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# Policy Implementation Scheme and Policy Pathology: Lessons from KPR Sejahtera in the Special Region of Yogyakarta

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## Abstract

*This paper analyses the KPR Sejahtera policy, a mortgage loan programme for low-income communities (masyarakat berpenghasilan rendah/MBR) initiated by the Ministry of Public Works and Housing (Kementerian Pekerjaan Umum dan Perumahan Rakyat/PUPR). Although the policy has good intentions, its implementation, particularly the funding scheme has hindered the effectiveness of housing provision in the Special Region of Yogyakarta. Using the pathology of public policy framework by Hogwood & Peters (1985) and the NATO scheme from Hood & Margetts (2007), this study explores why the KPR Sejahtera funding mechanism has proven ineffective and has instead created new issues. The Directorate of Infrastructure Financing (Direktorat Jenderal Pembiayaan Infrastruktur) delegates this programme to state-owned banks, but the implementation details are left to each bank. The core problem arises from the mismatch between the banks' profit-oriented nature and the social mission of the program. This leads to internal conflicts within the banks and results in the failure to reach the targeted MBR beneficiaries. This situation reflects the 'earmarking' pathology, in which a budget designed for a specific programme is allocated outside of its original purpose, leading to sub-optimal policy outcomes.*

***Keywords:*** *FLPP fund; KPR Sejahtera programme; policy pathology; budgeting pathology; earmarking*

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## Introduction

Providing affordable housing for the entire community is an important agenda of the government. Statistics Indonesia data in 2020 showed a housing backlog of 12.7 million from the target of 13.5 million that has been launched since 2010, covering all socio-economic classes (Brilian, 2023). In order to overcome this problem, the government initiated a housing funding policy through home ownership credit (Kredit Pemilikan Rumah/ KPR) Sejahtera with the Housing Provision Liquidity Facility (Fasilitas Likuiditas Pembiayaan Perumahan/FLPP) scheme, specifically for low-income communities (MBR), with the distribution of funds through state-owned banks (Badan Usaha Milik Negara/BUMN) and regional development banks (Bank Pembangunan Daerah/ BPD).

The mortgage policy was initiated in 2015 by President Joko Widodo through the One Million Houses programme which targets the construction of one million housing units each year, with a ratio of 70% housing units for MBR, and 30% housing units for non-MBR. This was conveyed in the president's speech on 29 April 2015 in Semarang (Kementerian Pekerjaan Umum dan Perumahan Rakyat, 2018). The KPR Sejahtera programme continues until 2022 with total funds disbursed by banks amounting to more than IDR102.2 trillion from 2020-2022.

Specifically in the Special Region of Yogyakarta, data on the realisation of the total distribution of FLPP funds in 2022-2022 by BP Tapera can be seen in table 1.

**Table 1. Realisation of Total Distribution of FLPP Funds in the Special Region of Yogyakarta 2020-2022**

| No | Regency/ City | 2020 | | 2021 | | 2022 | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | Unit | FLPP Value (IDR) | Unit | FLPP Value (IDR) | Unit | FLPP Value (IDR) | Unit | FLPP Value (IDR) |
| 1 | Bantul regency | 47 | 4.521.817.500 | 41 | 3.850.770.000 | 106 | 10.764.356.250 | 194 | 19.136.943.750 |
| 2 | Gunung Kidul regency | 143 | 14.675.730.750 | 197 | 21.013.597.461 | 208 | 21.938.206.500 | 548 | 57.627.534.711 |
| 3 | Kulon Progo regency | 6 | 555.375.000 | 8 | 774.900.000 | 3 | 274.856.250 | 17 | 1.605.131.250 |
| 4 | Sleman regency | 78 | 6.531.562.500 | 75 | 7.083.150.000 | 103 | 10.273.746.825 | 256 | 23.888.459.325 |

*Source: Processed by the author based on data from BP Tapera (unpublished), 2022. Some data is available on BP Tapera's official website:* [https://www.tapera.go.id/flpp-2022/](https://www.tapera.go.id/flpp-2022/)

The data above shows the trend of FLPP amounts in Special Region of Yogyakarta and shows an increase in the span of two years. The FLPP allocation for Gunung Kidul is the highest, and the lowest is Kulon Progo.

The data in Table 2 shows that of the total FLPP fund distribution of IDR 43.2 trillion (420 housing units), it was only able to reach the lowest segment of the MBR of IDR 1,357 trillion (7 housing units). This shows that the KPR Sejahtera programme has not been optimal in reducing the housing backlog, especially for the MBR group that needs it most.

**Table 2. Realisation of FLPP Fund Disbursement 2022 (Comparison between Total Fund Disbursement and Disbursement Based on Lowest Income)**

| No | Total Units | Total FLPP Value (IDR) | Total Housing | Total Developers | Total Lending Banks | Total Province | Total Regency/ City |
|---|---|---|---|---|---|---|---|
| 1 | 420 | 43.251.165.825 | 34 | 21 | 6 | 1 | 4 |
| 2 | 14 | 1.357.125.000 | 7 | 6 | 3 | 1 | 3 |

*Source: Processed by the author based on data from BP Tapera (unpublished), 2022. Some data is available on BP Tapera's official website:* https://www.tapera.go.id/flpp-2022/

## Research Methods

This study employs a case study approach with a descriptive-quantitative method. Data were collected through document analysis, interviews, and literature review (Jaya, 2021). The literature review included data on the realisation of FLPP fund distribution from 2020 to 2022 in the Special Region of Yogyakarta, related regulations, and cooperation agreements related to the distribution of FLPP program. Interviews were conducted with Ms. Nenda Nurjanah Niode from BP Tapera's Cooperation Analysis Division and were supported by literature on banking profiles and business models. The Special Region of Yogyakarta was selected as the research site due to its significant housing backlog, which reached approximately 250,000 units in 2022. In addition, data from 2021 stated that 23.47 percent of households in the region were living in houses that they did not own (Pradana, 2022). Data analysis followed an inductive approach, beginning with the hypothesis of a policy pathology. The data were analysed through three stages: data reduction, data presentation, and conclusion drawing (Jaya, 2021). The results of the analysis indicate a policy pathology, characterised by a gap in the available funding scheme instruments.

