The Exclusion of Poor People in Microfinance

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Abstract. Microfinance has been acknowledged as a means of poverty alleviation. However, many poor people are still excluded from accessing it. This study examines the backdrops of this exclusion. The study employs a qualitative research methodology. The study focuses on Nusa Tenggara Timur (NTT) Province, Indonesia, where many low income people are excluded from microfinance services despite the presence of numerous and varied microfinance institutions (MFIs). From the perspectives of those people in poverty, the study found that accessing microfinance services was cumbersome. However, being poor and without access to MFIs did not mean people had no interest in microfinance; they were aware of the presence of MFIs, but procedural complexities, misinformation and a lack of confidence discouraged them from accessing microfinance. The study also found that, in recent times, MFIs have made efforts to expand their coverage, but these initiatives only increase the number of service units and members with limited increase for client coverage for those most in need. Existing procedural complexities continue to hinder availability, accessibility, and capacity-building efforts of MFIs. There are also various ambiguous government policies concerning poverty alleviation through microfinance. This study concludes that, within the case of NTT Province, the operational and institutional incongruities of MFIs have constrained its capacity to contribute to financial inclusion, subsequently poverty alleviation. The study highlights the fact that to make microfinance a viable tool of poverty alleviation, particular attention must be given to the mandate of the MFIs which must make poverty alleviation its key goal.

Keywords: Poverty, Microfinance, Financial Exclusion.

1 Introduction

Poverty has been the most extensive and persistent challenge for countries worldwide, especially developing countries [1]. Disadvantaged people are limited from various resources required to improve their well-being, including resources to financial services.

Microfinance is, therefore, an alternative financial service set to suit the capacities of the poor. It has been acknowledged to be a strategic means for combating poverty by which it is expected to enhance economic activities and subsequently improve the living condition of impoverished people [2][3][4][5].

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However, to date, even though microfinance institutions (MFIs) have grown massively, the proportion of people, especially the poor, who are excluded from financial services is still high [6].

In Indonesia, microfinance practices have long existed and have gained recognition from people, governments, and businesses. Microfinance institutions ranging from state and private owned banks, pawnshops, cooperatives or credit unions, private moneylenders, and microfinance programs run by NGOs offering various types of microfinance schemes [7][8].

In Nusa Tenggara Timur (NTT), the focus of this study, MFIs have record outstanding development achievements especially in terms of the increase in the number of both institution units and members, and the improvements they have made in financial performance over the years [9]. NTT has also been recognised by the national government as a "Cooperative Mover Province" based on the achievement of cooperatives in this province.

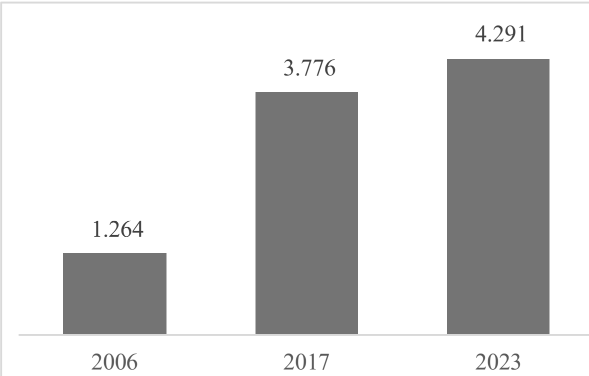

Figure 1. Number of Cooperatives in NTT (unit)
Source:[10][11][12]

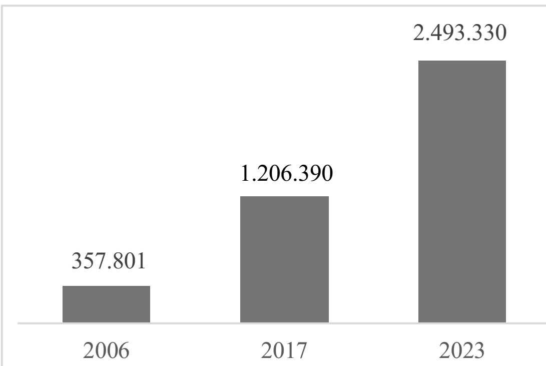

Figure 2. Number of Cooperative Members in NTT
Source:[10][11][12]

(people)

However, these reported achievements have not reduced poverty in proportion to their perceived success. NTT Province remains in a state of severe poverty, and overall improvements have not been significant (BPS-Statistics Indonesia, 2020a). NTT still struggles to reduce poverty. In almost all socioeconomic indicators, the province lags compared to other provinces in Indonesia.

