Management Challenges Faced by Women Microentrepreneurs Participating in the Government-Guaranteed Microfinance Scheme in Indonesia

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ABSTRACT

This study explored the intricacies of the Kredit Usaha Rakyat (KUR) program in Indonesia, a government-guaranteed microfinance scheme designed to promote economic growth and empower Micro, Small and Medium Enterprises (MSME) to reduce poverty and promote women empowerment. The KUR program has faced the free-rider issue and misconceptions due to its perceived nature as direct government aid without requisite obligations. This study found five main challenges that may impede the effectiveness of the KUR program based on the qualitative research conducted through interview with 15 less successful women microentrepreneurs under this program. The challenges involved unsuitable financing schemes, insufficient management training for recipients, diversion of microfinancing for personal use, insufficient allocation of fund, and lack of savings. This study demonstrated how these challenges had negatively impacted the business performance of the participants interviewed, demonstrating cases of "latent failure" as suggested by the free-rider theory, where some participants kept borrowing and repaying loans despite underperformance. The findings emphasized the importance of having a detailed understanding the operations of the KUR program and implementing specific actions to improve its efficiency and enhance its impact of promoting sustainable economic growth and empowerment of women microentrepreneurs in Indonesia.

Keywords: Women Microentrepreneurs, Government-Guaranteed Microfinance Scheme, Free-Rider, Management Challenges, Kredit Usaha Rakyat

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INTRODUCTION

The continuous problem of insufficient credit availability has long hampered the efforts of micro, small and medium entrepreneurs (MSMEs), particularly in developing countries. This problem is exacerbated by intrinsic flaws in the credit allocation process, particularly information-related barriers. Recognizing the critical role of cash in launching entrepreneurial endeavours, capital limits frequently act as a barrier, thereby excluding persons with insufficient financial means (Agier & Szafarz, 2013; Andersson et al., 2008; Santoso & Gan, 2019; Ullah & Khan, 2017). Given these obstacles, microfinance appears to be a promising alternative for alleviating credit constraints that stifle the poor's business aspirations (Matsvai et al., 2022).

The main reasons for the poor's exclusion from formal credit markets are the lack of collateral and credible credit history. With few attractive alternatives, microfinance is emerging as a promising way to finance the needs of low-income households (Morduch, 1999). One of the most influential developments in microfinance was the establishment of the Grameen Bank in Bangladesh by Professor Muhammad Yunus in 1976 (Alam, 2023; Kayani, Al Ammari & Sadiq, 2021).

In the early 2000s, governments worldwide started to acknowledge the developmental and inclusive growth prospects of microfinance, leading to the establishment of government-guaranteed microfinance schemes in many countries. These include Microfinance Ireland, Microfinance for Women Program (MFW) in China, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in India, and The Puthaisong Sustainable Agriculture Network in Thailand. In general, these schemes foster cooperation among governmental bodies, financial institutions, and development agencies to provide financial services, training, and support to marginalized communities, often with a focus on women and micro enterprises (OECD/European Commission, 2021; Porrett et al., 2013; Subkhan, 2018). It was argued that the inclusion of the government guarantee in microfinance serves two main purposes; firstly, it enhances access to credit for the micro borrowers and secondly, it reduced credit risk and potentially safeguards the assets of the financial institutions by providing a form of financial protection (Porretta et al., 2013). Therefore, government guarantees can be used to compensate for market failures, provide optimal levels of microfinance services at lower costs, and achieve greater economic efficiency (Armendáriz & Morduch, 2010). Given the high costs of microfinance services and interest rates on microfinance, Armendariz and Morduch (2010) emphasised the efficiency gains from government guarantees aimed at developing skills and improving the institutional structure of microfinance institutions.

An exemplary of government-guaranteed microfinance scheme is the Pradhan Mantri Mudra Yojana (PMMY) which was initiated in India in 2015. Through a variety of lending institutions, PMMY aimed to provide financial assistance to small entrepreneurs with a particular focus on supporting microentrepreneurs and promoting entrepreneurship among women and marginalized communities (Agarwal & Dwived, 2017). Another prominent example is Kredit Usaha Rakyat (KUR) which was introduced in Indonesia in 2007. KUR is a government-guaranteed microfinance program designed to provide accessible financing to MSMEs across the country with a focus on sectors with high potential for job creation and poverty reduction (Adam & Lestari, 2017).

Microfinance, which refers to the delivery of financial services to low-income individuals or communities, has garnered significant interest due to its capacity to mitigate poverty and promote inclusive development. Microfinance not only brings monetory benefits but also fosters women empowerment by challenging traditional gender roles and norms that limit women's autonomy and mobility (Hunt, 2002; Kaushal et al., 2021; Leach & Sitaram, 2002). Through participation in microfinance, women could start or expand their own businesses, thus fostering their financial independence and decision-making power within their families and communities (Hansen et al., 2021). Moreover, microfinance programs frequently incorporate gender-sensitive approaches that cater to the distinct requirements and preferences of women, such as flexible repayment schedules, childcare support, and customized financial services (Aggarwal et al., 2015; Ranabahu & Tanima, 2022).

