GOVERNANCE ISSUES IN REVOLVING FUND MANAGEMENT: EVALUATING UPK'S ROLE IN EMPOWERING SELF-HELP GROUPS

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ABSTRACT

Poverty remains a significant challenge in Indonesia, with 9.82% of the population classified as poor in 2018. To address this issue, the Kota Tanpa Kumuh (Kotaku) program was launched to revitalize slum areas through infrastructure development and economic empowerment initiatives, including revolving funds managed by the Village Financial Management Unit (UPK). This study employs a qualitative descriptive approach to examine UPK's fund management in Kudubanjar Jaya. The findings highlight administrative shortcomings and fund misallocation, which hinder the program's ability to effectively support community business initiatives. Strengthening financial accountability is crucial to enhancing the program's overall impact.

Keyword : Revolving Funds, Financial Management, Accountability, Poverty Alleviation

INTRODUCTION

Poverty remains a complex, multidimensional issue, especially in developing nations like Indonesia. According to the World Bank (2020), poverty extends beyond income deprivation to include restricted access to essential services, financial exclusion, and social vulnerability. In 2018, Indonesia's poverty rate stood at 9.82%, impacting around 25.95 million people (BPS, 2018). Despite various government initiatives to combat poverty, significant challenges remain in ensuring these programs effectively reach and empower their target beneficiaries.

The Kota Tanpa Kumuh (Kotaku) program is a key strategic initiative by the Directorate General of Human Settlements under the Ministry of Public Works and Public Housing, aimed at accelerating slum reduction efforts in Indonesia. This program was introduced following the transition of government leadership from Susilo Bambang Yudhoyono, whose term had ended, to Joko Widodo as the new president.

The program, previously known as the National Program for Community Empowerment (PNPM), was rebranded as the Kota Tanpa Kumuh (KOTAKU) program in 2015 under the new government. This change aligns with Article 28H, Paragraph (1) of the 1945 Constitution, reflecting the government's aspiration to create slum-free areas.

Slum upgrading activities encompass both infrastructure development and social and economic support to improve the quality of life in affected communities. One key form of economic assistance is the management of revolving funds for community businesses. These funds originate from foreign loans provided by donor agencies such as the World Bank, the Islamic Development Bank, and the Asian Infrastructure Investment Bank (http://kotaku.pu.go.id/page/6880/tentang-program-kota-tanpa-kumuh-kotaku)

In addition, local governments contribute funding through the Regional Budget (APBD) and community self-help initiatives, forming a unified financing framework to achieve the targeted improvements in slum management. The Kota Tanpa Kumuh (KOTAKU) program is responsible for ensuring the accountability of Microfinance Institutions (MFIs) in managing these funds on behalf of the government.

Accountability in managing revolving funds is upheld through their submission to the Financial Management Unit (UPK) of the Community Self-Sufficiency Institution (LKM). The UPK is selected through deliberations among LKM members and officially appointed by the LKM Chairman. These revolving funds are allocated to strengthen the community's economy through a savings and loan system, which provides financial support for business capital.

According to (Alawiyyah et al., 2017), the Financial Management Unit (UPK) consistently prepares reports on fund utilization as a necessary requirement. However, financial reports are only compiled to meet the UPK's primary needs and are exclusively provided to the facilitator, Meanwhile, Tarjo et al., (2021)states that the Financial Management Unit (UPK) has met all ten key indicators of revolving fund management accountability. This indicates that the management of these funds can be considered accountable.

The management of revolving funds is closely linked to the performance of the Financial Management Unit (UPK), particularly in fund utilization and accountability. (Sungwa, 2025)suggests that revolving fund management can be considered effective, given the competence of human resources in both fund utilization and accountability. However, challenges in fund management remain. (Fisseha, 2025)highlights that delays in completing financial reports stem from both internal and external issues within Microfinance Institutions (MFIs), which can disrupt fund management.