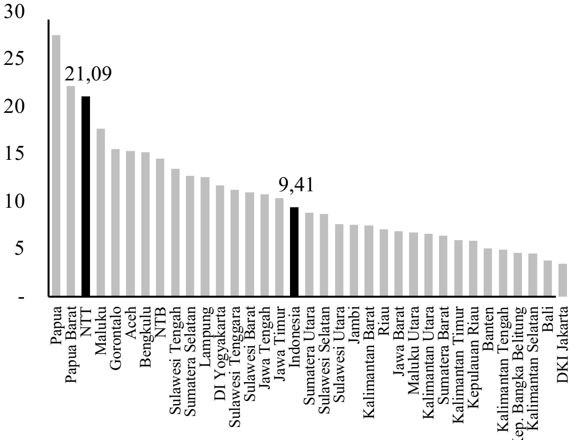

Figure 0. Indonesia Poverty Rate by Province (percent), 2019
Source: [13]

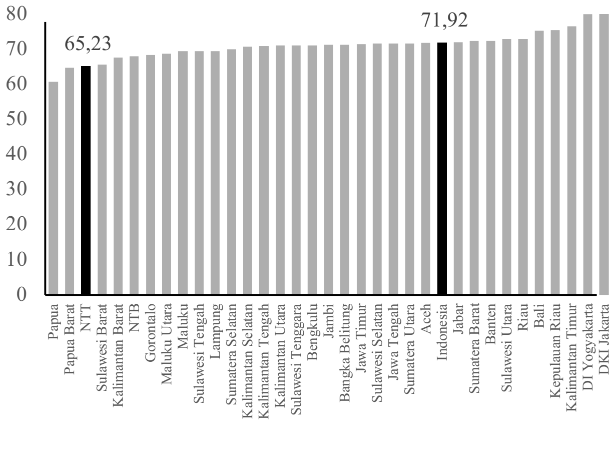

Figure 4. Human Development Index by Province, 2019
Source: [14]

NTT's unemployment rate, however, is relatively low. The low unemployment rate, yet high poverty, indicates that high proportion of the people of NTT are engaged in work, but their productivity is very low, making it difficult for them to increase their living standards.

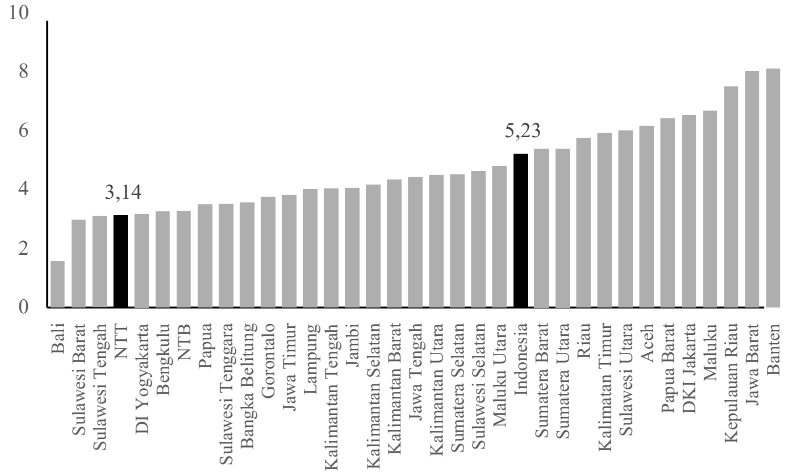

Figure 5. Unemployment Rate by Province (percent), 2019
Source: [14]

The results of the 2016 Economic Census found that there were more than 400,000 micro businesses in NTT or 93 percent of total businesses in the province. Of these businesses, as many as 72 per cent did not have the capacity to expand, primarily due to a lack of business capital. However, only 12 percent of these micro-scale businesses had accessed financial services from either bank or non-bank providers, and only 10 per cent were members of cooperatives [15].