Although microfinance has the potential to empower women, various challenges persist such as limited access to capital, gender bias, work-family balance issues, and limited business networks (Rahayu & Ellyanawati, 2023). To address these issues, a multifaceted approach involving government policies, financial institutions, educational institutions, and societal attitudes is required. Fostering an environment that empowers women in business will benefit not only individual entrepreneurs but will also contribute to overall economic growth and development. This is in line with the United Nations' Sustainable Development Goals (SDG) No. 5 – Gender Equality.

Empirical research has shown inconsistent results about the influence of microfinance on women's empowerment due to differences in the program structure, execution, and environmental factors (Hunt, 2002). Some studies have demonstrated favorable results such as increased income, savings, and decision-making power among women, others however found limited or mixed effects (Dahal & Fiala, 2020; Santoso et al., 2020; Subramaniam et al., 2021). Key factors affecting the success of microfinance programs including the structure of financial services, the quality of trainings and assistance provided, the extent of women involvement and leadership, and the overall socio-economic environment. Furthermore, critics have raised concerns about over-indebtedness exploitation, and unintended outcome of microfinance, underscoring the importance of rigorous evaluation and ethical consideration in the program execution worldwide (Dahal & Fiala, 2020; Gupta, & Sharma, 2023).

Therefore, this study aimed to understand the key management challenges of women microentrepreneurs participating in the government-guaranteed microfinance scheme known as Kredit Usaha Rakyat (KUR) in Indonesia.

LITERATURE REVIEW

Microfinance Industry in Indonesia

Despite the fact that Prof. Muhammad Yunus pioneered modern microfinance in

1974, the Indonesian government has earlier launched *Unit Desa* programme under Bank Rakyat Indonesia (BRI). The initial significant financial inclusion project undertaken by BRI occurred in 1969 with the establishment of a comprehensive network of BRI '*Unit Desa*', also known as village units. These units were specifically designed to facilitate the distribution of BIMAS (short for *Bimbingan Massal*, Mass Guidance) agricultural loans, which aimed to provide mass guidance in the agricultural sector. The principal aim of the BIMAS program was to facilitate the attainment of national self-sufficiency in Indonesia through the implementation of the Green Revolution. The program was implemented with the aim of promoting the adoption of novel rice varieties that are sensitive to fertilizers among farmers. The BRI *Unit Desa* program offered financial assistance for a comprehensive set of resources, including newly developed rice seeds, fertilizers, pesticides, and a stipend to cover living expenses (Rosengard, 2022). Table 1 below summarizes the evolution of BRI since its establishment in 1895:

Table 1: Evolution of Bank Rakyat Indonesia

Year	Description
1895	Establishment of *De Poerwokertosche Hulp en Spaarbank der Inlandsche Hoofden* (Help and Savings Bank for Purwokerto's Aristocrats/Bank Bantuan dan Simpanan Milik Kaum Priyayi)
1934	Renamed as *Algemene Volkscredietbank* (AVB), or People's General Credit Bank/ *Bank Perkreditan Rakyat*
1943	Renamed as *Shomin Ginkou* (People's Bank/*Bank Rakyat*)
1946	Became the 1st state-owned bank
1949	Renamed as *Bank Rakyat Indonesia Serikat* (United Indonesia People's Bank)
1968	Became commercial bank BRI
1969	Sole bank to disburse BIMAS agricultural credit via Unit Desa
1984	BRI commercialized its microbanking business (after the government ended the BIMAS program)
1992	Became a Limited Liability Company
2003	Became a Public Listed Company
2007	Acquired Bank Jasa Artha, later changed its name to BRI Syariah
2021	Consolidated with Bank Mandiri Syariah and BNI Syariah to become Bank Syariah Indonesia (BSI), Indonesia's largest Islamic bank.

The microfinance sector in Indonesia further witnessed significant expansion with the introduction of the KUR program in November 2007. The objective of this governmental program was to facilitate the provision of capital MSMEs, and Cooperatives. This was achieved by the disbursement of credit funds sourced from the bank's own resources, with the support of credit guarantee institutions. According to Aristanto et al. (2020), the KUR program involves the allocation of credit risk between participating banks (30%) and the credit guarantee institution (70%). Additionally, the government is legally bound to provide a guaranteed premium of 1.5% from the State Budget.