## Literature Review

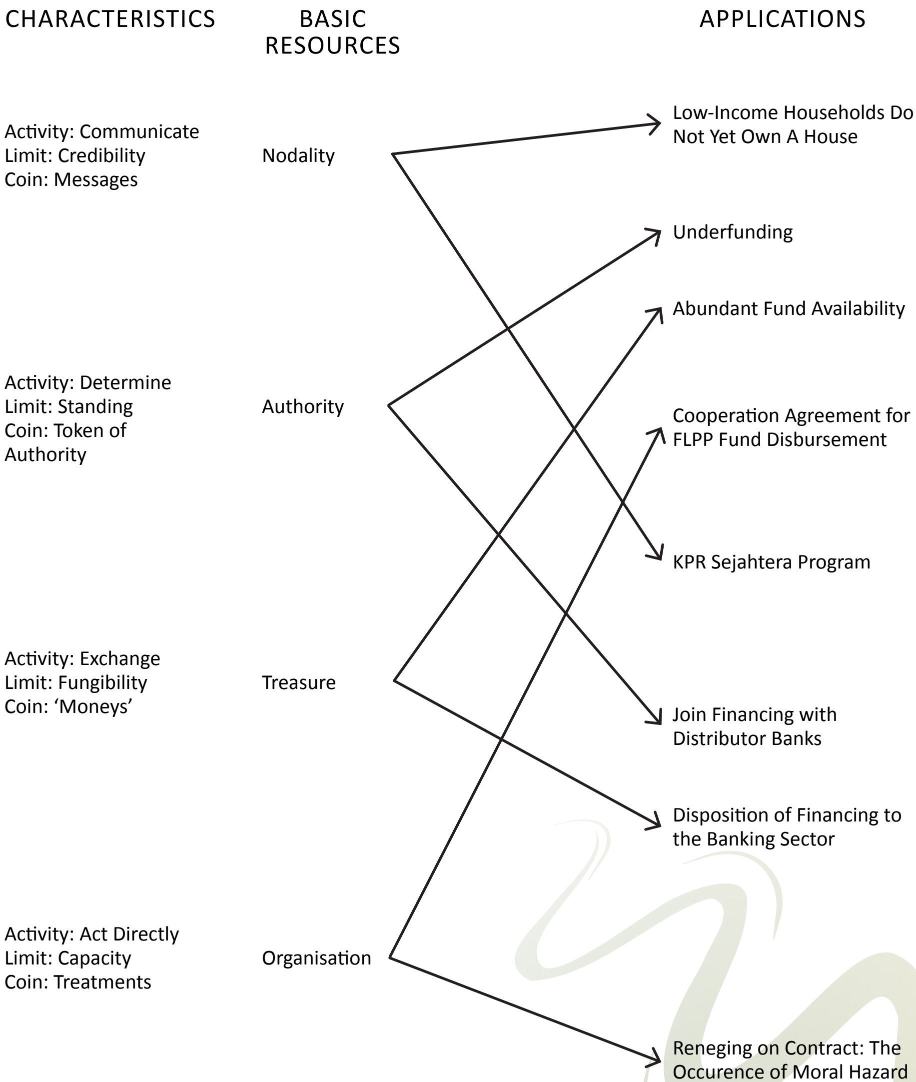
The topic of this paper has been conducted in previous study, particularly regarding the low effectiveness of the KPR Sejahtera programme. Wijayanti et al. (2011) in their study at Bumi Rejo Damai Residence in Pekalongan, found that the implementation of subsidised KPR was ineffective due to poor targeting, where 47% of beneficiaries were not first-time home buyers, and 2% did not meet the income eligibility criteria. Similarly, Rahayu (2020), in her study at the BTN Sharia Bekasi Branch, concluded that the BTN Sejahtera IB KPR product was also misused—primarily serving as an investment vehicle rather than being used for residential purposes.

The contradiction between the policy vision of KPR Sejahtera policy and the operational mission of the banking sector—both of which are difficult to integrate—has led each bank to revise its financing systems and implementation strategies. Sari (2017) found that Indonesia's dual-banking system (conventional and Islamic banks) results in differing calculations of subsidised KPR. Fatmawati (2017) highlighted that banks have minimised the risk of non-performing loans through creditworthiness analysis and customer classification, applying prudent banking principles. This finding is further supported by Wijaya (2021), who observed that the vision of improving access to subsidised mortgages is not matched by the capacities of implementing agents, which are often hindered by conflicts of interest. These studies point to a broader issue: policy makers often fail to account for the institutional and operational diversity of banks, which affects their performance in distributing FLPP funds. As a result, distributing banks are forced to adapt their business models to accomodate FLPP funding while protecting themselves from potential losses. This situation reflects a lack of consistency on the part of the government in aligning policy design with implementation realities—demonstrating what Hoppe (2018) calls an insensitivity to real-world challenges during the policy-making process.

## Theoretical Framework

This paper analyses policy pathology through the lens of earmarking pathology, as defined by Hogwood & Peters (1985) in The Pathology of Public Policy. It further explores the traits of such pathologies using the NATO scheme in The Tools of Government in the Digital Age (Hood & Margetts, 2007). The analysis highlights the crucial role of discretion in policy design, arguing that excessive discretion is often a symptom of poor design rather than intentional flexibility. This interpretation aligns with new policy theory, which views such failures not as the result of deliberate sabotage (as posited by old policy theory) (Cairney, 2021). The following scheme illustrates this conceptual framework:

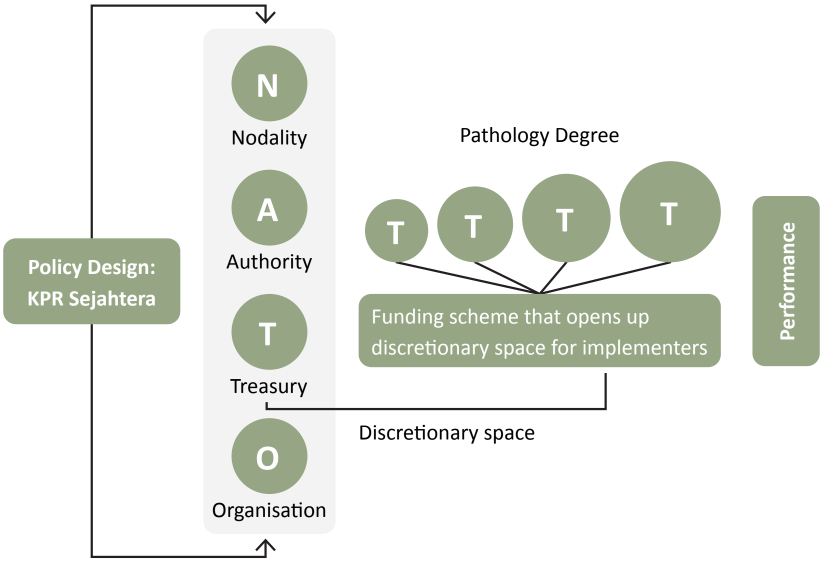
**Chart 1. Application of NATO Scheme Theory**




*Source: adapted and processed by the author based on Hood & Margetts, 2007*

The government introduced the KPR Sejahtera subsidy to provide affordable housing through an instalment scheme specifically targeted at MBR who do not yet own a house (Brilian, 2023). Funding is executed through a joint financing, combining allocations from the state budget with capital from partnering banks. Once the funding becomes available (treasure), the Ministry of PUPR delegates the responsibility for distribution to state-owned and regional development banks (BUMN and BPD, respectively). The transfer of housing finance authority to these financial institutions (banking sector) is formalised through cooperation agreements for the distribution of FLPP funds, typically initiated by the disbursement of subsidised down payment assistance (SBUM) (Hood & Margetts, 2007). Unfortunately, moral hazard emerged in the banking sector, as some banks failed to fully adhere to the terms of these agreements. This breach undermined the achievement of the policy's intended vision. The root of the issue lies in pathological traits within the decision-making process when designing the policy, as explained in the chart below:

**Chart 2. Application of NATO Scheme Theory and Policy Pathology Theory**




*Source: Processed by the author based on Hogwood & Peters, 1985; Hood & Margetts, 2007*

In policy design, it is often assumed by policy makers that the availability of funding is the primary determinant of success. However, the experience of KPR Sejahtera demonstrates that this assumption does not always hold. This is because policy makers eventually chose to eliminate the funding scheme instrument, creating discretionary space under the rationale of mitigating the risk of funding shortages. This discretionary space was subsequently leveraged by distributing banks to maximise profit, rather than to achieve the intended policy outcomes.