This study, therefore, investigates the causes of the absence of many poor people in financial services, in particular microfinance services, given their heavy presence in NTT province. Most studies in the Indonesian literature focus on the impact of microfinance and its performance, but there is little research on whether the real target of microfinance, disadvantaged people, have really been included.

This study analyses factors that hinder poor people from gaining benefits from the high presence of microfinance programs to alleviate their poverty. The analysis is grounded in the perspective of poor people without access to MFIs, the MFIs, and the government. By investigating these different perspectives, this study aims to obtain a comprehensive understanding of why the widespread presence of MFIs has not led to significant achievement of financial inclusion, subsequently a reduction in poverty in NTT Province.

2 Methodology

2.1 Study Design

This study uses a qualitative interpretive approach as the most appropriate one capture of the experiences and perspectives of a range of stakeholders invested in a particular phenomenon, in this case the provision of MFI in NTT. Individual perspectives were captured to generate an understanding of the MFI phenomenon and reveal the backdrops of the absence of poor people in microfinance, a means of poverty alleviation. Methods involve observations, interviews, documents, and informal encounters relevant to understanding participants' worlds and their version of reality [16].

2.2 Study Site

Research participants are all located in NTT province in Indonesia, in the urban centre of Kupang municipality and more remote rural sites in Kupang regency to take account of geographical differences in microfinance's performance and impacts.

2.3 Study Participants

Data were mainly collected from primary sources comprised of 21 poor households who had not joined an MFI, and four MFIs and one relevant government institution. In addition, secondary data from several relevant resources, including national and regional statistics offices, law and regulations of relevant government institutions, and microfinance providers' websites were collected to support and enhance, in particular, the analysis of the role of other stakeholders (MFIs and government) in efforts to overcome poverty through microfinance.

2.4 Data Analysis

This qualitative study uses thematic analysis to find and explain the interrelationships of patterns in a phenomenon being researched [17]. To assist in analysis, data storage and processing utilized QSR NVivo 12 Plus.

3 Results and Discussion

This study found that, being poor and without access to microfinance services does not mean that the poor have no interest in microfinance; in fact, many of them are aware of the presence and operating model of MFIs. However, having an interest is insufficient for the poor to finally join MFIs and access their services. This study has found that several factors driving the exclusion of disadvantaged people in microfinance services despite the high presence of MFIs.

3.1 Proximity

The proximity of financial services to poor people is vital, because their poverty, exacerbated by poor infrastructure, transportation, and telecommunications, among other factors, limits their ability to access the services. Even though there were MFIs in neighbouring districts or villages, reaching them took a lot of effort due to geographical barriers. The distance between villages is far, and poor road and communication infrastructure means that transportation is too expensive, especially for rural people who live in poverty.

Tony, who lived in a remote village in Kupang Regency, said that he heard the names of several large cooperatives operating in other villages from his neighbours. However, reaching those villages would cost him IDR 60,000 for a one-way trip by motorbike taxi, while he and his wife were only able to generate an income, from their various agricultural jobs, of IDR 15,000 per day, on average. Undermined by his insufficient income and geographical isolation, he was not confident to engage with these financial services.

3.2 Misunderstanding of MFIs

Many people, especially poor people, receive incomplete and accurate information about microfinance services. This was confirmed by the participants' views on MFIs in which they tended to misunderstand the operational models, types of financial services that may suit their circumstances, and the benefits they potentially could obtain from being a member of an MFI.

