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The Role of Credit for Poverty Alleviation in Indonesia: Evidence from Panel Data Analysis

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Abstract

The challenge of zero poverty by 2030 is difficult to achieve amidst global uncertainty which has an impact on the domestic economy through a decrease in social budgets and a decrease in purchasing power which makes the domestic economy move slowly. The Asian Development Bank (ADB) has discussed the role of banking in alleviating poverty both directly and indirectly through industrialization, MSMEs and increasing productivity which has a multiplier effect on increasing employment and reducing poverty. Challenges regarding the link between the bank and non-bank financial industry to poverty alleviation are becoming increasingly high due to increasing global uncertainty in the last decade which has had an impact on the domestic economy. This research aims to analyze the influence of banking credit (in this study using MSME credit) and People's Business Credit (KUR) as government representatives in helping business actors to improve their businesses by accessing credit with low interest on poverty alleviation in Indonesia. The research combines time series data in this study, namely the 2017-2022 period and cross section data collected from 34 provinces in Indonesia using the Panel Feasible Generalized Squared (FGLS) approach. The research results show a contradiction between people's business credit and credit to MSMEs, where people's business credit cannot alleviate poverty while credit to MSMEs is effective in reducing poverty rates. The research implication is that financial sector development can be oriented towards alleviating poverty by implementing policies that support financial system stability.

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1. Introduction

Poverty can be defined as the inability of income to meet basic needs, which results in the inability to ensure adequate survival. Poverty is a fundamental problem experienced by almost all countries and based on the Sustainable Development Goals (SDGs) it is hoped that all countries will be able to reduce the poverty rate to zero poverty by 2030 (Hakim et al., 2024). The challenge of zero poverty by 2030 is difficult to achieve amidst global uncertainty which has an impact on the domestic economy through a decrease in social budgets and a decrease in purchasing power which makes the domestic economy move slowly. The Asian Development Bank (ADB) has discussed the role of banking in alleviating poverty both directly and indirectly through industrialization, MSMEs and increasing productivity which has a multiplier effect on increasing employment and reducing poverty (Bolt & Fujimura, 2002).

Efforts to overcome poverty have been made, but there are still many people who live below the poverty line and experience difficulty in meeting basic needs. This situation also occurs in Indonesia, where poverty is still a major problem today. Based on data from the Central Statistics Agency (BPS) in September 2017, the poverty percentage reached 10.12 percent or 26.58 million people. This poverty rate decreased in 2018 to 9.66 percent or 25.14 million people, likewise in 2019 the poverty percentage was 9.41 percent or 24.76 million people. In 2020, there was a high spike in poverty levels of 10.19 percent or 27.55 million people. This increase occurred due to restrictions on population mobility during the Covid-19 pandemic that hit Indonesia. However, in 2021, the poverty percentage rate decreased significantly to 9.71 percent or 26.59 million people, where the number of poor people decreased by 0.14 million people. In 2022, the poverty rate will increase again to 9.57 percent or 26.36 million people. Based on this data, knowing the factors that influence poverty is important (Az-zakiyyah et al., 2023).

The advantage of research on poverty is the implementation of appropriate policies in alleviating poverty, because the conditions and challenges of poverty are increasing so that the implementation of explicit policies can overcome them (Suripto et al., 2024). This connection with the role of banking can encourage policy makers to function as intermediary institutions as well as institutions that can reduce poverty rates. Samudra (2019) stated that MSME credit in Indonesia can reduce poverty rates, in other words, the more credit distributed to MSMEs, the lower the poverty level in Indonesia. MSME credit aims to help MSMEs obtain business capital or additional capital so they can develop their business so that it has an impact on increasing employment opportunities. Nguyen et al (2007) stated that although the community lending program only provided one third of the required loan amount, this program was able to reduce the inequality index and poverty severity by almost 20 percent. These findings indicate that although the size of the loans given to the community is not large, the program has proven to be effective in reducing the poverty gap.

