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# The Role and Challenges of the Activity Management Unit (UPK) in Managing Revolving Funds for Community Empowerment in Gampong Pasi Puteh, Ranto Peureulak District

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**Abstract**

This study aims to determine the role of the Community Empowerment Unit (UPK) in managing revolving funds for community empowerment in Gampong Pasi Puteh. The challenges faced by the UPK in carrying out its duties are also discussed, and the impact of the UPK's management of revolving funds on community empowerment. This study used a descriptive qualitative approach, which aims to gain a comprehensive and holistic understanding of the social realities on the ground. The research was conducted in Gampong Pasi Puteh, Ranto Peureulak District, East Aceh Regency. This location was chosen purposively because it is one of the villages still actively managing revolving funds through the UPK. The results of this study reveal the UPK's role in managing revolving funds as a local financial management institution: disbursing loans, recording administration, and overseeing repayment; as an empowerment facilitator: supporting small businesses, opening access to capital, increasing household income; and as a liaison with the government: coordinating aid programs, and maintaining transparency of PNPM funds.

**Keywords:** Role, Challenges, Fund Management, Empowerment.

## 1. INTRODUCTION

Poverty is a social problem that often occurs in developing countries, including Indonesia. Poverty in Indonesia is a complex issue and involves various aspects, including social, economic, and cultural (Maharani et al., 2024). This problem is highly multidimensional, encompassing the inability of people to meet their basic needs, such as access to education and healthcare. Many members of society still lack adequate access to these services. Poverty is not solely an economic issue, but also a result of social inequality, limited access to resources, and a lack of access to quality public services (Solikatun et al., 2018).

Small businesses play a significant role in the economy, not only for the community but also for the nation (Sujarwadi et al., 2024). Their contributions are crucial in creating jobs, generating technological and methodological innovations, and creating new products for the benefit of the nation (Al Aidhi et al., 2023). They also support the growth of large businesses as providers of goods and services. Integrating small businesses' production capacity into large-scale enterprises can significantly support the development of large businesses. This step will have a significant impact on the country's economic development and industrialization (Kasmir, 2008).

To encourage community empowerment, especially for those with lower-middle incomes, such as Micro, Small, and Medium Enterprises (MSMEs), comprehensive support from financial institutions is needed (Krisnawati & Hussein, 2016). MSMEs have historically struggled to obtain funding from formal financial institutions. To address this issue, many non-bank financial institutions have emerged in the community focused on business development and community empowerment, both established by the government and by the community itself (Disemadi & Roisah, 2019). Village community empowerment is a key pillar of sustainable national development. One of the key instruments the government uses to achieve this empowerment is through the management of revolving funds. Revolving funds are designed to strengthen the business capital of poor and vulnerable communities, encourage productive economic activities, and reduce dependence on often burdensome informal funding sources.

In Indonesia, the Activity Management Unit (UPK) has emerged as a strategic revolving fund management institution, particularly following the implementation of the National Independent Community Empowerment Program (PNPM Mandiri). The UPK is tasked with distributing revolving funds to target groups, monitoring their utilization, and ensuring the sustainability of reinvestment so that funds can be distributed to other beneficiaries. Therefore, the success of the UPK significantly impacts the effectiveness of community empowerment programs.

Pasi Puteh Village, located in Ranto Peureulak District, East Aceh Regency, is one of the areas that also received a revolving fund allocation. Despite its significant economic potential, particularly in the agriculture, livestock, and micro-enterprise sectors, Pasi Puteh Village still faces various social and economic challenges, such as low household income, limited access to formal capital, and limited human resource capacity in managing businesses.

In the context of sustainable rural community development, the existence of revolving fund management institutions such as the Activity Management Unit (UPK) is highly strategic. The UPK is not simply a fund channeling institution but also serves as a liaison between capital sources and productive business groups within

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the village community. Through the revolving fund mechanism, the UPK plays a crucial role in bridging the gap in access to capital, a major obstacle for low-income communities, particularly those who are not yet eligible for credit from formal financial institutions.

In addition to channeling funds, the Community Empowerment Unit (UPK) also has a significant responsibility in fostering and empowering community business groups to manage capital effectively and responsibly. This mentoring includes financial management education, business mentoring, and simple managerial training. Ideally, this mentoring function is expected to strengthen the capacity of beneficiary groups so that the funds distributed can improve welfare, open new business opportunities, and foster economic independence at the village level.

However, in the reality of implementation, UPK often faces a variety of complex challenges. One major obstacle is the low loan repayment rate among beneficiaries. This can be caused by various factors such as failed businesses, lack of borrower discipline, or weak oversight by the UPK. Another challenge is low financial literacy in the community, which leaves some beneficiaries with insufficient understanding of the importance of capital management, financial record keeping, and business planning.