Julia lived in a village in one of the district capitals, where several financial services were available, including one state-owned bank and several formal and informal cooperatives. However, the existence of these financial institutions did not necessarily help Julia adequately understand their services. Julia had held a savings account for a short time in a state-owned bank in the village. Eventually, she had to close it because she could not increase her savings and ended up running out of money to cover administrative fees. Julia misinterpreted this administrative fee as a penalty from the bank for her not being able to deposit money into her account regularly every month:

In the bank now, this is how it works, every month, we must save [the money], and if we don't, they deduct [IDR] 5,000 or 10,000 from our account. If we save every month, then there will be no deduction. If we don't save this month, our account will be deducted next month.

While abundance MFIs are present, there are people who are unwilling to use or be involved in the financial services available around them. This particularly happens for the poor in city settings. Elena, an itinerant vegetable seller who lived in the city centre where various MFIs were available, stated that she knew very little about the opportunities to obtain venture capital, and had minimal knowledge of the operating model of any financial service provider.

Similarly, Agnes, who lived in the outskirt of Kupang City did not want to become a member because she heard misinformation about cooperatives requirements. She heard that loans from cooperatives required collateral, which, is not entirely true. The cooperative she mentioned only requires collateral for a loan of more than IDR 100 million (AU$10,000).

3.3 Perceptions of Eligibility

Low income and poverty have been widely recognised as harming self-confidence, reducing their ability to assess and take steps that may have the potential to improve their capacity and standard of living. In the context of financial services, many poor people lack confidence in engaging with the resources they need to increase their capacity due to their current limitations [18][19]. According to Ledgerwood [5], under ideal conditions, involvement in financial services could have an impact on a person's self-image. When experiencing a positive change, they are likely to be ready for the next change. For instance, if a person's self-confidence improves, they may become more willing to take more risks in order to improve their business capacity.

However, this study reveals that even though people have ideas for sound businesses, poverty saps their confidence, leading them are not confident and refuse to join MFIs because the income from their current work is very low. If examined further, this lack of confidence is inseparable from the lack of information received about MFIs, which has led to misunderstandings of the membership eligibility. This constitutes that even if there is an opportunity to access financial services, without proper knowledge about MFIs, financial literacy, and maybe also business literacy, this community's potential would be difficult to realise.

According to Bahety and Ngoma [20], the businesses that the poor carry out are characterised by a lack of productive assets, and low business capacity and productivity. With these limited capacities, poor people can only afford to run very small, cash-based economic activities that are sufficient only to meet a household's day-to-day basic needs [21]. Most participants understood that if they wanted to access MFIs services, especially loans, they had to have a stable income first so that they would not default—a common worry. As shared by Olivia, a vegetable hawker, about her neighbours who were able to join an MFI due to their better circumstances:

> *They have a kiosk, and their children are still little, so they may not have big responsibilities yet, so for them, it's not a burden [joining an MFI]; their income can cover their debts. Also, their children are still in primary school, so they don't have many expenses yet, so it's not a problem for them to join.*

Another lady Diana who, for her family living, usually collected and sold firewood, did subsistent farming and other random jobs also believed that if someone has a better job and makes more money, it would be easier to access financial services: "My neighbour is a farmer too, like me, but her husband has a chainsaw to saw wood, so maybe they can pay the cooperative for his job of sawing wood."

It appears that, due to their extremely low income, poor people self-assessed their eligibility to become members of MFIs. They concluded that the requirements to join and access financial services provided by MFIs, which are relatively more accessible than conventional banks, are not in accordance with their capacities.

3.4 Lack of Confidence

Low income and lack of reliable information seem to have an impact on the lack of confidence of marginalised people in accessing financial services, even though they have potential that can be developed if supported by adequate capital. Most of the participants mentioned that they were afraid of the consequences of default.