As more banks became involved in the distribution of FLPP funds, the volume of distributed funds increased. Yet, the problem lies in the fact that each participating bank operated under different orientations and business models. This diversity in discretionary execution determines the degree of policy pathology. In other words, the greater the degree of divergence, the more pronounced the pathology and, consequently, the higher the potential loss. The inequality in designing funding instruments to align with individual banks' business model has resulted in misallocation, where budgetary benefits are disproportionately accessed by the middle and upper segment of the MBR, rather than the bottom segment. This condition exemplifies the budgeting pathology known as earmarking, where the earmarked budget fails to reach its intended target group, leading to sub-optimal policy outcomes (Hogwood & Peters, 1985).

From a design thinking perspective, this situation reflects discretion as a design omission (Peters, 2018) that does not place discretion as an explicit element within the policy design process (Cairney, 2021). Rather than being evidence of deliberate flexibility, such omission represents carelessness in acknowledging the diverse banking business models during policy formulation. This insensitivity toward each bank's business model is a pathological symptom. Basically, funding scheme instruments should be explicitly crafted to allow for discretion where appropriate, but only in a manner that is deliberate and aligned with the policy's core vision. Unfortunately, the presence of pathological traits blur the line between discretion as a necessary design element or discretion as an afterthought. Strictly speaking, discretion is a design oversight, but the presence of pathological traits makes it appear as if if were deliberately planned.

## Findings and Discussion

### Discretion and Negligence of Policy Design

This paper argues that discretion within the context of the KPR Sejahtera policy constitutes a form of negligence in policy design. Discretion does not emerge from deliberate intent, but rather from the absence of detailed planning within the policy design process. In other words, it arises as an improvisational response to gaps left by inadequate design. This flaw leads to pathological symptoms in public policy (Hogwood & Peters, 1985), particularly with respect to the funding scheme.

Negligence occurred when the Ministry of PUPR failed to establish a clear mechanism for the distribution of funds. As a result, distributing banks developed their own business models, which tend to be profit-oriented and insufficiency responsive to the needs of low-income communities. Meanwhile, the KPR Sejahtera programme was initially introduced as a government subsidy initiative aimed at providing affordable housing for MBR, as mandated under Law No. 1 of 2011 on Housing and Settlements. Eligibility criteria, including income ceilings and house size limits, are regulated in Ministerial Decree No. 411/KPTS/M/2021.

Additionally, Ministerial Regulations No. 20/PRT/M/2019 and No. 35/2021 outline a joint financing scheme between the government and participating banks. The government also established PT. Sarana Multigriya Finansial (SMF), funded by the national budget, to provide long-term secondary financing to banks, as mandated in Government Regulation No. 57 of 2020 and Presidential Regulation No. 100 of 2020.

FLPP funds are distributed by selected state-owned banks under cooperation agreements for the provision of down payment assistance subsidies (Subsidi Bantuan Uang Muka/SBUM). These banks include Bank Tabungan Negara (BTN), Bank Rakyat Indonesia (BRI), Bank Mandiri, BPD DIY, and others. However, Ministerial Regulation No. 35/2021 does not detail the technical procedures for fund disbursement by each bank. As a result, each bank has employed its own business approach, leading to the emergence of six different fund distribution methods in the Special Region of Yogyakarta.

Originally, KPR Sejahtera aimed to facilitate home ownership for MBR through credit-based schemes. However, because banks were granted autonomy in implementing their programme without specific technical guidelines from the ministry, the policy became subject to each bank's internal framework. This opened a wide discretionary space, effectively transforming the programme from a social initiative into a transactional arrangement between banks and the government.

While discretion may have expanded access to funding, it also introduces inconsistencies and potential risks, as implementation varied across institutions. The government ought to have introduced a clear and standardised funding scheme instrument to ensure the policy remained aligned with its original social objectives. The failure to do so enabled banks to fill this institutional void with ad hoc solutions. This, in effect, exemplifies discretion as a consequence of design omission in policymaking.

## Funding Schemes for Positive Discrimination: Programme Discretion and Accuracy

### 1. Bank Patterns Colouring Funding Schemes

The government's lack of sensitivity to the operational competencies of distributing banks has resulted in the failure to formulate a standardised funding scheme that accommodates the distinct stages and processes undertaken by each institutions. This oversight has created a space for discretion, effectively granting each distributing bank the authority to implement its own interpretation of the policy. Basically, each banking entity operates under a specific business orientation, embedded from its inception as regulated in government regulations. These institutional profiles and orientation serve as the foundation for each bank's business practices. The following table presents a summary of the business models adopted by the distributing banks, compiled from official sources published on the respective institutions' websites:

**Table 3. Business Model of FLPP Fund Distributing Banks in the Special Region of Yogyakarta**

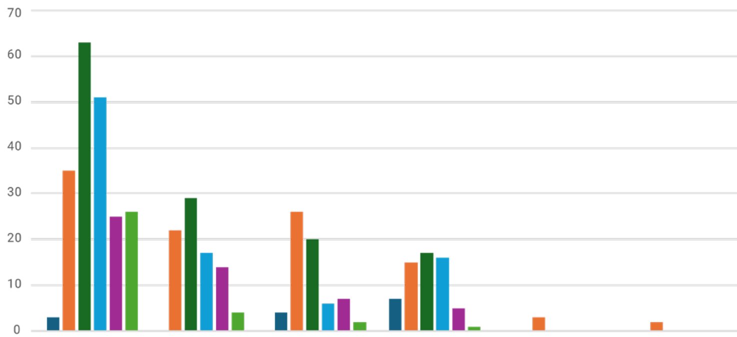
| No | Bank Names | Bank Orientations | Focus Sector | Service Sector | Operation Area Sector |
|---|---|---|---|---|---|
| 1 | BTN | Mortgage Bank | Real estate | The general public, developers and property entrepreneurs | National |
| 2 | BTN Sharia | Sharia Mortgage Bank | Real estate | The general public, developers and sharia-based property entrepreneurs | National |
| 3 | BRI | MSMEs (Micro, Small, and Medium Enterprise) Bank | MSMEs | Lower middle class society | National |
| 4 | BPD DIY | Regional Development Bank | MSMEs | Lower middle class society in the DIY region | Regional-Special Region of Yogyakarta |

| No | Bank Names | Bank Orientations | Focus Sector | Service Sector | Operation Area Sector |
|---|---|---|---|---|---|
| 5 | Bank Jateng | Regional Development Bank | Retail Banking | Central Java Society | Regional-Central Java |
| 6 | Bank Mandiri | Business Bank | Business Develop-ment | Entrepreneur | National |

*Source: research data processing results, 2023*

Insensitivity results in varying degrees of policy pathology. The more FLPP funds are allocated to the upper-middle segment of the MBR, the higher the degree of pathology. Conversely, the smaller the proportion of funds reaching this segment, the lower the pathology. In other words, a higher degree of pathology illustrates a greater misallocation of funds—resources intended for the lower-income segment of the MBR, who are in greater need. The following graph illustrates the order of distributional inaccuracy among the implementing banks, based on the extent to which their funding failed to reach the intended beneficiaries. Ranked from the most to the least inaccurate, the distribution is as follows: BTN, BRI, BTN Sharia, BPD DIY, Bank Jateng, and Bank Mandiri.