However, Contreras et al (2023) explain that there is an impact of bank failure on small business loans and income inequality so that bank failure has a significant impact on low-income communities. People with low incomes tend to depend on small business loans to

finance their economic activities. When banks fail and small business loans stop, this disrupts the income flow of low-income communities, thereby exacerbating income inequality in society. Haan & Sturm (2017) explain that the effects of bank failure have an impact on the financial system so that there is a change in lending policy where banks see at least some borrowers as part of the bank failure problem so that banks will issue fewer loans for small business credit.

Challenges regarding the link between the bank and non-bank financial industry to poverty alleviation are becoming increasingly high due to increasing global uncertainty in the last decade which has had an impact on the domestic economy (Kurniawan et al., 2022) which can worsen people's purchasing power and increase poverty. This research aims to analyze the influence of banking credit (in this study using MSME credit) and People's Business Credit (KUR) as government representatives in helping business actors to improve their businesses by accessing credit with low interest on poverty alleviation in Indonesia. When poor people gain access to financial services it can empower them through independence and increased productivity to improve their living conditions (D'Onofrio et al., 2019).

2. Literature Review

The development of the financial sector has a major impact in promoting economic growth (Levine, 2005), this is the basis for policy makers, apart from being able to promote economic growth effectively, can the financial sector promote poverty alleviation? The link between the financial sector and poverty is a development process itself. Based on the results of previous studies, it shows that there are conclusions *inconclusive* related to the financial sector and poverty. Apart from the methods used by previous researchers, this also occurs from the nature of the relationship between the financial sector and poverty, where the relationship between these two variables occurs directly or indirectly, so that financial sector development and poverty alleviation are multiplier effects. development of the financial sector itself through employment, increasing productivity and strengthening businesses in the micro sector.

Several theories state that financial sector development can reduce the level of inequality through 1). There is access to credit for poor people who can be invested through the education sector, the hope is that those who have skills and who have completed their education can be absorbed as workers in the formal sector (Galor & Moav, 2004); 2). The decision and ability of poor people to become entrepreneurs through easy access to credit to increase business capital, policies that support poor people in access and development of the financial sector (Banerjee & Newman, 1993); 3). In contrast to the two previous theories, Beck et al (2010) stated that credit provision is focused on those who have business activities with a low risk of default so that the development process and poverty alleviation can go hand in hand through financial sector development; 4). Claessens & Perotti (2007) emphasize that the high risk of default has a negative impact on the development of the financial sector so that poor people are advised to obtain funds through informal relationships (family relationships, etc.).

Based on Presidential Regulation Number 82 of 2016 which has the aim of encouraging economic growth, accelerating poverty reduction, reducing disparities between individuals and between regions in order to realize the welfare of the Indonesian people and in the context of alleviating poverty and equalizing the economy, the government encourages the creation of entrepreneurs. One form of government support for micro, small and medium businesses is through the People's Business Credit (KUR) program. Research on the link between KUR and poverty has been widely developed, such as Ulfa & Mulyadi (2020) which states that the KUR program can improve the standard of living of poor people through access to capital for business activities. Anindita & Nurhayati (2024) explored several government programs and policies in alleviating poverty such as the Family Hope Program (PKH), Non-Cash Food Assistance (BPNT), Pre-Employment Card (KPK) and People's Business Credit (KUR) and found that the KUR program could reducing poverty rates in 25 provinces with extreme poverty levels. In general, according to Manguma et al (2023) KUR can increase people's per capita income and according to Ramadhani et al (2022) the KUR program allows MSMEs to survive during the Covid-19 pandemic.

The research focuses on two credits, namely, people's business credit (KUR) which is a government program as a poverty alleviation program through independence and sustainability for the poor, as well as credit to MSMEs which is theory No. 2 from Beck et al (2010) regarding access to credit for actors. efforts to increase capital and absorb labor. Robb & Robinson (2014) if bad credit conditions can have an impact on business actors through a stricter financing process so that some small business actors will experience difficulty in accessing credit again. Levine et al (2020) explain that micro and small business activities are more labor-intensive oriented and do not ignore the fact that some workers receive low wages. However, labor-intensive MSMEs have a large multiplier effect on the absorption of workers who do not have special skills and usually absorb many poor and unemployed people, so that increasing credit distribution in the MSME sector can alleviate poverty through increasing labor absorption in MSMEs.