In addition to external challenges, the UPK also frequently faces internal obstacles, including the limited managerial capacity of its administrators. UPK administrators are generally drawn from the local community and may not have educational backgrounds or professional experience in financial management and empowerment. This situation can impact the effectiveness of planning, managing, and overseeing the revolving fund program.

Equally important, issues of transparency and accountability are also frequently highlighted. Public fund management always requires high accountability standards, but at the village level, numerous obstacles remain related to documentation, reporting, and limited oversight mechanisms. These issues can impact public trust in the UPK and the sustainability of the revolving fund program itself.

Although the UPK has been operating for several years, various phenomena have emerged: fluctuating participation rates, administrative constraints, and challenges to the sustainability of the revolving fund. Therefore, it is necessary to identify the role of the UPK and the obstacles they face to ensure the program's effectiveness.

Through this research, the author aims to delve deeper into the UPK's role in managing the revolving fund in Gampong Pasi Puteh and to map the various challenges faced, both internally and externally, stemming from the characteristics of the beneficiary community. This research also aims to analyze how the revolving fund can have a tangible impact on community economic empowerment, increased income, and the creation of new, productive businesses.

The results of this study are expected to serve not only as academic contributions but also as useful evaluation materials for various parties, particularly the local government as policymakers, the UPK administrators as program implementers, and the Gampong Pasi Puteh community as beneficiaries. This will enable the future revolving fund program to be managed better, more transparently, and more sustainably, thus optimally achieving its primary goal of improving community welfare.

## 2. RESEARCH METHOD

### 2.1. Research Design

This study employs a qualitative research approach with a descriptive design. Qualitative research is considered the most appropriate approach for this study because it aims to explore and understand the role of the Activity Management Unit (UPK) in managing revolving funds and the challenges encountered in Gampong Pasi Puteh, Ranto Peureulak District, East Aceh Regency. As Creswell (2014) argues, qualitative research is particularly suitable for investigating complex social phenomena within their natural context, where the researcher seeks to understand the meaning individuals or groups ascribe to a social or human problem.

The descriptive approach is adopted to provide a thorough, systematic, and accurate description of the facts, characteristics, and relationships between the phenomena being studied (Nazir, 2014). Through this approach, the researcher seeks to describe in depth how the UPK manages revolving funds, what impacts those funds have on community economic empowerment, and what obstacles hinder the effectiveness of the program.

### 2.2. Location and Time of Research

This research was conducted in Gampong Pasi Puteh, Ranto Peureulak District, East Aceh Regency, Aceh Province, Indonesia. The location was selected purposively because Gampong Pasi Puteh is one of the villages that received a revolving fund allocation through the National Independent Community Empowerment Program (PNPM Mandiri) and has an active UPK managing the distribution and supervision of revolving funds for community businesses.

### 2.3. Data Sources

This study uses two types of data sources: primary data and secondary data. Primary data were obtained directly from informants through in-depth interviews and direct observation in the field. The informants in this study include UPK administrators, village officials (Gampong Pasi Puteh government), and members of the community who are beneficiaries of the revolving fund program.

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Secondary data were obtained from relevant documents, including UPK activity reports, revolving fund disbursement records, government policy documents related to PNPM Mandiri, and previous studies pertaining to community empowerment and revolving fund management in Indonesia.

### 2.4. Research Informants

Informants were selected through purposive sampling, a technique in which subjects are chosen based on specific criteria relevant to the research objectives (Sugiyono, 2019). The criteria for selecting informants were: (1) directly involved in or affected by the UPK revolving fund program; (2) having sufficient knowledge and experience related to the program; and (3) willing to participate and provide accurate information.

The key informants in this research are: (1) the Head and staff of the UPK Gampong Pasi Puteh, (2) the Village Head (Keuchik) and village officials, (3) members of community business groups who have received revolving fund assistance, and (4) community figures who have knowledge about the program. The number of informants was not predetermined but was determined by the principle of data saturation, meaning that data collection was continued until no new significant information emerged from additional interviews.

### 2.5. Data Collection Techniques

Data collection in this study was carried out using three main techniques, namely: in-depth interviews, observation, and documentation.

In-depth interviews were conducted in a semi-structured manner using an interview guide to explore the informants' experiences, perceptions, and knowledge regarding the management of revolving funds by the UPK, the challenges faced, and the impacts on community economic empowerment. The interviews were recorded with the consent of the informants and subsequently transcribed for analysis.