**Graph 1. Degree of Pathology of Banks Distributing FLPP Funds in the Special Region of Yogyakarta in 2022**



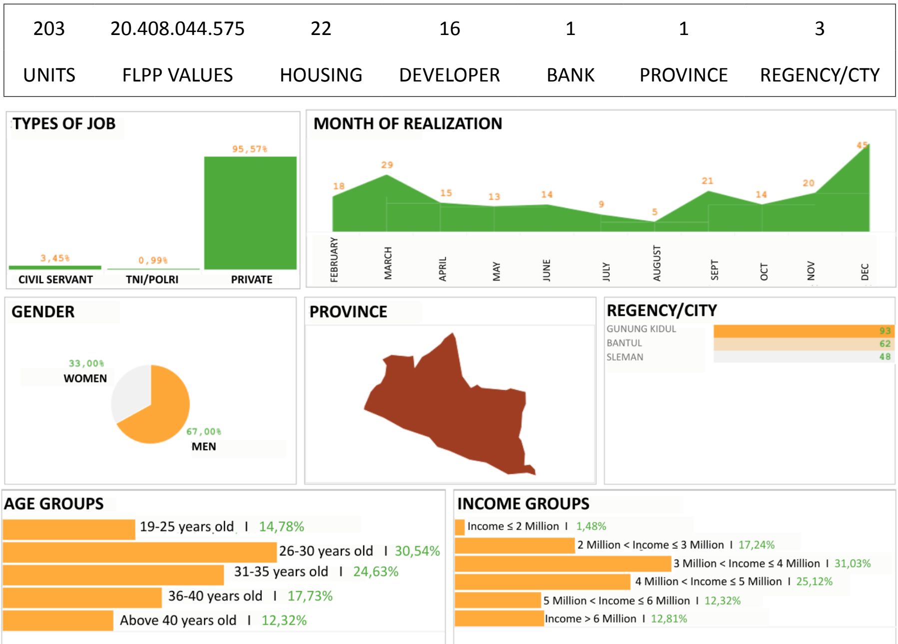
| Description | Bank BTN | Bank BRI | Bank BTN SHARIA | Bank BPD DIY | Bank Jateng | Bank Mandiri |
|---|---|---|---|---|---|---|
| Income ≤ 2 Million | 3 | 0 | 4 | 7 | 0 | 0 |
| 2 Million < income ≤ 3 Million | 35 | 22 | 26 | 15 | 3 | 2 |
| 3 Million < income ≤ 4 Million | 63 | 29 | 20 | 17 | 0 | 0 |
| 4 Million < income ≤ 5 Million | 51 | 17 | 6 | 16 | 0 | 0 |
| 5 Million < income ≤ 6 Million | 25 | 14 | 7 | 5 | 0 | 0 |
| Income > 6 Million | 26 | 4 | 2 | 1 | 0 | 0 |


*Source: Processed by the author based on the 2022 BP Tapera FLPP Fund Distribution Realisation Data. Available at: BP Tapera https://www.tapera.go.id/flpp-2022/*

The discretion inscribed by BTN can be understood in the context of its business model as a specialised mortgage bank that has supported housing finance since 1897. BTN has proven successful in this sector through various achievements, including the issuance of EBA Danareksa Sarana Multigriya Finansial I-Home Ownership Credit BTN (SMF I-KPR BTN) in 2009.

The bank has also focused on transforming itself into a Leading House Bank with World-Class Banking Service (BTN, 2019). This orientation is reflected in BTN's approach to distributing FLPP funds, as illustrated in the chart below:

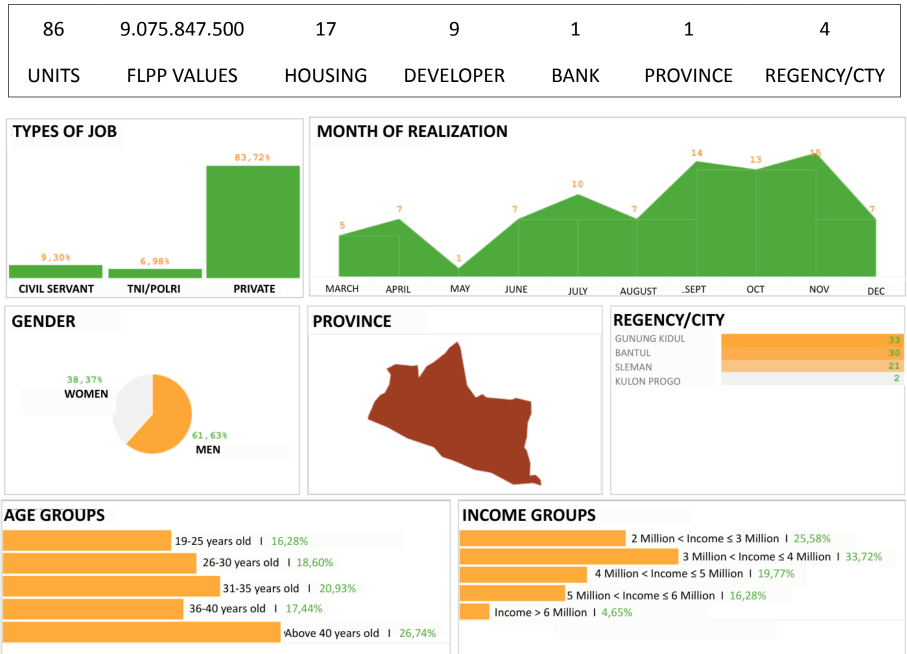
**Chart 2. Realisation of FLPP Fund Distribution by BTN in the Special Region of Yogyakarta 2022**




*Source: BP Tapera, 2022*

A total of 203 housing units (48.33%) valued at IDR 20.408 trillion (47.18%) were successfully distributed to MBR. BTN leads in the distribution of FLPP funds but tends to prioritise the upper-middle segment, particularly household earning between IDR 2–5 million, followed by those earning above IDR 5 million, and lastly those earning below IDR 2 million. Although BTN has the potential to reach all income levels, its profit-oriented approach results in less stringent targeting. As a result, BTN also ranks highest in terms of targeting inaccuracies in the FLPP programme. A similar pathological pattern is shown by BRI, the second largest FLPP distributor, whose discretion primarily benefits MBR with incomes ranging from IDR 2 million to IDR 4 million.