The research update developed is to use two variables related to the financial sector, namely People's Business Credit (KUR) as the government's role in overcoming poverty through credit provided to micro and small businesses and credit to MSMEs, namely credit provided by banks to micro businesses, small and medium. The use of these two variables can be applied because MSMEs have the greatest contribution in absorbing both skilled and non-skilled labor so that they can encourage the creation of increased business and have an impact on reducing poverty rates. Samudra (2019) explains that credit to MSMEs has a negative effect on poverty, increasing credit to MSMEs can reduce the poverty rate in Indonesia. Based on data from the OJK which shows that MSME credit has increased so that the financial sector in Indonesia supports the creation of competitive business competition which has an impact on increasing employment opportunities. Oktaviana (2021) stated that the proportion of MSME credit is used as a bridge for poverty alleviation in Indonesia through employment.

Amri (2022) states that MSME credit has a negative effect on the level of poverty which occurs only at the district level and has no effect on poverty in urban areas in North Sumatra.

Another research from Islam (2020) states that there is a link between MSME credit, economic growth and poverty in Bangladesh, although statistically it shows different effects, increasing the proportion of MSME credit has a positive impact on economic growth which can reduce poverty rates. Nursini (2020) stated that MSMEs play a big role in alleviating poverty through economic growth that supports MSME activities and employment opportunities in the MSME sector. Government support for MSMEs is important through policies and credit allocation to support MSME penetration in production. However, Poli et al (2024) explain that risky credit penetration can lead to high defaults which have an impact on the performance of financial institutions and some financial institutions' poor performance can be caused by socio-demographic factors. Research also applies other control variables from social variables to see their effect on poverty (Meilinda & Kurniawan, 2024). The application of control variables is applied to control endogeneity in the model and heterogeneity that cannot be separated from the multidimensional function of the model being built (Newey & Stouli, 2021).

3. Research Methods

This research uses panel data regression which is a combination of time series data (*time series*) and cross-sector data (*cross section*) which in this study is a province, the time series data in this study is the period 2017-2022 and the data *cross section* collected from 34 provinces in Indonesia. Research data sources are from the Central Statistics Agency (BPS), Financial Services Authority (OJK) and People's Business Credit (KUR). The research analyzes the effect of credit on poverty in 34 provinces of Indonesia, where the credit used is credit to MSMEs and KUR credit. The use of two credits is to describe in detail the role of credit provided by banks, in this case analyzing the role of the banking sector in alleviating poverty, while KUR is applied to analyze the role of the government in alleviating poverty through the credit system. The research also applies control variables, namely gross domestic product (GDP), unemployment, regional minimum wage and Gini index, control variables are applied to control endogeneity in the model. Table 1 explains the description of the variables used in the research.

Table 1. Definition of Variables

Variables	Notation	Definition	Structure	Sources
Poverty	pov	Percentage of poverty levels in each province in Indonesia	%	BPS
People's Business Credit	kur	Is working capital loans and or investment to micro, small and medium enterprises and cooperativesin the field of business productive and viable but not yet bankable	Rp	KUR
MSME credit	bl	Credit facilities provided by banks to micro, small and medium businesses	Rp	OJK
Regional minimum wage	wage	minimum wage applicable at the provincial level including districts/cities within it	Rp	BPS

Variables	Notation	Definition	Structure	Sources
Unemployment rate	unem	Percentage of open unemployment rate in each province in Indonesia	%	BPS
Gross Regional Domestic Product	lngrdp	The total value of goods produced from goods and services is calculated based on constant prices in each province in Indonesia	Rp	BPS
Inequality	gini	One measure of income inequality is 0-1 in each province in Indonesia	Indeks	BPS

