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## CREDIT EXPANSION AND ITS IMPACT ON THE WELFARE OF THE PROVINCES IN INDONESIA

**ANHAR FAUZAN PRIYONO**

Universitas Padjadjaran

Email: anhar.fauzan.priyono@unpad.ac.id

**HERIYALDI**

Universitas Padjadjaran

**PIPIT PITRIYAN**

Universitas Padjadjaran

### ABSTRACT

This study aims to study the behavior of income inequality at the provincial level in Indonesia, through observing MSMEs credit, government expenditure of education and health, school participation rate, and unemployment rate. We employed Fixed effect panel data, implementing Panel Corrected Standard Error (PCSE) and found that MSMEs credit, government expenditure on education, and school participation rate are significantly can reduce income inequality. On the other hand, unemployment has been proven to have positive impact to income inequality. However, the late implementation of National Health Insurance (Jaminan Kesehatan Nasional - JKN), relative to our period of observation, makes the result of government expenditure on health cannot be exercised. Financial intermediation should be able to provide wider opportunities for MSMEs business actors. Empirical result found that the increase in credit distribution to the MSME sector can reduce the level of income inequality, on average in each province in Indonesia. We also find that credit distribution to MSME sector can also reduce the highest to lowest income ratio. The government is also expected to consistently pay attention to the aspects of education and health in its budget. Efforts to improve access to the education sector are also expected to continue to be noticed by the parties concerned, with the aim to improve the quality of life of the community.

**Keyword:** *Gini index, Government expenditure, income ratio, MSMEs credit expansion.*

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