**Chart 3. Realisation of FLPP Fund Distribution by BRI in the Special Region of Yogyakarta 2022**

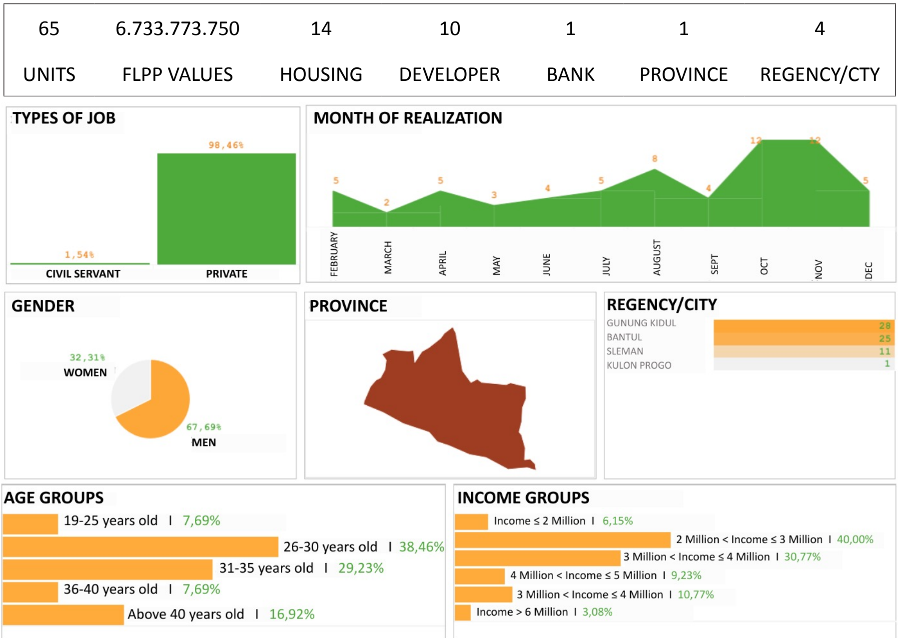



*Source: BP Tapera, 2022*

Founded on 16 December 1895 (BRI, 2023), BRI was formally established as a single bank under Government Regulation No. 21 of 1992. Historically, BRI has focused on serving the lower-middle segment and MSMEs. However, to avoid stagnation and to realise its 2025 vision of becoming the most valuable banking group in Southeast Asia and champion of financial inclusion, BRI has had to adapt its business model (BRI, 2023). BRI views financial inclusiveness as the diversity of service users engaging with its products, a strategy rooted in rational efforts to balance inclusivity with profitability while remaining aligned with the company's long-term goals (BRI, 2023).

The third highest degree of pathological funding in the FLPP distribution is attributed to BTN Sharia, which predominantly serves middle to upper-income classes, particularly those earning between IDR 2 million and IDR 4 million, followed by those with incomes ranging from IDR 4 million to IDR 6 million, as depicted in the graph below:

**Chart 4. Realisation of FLPP Fund Distribution by BTN Sharia in the Special Region of Yogyakarta 2022**

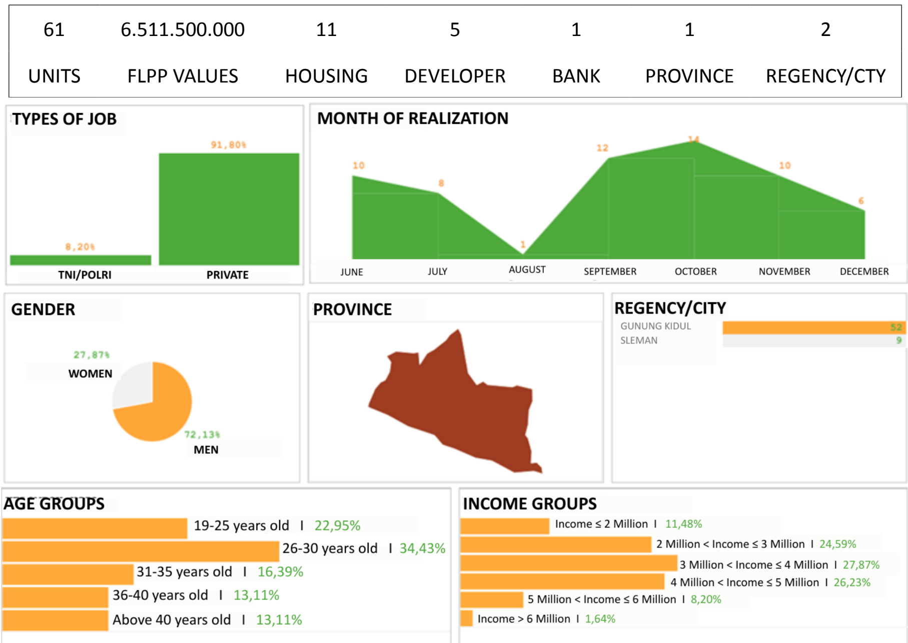



*Source: BP Tapera, 2022*

BTN Sharia, a subsidiary of BTN, faces similar issues to its parent company. Although it successfully reaches the lowest-income segment of the MBR, it still contributes significantly to the FLPP budget allocation. BTN Sharia's focus on Islamic financial principles limits its customer base, reducing its growth potential. However, it excels in providing house finance across all income levels, with a specific focus on serving Muslim communities. To overcome these limitations, BTN Sharia is encouraged to expand its outreach and provide equal opportunities to financial services for all segments of the Muslim population (BTN Sharia, 2019).

BPD DIY ranks fourth in terms of pathological level, primarily serving the upper-middle class segment with average monthly incomes between IDR 2 million and IDR 5 million, as illustrated in the data below:

**Chart 5. Realisation of FLPP Fund Distribution by BPD DIY in the Special Region of Yogyakarta 2022**



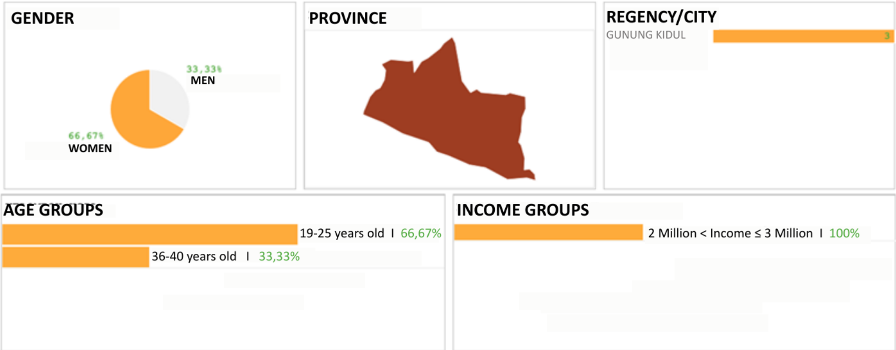

*Source: BP Tapera, 2022*

BPD DIY has shown remarkable success in reaching the lower-income class of the MBR segment, achieving the highest distribution among all participating banks. This bank has previously been entrusted by the state with a mandate to mobilise state capital in order to build and develop regional potential by leveraging local resources, especially through the empowerment of MSMEs (BPD DIY, 2022). This strong alignment with local socio-economic characteristics explains why BPD DIY occupies the first position in terms of accuracy in targeting FLPP fund recipients. Its deep understanding of the socio-cultural dynamics of lower-middle-class communities has made it highly effective in fulfilling its mandate.