Kristo and his family were among the household participants living in poverty on a remote island in Kupang Regency. Kristo's main income was collecting and selling firewood, which would only earn him IDR 30,000 per day, on average. This income was very tight, and only enough to fulfil his family's daily food needs. When he was asked about another business that could increase his family's income, Kristo confidently said that a motorbike taxi was a very good opportunity in the village. However, he did not own a motorbike and could not afford to buy one: "It would be good if I had a motorbike. I can use it for motorbike taxi [business] because it can generate more and more income. The chance is good here." In addition, Kristo sometimes went fishing using his traditional sampan1, worth IDR 500,000 (AU$50) to catch a small number of fish to sell at the market. He wished to own a bigger fishing boat, which he estimated would cost around IDR 13 million (AU$1300), which he believed would provide a more stable income for his family.

People like Kristo are among the marginalised who acknowledged the potential that they might be able to improve their living standard if they had access to the production factors they need, especially business capital. However, their confidence in their aspirations to achieve a better life for their families was not matched by confidence in obtaining capital. As Kristo said:

> *Our income is too low to allow us to join a cooperative. Our main job collecting and selling firewood is only enough for buying food. Our income is too low for that. I have thought of becoming a member, but considering our income, I don't think we can.*

3.5 Negative Experiences Demotivate Participation

Coupled with the lack of information discussed above, negative or unsuccessful stories only instil more fear about MFIs and exacerbate the reluctance of the poor to join MFIs. Lusia, a subsistence farmer, usually heard about MFIs from her neighbours, members of MFIs. However, the experience of one of her neighbours with debt repayment problems discouraged her from accessing MFI services:

> *My neighbour here, several years ago, had to pay [IDR] 25,000 every day…she borrowed [IDR]500,000… every day, the cooperative officer came to collect [the instalments]…that granny said it was very burdensome for her, because she had to pay [the instalments] every day, because she sometimes was not able to spare [IDR] 25,000 to repay her debt. Finally, after finishing [the instalments], she stopped [borrowing]… I don't want to end up like this granny.*

Several participants also described how the sight of MFI officers visiting their neighbours' homes to collect debt payments was frightening, especially when they did not have the money to pay off their debts by the appointed time. Tania also heard about various MFIs who often send representatives to her village looking for clients, but she was still afraid to get involved in microfinance:

> *Sometimes there were those (neighbours) who could not provide money when someone came to collect instalments…sometimes they waited until evening…for*

[1] A small wooden boat

me, I'm afraid to take that [the loan], if we have enough money it [having a loan] might not be a problem, but what if there is no money, how do you pay instalments?

3.6 MFIs' Outreach

The outreach of microfinance has gained extensive attention since evidence has emerged that, despite the remarkable growth of microfinance institutions in terms of number of organisations and members, the number of poor people being excluded from financial services remains high [22][23]. The cumulative massive presence of MFIs, and some have even experienced extraordinary business progress, in reality, they have not been able to reach marginal areas and leaving many marginalised people excluded.

For small-scale MFIs, due to their limited capacities, their outreach is limited to certain areas or communities. MFIs such as cooperatives, especially cooperatives that are still small and local in scale, tend to have limited outreach because their business capacity is also limited. In addition, because the main principle of their activities is to achieve member welfare, all their activities tend to be carried out solely to benefit members. As a result, they will be more selective in their membership so that existing members are not at risk of losses.

Karya cooperative, for example, a cooperative built on the initiative of several church administrators and congregations, offers services intentionally limited to the village community, most of whom are members of the church congregations. Another small cooperative, Solidarity, which was founded on the initiative of and is currently operated by a group of women in a remote village only accepted members from their village due to their limited capacity to supervise members far from the reach of the cooperative's board.

For large-scale cooperatives, even those with many branches, outreach is still limited to areas that are not too far from cities. Indriani et al. [24] reported that some of the challenges for financial institutions in expanding their outreach to remote areas were partly due to security, so they prioritised areas with a low risk of default that were easy to control. Further, small savings and loan transactions are considered unworthy of the operational costs.

MFIs, like cooperatives, are institutions based on their group's interest in working jointly to improve the welfare of group members by increasing their cooperatives' profits. It is not surprising, therefore, that they carry out their expansion in a way that is almost the same as commercial businesses in general, reaching areas or consumers that can provide benefits with minimal risk to the business.