Source: Author calculation

The panel data equation developed follows Khasanah & Kurniawan (2024) as follows:

$$pov_{it} = \alpha + \beta_1 kur_{it} + \beta_2 bl_{it} + \beta_3 wage_{it} + \beta_4 unem_{it} + \beta_5 lngrdp_{it} + \beta_6 gini_{it} + \varepsilon_{it}$$

Where α is constanta; $\beta_1 - \beta_6$ is the coefficient of the independent variable; ε is the error term; i notation for cross-section and t noation for time-series. To identify panel data estimation techniques, the research applies several pre-model tests, namely the heteroscedasticity test and the autocorrelation test. These two tests are applied to obtain a non-biased panel data model (Baum, 2001). Apart from that, the research also applies the Hausman test to estimate between the fixed and random panels used in the research. In initial observations, developing a model regarding the role of credit in alleviating poverty in Indonesia, we found two interrelated variables, namely kur and bl, which could cause heteroscedasticity problems in the model.

These two variables can still be applied to the model simultaneously with the feasible generalized least squares (FGLS) method, which according to Leal & Marques (2019) and Bai et al (2021) states that the FGLS panel method is more efficient (in standard deviation values) than the OLS panel model. which has cross-sectional dependency. Parks (1967) introduced the FGLS method to estimate parameters in linear regression models where there are problems of heteroscedasticity, serial correlation and cross-sectional correlation. Apart from that, FGLS is suitable for estimating long-term panel data (balanced panel data), which can produce non-standard estimates. -bias, more consistently and directly addresses the problems of hetoscedasticity, serial correlation and cross-sectional correlation. Lin & Omoju (2017) stated that static panel data (OLS, fixed and random panels) have challenges in interpreting coefficient values, where the coefficient value parameters are correlated with the error term values and the variables used in the model are mutually cointegrated. Mumuni & Mwimba (2023) stated that the FGLS approach panel data model estimation does not have a cut off point in the long or short panel provisions where this study has 34 cross-sections and 6 time-series or N = 34 > T = 6.

4. Results

Descriptive Analysis

Table 2 shows the descriptive values of the variables used in the model, all variables are transformed into logarithmic form. The average percentage of poverty in Indonesia for the 2017-2022 period with the smallest poverty percentage of 1.37 percent occurred in 2018 because the national economy in 2018 is estimated to grow around 5.15 percent, higher than in 2017 which grew 5.07 percent. This fairly high economic growth has succeeded in creating jobs, reducing the unemployment rate, and reducing the level of poverty and inequality, while the largest poverty percentage value was 27.4 percent in 2020. In that year poverty increased due to the Covid-19 crisis where there were many layoffs, a decline people's income, and the number of business closures, causing an increase in poverty levels.

Table 2. Descriptive Analysis

Variabel	Obs	Mean	Std dev	Min	Max
pov	204	10.607	5.679	1.37	27.74
kur	204	14.214	1.195	10.752	17.046
bl	198	9.781	1.083	7.613	12.202
wage	204	14.687	0.314	12.380	15.351
unem	204	5.181	1.799	1.48	10.95
lngrdp	204	16.943	1.189	13.314	19.580
gini	204	-1.056	0.114	-1.398	7.788

Source: data processed

In the KUR credit variable with the smallest percentage value of 10.7 percent, this decrease in the KUR credit budget occurred in 2018 and 2020, this was due to macroprudential policies from Bank Indonesia to maintain financial system stability, and the weakening of the rupiah exchange rate against the dollar, and there was a weakening global and domestic economy due to the pandemic, as well as increasing non-performing loans. The largest value of Kur Credit was 17 percent in 2021. This increase in the KUR credit budget occurred due to government policies to encourage economic recovery through the MSME sector during the Covid pandemic. In the MSME credit variable with the smallest percentage value of 7.6 percent, the decline in the MSME credit budget occurred in 2020, there was a significant decrease in the MSME credit budget allocation from banks due to the Covid-19 pandemic.