The low degree of pathology is occupied by Bank Jateng which distributes FLPP funds to middle-income class earning between IDR 2 million and IDR 3 million, as shown in the data below:

**Chart 6. Realisation of FLPP Fund Distribution by Bank Jateng in the Special Region of Yogyakarta 2022**

| | | | | | | |
|---|---|---|---|---|---|---|
| 3 | 325.125.000 | 1 | 1 | 1 | 1 | 1 |
| UNITS | FLPP VALUES | HOUSING | DEVELOPER | BANK | PROVINCE | REGENCY/CTY |

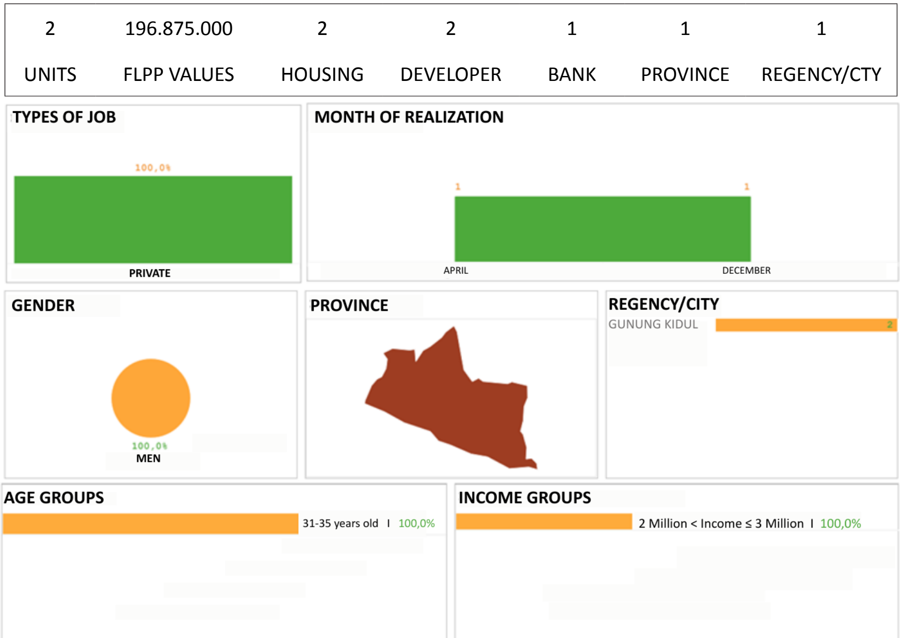



*Source: BP Tapera, 2022*

The distribution of FLPP funds by Bank Jateng shows its contribution to supporting regional development in the Special Region of Yogyakarta. Bank Jateng, which carries the cultural and operational identity of Central Java, faces a distinct challenge when operating beyond its core region. Its business culture is inherently shaped by the socio-economic characteristics of Central Java (Bank Jateng, 2022), which may not align seamlessly with the local context of Yogyakarta. So, it is natural that Bank Jateng's performance in this area is less than optimal, as many of its systems need further adaption to the differing cultural and operation of the area. Under-performance in this context indicates a mismatch between internal banking processes and the external demands of the FLPP fund distribution mandate.

Finally, Bank Mandiri occupies the lowest pathological degree, distributing FLPP funds to middle-income MBR households earning between IDR 2 million and IDR 3 million, as follows:

**Chart 7. Realisation of FLPP Fund Distribution by Bank Mandiri in the Special Region of Yogyakarta 2022**




*Source: BP Tapera, 2022*

Bank Mandiri's success in exercising discretion demonstrates its commitment to fulfilling governmental mandates. Although the bank traditionally focuses on business clients rather than low-income groups (Bank Mandiri, 2023), it has demonstrated adaptability by successfully serving the middle-to-lower segment of the MBR. This adaptability highlights Bank Mandiri's ability to adjust and fill the policy design gaps left by policymakers. The failure to design specific funding scheme instruments reflects a lack of sensitivity, ultimately undermining the policy's vision. In this context, banks that successfully navigate discretion are not only adapting—they are compensating for policy design negligence.

To align the government's housing programme with their own business operations, banks integrate their respective models into the programme's implementation. However, this adaptation can give rise to pathological tendencies, wherein banks prioritise business continuity over inclusive housing distribution. The discretionary space, initially a gap-filler, transforms into a domain of competitive business arena. Banks begin to search for the most profitable models under the justification of mitigating funding risks.

This phenomenon leads to an irony: while some banks report massive FLPP fund distribution, it masks the deviation from the policy's core vision. The banks with the largest disbursements are often those showing the greatest deviation from the core policy objectives. The degree of policy pathology is reflected in the significant proportion of funds flowing to the middle-upper MBR segment, rather than to the most economically vulnerable.

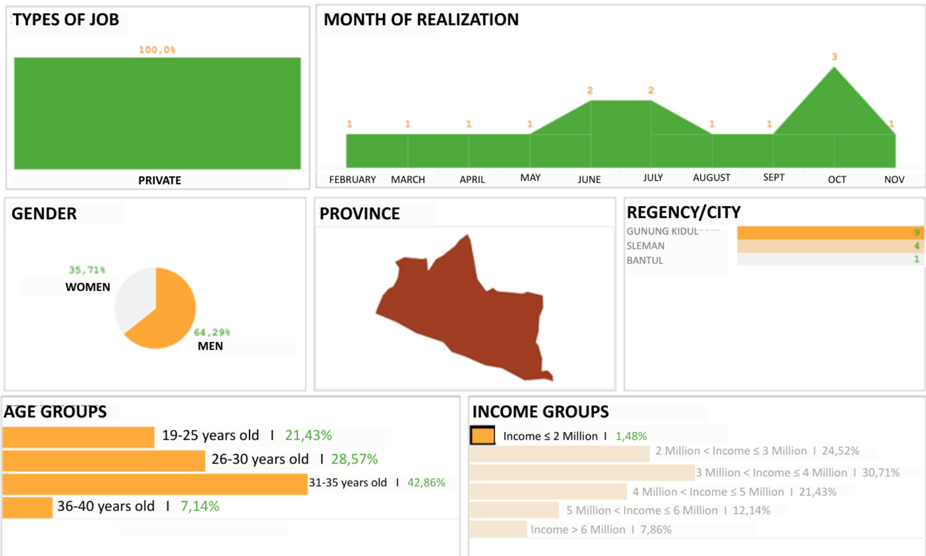
Thus, discretion is not merely incidental; it is a consequence of design omission. The variation in discretionary practices reflects different design patterns, shaped by each bank's business model. Ideally, these differences should have been formally integrated into the policy formulation. Had the six distributing banks been involved from the outset, the KPR Sejahtera programme could have been implemented with a framework of six differentiated and tailored funding instruments, each aligned to the business strategy and institutional constraints of the respective bank.

### 2. Sub-Optimal Policy Outcomes Due to Low Targeting Accuracy

The absence of well-defined funding scheme instruments causes the policy sub-optimal, as it fails to effectively reach the lowest-income groups within the MBR segment. On the contrary, disproportionate distribution of the benefits is enjoyed by those in the upper class of the segment. This misalignment in targeting stems from the insensitivity of policymakers, who neglected to develop appropriate scheme instruments or to leverage the unique business models of the distributing banks. In fact, this is very crucial to enhance targeting accuracy and ensure that the programme reached its intended beneficiaries. This insensitivity during policy design has contributed directly to the emergence of policy pathology, which ironically harms the government's own goals to achieve equitable distribution. The effects of this policy failure are illustrated in the following data:

**Chart 8. Data on the Realisation of FLPP Fund Distribution Based on the Lowest Income in the Special Region of Yogyakarta 2022**

| | | | | | | |
|---|---|---|---|---|---|---|
| 14 | 1.357.125.000 | 7 | 6 | 3 | 1 | 3 |
| UNITS | FLPP VALUES | HOUSING | DEVELOPER | BANK | PROVINCE | REGENCY/CTY |




*Source: BP Tapera, 2022*

MBR households with incomes ≤ IDR 2 million that were successfully distributed amounted to 14 units with an FLPP value of IDR 1,357 trillion. These units were developed across seven housing complexes by six developers in three regions: Gunung Kidul regency, Sleman regency, and Bantul regency. All recipients were employed in the private sector and ranged in age from 19 to 40 years. This group represented a mere 3.33% of the total 420 KPR housing units distributed in the Special Region of Yogyakarta during the 2022 period.