Jaya cooperative, for example, already has more than 50 branches in various places, including a few in other provinces, but has not yet reached remote areas of NTT. This cooperative only assigns its employees to promote its services to rural communities. However, it expects poor people themselves to actively approach the services of Jaya cooperative to make their financial transactions because its employees are unable to travel frequently to the villages. Further, the cooperative will only open a new branch once a certain number of local people have registered to become members. As Firman, the leader of Jaya cooperative, explained:

Indeed, there are also those who asked about remote areas and what is the responsibility of the Jaya cooperative, I said this is not our responsibility, but we offer it to them and they also have to have the responsibility to become members first, if they are already members then we will also open an office branch there but remember the condition is there must be 1000 members, then it can become a branch. Why does it have to be 1000, because if it has been established as a branch, they must be able to finance and manage themselves, manage savings, loans, pay the salaries of the employees.

3.7 MFIs' Conditional Eligibilities

The requirements set by most MFIs are much easier and more flexible, especially in small-scale MFIs. Small scale cooperative participants in this study stated that their MFIs accepted anyone who fell within their service coverage area, as long as they were willing and able to fulfill the requirements, including depositing a principal, mandatory and voluntary savings, which generally fall between IDR300,000 and IDR500,000, at the time of registration. In addition, some cooperatives require an ID Card, but there are also cooperatives (such as Solidarity) that waive this requirement. Solidarity cooperative, according to its leader, Maria, did not require documentation to apply. Simply by paying the required initial deposit, applicants are accepted as members. This very simple requirement is applied on the basis of mutual trust; all members are residents of the same village, so they know each other. As Maria stated:

Those who wish to become members of the Solidarity cooperative, we don't have too many conditions. To attract people, we don't have too many conditions. If they are willing to deposit 350 as a principal deposit, then pay grieving money, yes, they will be accepted as members ...we don't ask for ID cards, because these people are people in our neighbourhood, whom we always meet every day...we keep it simple.

Rahmat from Karya cooperative added:

They [anyone] can [become a member] ... if they want to become members of the cooperative, it has to be from their own will, the important thing is as long as they can afford to pay the principal savings, mandatory savings, yes, they can.

However, as discussed earlier poor people preferred not to join MFIs such as cooperatives because the initial deposit obligations were burdensome for them, even though they recognise the various advantages of membership in cooperatives they might get.

MFIs, though, had different perspectives about this. Due to the easy requirements and varied service options offered by cooperatives, Firman argued, anyone should be able to become a member by setting aside just a little of their income. The problem is that they lack the ability to do so:

Some say this when we socialized the formation of groups in the community "Sir, we haven't got even a cent for this month, how do we save?" ... I ask, do you smoke? "yes," drink coffee? "yes," eat? "yes," then how come you don't get a cent? ...maybe some think that this Jaya cooperative is big because of rich

> *people, no, it was founded by poor people who are also struggled with our lives… as I said before, let me illustrate, if every person just saves [IDR]2,000 per month, then for 300,000 members there is [IDR]600 million per month ready to be distributed.*

For MFIs with a group membership system, the decision on whether or not a person is eligible to become a member or to expel a member generally depends on the agreement of members, as Budi from PNM-Mekaar explained:

> *There are no specific criteria. Women aged 18 to 60 years who want to start a business even though they don't have a business can join, all approval is in the group, not in Mekaar ...we have a different approach, we aim to prosper people, so we are not picky about our customers, the important thing is that the group is responsible.*

Delegation of authority in determining group membership may, in some cases, be beneficial to members and MFIs. Members can choose people they believe have the ability to repay their loans, thereby reducing the risk of default, which is the responsibility of all group members. This member recruitment system, based on the assessment of group members, can cause the poorest people/women to be excluded because they are considered a risk to the group. As a result, it is likely that the goal of extending financial inclusion to the destitute poor will also not be achieved through this program.