Regulation No. 10/PMK.05/2009 was enacted by the Minister of Finance of the Republic of Indonesia to establish the KUR program. This program aimed to provide credit or working capital financing, as well as investment schemes, specifically designed for MSMEs. Notably, the KUR program did not impose collateral requirements on the beneficiaries. The primary objective was to improve the accessibility of finance sources for MSMEs thus fostering overall economic growth at the national level. Nevertheless, despite its lack of collateral requirements, the execution of the KUR program remained consistent with conventional banking procedures, including the submission of loan applications accompanied by collateral, the selection of files based on eligibility criteria, and the approval of loan amounts with predetermined interest rates (Atmadja et al., 2018).

The main goal of the KUR program was to expedite economic growth in the tangible sector, hence aiding in the alleviation of poverty and the creation of job prospects. In pursuit of their dedication to fostering community-based economic empowerment, the government has implemented a Policy Package aimed at enhancing the Real Sector and empowering Micro, Small, and Medium Enterprises (MSMEs) (Atmadja et al., 2018). However, the KUR program has been subject to occasional misinterpretation as a kind of direct government aid including the provision of funds without any obligations, hence giving rise to potential free-rider problem linked with this program.

The KUR Program was originally designed as a strategy with a focus on poverty alleviation, aiming to enhance the availability of money through facilitating access to formal financial institutions. Nevertheless, as the program progressed, several policy modifications were implemented, which had an impact on key elements including loan schemes, program beneficiaries, and program implementers (Aristanto et al., 2020; Hartungi, 2007; Hamidi & Salahudin, 2021; SMERU, 2006; Sujarweni & Utami, 2015; Santoso & Gan, 2019; Yasin, 2020).

In Indonesia, women currently account for 49.42 percent (134 million) of the Indonesian population, according to Statistics Indonesia. Referring to data from the Ministry of Cooperatives and SMEs from 2015, Indonesia has over 52 million MSMEs, with women running 60% of them. It was also found that women entrepreneurs were facing more difficulties in running micro and small businesses. According to Hendratmi and Sukmaningrum (2018), despite the government's policy to encourage female entrepreneurs' entrepreneurial motivation in Indonesia is still lacking.

Women, Entrepreneurship and Challenges

The fifth of the 17 Sustainable Development Goals (SDG) established by the United Nations in 2015, focuses on gender equality. In general, women and girls account for half of the world's population and thus half of its potential. However, gender inequality persists throughout the world, impeding social progress. For instance, it was reported women in the labour market still earn 23% less than men globally, and women spend roughly three times as much time doing unpaid domestic and care work as compared to men (United Nations, 2023).

Although women entrepreneurs frequently run home-based businesses or work in both the formal and informal sectors (Kaka, 2022), they are also involved in all aspects of entrepreneurship, such as seeking new business opportunities, managing risks, introducing innovations, and coordinating, administering, and controlling the business to lead all aspects of the company (Acheampong, 2018; Pathak et al., 2022). Furthermore, women's entrepreneurship aids in the exploration of the potential for corporate emancipation, the promotion of gender equality, and the discovery of self-identity through professional achievement (Hendratmi et al., 2022).

The immediate family is one of the most direct beneficiaries of a woman entrepreneur. In fact, women entrepreneurs play an important role in their families' socioeconomic development by diversifying household income; this is typically accomplished by creating employment opportunities for family members, thereby improving the quality of their family life (D'Espallier et al., 2011). A majority of women entrepreneurs begin their businesses with the implicit goal of promoting community social connections through family participation.

On a micro-level, various factors play into the success of women entrepreneurs, encompassing aspects such as opportunity recognition, drive, funding access, and performance. Effective opportunity identification, often tied to meticulous planning or venturing into international markets, stands as a linchpin for the triumph of women in entrepreneurship, particularly within family-run enterprises (Al-Shami et al., 2019). Women who harbor a clear vision and strategize adeptly can catalyze the growth of their small ventures. Within familial dynamics, social ties serve as a potent motivator for women entrepreneurs, nurturing the sustained viability and expansion of their ventures. Additionally, external social networks wield significant influence, furnishing women entrepreneurs with vital market insights and financial resources (Mahmood et al., 2014). Financial autonomy proves pivotal in this domain, granting women the autonomy to steer their businesses independently, free from undue familial or spousal influence (Kevane & Wydick, 2001). However, women may face challenges in accessing and establishing these networks (Gupta et al., 2022). Limited connections can hinder access to mentorship, partnerships, and market opportunities.

On the other hand, macro-level dynamics, spanning legal, normative, and economic realms, exert considerable sway. Cultural norms within families or communities, such as constraints on women's mobility and social interactions, alongside perceived familial obligations and time constraints, may deter women from pursuing entrepreneurship (Hendratmi et al., 2022). Contextual factors, shaped by the nation and region of operation, further shape the entrepreneurial landscape, underscoring the need to scrutinize entrepreneurship through both gender and geographic lenses to grasp the intricate interplay of cultural forces on women's entrepreneurship (Ratten & Dana, 2017). For instance, disparities emerge between opportunities available to women entrepreneurs in developed versus developing nations, with the former generally offering more conducive environments for business promotion (Ratten et al., 2017).