The MBR group with the lowest income (≤ IDR 2 million) should have been the primary target of the KPR Sejahtera financing assistance. Greater inclusion of this lowest-income segment would have provided stronger evidence that the programme was reaching those most in need. However, the opposite occurred in practice. A dislocation of discrimination emerged, in which programme implementation diverged from the government's initial vision. This dislocation ultimately became evidence of policy pathology, contributing to the sub-optimal achievement of the programme's objectives.

The distribution of these 14 housing units was carried out by three distributing banks, namely BPD DIY, BTN Sharia, and BTN. These results indicate that these banks should be given a greater opportunity in distributing FLPP funds. However, this assignment needs to be supported by a properly designed funding scheme instrument, one free from pathological traits. Despite their potential, their effectiveness remains limited by an inadequate policy design, thus opening up space for arbitrary implementation. Meanwhile, other distributing banks have failed to reach the lowest-income MBR segment, largely because the government has overlooked their potential and has not provided targeted support to enhance their performance.

The low accuracy of discrimination can be attributed to differences in discretionary practices. Different patterns of discretion certainly bring different processes according to the operational system of the business model in distributing

FLPP funds. These differences significantly determine the degree of pathology produced. Some banks have harmonised their business processes with the policy assignment, but ironically, this synergy has also enabled greater deviation from the original policy intent, thereby producing a high degree of pathology. Conversely, banks with less effective integration often exhibit lower degrees of pathology, not due to greater alignment, but due to inefficiency and implementation difficulties. Thus, the processes underpinning these discretionary patterns must inform the future design of funding scheme instruments. By understanding how these internal banking processes interact with policy execution, policymakers can create more precise and responsive designs.

### 3. Discrimination Accuracy Treatment

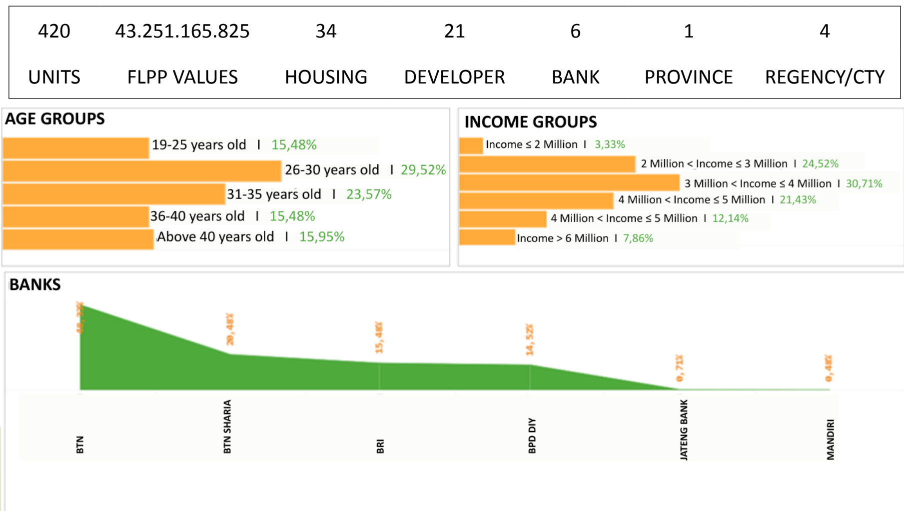
As the adage goes, “prevention is better than cure”, so it is important to design policies carefully (Hogwood & Peters, 1985). One strategic step is to carry out budget efficiency, ensuring that government expenditure is precisely targeted. It is better to distribute a small budget accurately than to manage a larger budget ineffectively. For example, allocating IDR 1,357 trillion to fund 14 well-targeted housing units is more rational than spending IDR 43,251 trillion on 420 housing units, the majority of which are misdirected.

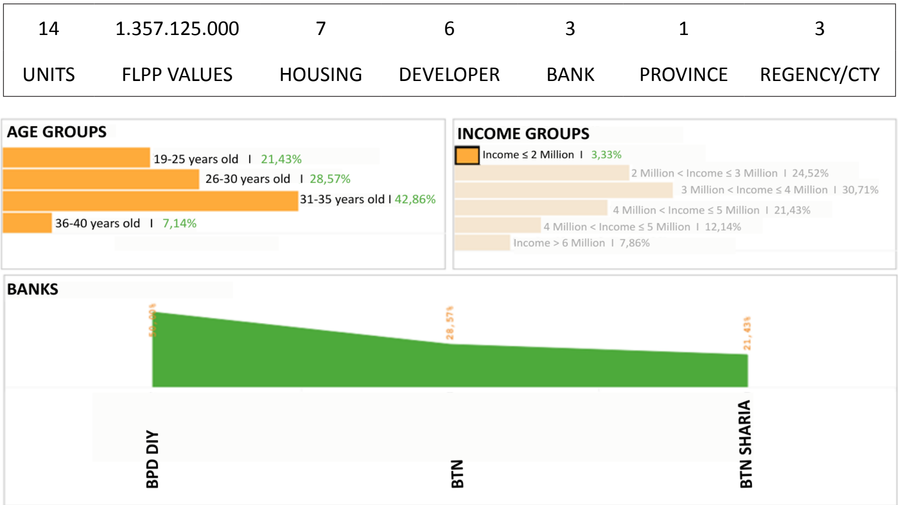
Therefore, the most efficient approach would be to narrow the beneficiary target group, focusing on MBR households earning ≤ IDR 2 million, while eliminating higher-income MBR segments from eligibility.

From a cost-benefit analysis perspective, this represents the most rational solution—one that allows for budgetary contraction without compromising the effectiveness of the programme.

Banks that have succeeded in integrating their business models with government funding assignments tend to have a track record in similar initiatives. Their experience in similar fields has enabled them to effectively integrate policy demands into their existing business models. Conversely, integration failures indicate that there are processes that are inflexible to accommodate assignments, thus hampering operational alignment.

**Chart 9. Total FLPP Fund Distribution Realisation Data for 2022 and Based on Lowest Income by Distributing Banks**






*Source: BP Tapera, 2022*

Three distributing banks have been unable to reach the lowest income level within the MBR segment: BRI, Bank Jateng, and Bank Mandiri. Although BRI is known to serve the lower-middle segment of society, its business orientation is largely focused on providing business credit for MSMEs, not on housing finance. In fact, housing sector financing requires large capital and a long-term commitment, in contrast to the short- to medium-term, smaller-scale nature of MSME credit. Consequently, BRI lacks familiarity with handling financing schemes such as FLPP, which differ significantly from its core operations.