Observation was conducted to gather empirical data regarding the actual conditions in the field, including the activities of UPK administrators, the business activities of revolving fund beneficiaries, and the social and economic environment of Gampong Pasi Puteh. The researcher acted as a non-participant observer, meaning the researcher observed activities without directly participating in them.

Documentation was conducted to obtain secondary data through the review of relevant documents, including UPK reports, official letters, legal foundations of the PNPM Mandiri program, and other relevant written sources.

### 2.6. Data Analysis Techniques

Data analysis in this study followed the interactive model proposed by Miles, Huberman, and Saldana (2014), which consists of four stages: data collection, data condensation, data display, and conclusion drawing/verification.

Data condensation refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in field notes, interview transcripts, and documents. This stage helps the researcher to identify patterns and themes that are relevant to the research questions. Data display involves organizing the condensed data into narrative form, matrices, or charts to facilitate the drawing of conclusions. Finally, the conclusion drawing/verification stage involves the researcher formulating conclusions based on the patterns and themes that have emerged, and verifying those conclusions with reference to the original data.

### 2.7. Data Validity and Credibility

To ensure the validity and credibility of the research findings, this study employed triangulation techniques. Source triangulation was used by cross-checking the data obtained from one informant with data from other informants. Method triangulation was applied by comparing the data obtained from interviews with the results of observation and documentation. In addition, member checking was conducted by sharing the preliminary research findings with the key informants to verify the accuracy and authenticity of the interpretations made by the researcher.

Through these validation procedures, the researcher sought to ensure that the findings accurately reflect the real conditions in Gampong Pasi Puteh and provide a credible and trustworthy basis for understanding the role and challenges of the UPK in managing revolving funds for community empowerment.

## 3. RESULT AND DISCUSSION

### 3.1 The Role of UPK in Managing Revolving Funds in Gampong Pasi Puteh

Based on the research findings, the Activity Management Unit (UPK) of Gampong Pasi Puteh, Ranto Peureulak District, East Aceh Regency, carries out several key functions in managing revolving funds aimed at community economic empowerment. The UPK serves as the primary institution responsible for distributing revolving fund capital to targeted community groups, particularly micro and small enterprises within the village. The revolving fund mechanism enables beneficiaries to access affordable working capital that would otherwise be unavailable through formal banking institutions, given the limited collateral and credit history of low-income community members.

The UPK's role can be categorized into three main dimensions: (1) capital distribution, (2) monitoring and supervision, and (3) mentoring and capacity building. In terms of capital distribution, the UPK has successfully

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channeled revolving funds to dozens of community business groups, particularly in the agriculture, livestock, and micro-trade sectors. The fund distribution is conducted through a group lending scheme, which reduces individual default risk and fosters collective responsibility among borrowers.

In terms of monitoring and supervision, the UPK conducts periodic field visits to evaluate the productive use of distributed capital. Field data indicates that most recipients used the funds for their intended business purposes, such as purchasing agricultural inputs, livestock, and trading goods. However, inconsistencies in monitoring frequency were observed, particularly in remote hamlets within the village, which occasionally led to late repayments and fund misallocation.

Regarding mentoring and capacity building, the UPK has provided basic financial literacy training and business management guidance to beneficiary groups. Participants reported improvements in simple bookkeeping practices and business planning awareness. However, the scope and frequency of mentoring activities were limited by the UPK's operational budget and the availability of trained facilitators. This finding is consistent with Krisnawati and Hussein (2016), who emphasized that effective community empowerment through non-bank financial institutions requires sustained mentoring support alongside capital provision.

### 3.2. Impact of Revolving Funds on Community Economic Empowerment

The research results indicate that the revolving fund program managed by the UPK has had a measurable positive impact on the economic empowerment of Gampong Pasi Puteh community members. A significant proportion of beneficiaries reported an increase in household income following access to revolving fund capital. Beneficiaries in the livestock sector, for example, were able to expand their livestock inventory, while micro-traders reported increased purchasing power and business scale.

Furthermore, the group-based lending mechanism employed by the UPK contributed to strengthening social cohesion among community members. The collective responsibility model encouraged peer accountability, where group members mutually supported one another's repayment obligations. This social capital dimension of the revolving fund program aligns with findings from Disemadi and Roisah (2019), who noted that group-based microfinance schemes are effective in fostering community solidarity while reducing default rates.

The revolving fund has also facilitated the emergence of new productive businesses within the village, particularly among women and young adults who previously lacked access to startup capital. Several new micro-enterprises in the food processing, handicraft, and small trade sectors were established as a direct result of revolving fund access. This outcome reflects the broader goal of the National Independent Community Empowerment Program (PNPM Mandiri), which aimed to foster grassroots economic independence and reduce poverty through community-driven development.