3.8 MFIs' Perception on Poverty

Stakeholders' failure in understanding the causes of poverty may lead to poor outcomes in formulating poverty eradication policies and, ultimately, result in ineffective initiatives. When stakeholders see poverty as pathological and ignore its structural causes, there is a tendency for significant poverty alleviation to be difficult to achieve. The findings of this study indicate that representatives of MFIs still tended to view poverty from a pathology perspective. People's failure to join and maintain membership was their own fault. Firman from Jaya cooperative expected people to take the initiative to approach and find out about MFIs, and also argued that poor people were reluctant to join MFIs because they hope to receive service and assistance that is not available:

> *If they do not yet know the benefits of being a member in a cooperative, they should join first, join our meetings, then we'll explain. There are rights and obligations… we have the right to borrow and if we borrow, we are obliged to pay it back. And what are we borrowing for? We borrow to build a business, build a house, for health, education. But if someone says they are afraid, they are always waiting to be helped… we must have the ability to start something independently, don't just wait for help.*

Rahmat, in addition, pointed out that poverty is due to people's failure to grab the opportunities available around them: "There are business opportunities and capital opportunities, there are capital institutions, but it depends on the person, if they want to try, then their lives will improve."

3.9 Policies Ambiguities

The difficulties of the poor in accessing financial resources are primarily due to being trapped in systemic inequality in society. This lack of access makes it difficult for them to get out of poverty. The government plays an important role in overcoming this inequality so that marginalised people have opportunities to explore their potential. However, in practice, this effort is not clearly visible.

In order to understand the failure to achieve poverty alleviation, it is also necessary to look at how the government formulates its policies through regulations and laws. Many government policies and performance indicators related to financial inclusion appear to be not truly pro-poor, and, in particular, not pro-very poor people.

One of the national government programs is the National Strategy for Financial Inclusion, the implementation of which has been through a Presidential Regulation since 2016. According to this regulation, "a system of financial inclusion in Indonesia is realized through public access to financial services in order to increase economic capacity and ultimately pave the way for exit from poverty and reduce economic inequality" [25]. To measure its achievements, the government has set financial inclusion indicators. However, the wording of the targets and indicators tends to be ambiguous and does not seem to touch on the deprived state of poor people in Indonesia.

For example, in the outreach dimension, one criterion is the number of formal financial services and products per 100,000 adults. This is less appropriate given the diverse characteristics of Indonesia's regions. About 56 per cent of Indonesia's population lives in urban areas where various facilities, including financial service providers, are widely available. Assessing this ratio at the national level elides the paucity of financial service offices in rural areas.

In accordance with the findings in this study that proximity is an important factor for people, especially the poor, in their decision to join financial services, proximity should be the indicator, instead offices per 100,000 adults, because this represents the needs of marginalised communities who are generally still unbanked and geographically marginalised. The wording of the indicator could be as follows: "the number of financial services and products available per village" (or, at least, per sub-district).

Another example: the government always reports positive achievements in the distribution of microcredit to MSMEs through banks that are assigned to provide subsidised microfinance. The largest proportion of these funds appears, in the report, to have been distributed to micro-businesses [26] as they make up more than 90 per cent of businesses in Indonesia [27]. However, referring to the categorisation of business scales in Indonesia—in which a micro-business is one whose capital and annual sales are less than IDR50 million and IDR300 million respectively [28]—indicates that there is a high probability that poor people's businesses are excluded from this program because, in general, their capital and sales are much less from these amounts. As such, it is likely that micro entrepreneurs who are not actually poor are the ones who get the benefits, because they are more attractive customers to the banks. It is not surprising, therefore, that performance reports from government programs often look good on paper but the people who are the targets of programs have not been included in them.

