International Journal of Education, Social Studies, And Management (IJESSM)
e-ISSN : 2775-4154
Volume 4, Issue 3, October 2024
The International Journal of Education, Social Studies, and Management (IJESSM) is published 3 times a year (**February, Juny, November**).
Focus : Education, Social, Economy, Management, And Culture.
LINK : **http://lpppipublishing.com/index.php/ijessm**

The Role of Microfinance Institutions in Community Economic Empowerment: Perspectives of Actors and Customers

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ARTICLE INFO
Article history:
Received
10 September 2024
Revised
16 October 2024
Accepted
24 November 2024

ABSTRACT

Microfinance institutions (MFIs) play an important role in community economic empowerment, especially for micro, small, and medium enterprises (MSMEs) and low-income groups that are not covered by formal financial institutions. This study uses the literature review method to analyse the strategic role of MFIs in supporting community economic improvement from the perspective of the actors and clients. The results of the study show that MFIs not only provide financial services, but also act as initiators, facilitators, and assistants in the empowerment process. MFIs support business development through the provision of capital, financial education, and management training, which helps MSMEs improve business quality and competitiveness in the market. In addition, MFIs contribute to creating financial inclusion in remote areas and support the empowerment of women in entrepreneurship. The multiplier effect of optimising the role of MFIs includes increasing community income, reducing poverty, creating new jobs, and strengthening the national economy in a sustainable manner. Therefore, institutional strengthening, human resource capacity building, and synergy between the government and MFIs are needed to support more equitable and sustainable community economic empowerment.

Keywords: *Microfinance Institutions (MFIs), Economic Empowerment, Financial Inclusion, MSMEs,*

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INTRODUCTION

Microfinance Institutions (MFIs) have an important role in supporting the economic empowerment of the community, especially low-income groups and micro, small, and medium enterprises (MSMEs). In Indonesia, MFIs are present as a solution to the limited access to formal financial services that are often inaccessible to small communities. MFIs provide community-based financial services designed to meet the basic needs of the community, both for consumptive and investment purposes. With a community-friendly approach, MFIs are able to be a bridge between the financial sector and small communities in need of economic support.

Community economic empowerment is a process that aims to increase the capacity of individuals and groups to manage their economic resources. This concept includes efforts to create broader economic opportunities for the poor, reduce dependence on external assistance, and build long-term economic sustainability. In this context, MFIs not only act as capital providers, but also as facilitators that help communities identify and overcome the economic challenges they face.

The growth of MSMEs in Indonesia shows the strategic role of this sector in the national economy. Based on data from the Central Statistics Agency (BPS), MSMEs account for around 99.85% of the total business units in Indonesia and absorb more than 99.45% of the workforce. Its contribution to the Gross Domestic Product (GDP) reaches around 30%, making it the backbone of the national economy. However, challenges such as limited access to capital, suboptimal business management, and lack of technology utilization are still the main obstacles for MSMEs to develop. In this case, the existence of MFIs is very relevant to support the needs of MSMEs, both in the form of financing and assistance.

MFIs also have an important role in encouraging financial inclusion in remote areas. By providing affordable and on-demand services, MFIs help small communities, including women and other vulnerable groups, to have access to financial services. This not only supports better financial management, but also opens up opportunities for people to develop their businesses and improve their quality of life.

However, the success of MFIs in empowering the community's economy cannot be separated from the various challenges they face. One of the main challenges is the limited human resources and capital owned by MFIs. In addition, the lack of financial education among small communities is often an obstacle in utilizing MFI services optimally. Therefore, continuous efforts are needed to increase the capacity of MFIs, both through training for MFI staff and collaboration with other institutions that have a similar vision.

This study aims to analyze the role of MFIs in community economic empowerment from the perspective of actors and customers. By exploring the direct experience of both parties, this study is expected to provide a more comprehensive picture of the contribution of MFIs in supporting the economic development of small communities. The study also aims to identify the challenges faced by MFIs and solutions that can be implemented to improve their effectiveness. Thus, this research is expected to be a reference for policy makers, MFI actors, and the general public in understanding and maximizing the potential of MFIs as an instrument of community economic empowerment.