The minimum wage variable has an average value of 14.68 percent with a standard deviation of 0.314, the lowest minimum wage value in Indonesia is Central Java province with a minimum wage of IDR. 1,812,935 and the highest provincial minimum wage value in Indonesia is DKI Jakarta with a minimum wage of IDR. 4,641,854. The Open Unemployment Rate variable has an average value of 5.18 percent with a standard deviation of 1.7 in 204 research observations. This figure shows that above 5.1 percent of the workforce in Indonesia do not have jobs, this is influenced by various factors such as economic conditions, quality of the workforce, demand for labor. The gross regional domestic product variable has 204 observations with an average value of 16.94 percent with a standard deviation value of 1.18 from 34 provinces that have the lowest average GDP, namely the province of West Papua,

and the province that has the highest average GDP, namely DKI Jakarta. The Gini index variable has a total of 204 observations with an average value of -1 percent with a standard deviation value of 0.1 with the smallest value being -1.3 percent and the largest value being 7,788 percent. So it can be concluded that a higher Gini index value indicates a greater level of inequality.

Panel Data Analysis

The research applies several panel data approaches to examine the effect of credit in alleviating poverty in 34 provinces in Indonesia from the 2017-2022 period. Several panel approaches include pooled OLS, fixed effects, random effects and feasible generalized squared models. Each panel data approach has several advantages over other models. Pooled OLS produces basic regression from baseline estimation, fixed effects can control unobserved models from individuals or time effects, random effects control unobserved from random distributions and FGLS is applied to eliminate variance problems from the model (El Kadri et al., 2024).

Table 3. Result of Panel Data

Variable	Pooled	FEM	REM
kur	1.139765	-0.105	-0.074
	(0.012)	(0.536)	(0.657)
bl	-2.293	-0.280	-0.294
	(0.001)	(0.272)	(0.238)
wage	-0.081	0.358	0.562
	(0.944)	(0.320)	(0.320)
unem	-0.425	0.126	0.090
	(0.048)	(0.244)	(0.390)
lngrdp	-0.725	-1.090	-1.123
	(0.241)	(0.001)	(0.000)
gini	53.997	7.662	8.514
	(0.00)	(0.006)	(0.001)
Cons			

Source: dataprocessed.

Table 3 shows the results of static data panels on pooled OLS, fixed effects and random effects. The selection of the best panel data model is based on the results of the Chow test to determine between panel pooled OLS and random effect. Based on the results of the Chow test, it shows a probability value below 5 percent so the random effect model is used. Baltagi (2005) explains that determining the panel model can also apply the Hausman test method, based on Table 4 shows that the probability value is below 5 percent alpha, so the fixed effect panel model is applied.

Table 4. Result of Chow and Hausman Test

Test	Chi-Squared	Prob
Chow	393.72	0.000
Hausman	14.53	0.024

Source: data processed

To avoid biased panel data models, the research also applies the classical assumption test. The results of the classical assumption test in Figure 2 show that the distribution of residual values based on the values from the cross-section spreads close to the panel data regression line, thus indicating that the fixed effect panel model has distributed residual values are normal.