### 3.3. Obstacles and Challenges Faced by the UPK

Despite its positive contributions, the UPK in Gampong Pasi Puteh faces several significant challenges that constrain the effectiveness of the revolving fund program. These obstacles can be categorized into internal and external challenges.

From an internal perspective, the most critical challenge is the limited managerial capacity of UPK administrators. Since administrators are predominantly recruited from the local community without formal backgrounds in financial management or organizational administration, their capacity to carry out complex financial planning, reporting, and oversight functions is limited. This finding corroborates the broader literature on UPK performance, which consistently identifies human resource capacity as a primary constraint in rural community financial institutions.

Transparency and accountability also emerged as significant internal concerns. Although the UPK regularly prepares financial reports, community access to these reports is limited, and the mechanisms for community oversight remain underdeveloped. The absence of a formal audit committee or independent verification process creates potential gaps in accountability, which can erode community trust over time. Solikatun et al. (2018) noted that social inequality in accessing information and resources contributes to diminished institutional trust, particularly in rural settings.

Externally, low loan repayment rates represent the most pressing challenge. Several beneficiary groups reported difficulties in meeting repayment schedules due to seasonal income fluctuations, crop failures, or business losses. This challenge is particularly acute in the agricultural sector, where income is closely tied to harvest cycles and vulnerable to weather-related risks. Additionally, low financial literacy among some beneficiaries contributes to poor financial planning and misallocation of borrowed funds.

Another external challenge is fluctuating community participation in UPK programs. While initial participation was relatively high following the program's introduction, sustained engagement has declined over time, partly due to a lack of awareness about available services and partly due to perceived administrative burdens in the loan application process. Strengthening community outreach and simplifying administrative procedures are therefore essential steps toward improving program uptake and sustainability.

### 3.4. Strategies for Improving UPK Performance and Program Sustainability

In response to the identified challenges, several strategic recommendations emerge from the research findings. First, regular and structured capacity building programs for UPK administrators are essential. Training

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in financial management, administrative reporting, and community facilitation skills would significantly enhance the institutional performance of the UPK and its ability to deliver effective empowerment services.

Second, the implementation of transparent and participatory financial reporting mechanisms is strongly recommended. Public reporting forums, community notice boards, and digital information platforms can enhance community awareness of fund utilization and foster greater accountability. Such measures are aligned with good governance principles and can help sustain public trust in the revolving fund program.

Third, expanding financial literacy programs for beneficiaries is critical. Structured education on basic bookkeeping, business planning, and responsible borrowing would equip community members with the skills needed to manage revolving fund capital effectively. Collaboration with local government agencies, universities, and non-governmental organizations in delivering these programs would help scale their impact without overburdening the UPK's limited resources.

Finally, the development of a risk mitigation mechanism, such as a contingency fund for borrowers facing force majeure circumstances, is recommended. This would reduce the burden of repayment on beneficiaries facing genuine hardship while maintaining the overall sustainability of the revolving fund cycle. Maharani et al. (2024) emphasized that poverty alleviation programs must incorporate adaptive mechanisms to respond to the multidimensional vulnerabilities of target communities.

## 4. CONCLUSION

This study has examined the role of the UPK in managing revolving funds for community economic empowerment in Gampong Pasi Puteh, East Aceh. The findings demonstrate that the UPK plays a multifaceted and strategically important role as a financial intermediary, mentoring institution, and administrative unit within the community empowerment framework. However, the effectiveness of the UPK is constrained by a range of challenges, including low loan repayment rates, limited financial literacy among beneficiaries, insufficient administrative capacity of UPK personnel, and transparency and accountability issues. Addressing these challenges requires a comprehensive and collaborative response from multiple stakeholders. Several policy and practical recommendations emerge from this study. First, targeted capacity-building programs for UPK administrators should be developed and implemented to strengthen financial management, monitoring, and reporting capabilities. Second, financial literacy interventions for beneficiary communities should be integrated into program delivery to improve borrower discipline and fund sustainability. Third, strengthened oversight mechanisms — including regular external audits and enhanced reporting systems — are needed to improve transparency and accountability. Finally, local government support for UPK operations, including technical assistance and institutional strengthening, is essential for ensuring long-term program sustainability. The results of this study are expected to contribute both to academic knowledge on community empowerment programs in rural Indonesia and to practical program improvement efforts by local government policymakers, UPK administrators, and other stakeholders in Gampong Pasi Puteh and similar communities.

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