RESEARCH METHOD

This research method uses a literature review approach to analyze the role of Microfinance Institutions (MFIs) in community economic empowerment from the perspective of actors and customers. The literature review aims to identify, evaluate, and synthesize relevant information from various sources of literature that have been published. With this method, research can explore concepts, theories, and in-depth previous research results related to the topic raised. According to Snyder (2019), literature review is a systematic process to identify, assess, and analyze relevant research, providing a theoretical and empirical foundation for a research problem. This method helps researchers develop relevant theoretical frameworks, identify research gaps, and integrate findings from various studies to produce a holistic understanding. In the context of this research, the focus is on collecting secondary data from journals, books, research reports, and other reliable sources that discuss the role of MFIs, economic empowerment, and the experiences of actors and customers in utilizing MFI services. Literature searches were conducted through academic databases such as Google Scholar, Scopus, and ProQuest using specific keywords, such as "Microfinance Institutions," "economic empowerment," and "customer and actor perspectives." The results of the literature review were analyzed with a descriptive approach to explain the role of MFIs, identification of their strategic roles, and obstacles faced in the implementation of community empowerment. This approach allows research to generate comprehensive insights and can be used as a basis for recommending strategies to increase the role of MFIs in the future.(Suggestion, 2008)

RESULT AND DISCUSSION

There are different levels in the order of Indonesian society when it is associated with income, income, and other economic terms. The mention of the term is related to the real income of the community, which is divided into small, middle, and upper community categories. The term "small and medium society" has become more popular because this level has a large contribution in supporting the Indonesian economy, both then and now.

The income of small and medium communities is closely related to the level of business they are running, such as micro, small, and medium enterprises (MSMEs). MSMEs have a great contribution in encouraging national economic growth, especially in absorbing labor, using local resources, and their high flexibility. Based on data from the Central Statistics Agency (BPS) in 2021, MSMEs account for 99.85% of the total business units in Indonesia and absorb more than 99.45% of the workforce. Its contribution to GDP reaches around 30%, making it a key pillar of Indonesia's economy.(Vinatra et al., 2023)

Microfinance Institutions (MFIs) are present as a solution to problems often faced by MSMEs, such as limited capital, business management, and access to information and technology. MFIs aim to provide financial services to small and micro entrepreneurs and low-income communities who are not served by formal financial institutions. With community-based and affordable services, MFIs are the main alternative to meet the basic needs of MSMEs and investment.(Ardiansyah & M. Nawawi, 2022)

However, MFIs also face challenges in the form of limited human resources and capital. To optimize the role of MFIs in the economic empowerment of small and medium communities, it is necessary to improve the quality of services, education for business actors, and synergy with other institutions.

The functions of MFIs in the empowerment process include: First, MFIs act as initiators, who have the task of initiating the progress of members' businesses. Ideally, MFIs have staff who specialize in handling empowerment issues. This staff will come to members to provide initiatives in developing the group.

Second, MFIs function as facilitators, who are in charge of formulating problems and finding solutions with groups, be it farmer groups, small business groups, or others. Problems in community groups are not always related to funds, but if the problem is related to funds, MFIs can immediately provide assistance.

Third, MFIs play a role as companions, who monitor, guide implementation, provide assessments, and motivate members. MFI involvement must continue until the small business group is successful and independent, before finally finding other groups that need help. Therefore, the empowerment paradigm must be attached to MFIs.

The existence of MFIs is able to increase people's income through additional business capital and business diversification, which ultimately reduces poverty and unemployment. With a territorially close approach and services that are more in line with the needs of the lower communities, MFIs are a positive solution for small micro-entrepreneurs to thrive in the midst of complex economic challenges.

In addition, MFIs have a strategic role in providing education to micro and small business actors about financial management, the use of technology, and business innovation. This can improve the quality of their business so that they are able to compete in a wider market. With continuous assistance, MSME actors can be more independent and reduce dependence on external funding sources.

As an institution that is in direct contact with small communities, MFIs also play a role in building financial inclusion in remote areas. With access to financial services, people can more easily manage their finances, increase assets, and reduce the risk of poverty. Effective MFIs not only provide economic benefits, but also encourage more inclusive social change, such as increasing gender equality through women's empowerment in entrepreneurship.