Additionally, one of the primary challenges that women microentrepreneurs face is a lack of capital. According to Metu and Nwogwugwu (2022) and Ciguino and Paul (2022), women frequently lack access to formal financial institutions and are more likely than men to rely on informal lending sources with higher interest rates.

Fear of default, a lack of collateral, an inability to obtain guarantors, and information asymmetry are some of the main factors identified as impeding women's access to finance. This financial disparity can stifle business growth and lead to failure.

Moreover, gender bias remains a significant barrier to women in entrepreneurship (Brown & Garcia, 2018; Miller, 2021). Women microentrepreneurs often confront stereotypes and biases that can affect their confidence and decision-making. Discriminatory attitudes in the business ecosystem can also lead to limited opportunities and failures.

The juggling act of balancing work and family responsibilities is another challenge faced by women micro-entrepreneurs (Jackson & Davis, 2019). Research shows that the lack of adequate support systems, such as affordable childcare options, can force women to make difficult choices that may hinder business growth and sustainability.

Free-Rider Theory

The free-rider theory was introduced by American political economist Mancur Olson in 1965. It is a concept in economics that describes a situation where individuals or entities benefit from a public good or service without contributing to its cost. (Kim & Walker, 1984). In other words, it refers to people who enjoy the benefits of a resource, commodity, or service without paying for it themselves. This phenomenon can lead to inefficiencies and market failures, as individuals have little incentive to contribute to the provision of the public good if they can enjoy its benefits without bearing any cost.

In the government-guaranteed microfinance schemes, the free-rider problem may occur in several ways. As it is understandable that these schemes aim to offer financial services such as credit, savings, and insurance to marginalized people, especially those in rural or low-income regions, several governments such as Indonesian provide guarantees to the microfinance institutions to reduce the risk for lenders thus encouraging them to extend credit to the marginalised groups. However, despite the government’s efforts to make credit more accessible, the free-rider problem may arise among recipients as some may take advantage of the subsidized credit without utilizing it effectively for productive purposes, such as investing in income-generating activities or starting small businesses. Alternatively, they might utilize the fund for personal consumption or non-economic activities, essentially free riding on the benefits of the scheme without contributing to its intended goals of poverty alleviation and economic empowerment as highlighted in the following figure by Stewart et al. (2010).

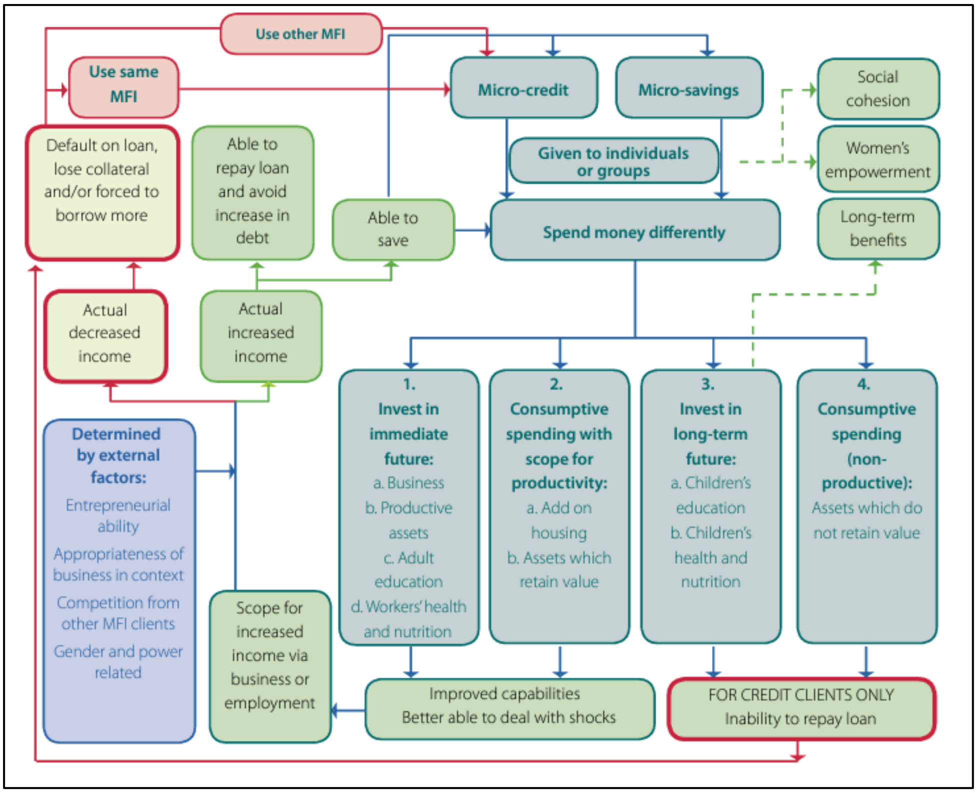

Figure 1: Causal chain of micro credit and micro savings on poor people (Stewart et al, 2010, p.43)