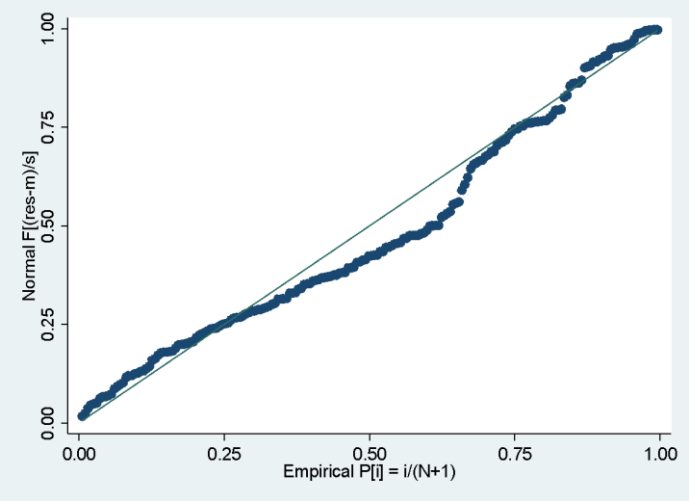

Figure 1. Normality Test Based on Graphic P-Plot

The research also applies a multicollinearity test with the aim that the independent variables used do not have a perfect correlation with each other. A perfect correlation between independent variables has an impact on the coefficient value of the independent variable being biased. The multicollinearity test uses a pairwise correlation approach which has the advantage of the relationship between independent variables (Prakosa et al., 2024). Table 5 shows that the correlation values between independent variables have no indication that the independent variables have perfect correlation so that the panel model does not have multicollinearity problems.

Table 5. Pairwise Correlation

Variabel	kur	bl	wage	unem	lngrdp	gini
kur	1.0000					
bl	0.7320	1.0000				
wage	-0.2419	-0.1570	1.0000			
unem	0.1360	0.3326	0.1693	1.0000		
lngrdp	0.6808	08678	-0.0238	0.4272	1.0000	
gini	0.1769	0.2330	-0.1037	-0.0037	0.1696	1.0000

Source: data processed

The fact that individual and time-specific effects are found to be statistically significant in both the fixed effects and random effects models emphasizes the importance of accounting for individual and time-level variability in the analysis. However, it's crucial to address the issue of heteroskedasticity, which is present in both individual and time-specific effects in the fixed effects model (El Kadri et al., 2024).

Table 6. Heteroskedasticity Test

Uji	Chi-Squared	Prob
Heteroskedasticity	20.20	0.000

Source: data processed

Based on Table 6, it shows that the probability value of the heteroscedasticity test is 0.000 or below 5 percent alpha, which indicates that the fixed effect panel model has a heteroscedasticity problem. Table 6 also shows that the fixed effect panel has a bias with heteroscedasticity problems in it. In response to this, the research applied a feasible generalized square (FGLS) panel. The advantage of the FGLS panel is that it can reduce heteroscedasticity problems (Mumuni & Mwimba, 2023; El Kadri et al., 2024).

Table 7. Panel FGLS Estimation

Variable	Coefficient
kur	1.297
	(5.68)***
bl	-1.863
	(-4.94)***
wage	-0.127
	(-0.28)
unem	-0.593
	(-5.04)***
lngrdp	-0.639
	(-2.39)**
gini	19.436
	(12.10)***
Cons	

Source: data processed

Table 7 shows the results of the FGLS panel with the following equation:

$$pov = \beta_0 + 1.297kur_{it} - 1.863bl_{it} - 0.127wage_{it} - 0.593unem_{it} - 0.639lngrdp_{it} + 19.436gini_{it}$$

The role of credit in the FGLS panel results shows pros and cons, where foreign currency credit has a coefficient value of 1,297 with a positive value, indicating that if the increase in foreign exchange credit increases by 1 percent, then the poverty variable will increase by 1,297 percent while MSME credit has a coefficient value of - 1,863 with a negative value, indicating that increasing MSME credit by 1 percent will reduce the poverty level by 1,863. The open unemployment rate variable has a coefficient value of -0.593 with a negative value indicating that an increase in the open unemployment rate by 1 percent will cause a decrease in the poverty rate of -0.593. The gross regional domestic product variable has a coefficient value of -0.639 with a negative value, indicating that an increase in gross regional domestic product by 1 percent will cause a decrease in the poverty rate of -0.639 percent and an increase in inequality will cause an increase in poverty.