In addition, the government has also recognised the function of cooperatives as a means to improve people's welfare and a tool to strengthen the national economy and democracy [29]. Regrettably, however, more and more financial providers are emerging which name themselves 'cooperatives' but do not apply genuine cooperative principles. The use of 'cooperative' by many financial companies whose business operations are not reflective of a genuine cooperative business model is purely to collect money from the public. Far from being true cooperatives, such entities are usually private companies or family businesses. Recently, some of these companies have been accused of misuse of customers' money. In 2022, the biggest problematic 'cooperative' case in Indonesia was finally revealed. At least eight fraudulent large-scale cooperatives failed to disburse their customers' money and were estimated to have caused losses to customers of up to trillions of Rupiah [30]. While real cooperatives emphasise social capital in their operations, these fraudulent cooperatives were nothing more than commercial financial provider businesses where all conditions were determined, and the profits taken by, the business owners. These incidents may cause a loss of public trust in cooperatives. As participants in this study reported, negative information heard from neighbours can be enough to discourage poor people from joining MFIs.

Further, concerns about the participation of the poor in cooperatives have also not been accounted for in government regulations, even though the government itself acknowledges the essential role of cooperatives, especially as a means of eradicating poverty. In two government regulations regarding performance assessment, Regulations of Ministry of Cooperative and Small and Medium Enterprises of The Republic of Indonesia Number 14/2009 and awards criteria of the cooperatives in Regulations of Ministry of Cooperative and Small and Medium Enterprises of The Republic of Indonesia Number 6/2006 poverty alleviation efforts are not mentioned. These regulations do not include among the achievements of cooperatives to be assessed the number or the proportion of low-income people or micro-businesses becoming members. The criteria for assessing performance and achievements are more concerned with the management and financial aspects, rather than with the inclusion of the poor.

4 Conclusion and Recommendations

Disadvantaged people should not be seen as helpless but as people with potential. Every person, including every poor person, has the potential to improve their well-being, but structural inequality in society limits their ability to access the resources they need to develop this potential. Inequality leaves people living in the 'Deprivation Trap', with very low and uncertain income, powerlessness, vulnerability, and isolation. This leaves them unable to exercise their rights to access the same resources as others.

Several factors contribute to reluctance to join MFIs. Even though people have sound ideas for businesses, deprivation saps their confidence, leading them to refuse to join MFIs because the income from their current work is very low; they believe it is insufficient for them to be responsible MFI members. Participants felt that the most important factor in this lack of confidence was the absence of MFIs in their vicinity. Proximity may reduce information asymmetry between MFIs and potential clients.

Access to reliable information creates confidence and trust. With proximity, MFIs can properly assess people's conditions to determine which products and operating models suit their capacities so that poor people can independently determine which products suit them. This lack of confidence was inseparable from the need for more information about MFIs, leading to misunderstandings. On this basis, it could be concluded that even if there is an opportunity to access financial services, without proper knowledge about MFIs, financial literacy, and maybe also business literacy, poor people's potential would be difficult to realise. Finally, participants' worries about being unable to service their loans outweighed their desire to join an MFI. Joining without reliable information increased their anxiety about debt and the risk of falling into a debt trap, either compounding their poverty or forcing them into riskier financial decisions.

Furthermore, while microfinance has clear benefits in assisting poor people to escape poverty, the operational arrangements of MFIs in Indonesia have, in most cases, seemed to be inconsistent with the poverty eradication mission. As also argued by Pati [31] that most current MFIs operate as conventional commercial businesses rather than social businesses or charities [31] and, indeed, there is no mandate, in Indonesia or elsewhere, for MFIs to become social businesses or charities. Anyone can establish an MFI as long as they meet the requirements set by policy makers, and there are no requirements that they must include poor people or a certain proportion of poor people among their clientele, to reach out to marginalised people.

It is, therefore, suggested that the government re-evaluate its financial inclusion program. This includes, firstly, enhancing existing government's microfinance-related programs, such as revolving funds, by meticulous supervision, monitoring, and evaluation to ensure that poor people are included in microfinance services. Secondly, the government could also require large-scale MFIs to reserve a certain proportion of their funds and services for the very poor, to be accompanied by capacity building. Lastly, examining the standards or indicators used to evaluate programs' achievements. As the genuine goal of microfinance is to eradicate poverty, the indicators must clearly include the poorest people; it is they who most need intervention to break the cycle of deprivation that keeps them in severe poverty.

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