As shown by the blue arrows in the diagram above, recipients of microfinance have the option to allocate the funds towards various purposes such as investing in businesses, financing their children's education, or acquitting productive assets such as land and sewing machine for business operations. This strategic utilization has the potential to enhance their earnings and savings, therefore enabling them to fulfil their repayment obligations to the MFIs as illustrated by the green arrows. On the other hand, these recipients may also choose to allocate funds towards non-productive activities such as wedding or funeral expenses or household items, which could impede income generation. Additionally, while microfinance has been theorized to increase the social cohesion and empower women, these anticipated effects were not evidenced in the study, as shown by the green arrows in the upper right corner of the above figure. Furthermore, as indicated by the red arrows above, it was observed that microfinance could lead to an actual decline in income, consequently resulting in loan defaults and the inability to meet repayment obligations. Consequently, recipients in this category might resort to further borrowing either from the same or other MFIs to settle their previous loans (Stewart et al., 2010).

Moreover, there may be situations where recipients intentionally default on their credits, as they are aware that the government guarantee will compensate the MFI for any losses. This conduct may worsen the free-rider issue by weakening the sustainability of the microfinance scheme and imposes financial burdens on the government who ultimately bear the cost of loan defaults.

RESEARCH METHODOLOGY

Because the research question was exploratory in nature, a qualitative research design was chosen for this study (Eisenhardt & Graebner, 2007). The importance of qualitative methodology stems from its ability to allow researchers to extend existing theories and develop new theoretical explanations for observed phenomena (Eisenhardt, 1989). This study used a qualitative exploratory method to examine the primary reasons contributing to the failure of women microentrepreneurs participating in the KUR programs in the Lampung Province, Indonesia. Lampung was chosen in this study because it is one of the most economically challenged region in Indonesia.

Using purposive sampling, this study conducted interviews with 15 women microentrepreneurs who felt they had not been able to enhance their financial situations while participating in the KUR programs. Their financial situation either remained unchanged or deteriorated after taking loans from the KUR programs. The interviews, which lasted between one to two hours, were place in the borrowers' village, either at their business establishment or residence. We considered the distinctive traits of the borrowers while also accommodating fluctuations in business performance in our design. All borrowers in our study were women, aligning with the microfinance trend in Lampung Province.

The interview participants in this study ranged from 26 to 55 years old, with varying levels of education from junior high school to Bachelor’s degree. All the participants were married and a majority had between 2 to 3 children. Their businesses encompassed a variety of sectors including agriculture (cassava and rice), food trading, groceries, clothing, and accessories vending, among others. Loan amounts granted to participants ranged from IDR 25 million to IDR 100 million (equivalent to USD1,600 to USD6,400). Table 2 below provides the summary of the demographic background of the 15 interview participants in this study.

Table 2: Profile of the Interview Participants

Participants	Age	Education Level	Marital Status	No. of Children	Business Type	Loan Amount in IDR (in USD)
1	28	Junior High School	Married	3	Cassava farmers	IDR. 25,000,000 (USD 1,600)
2	50	Junior High School	Married	2	Cassava farmers	IDR 50,000,000 (USD 3,200)
3	50	Junior High School	Married	3	Rice farmers	IDR 50,000,000 (USD 3,200)
4	28	Senior High School	Married	2	Food Traders	IDR 50,000,000 (USD 3,200)
5	50	Junior High School	Married	3	Vegetable and tofu traders	IDR 50,000,000 (USD 3,200)
6	55	Junior High School	Married	2	Cassava farmers	IDR 80,000,000 (USD 5,130)

7	40	Senior High School	Married	3	Groceries traders	IDR 80,000,000 (USD 5,130)
8	35	Senior High School	Married	2	Groceries traders	IDR 50,000,000 (USD 3,200)
9	55	Junior High School	Married	3	Food and Boarding House Vendors	IDR 50,000,000 (USD 3,200)
10	26	Bachelor Degree	Married	2	Clothing Traders	IDR 50,000,000 (USD 3,200)
11	30	Senior High School	Married	2	Women's Accessories Traders	IDR 50,000,000 (USD 3,200)
12	32	Senior High School	Married	2	Cassava farmers & meatball traders	IDR 80,000,000 (USD 5,130)
13	48	Senior High School	Married	3	Rice Traders	IDR 100,000,000 (USD 6,400)
14	31	Bachelor Degree	Married	2	Cassava farmers & handphone Accessories	IDR 80,000,000 (USD 5,130)
15	30	Bachelor Degree	Married	1	Groceries traders	IDR 80,000,000 (USD 5,130)