Although Bank Jateng's experience in regional development through retail banking, its strong identity as a "Central Javanese Bank" makes it difficult to adapt to different socio-economic and administrative environments, such as the Special Region of Yogyakarta. Systemic mismatches and unadjusted internal processes have caused this bank to experience system dysfunction, limiting its ability to reach the lower MBR segment. For Bank Jateng, providing funding outside its main area and institutional comfort zone is something new that requires significant adaptation time.

Bank Mandiri has also struggled with adaptation. So far, Bank Mandiri has focused more on corporate and upper-tier entrepreneurs. Although it does engage in business financing, its target market differs from BRI's, as it primarily serves the upper segment of entrepreneurs, not MSMEs. Meanwhile, housing financing requires large capital with a long term—different from business financing which is generally short- to medium-term. This sectoral misalignment makes the KPR Sejahtera assignment a major challenge for Bank Mandiri, as it must operate outside its core experience and business orientation.

Given this mismatch, the second step should be to reallocate FLPP fund distribution mandates more selectively. Previous data shows that of the six distributing banks, three of them have succeeded in distributing FLPP funds to the lowest-income MBR segment (≤ IDR 2 million), namely: BPD DIY (50% or seven housing units), BTN Sharia (28.57% or four housing units), and BTN (21.43% or three housing units). This achievement shows the institutional readiness and track record of these three banks. As previously explained, BPD DIY has a consistent commitment to financing local development within its own operational area. Meanwhile, BTN Sharia and BTN have indeed been experienced in housing finance sector, enabling them to more easily integrate policy tasks into their business models.

Logically, the funding assignment should be transferred exclusively to these three banks. The adaptation process required for other banks is time-consuming and effort to adjust their internal systems (Hogwood & Peters, 1985). These three banks, by contrast, already operate with a degree of alignment to the programme's demands, reducing the need for systemic overhauls. However, the ability of these three banks to reach the lowest level of MBR still needs to be improved. Therefore, the right approach is to train them to be accustomed to the process, with an orientation of contributing to national development—not just pursuing business profits.

As in medical treatment, effective policy implementation requires not only the right prescription but also the correct dosage and renewal cycle (Hogwood & Peters, 1985). A well-designed policy is insufficient unless accompanied by mechanisms that ensure compliance and adaptability to changing circumstances. Over time, policies may become obsolete or misaligned with current conditions. Thus, there must be a control mechanism embedded in the implementation process. This responsibility lies with BP Tapera and Ministry of PUPR for the relevance and performance of policies through evaluation results.

## Funding Scheme Omission and the Problem of Earmarking

The assumption that "money is everything" has proven to be a fundamental error, particularly within the implementation of the KPR Sejahtera programme. The government appears to have been lulled into a false sense of security by the programme's fund rollover mechanism. Funding for this initiative comes from a combination of state budget funds through FLPP scheme and funds from implementing banks, each with a certain proportion. This funding scheme is clearly explained by Ms. Nenda Nurjanah Niode, a BP Tapera Cooperation Analyst, who stated:

> *"So, the FLPP mortgage financing comes from a combination of government and bank funds. The government funds are those that have been budgeted in the APBN (anggaran pendapatan dan belanja negara) for the subsidised mortgage programme, and the second fund is from the bank. The portion is 75% from the government, the remaining 25% is from the bank." (Interview with Nenda Nurjanah Niode, BP Tapera Cooperation Analyst, 27 February 2023).*

This illustrates that the government has designed a fixed budget plan for the KPR Sejahtera programme, and these funds are earmarked exclusively for that purpose. They cannot legally or operationally be redirected to other sectors or initiatives.

In response to concerns over potential funding shortfalls, especially given the long-term nature of housing loans, the government established PT Sarana Multigriya Finansial (SMF) to support secondary financing to banks. As is known, purchasing a house through the KPR Sejahtera scheme requires installments over a fairly long period of time, thus requiring large capital. On the other hand, the limited capacity of banks to issue long-term credit, due to capital and risk constraints, was a primary justification for SMF's creation (SMF, 2023). This role is summarised as follows:

> *"....so what is the function of this SMF? Its function is to help with the 25% funds, in case the bank needs more funds." (Interview with Ms. Nenda Nurjanah Niode, BP Tapera Cooperation Analyst, 27 February 2023).*

Both of the evidences above show that although the government seems very serious in mitigating financial risks, it reflects the government's tendency to waste funds through two channels at once: primary financing and secondary financing. It inadvertently reflects a pathological tendency within policy implementation. This condition reduces the performance of banks that actually have the potential to carry out assignments optimally. However, this pathological nature actually triggers a moral hazard that distances the implementation of the policy from the expected vision of policy discrimination: targeting the lowest-income segment of MBR.

It is through this business arena that dualism occurs, where pathological characters actually become the winners. There is a budget deviation that should be intended for priority MBR, but instead it is used to serve customers who are only classified as MBR administratively. Ironically, the interests of customers are prioritised over the interests of MBR who really need it. This situation is actually considered a solution by policymakers when faced with two interests that are considered uniform and are allowed to run side by side. On the one hand, policymakers do not consider this to be a mistake because it remains within the framework of the policy target. However, that is precisely where the pathological character lies that is not realised because the target that actually needs it more is not the main priority.

Earmarking is a form of pathology in budgeting according to the pathology of budgeting theory proposed by Hogwood & Peters (1985). Earmarking is defined as a budgeting practice that from the start has determined the allocation of funds only for certain programs (Hogwood & Peters, 1985). In this context, FLPP funds come from two sources: banking and the APBN, where the APBN funds themselves come from community tax revenues that will be returned through government programs (Oswaldo, 2022). FLPP funds are part of the APBN budget that is specifically allocated to finance the KPR Sejahtera program, the benefits of which are returned to the community. The provisions for the use of FLPP funds are rigid so that they cannot be diverted to finance activities outside those that have been determined.

However, budgeting pathology has created dualism in interpreting FLPP funds. On the one hand, FLPP is a public fund that is constitutionally sourced from taxes and specifically allocated to fund certain programs—in this case KPR Sejahtera—so it cannot be diverted for other purposes. On the other hand, the abundance of FLPP funds is interpreted as a gift that has pathological potential because technocrats are more focused on the existence of funds, not on their management strategy in order to achieve the policy vision. The results can be seen from the sub-optimal implementation of the program—especially its inability to reach the lowest level of the MBR segment. The allocation of funds that actually falls to the non-priority MBR group is a real example of sunk cost, namely losses due to a shift in focus from the main objective of the policy. Thus, negligence in designing a funding scheme is an early symptom of pathology that leads to a diagnosis of the failure of the KPR Sejahtera policy.

## Conclusion

The omission of a detailed funding scheme instrument has led to widespread discretionary allocation of FLPP funds by distributing banks. As a result, the discretion has contributed to the low targeting accuracy in reaching the lowest-income MBR segment, who should have been the primary beneficiaries of the KPR Sejahtera program.

The omission of this funding scheme instrument resulted in the failure to realise the priority target of the One Million Houses programme for MBR. This condition is called sub-optimal policy: one which disproportionately benefits non-MBR or less vulnerable MBR, while marginalising those in most need. This is a clear illustration of budgeting pathology, particularly the earmarking dysfunction where budget allocations, though fixed, are misaligned with the policy's core objective. The seeds of pathology are sown the moment policy makers treat funds as guaranteed inputs, rather than strategic tools.

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