Indonesia.

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