Interview Analysis

To analyze the qualitative data, some researchers prefer to use computer software like NVIVO, believing it to be more efficient and less time consuming for tasks such as coding, managing, and storing information. Conversely, others prefer manual techniques, manually color-coding and rearranging transcripts. Despite the practicality of software packages in supporting qualitative research, their usage is not obligatory. Qualitative analysis is inherently interpretive, relying on the researcher's cognitive processes rather than solely on computer algorithms. Hence, factors like personal preference, cost, computer proficiency, and data volume should be considered before choosing to employ software for analysis, as recommended by Patton (2009).

In this study, following the acquisition of data from interview sessions, transcripts were thoroughly reviewed by listening to recorded scripts at least three times to ensure accurate understanding and minimize misinterpretation. Transcripts were then transcribed using Microsoft Word for all 15 participants. Subsequently, transcripts were printed for detailed examination, with highlighting and side comments added. Analysis involved interpreting and categorizing information according to the main theme, challenges. Information under similar themes was manually grouped and coded, allowing for the identification of connections and patterns between ideas mentioned during interviews, even if not explicitly stated by participants.

The interview procedure was meticulously organized in advance to guarantee the authenticity, trustworthiness, auditability, and transferability of the qualitative inquiry. The outcomes of qualitative research are determined by credibility criteria that are deemed acceptable by the participants (Burns & Scapens, 2000). To enhance the study's credibility, participants were engaged in the validation process. The participants verified the transcripts of the interviews to ensure they accurately reflected their experiences. Moreover, the research results were shared with researchers who had prior expertise studying women entrepreneurs, based on their past research and discussion with the key informants in microfinance. To promote transparency, a detailed description was provided to allow results to be transferred to different settings or groups. A lengthy description was utilized to enhance the transferability of the research findings to different contexts or groups. The researchers created an elaborate account of the data, which consisted of field notes with a diverse mix of interviewees' statements.

In addition, validity was confirmed by obtaining approval of the identified themes from women and a key research analyst. Reliability was confirmed by aligning with an expert in auditability and qualitative research. Auditability was achieved when the researcher's conclusions were determined to be similar or comparable, without contradictions, based on the researcher's facts, perspective, and stance (Burns & Scapens, 2000).

FINDINGS AND DISCUSSION

Previous studies on microfinance have often emphasized the successes of recipients, neglecting to explore the lessons learned from the struggling. In this study, from interviews conducted with 15 women microentrepreneurs who obtained KUR microfinancing but struggled to improve their financial situations, five main themes emerged. These included the utilization of unsuitable financing schemes, insufficient training in management for the recipients, diversion of loan for personal use, inadequate allocation of funds, and lack of savings, all of which have negatively impacting their business performance. Notably, some of these women recipients continued to borrow and repay their loans, representing a “latent failure” as suggested by the free-rider theory. Table 3 below summarizes the participants’ responds according to the five themes:

Table 3: Summary of the participants’ responses

Theme/ Participants	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Unsuitable microfinance scheme	/	/	/		/	/						/			
Inadequate training in business management		/		/	/	/	/		/	/	/			/	
Diversion of loan for personal use							/	/	/						/

Inadequate allocation of fund							/	/			/	/			
Lack of savings	/	/	/	/		/	/		/	/	/		/	/	/

Furthermore, the identification of these five themes underscored the detrimental consequences of MFI providing loan schemes incongruent with the business patterns of microfinance recipients. This led recipients to resort to alternative savings due to these loans. It was also found that dissatisfied women entrepreneurs lacking managerial and operational knowledge and skills were more inclined to depend on MFI to fulfil their capital needs. Such cases are often absent in the literature and MFI reports, as previous studies have predominantly focused on loan repayment rates rather than the genuine factors influencing business sustainability and capital self-sufficiency.

Unsuitable Microfinance Scheme

When asked about the challenges they faced in managing the repayment of the microfinance scheme, two (2) of them highlighted the unsuitability of the microfinance scheme provided to them as one of the main factors. This was particularly evident among participants whose business operations exhibited inconsistent cash flow patterns and hadlack of savings. When the participants with seasonal business incomes were obligated to make fixed monthly loan payments, they often encountered challenges in meeting the repayment obligations. Moreover, without any savings to fall back on, the loans were sometimes utilized to address personal emergencies, consequently increasing the risk of business insolvency. From their perspective, some recipients found themselves in a precarious situation, torn between the need for funds to sustain their businesses and generate revenue, and the urgent requirement for liquidity to fulfil loan repayment obligations. Explaining about her struggle to pay her loan, Participant 1 said:

> *"My husband is a driver, so lately we've been having trouble paying the loan because the fuel price is increasing. Income from my business is also not good because I can only harvest cassava every 6 months. But I must pay instalments every month." (Participant 1)*

Participant 2 is experiencing almost similar situations with participant 1. Admitting that KUR only monitors whether the monthly payments were made or not, she faced challenges stemming from the rising living cost and reduction in the price of cassava.