Discussion

The use of two variables related to the role of credit produces different coefficient values for the poverty level. These two variables have a significant effect on the poverty level. The cur variable shows a positive coefficient value, which means that additional accumulated cur funds will increase poverty. Although these findings are different from those of Hasan (2016) and Iztihar (2018) this is because both studies used poor respondents who own businesses and earn credits, whereas this study uses the percentage of poverty levels in the sense that all poor residents who own businesses and do not own a business and both studies use MSMEs as a moderating variable for poverty. This research explores the role of credit on poverty levels directly. The research results show the need for evaluation of the distribution of KUR if the aim of using KUR is to reduce poverty rates. Munguti & Wamugo (2020) argued that financial access is one of the keys that drive the development of SME in the country, particularly access to bank financing since banking sector plays a key role in serving this segment.

In contrast to credit to MSMEs, which has a negative coefficient value and a t-count value that is greater than the t-table which shows that credit to MSMEs has a negative effect on the poverty level, increasing credit to MSMEs will reduce the poverty level by up to 1.86 percent. The large multiplier effect on reducing poverty rates shows that credit to MSMEs is the right policy in alleviating poverty. Beck et al (2010) stated that credit provision is focused on those who have business activities with a low risk of default so that the development process and poverty alleviation can go hand in hand through financial sector development. Samudra (2019) stated that MSME credit in Indonesia can reduce poverty rates, in other words, the more credit distributed to MSMEs, the lower the poverty level in Indonesia. MSME credit aims to help MSMEs obtain business capital or additional capital so they can develop their business so that it has an impact on increasing employment opportunities. Nguyen et al (2007) stated that although the community lending program only provided one third of the required loan amount, this program was able to reduce the inequality index and poverty severity by almost 20 percent.

Another indicator is the GRDP variable per province which shows a negative coefficient value which means that an increase in GRDP from each province can reduce the poverty level by 0.639 percent, the multiplier effect of the role of MSME credit is greater than greater economic activity, meaning there are great opportunities for development. financial sector based on poverty alleviation. Sulistiana (2017) states that GDP is the main indicator in assessing the success of development and according to Widodo & Kurniawan (2018) that economic activity through GDP can open up large employment opportunities from various economic sectors which can have an impact on reducing poverty and unemployment. Mahaputri & Satrianto (2024) emphasize that economic activities with a labor-intensive orientation such as the mining, construction, manufacturing and processing industry sectors have a large effect on labor absorption which can reduce the unemployment rate and have an impact on reducing the poverty rate. Table 7 also shows that the inequality variable measured through the Gini index has a positive relationship with the poverty level. The higher the inequality between regions, the higher the poverty rate. Inequality in infrastructure

development between provinces also has an impact on poverty alleviation patterns (Prihatin & Gravitiani, 2021).

5. Conclusion and Suggestion

Poverty is a fundamental problem experienced by almost all countries and based on the Sustainable Development Goals (SDGs) it is hoped that all countries will be able to reduce the poverty rate to zero poverty by 2030. The Asian Development Bank (ADB) has discussed the role of banking in alleviating poverty both directly and indirectly through industrialization, MSMEs and increasing productivity which has a multiplier effect on increasing employment and reducing poverty. Challenges regarding the link between the bank and non-bank financial industry to poverty alleviation are becoming increasingly high due to increasing global uncertainty in the last decade which has had an impact on the domestic economy which can worsen people's purchasing power and increase poverty. This research aims to analyze the influence of banking credit (in this study using MSME credit) and People's Business Credit (KUR) as government representatives in helping business actors to improve their businesses by accessing credit with low interest on poverty alleviation in Indonesia. When poor people gain access to financial services it can empower them through independence and increased productivity to improve their living conditions.

The research results show a contradiction between people's business credit and credit to MSMEs, where people's business credit cannot alleviate poverty while credit to MSMEs is effective in reducing poverty rates. The credit multiplier for MSMEs in alleviating poverty is greater than the increase in economic activity as measured by the GDP variable per province. MSME credit aims to assist MSMEs in obtaining business capital or additional capital so that they can develop their business so that it has an impact on increasing employment opportunities which has an impact on reducing poverty rates. This indicates a great opportunity for financial sector development that is oriented towards alleviating poverty. The research implication is that financial sector development can be oriented towards alleviating poverty by implementing policies that support financial system stability.

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