This study provides a novel contribution by exploring the intersection between financial accountability, fund governance, and community economic impact within the Kotaku program. Unlike previous research that primarily discusses fund distribution, this study specifically investigates how the effectiveness of UPK in managing revolving funds influences the success of micro-enterprises and financial sustainability within marginalized communities. By identifying gaps in fund management and accountability, this research aims to propose strategies for improving governance mechanisms to ensure that funds are allocated transparently and used effectively for poverty alleviation.

The primary objective of this research is to analyze the revolving fund management practices of the Financial Management Unit (UPK) within the Kota Tanpa Kumuh (Kotaku) program in Kudubanjar Jaya. The study focuses on the fund distribution system, financial transparency, and managerial accountability. Additionally, it seeks to identify key challenges in fund management, such as administrative inefficiencies, inaccurate recipient targeting, and weaknesses in financial monitoring mechanisms.

Furthermore, this research evaluates the impact of revolving fund management on community economic empowerment, particularly for micro-business groups benefiting from the program. By examining the dynamics and challenges of revolving fund management, this study aims to provide policy recommendations and strategic solutions to enhance financial governance, accountability, and sustainability at the community level.

The findings of this research are expected to contribute to improving the fund management system within the Kotaku program, ensuring that allocated funds are more effectively targeted and generate tangible impacts in the effort to alleviate poverty in Indonesia.

THEORETICAL FRAME WORK

The theoretical framework for this study, "Governance Issues in Revolving Fund Management: Evaluating UPK's Role in Empowering Self-Help Groups," is built upon the principles of governance, community empowerment, and financial management. In the context of revolving funds, governance encompasses the structures, processes, and practices that uphold accountability, ensure transparency, and foster stakeholder participation. This framework explores how governance mechanisms influence the effectiveness of UPK in managing revolving funds and empowering self-help groups.

(Tarjo et al., 2021) emphasize that effective governance mechanisms are crucial for the sustainability of financial initiatives, especially in community-driven projects. In the context of Self-Help Groups (SHGs), governance plays a pivotal role in shaping operational dynamics by influencing decision-making processes and resource allocation. These factors, in turn, directly impact the empowerment of community members, determining the overall success and sustainability of SHG initiatives.

Empowerment is a key concept in understanding the role of Unit Pengelola Keuangan (UPK) in supporting Self-Help Groups (SHGs). It is broadly defined as the process through which individuals gain control over their lives and access the resources needed to achieve their goals (Ruel et al., 2021). In this context, UPK serves as a facilitator, providing financial support and training to SHGs, thereby strengthening their capacity for self-management and informed decision-making. The empowerment framework suggests that when individuals are equipped with essential skills and resources, they are more likely to participate actively in their communities and contribute to collective development (Ruel et al., 2021). This underscores the critical role of UPK in fostering an environment that enables empowerment and sustainable community growth.

The management of revolving funds is closely tied to the principles of participatory governance, which emphasizes stakeholder involvement in decision-making processes to ensure their voices are heard and considered (Turnhout et al., 2010). In the context of UPK and Self-Help Groups (SHGs), participatory governance strengthens fund management by fostering trust, collaboration, and shared responsibility among community members. By integrating the perspectives and experiences of SHG members into the governance of revolving funds, UPK can establish a more inclusive and equitable framework that effectively addresses the specific needs and challenges faced by these groups.

Moreover, the interplay between governance and financial management plays a critical role in addressing the challenges associated with revolving fund management. While effective financial management is essential for the sustainability of these funds, governance shortcomings such as lack of transparency, weak accountability, and limited stakeholder engagement can significantly undermine their effectiveness (Mansuri & Rao, 2021). Therefore, the theoretical framework underscores the importance of a holistic approach that seamlessly integrates governance principles with robust financial management practices to strengthen UPK's role in empowering SHGs and ensuring long-term financial sustainability.