However, asking about their preferred payment mode, some suggested flexibility to align payments with their business's cash flow patterns. For instance, participants 5, 6, and 12 proposed paying every 3 or 6 months, particularly applicable to newly established cassava farming businesses. Nonetheless, some participants were hesitant to settle their loans at the end of the loan period, despite acknowledging the seasonal nature of their business cash flows. The hesitancy is driven by the desire to avoid paying hefty lump-sum payments. Participant 3, a rice farmer and cattle breeder, elaborated on this perspective, stating:

> *"I opt to make monthly payments for my microfinance because it's more manageable to gradually repay the loan through instalments rather than facing a large lump-sum payment at the end. Despite the monthly payments being somewhat burdensome, I can cover them with income from my other business." (Participant 3)*

Inadequate Training in Business Management

According to Bhuiyan and Ivles (2019), microfinance has been purported to empower women by enhancing their earning potential, knowledge base, opportunities, sustainability, access to resources, capacity building and agency. Kaka (2022) suggests that microfinance participants especially women ought to receive financial support and access to business development services to bolster their confidence and improve their quality of life within society. These business development services encompass activities such as business training, marketing and technology support, soft skills enhancement, and business sector analysis. However, this study found that majority of the participants interviewed either received inadequate or no training related to business management. For example, Participant 5 explained:

> *"I operate as a traditional trader, and I have no formal training in business operations or effective product marketing strategies. Usually, I allocate the funds I receive primarily to sustain my trade, with a portion allocated for my children's school fees. Based on my experience, microfinance institutions typically do not provide training in business management or marketing; rather, they provide knowledge on fund withdrawal and repayment procedures during the loan application process."* (Participant 5)

While skills and knowledge are fundamental to any businesses, it's crucial to acknowledge the significance of continuous learning and acquisition business skills in ensuring sustainability of the business enterprise. However, many MFI including KUR tend to overlook the importance of providing management and other relevant training for the development of the loan recipients. Instead, recipients typically receive basic financial literacy training focusing on loan disbursement and repayment procedures, either online or offline. This lack of emphasis on acquisition of business skills places a significant challenge to the participants, especially those uneducated recipients with minimum business skills, rendering them ill-equipped to navigate difficulties they face.

Diversion of Loan for Personal Use

This study found that personal expenditures such as living expenses, children's education fees, healthcare expenses, and supporting family members frequently lead to suboptimal allocation of microfinance loans among the participants. The absence of stringent financial oversight by KUR contributes to the diversion of funds towards personal expenses instead of business-related expenditures. For instance, Participants 7, 8, and 15 mentioned that the microfinance funds they received were also used to pay for their household needs. As mentioned by Participant 7:

> *"For me, whatever funds I received from the program is my personal money. The money can be used not just for the business purpose, but also for my personal and family needs."*

Health problems were another factor highlighted by the participants that divert the use of their microfinance loan. Unforeseen illness was not solely an individual concern; it impacted the entire family. While the participant may be in good health themselves, the responsibility for caring for their extended family necessitates diverting attention and financial resources. Strong norms of reciprocity within families often take precedence over obligations to repay loans, adding pressure to allocate the borrowed funds where they are most urgently needed. In the event of an unforeseen illnesses, the participant faced a double blow. As articulated by Participant 9,

> *"I once faced arrears in instalment because my husband was sick and we had to cover substantial medical expenses. Consequently, I used the money that should have been allocated for the business and loan payment. However, in the end, I managed to make the instalments by borrowing from my younger sibling." (Participant 9)*

Inadequate Allocation of Fund

The need for adequate working capital stands as a cornerstone in the establishment of new enterprises, including women microentrepreneurs. While microfinance products prove instrumental in sustaining women-led businesses, the limited accessibility to such loans often constrains optimal business operations. In today's dynamic marketplace characterized by shifts in consumer behaviors, navigating multifaceted challenges is essential for capitalizing on lucrative business prospects necessitating augmented financial resources to cater to market demands.

Based on the experience of the interviewed participants, this study underscored the important roles of adequate working capital in fostering competence-building endeavours geared towards enhancing customer value. For example, Participant 7 explained her constrained in inventory led to missed revenue opportunities during peak seasons, indicative of the profound impact of capital deficiencies on business performance. Another groceries trader, Participant 8 had a similar experience. She said that she could not buy more stocks during holidays or festive seasons due to limited budget although it is believed that she can sell more during this season.