The optimal role of MFIs will create a multiplier effect on the national economy. In addition to creating new jobs, increasing productivity in the MSME sector will increase people's purchasing power, expand the domestic market, and encourage sustainable economic growth. Therefore, the development of MFIs must continue to be prioritized as part of the national strategy in realizing more equitable community welfare.

Microfinance institutions view community economic empowerment as the core of their mission in running a business. They understand that access to financial services is essential to support the growth of small and medium-sized businesses, especially for people who do not have access to formal financial institutions. Therefore, microfinance institutions provide a variety of affordable financial products, such as unsecured loans and low-interest savings, that can help customers to start or grow their businesses. In addition, microfinance institutions not only offer financing, but also often provide assistance and training to customers related to financial management and entrepreneurship. The goal is to ensure that the borrowed funds are used effectively, so that they can have a positive impact on the economic well-being of customers and the sustainability of their businesses.

From the customer's perspective, microfinance institutions offer opportunities that were previously unreachable for them. For most customers, access to loans or microfinance has provided an opportunity to start a small business or expand an existing one, especially in the small trade and agriculture sectors. They expressed gratitude and confidence because of the financial support from microfinance institutions that allowed them to grow. With the borrowed funds, they can buy raw materials, expand their business reach, and increase production capacity. However, despite the great benefits, some customers face challenges in terms of debt management and understanding of the terms or interest charged on loans. This lack of understanding can cause difficulties in managing their personal and business finances, which can ultimately affect the smooth payment and sustainability of the business.

The social and economic impacts identified from the existence of microfinance institutions are significant, especially in reducing poverty and improving people's welfare. By providing access to people previously unreachable by conventional banks, microfinance institutions help increase household incomes. Many customers are able to increase their purchasing power, which in turn affects their quality of life, especially in terms of education and health. Microfinance institutions play a crucial role in women's empowerment, as women frequently constitute the largest client base of microfinance programs. This empowerment not only enhances household economic well-being but also significantly increases women's participation in the economic sector, thereby contributing to broader societal empowerment.

While microfinance institutions have a major role to play in economic empowerment, they also face challenges and obstacles. One of them is the limited understanding of customers about the financial products offered. Many customers don't fully understand how microfinance products work, such as how interest is calculated or payment terms can be confusing for them. In addition, the diversity of financed businesses is also a challenge, because not all financed businesses can develop sustainably. External factors such as economic uncertainty, market price fluctuations, and natural disasters can also affect the customer's ability to repay loans. On the other hand, microfinance institutions also face challenges in managing credit risk and determining the right financing for customers. The risk of default and the inability of customers to manage their finances are obstacles that must be carefully managed to ensure the sustainability of the microfinance institution's operations.(Pudyastuti et al., 2022)

CONCLUSION

The conclusion of this study shows that microfinance institutions (MFIs) play an important role in community economic empowerment, especially for micro-entrepreneurs and low-income people who have not been reached by formal banking services. MFIs, both in the form of banks and non-banks, have become a solution for many small business actors in Indonesia by providing easier and more affordable access to financing. Through their role as initiators, facilitators, and companions, MFIs have succeeded in increasing business productivity and community income, reducing poverty, and creating new jobs, especially in rural areas.

However, although the role of MFIs is very strategic, the big challenges faced are the limitations of human resources, capital, and the need to improve the quality of services and education for business actors. Therefore, the development of MFIs must be supported by staff capacity building, synergy with other institutions, and more intensive education to the public regarding financial management and business technology. In addition, a more targeted and sustainable approach to mentoring will ensure the success of small and micro businesses in the future.

Suggestions for further development are for MFIs to continue to expand their range of services, especially in remote areas, to encourage more equitable financial inclusion. In addition, the government and related institutions need to provide support in the form of policies that support the sustainability of MFIs, such as easier financing, tax incentives, and better training for business actors. Economic empowerment through MFIs will not only improve people's welfare, but also have the potential to create a multiplier effect that encourages more inclusive and sustainable economic growth.

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