In conclusion, this study's theoretical framework highlights the interconnected roles of governance, empowerment, and financial management in revolving fund management. By examining UPK's role through these perspectives, the research seeks to identify best practices and areas for improvement that can strengthen SHGs' capacity to achieve their objectives. Beyond contributing to the academic discourse on governance and community empowerment, this framework also offers practical insights for policymakers and practitioners engaged in revolving fund management, ultimately supporting more sustainable and inclusive community development.

RESEARCH METHODS

This research uses a descriptive qualitative approach. The qualitative approach is expected that the conclusions produced in this research will be a quality finding.

This research will be conducted in Jombang Regency, specifically at the office of Kudubanjar Jaya Community Self-Sufficiency Institution (LKM), located in Kudubanjar Village, Kudu Sub-district. The study will involve informants who have direct experience with the Community Self-Sufficiency Institution (LKM), ensuring the relevance and depth of the data collected. To obtain comprehensive insights, the researcher will employ a combination of data collection methods, including interviews, observations, and documentation.

FINDING AND DISCUSSION

Source of Revolving Funds for the Financial Management Unit (UPK) of the Kudubanjar Jaya Community Self-Help Organization (LKM)

PNPM funds are allocated by the central government, particularly through the Ministry of Public Housing and Public Works, to support financial resources for underprivileged communities. These funds serve as a means to promote business development and economic empowerment among the poor. This was highlighted by the village economic facilitator, Mr. Sentot, who stated:

> "*These funds originate from the PNPM program and are first transferred to the UPK bank account. They are then distributed as revolving funds to the community, specifically to the Community Self-Help Groups (KSM).*" explained Mr. Sentot.

Based on the interview findings, it is evident that the funds distributed to the community originate from government allocations aimed at providing business capital for the underprivileged. These revolving funds are managed by the Community Self-Sufficiency Agency (LKM) and disbursed to the community with a structured repayment mechanism determined by the institution. This aligns with the statements of UPK representatives, Mr. Ahmad Zainuddin and Mrs. Suparti, who serve as financial managers of the LKM:

> "*For PNPM or LKM funds, their origin is from the Ministry of Public Works and Public Housing (PUPR), mas. These funds have actually been around for a long time. Previously, they were known as P2KP. As far as I know, since I'm still new here,*" explained the informant

This statement from the UPK indicates that PNPM funds have existed for a long time. Initially, these funds were disbursed to the community, but many recipients perceived them as grants, leading to a lack of reciprocity between the MFI management and the beneficiaries. Over time, with the introduction of the PNPM program, the community gradually recognized that these funds were intended as development capital for the underprivileged, fostering a greater sense of responsibility in their management and utilization.

Furthermore, observations revealed that MFI funds originate from the government, specifically the Ministry of Public Works and Public Housing (PUPR). Statements from the village economic facilitator (faskel) and UPK further confirm that the revolving fund is designated as business capital for the underprivileged. The returns generated from community businesses are repaid in the form of interest, serving as reciprocity to ensure the smooth operation of the MFI.

Management of Revolving Funds of the Financial Management Unit (UPK) of Kudubanjar Jaya Community Financial Institution (LKM)

PNPM funds are government-allocated resources entrusted to Microfinance Institutions (MFIs) to support the poor in managing their financial needs effectively. MFIs are responsible for overseeing the distribution and sustainability of these revolving funds within the community. The disbursement process is carefully managed, considering the community's capabilities, as MFI management evaluates and selects eligible recipients. This was stated by Mr. Muchenzie, the Collective Leader of the Community Self-Help Institution (LKM).