Similar challenges manifest in the narratives of other entrepreneurs, such as Participant 11, who lamented the insufficiency of borrowed funds to meet burgeoning market demand for her accessory products. Meanwhile, Participant 12, an entrepreneur engaged in cassava farming and meatball trading, encountered inefficiencies in fund allocation, prioritizing the more immediately lucrative meatball trade due to limited capital availability.

> *"I did not receive the loan amount I requested. So, I allocated the funds between my cassava cultivation and purchasing items for my meatball products. I have to do this because of the inadequacy of the borrowed funds, prompting a greater proportion of allocation to the meatball products as it has faster cash turnover as compared to cassava". (Participant 12)*

Lack of Savings

Keynes (1936) defined savings as the remainder of income after deducting consumption expenditure. Paper (2015) analyzed the impacts of restricted access to formal saving services on business expansion in poor countries. Despite encountering substantial withdrawal fees, numerous women utilizing such accounts managed to accumulate savings, fostering sustainable growth and facilitating personal expenditures. Savings also present an alternative means of acquiring working capital; if women entrepreneurs can accumulate savings instead of relying solely on microcredit loans, they can utilize these savings as capital, fostering a sense of independence from external parties when restarting or expanding their businesses.

80% of the participants interviewed informed that they had borrowed multiple times from various microfinance institutions including KUR. Participant 14 for instance, admitted that she had borrowed five (5) times from KUR financing ranging between IDR25 million to IDR80 million financing. She personally believes that she will keep on borrowing from KUR as she did not have enough saving to self-sustain her business. Moreover, Participant 15 mentioned,

> *"I have utilized the KUR microfinancing three (3) times, borrowing amounts of IDR25 million, IDR50 million and IDR100 million respectively. The simplicity of the loan procedures has made it convenient for me to secure funds for my business capital without the necessity of maintaining personal savings for this purpose. Despite incurring interest costs on these loans, which ultimately diminish my business profits, the accessibility of funds through this program outweighs the drawbacks. I know that having personal savings is important, the reality of numerous urgent financial obligations makes it challenging to allocate funds towards savings." (Participant 15)*

The accessibility of loans extended by microfinance institutions to women entrepreneurs indeed fosters a favorable environment for business growth. However, this accessibility also engenders a high dependence among women entrepreneurs on these loans, thereby impeding the attainment of self-sufficiency in capital, a primary objective of the KUR program.

CONCLUSION

Numerous scholars have argued that the increase in the number of microfinance recipients and the rate of microfinance repayment are crucial indicators for evaluating the effectiveness of microfinance, supporting its success (Guttman, 2011; Msuya, 2019; Nawai & Shariff, 2012; Wim et al., 2011; Zhou et al., 2020). However, using microfinance repayment rates as a statistic is inadequate since its does not fully represent the actual impact, since the participants might repay the loans using other methods even when their businesses are not doing well. Additionally, the increase of microfinance participants could be due to the lack of other available financing options, leading to a pattern of reliance on microfinance.

In a subsidized environment like government-guaranteed microfinance program, 15 women microentrepreneurs interviewed in this study faced challenges that were linked to the free-rider issue. These challenges included the utilization of unsuitable financing schemes, which may be chosen due to their accessibility rather than their suitability for the business. Insufficient management training can lead to underutilization of resources provided by the program. Moreover, the diversion of loans for personal use and inadequate allocation of funds represents a misuse of resources intended for the business growth. All these behaviours reflect a tendency to benefit from the system without contributing proportionately to the intended outcomes of the program, which is the essence of the free-rider issue.

The research findings provide useful insights for Indonesian policymakers on measures to enhance the efficiency of women microentrepreneurs in seizing opportunities and addressing internal and external causes that lead to business failure. It has highlighted many inefficiencies in the distribution of microfinance to women entrepreneurs due to the use of inappropriate credit schemes by microfinance institutions, leading to difficulties in making repayment thus hindering business expansion. The study highlights the negative effects of using loans for personal benefit and not having savings, which lead to inefficiencies in managing the business. It was also argued that the sufficiency of venture capital greatly impacts the effectiveness of the entrepreneurs. Discrepancies in loan applications and disbursements hinder firm success, leading women entrepreneurs to seek other funding sources at higher costs. Therefore, addressing these challenges would involve MFIs in creating mechanisms to ensure that the benefits provided are tied to the recipients' contributions to their businesses and the broader economy. This could include more stringent criteria for financing schemes, mandatory training programs, monitoring of fund usage, and incentives for savings and reinvestment.

Future research may want to consider expanding this study in other provinces in Indonesia or even other countries. Studies may want to investigate the impact of other government-guaranteed microfinance scheme and compare it with this study. Moreover, future research may want to adopt a quantitative research approach to examine and test the relationship between the challenges identified in this study with the performance of the microentrepreneurs.

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