> "*MFI funds are distributed based on the needs of the community. Borrowers must fulfill all necessary requirements, as incomplete documentation could lead to issues in the future. In many cases, Community Self-Help Groups (KSMs) are reluctant to repay the funds, which makes proper compliance even more critical.*," explained the informant

The statement from the MFI head highlights that the financial management of the MFI has been handled effectively by its management. MFIs have made significant efforts to operate and oversee their finances responsibly. As the financial custodian, the UPK has maintained proper record-keeping despite various challenges. This aligns with the statement made by Mr. Ahmad Zainuddin:

> "*My part is just recording, later there will be its own section to collect the area here, the area on the other side.*," explained the informant

Based on the interview findings, the management of revolving funds is actively overseen by the UPK, which provides loans to Community Self-Help Groups (KSMs). The MFI charges a 1.5% fee on the loan amount, and a portion of the principal loan is set aside as joint responsibility savings. Once the entire principal is repaid, these savings are returned to the respective KSM. A total of 33 KSMs have received loans.

To ensure effective management of the revolving fund, UPK responsibilities are divided into two key roles: financial reporting and loan collection. Mr. Ahmad Zainuddin is responsible for recording financial reports, while Mrs. Suparti handles loan collection.

Bookkeeping of the Revolving Fund in the Financial Management Unit (UPK) of Kudubanjar Jaya Community Self-Help Organization (LKM).

Proper financial management requires comprehensive bookkeeping that records all transactions within the MFI, including both income and expenses. These transactions are documented in the UPK bookkeeping system until financial statements are prepared. These financial statements serve as crucial information for various stakeholders, including the village head, who oversees the MFI.

MFIs are required to prepare financial reports, as they manage entrusted government funds. To ensure accountability, MFIs must compile financial statements and undergo audits. All fund transactions must be recorded at the time they occur, serving as the basis for financial report preparation. This aligns with the statement of the economic village facilitator (faskel)

> "*MFIs are required to prepare financial reports as a responsibility for management and PNPM. Therefore, the facilitator always assists in preparing the financial report..*," explained the informant

The interview highlights that MFIs are responsible for maintaining bookkeeping and preparing financial statements. They receive support from city facilitators in this process and are provided with a guidebook to assist in financial statement preparation.

The recording process continues with the preparation of the balance sheet ledger and the income and expense book, supported by the balance sheet and profit and loss book. However, the UPK does not create loan cards, which leads to the absence of savings cards, loan registers, and savings registers. Instead, the UPK relies solely on collectability and its internal records. The following is a statement from Mr. Ahmad Zainuddin:

> "*There is no handwritten note yet, only the name of the KSM and the amount of the loan.*," explained the informant

The interview transcript above reveals that the handwritten notes refer to a list of Community Self-Help Group (KSM) loans, documenting only the number of KSMs that borrowed and the proposed loan amounts. Additionally, when asked, a KSM member named Mrs. Sunyamiarsih confirmed this statement.

"*No need, sir. If I make a payment, I just ask the UPK, 'How much do I have left, sir?*," explained the informant

Statements from the UPK and KSMs indicate that loan books or loan cards have not been maintained by the UPK, which is responsible for record-keeping. This lack of documentation undermines confidence in the accuracy of loan data due to the absence of supporting records such as loan cards. Additionally, it affects the collectability report, making it difficult to update and track outstanding and paid receivables.

After verifying with all relevant parties and conducting field observations, researchers found that MFI bookkeeping is generally well-managed. However, several auxiliary books remain incomplete, despite the availability of a comprehensive bookkeeping guide. To address this, facilitators and related parties must provide more intensive guidance to the UPK.

CONCLUSION

Researchers assessing the accountability of the Financial Management Unit (UPK) of the Kudubanjar Jaya Community Self-Help Institution (LKM) conclude that the management of revolving funds by the UPK has not been fully effective. Several administrative shortcomings persist, both in bookkeeping and in loan transactions between the UPK and Community Self-Help Groups (KSM). Additionally, the allocation of revolving funds has not been effectively directed toward KSMs in need of business capital.

For future research, it is recommended to include additional supporting informants, such as increasing the number of interviewed Community Self-Help Group (KSM) members. Additionally, gathering insights from the city coordinator, who oversees the kelurahan facilitator (faskel) assisting the Community Self-Help Institution (LKM), would provide a more comprehensive perspective

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